

WORLD BANK OPERATIONS EVALUATION DEPARTMENT

**India: The Challenges of Development
Overview of Sectoral Assistance Evaluations**

An OED Country Assistance Evaluation

OED India CAE Working Paper Series No. 16

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[HTTP://WWW.WORLDBANK.ORG/OED](http://www.worldbank.org/oed)

**Winter 2002
The World Bank
Washington, D.C.**

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This Working Paper was published in the Partnerships and Knowledge Group (OEDPK) by the Outreach and Dissemination Unit.

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Preface

This Working Paper also serves as volume 2 of the India Country Assistance Evaluation, *India: The Challenges of Development*. Included in this volume, in addition to the introductory text, taken from Chapter 4 of the main study, are all the annexes, which are listed in the Contents.

Selected Sectors and Topics

Overview of Sectoral Assistance

The effectiveness of Bank assistance during the 1990s varied among sectors. Results have been strongest in power (in the second half of the decade). They have been good in private sector development, population, health, nutrition, and education and modest elsewhere.¹

Public sector management

Fiscal adjustment and public enterprise reform were supported by the 1991 structural adjustment loan, but with little long-term impact. Together with the other two projects of the early 1990s (the External Sector and the Social Safety Net adjustment operations), the Bank supported institutional changes in taxation; the financial sector; and the trade, foreign exchange, and investment regimes. Since explicitly acknowledging the seriousness of governance problems in the December 1997 Country Assistance Strategy (CAS), the Bank has paid much more attention to this issue in both its lending and non-lending activities. Civil service issues are beginning to be addressed in the focus states. The Bank's economic and sector work (ESW) on public sector management, while inconsequential at the center, is having a stronger impact at the state level. Fiscal and public enterprise reform issues are also being addressed in the context of state-level, policy-based lending.

Institutional development components of projects were more focused at the agency level (and even here, narrowly so, mostly in skill upgrading and management) than broadly at the sector, state, or national level. Results were modest. Only 16 out of 100 projects completed in India and reviewed by OED in a 1997 survey had a primary focus on institutional development. In the face of weak line institutions, the Bank relied on project implementation units to ensure better project performance, but this has been at the expense of strengthening or reforming the existing institutional machinery.

Financial and private sector development

The Bank's high-quality ESW, intensive policy dialogue, and lending operations (including the three adjustment loans) in the early 1990s were relevant and contributed effectively and in a timely way to good progress in the incentives framework facing the private sector and to strengthening the financial system. India's commitment to structural adjustment in 1991 represented a clear breakthrough from the piecemeal approach to policy change.

In the second half of the decade, however, a Bank loan supporting the restructuring of a small number of public banks achieved very little and had virtually no demonstration effect on the rest of the banking system. But the Bank's strong advisory role helped

¹ Annex A, table A.1, contains the evaluators' ratings of the Bank assistance in all the sectors covered by OED sector studies or Country Assistance Evaluation background papers. Table A.2 contains a description of sectoral assistance strategies' objectives and achievements in a matrix format. Annexes B through Q contain the summaries of all sectoral evaluation inputs (CAE background papers and OED sector reviews), which are available from OED upon request.

maintain the momentum of the financial sector reforms. Moreover, many impediments to private sector growth remain unaddressed, such as labor market rigidities, delayed justice, poor corporate governance, slow and ineffective privatization of public enterprises and banks, and lack of private sector participation in the development of ports and roads. These are areas where the policy dialogue could have been more forceful.

Urban development

The Bank has not finalized an urban development strategy, even after a major but protracted sector study and evaluation of its unsatisfactory experience in the 1980s. There has been virtually no new lending during the 1990s except for water supply and sanitation projects. However, the reach of the eight projects completed and evaluated has been limited, and in most cases the borrowers' weak commitment to the agreed pricing and institutional reforms meant that even their limited outcomes were not sustainable. In spite of 25 years of Bank assistance for urban water supply projects, no Indian city today can provide safe water for more than a few hours a day, and most water and sanitation agencies are in financial difficulties and offer inadequate service.

Relevance of sectoral assistance has been improving in the late 1990s, but remains modest. Three ongoing projects are being implemented satisfactorily, according to the latest progress reports. But they also are narrowly focused on specific cities rather than on sector-wide issues and municipal development. Furthermore, there has been little follow-up by the Bank on its 1996 sector work (which the Quality Assurance Group, QAG, judged "an outstanding piece of analytical work") for building the capacity of municipalities, assisting the central and other tiers of government in implementing the urban agenda, and fostering a better balance between private and public participation.

Agriculture and rural development

The Bank's 1991 country economic report concluded that Indian agriculture was in crisis, largely brought about by serious policy and institutional shortcomings at the central and state government levels. Given the importance of agricultural and rural development to economic growth and poverty reduction, adjustments in agricultural sector policy deserved to be pursued within the government's broader program of stabilization and reform. Despite the report's conclusions, agricultural policy issues were never near the top of the Bank's strategic agenda during the first half of the 1990s. Since there was a similar lack of interest on the government side, the Bank made only weak attempts at meaningful dialogue on agricultural policy. This neglect also held up further analytical work by the Bank on Indian agriculture and weakened the relevance of its sectoral assistance.

Compared with the late 1980s, there was a reduction in Bank lending for agriculture in the first half of the 1990s, but this was largely due to a review of the dominant irrigation lending component rather than a response to the unsatisfactory policy environment in the sector. Nonetheless, the Bank continued to lend substantial amounts in the sector in an overregulated and inefficient policy environment, with many stand-alone projects addressing relatively narrow issues. In a few states, the Bank sought adjustments in agricultural policy, with some success (for example, in water pricing). Such efforts, however, were often undermined by weak enforcement of the hard-won project covenants, while large-scale lending continued.

The Bank's assistance program was also slow to adjust to changing circumstances. For example, the extension system assisted by a Bank-funded project was geared mainly to supporting irrigated grain production rather than diversified and rainfed agriculture, which would have been more relevant for rural poverty reduction. Earlier extension projects also used the discredited training and visit system, but revised extension models are being explored in two recently approved projects (the National Agricultural Technology and the UP Diversified Agricultural Support projects).

In the second half of the 1990s, lending for agriculture and rural development increased, but the Bank concentrated on a few main subsectors and placed even more emphasis on state-level reforms. The new, sharper focus of assistance arose out of the realization that the earlier neglect of agricultural policy issues and the dispersion of projects had limited sustainable impact on poverty reduction and were creating serious problems in project implementation and performance. The increased lending was for irrigation and drainage (still the dominant part of the portfolio), watershed and area development, and forestry. There were also project components directed at agricultural research and extension. Overall, Bank lending was largely directed to states willing to adopt significant policy reforms, such as for water management and pricing. This more selective and relevant sector orientation had a greater impact on rural development institutions than the disparate and enclave projects of earlier years.

Providing the rural poor (mostly landless peasants or farmers on marginal lands) with access to land on a formal basis—rather than through often illegal tenancy arrangements—and more off-farm employment opportunities, which in recent years have increased slowly, is important for sustained poverty reduction (World Bank 2000). Over the last few years, the Bank has indeed focused more on the assetless rural poor, although the majority of the ongoing rural development projects still favor those with such assets as land. Bank researchers have recently argued in favor of the need for agrarian reform in India, including improved land distribution (Mearns 1999; Mearns and Sinha, 1999). Nevertheless, for enhanced off-farm (as well as on-farm) employment opportunities for the poor, boosting agricultural production remains critical, because "the greatest stimulant for growth of the nonagricultural economy in rural areas is dynamic agricultural growth" (Fisher, Mahajan, and Singha 1997). Such a boost in the sector's growth, in turn, will require substantial policy improvements.

In 1999, the Bank concluded a major review of rural development and poverty reduction that had begun in the mid-1990s with the commissioning of various subsector reviews and culminated in a good synthesis report that pointed to substantial shortcomings in incentives, institutions, and public expenditure priorities. The report, however, should have taken a bolder approach by presenting more specific recommendations (see box 1). In light of this sector work, the Region is currently defining its sectoral assistance strategy, but it remains unclear how the Bank intends to strengthen the focus on agricultural and rural development policy in its future policy dialogue, in its overall country strategy, and in its operations at central and state government levels.²

² In its comments on an earlier draft, the South Asia Region noted that it has an ongoing, very detailed, and meaningful dialogue on a number of issues relating to rural development and poverty reduction at the state level. According to the Region, there is no disagreement in India, at least at the policy levels, about

Box 1: Cautious Conclusions Cloud the Policy Dialogue for Rural Development

A QAG review panel found that *India – Towards Rural Development and Poverty Reduction* report (World Bank 1999), as a synthesis, contains much good analytical material and the thrust of the report's conclusions and recommendations is sound. But it presents surprisingly timid recommendations for changes in incentives, institutions, and investments.

The panel acknowledged the report's strong points, which included its synthesis of existing but unexploited analytical work and its discussion of sequencing of proposed policy changes (quite a rarity). In line with the rural development strategy that was advocated in *Rural Development: From Vision to Action*, it addresses rural, not just agricultural, development; poverty reduction in its widest dimensions (except for land redistribution); and desirable changes in incentive regimes, institutional arrangements, and public investment.

The QAG panel thought that the Bank should have taken a bolder approach by being more specific on recommendations for reductions of subsidies for canal irrigation, power, and urea, and by leveraging its lending on corresponding actions (although best handled separately). Nonetheless, the renewed interest of the Indian government to review its agricultural policies and rural development strategy led the panel to a positive assessment of the report's likely impact.

The Country Assistance Evaluation sectoral background review also concluded that the report could have been bolder in presenting its conclusions and that its impact on crucial issues for rural development and the poor remains uncertain. The report was discussed at a workshop in New Delhi and subsequently with the government, but no further dissemination in the states had been initiated by end-2000.

Lending in the irrigation subsector had been a crucial part of the Bank's support for increased grain production based on Green Revolution technology, which depended heavily on irrigation. Through the 1990s, it still accounted for about 50 percent of the agricultural portfolio. Since early in the decade, Bank assistance has been mostly for river basin development through state-focused *Water Resource Consolidation* projects in the context of increasing pressures on domestic, agricultural, and industrial water demand. Major objectives were improved river basin planning and water management to increase the reliability of water supplies and support higher agricultural productivity. These projects were also intended to help complete a number of older projects whose implementation had stalled.

But these projects focused too much on construction and not enough on institutional reform and water management. Also, irrigation projects continued to be implemented in a policy environment providing the wrong incentives for water use and agricultural production. Results have been disappointing so far. Only half the 18 projects completed in the 1990s have been rated as satisfactory, only one-third were judged to have had

the need to revise fertilizer, water and power subsidies to agriculture and the central government has been moving, albeit cautiously, in the same directions recommended by the Bank's sector work. It also maintains that the public debate on the need to remove domestic and external trade restrictions is quite healthy, with the Bank having taken every opportunity to bring this issue to the notice of policymakers in the "focus" states. In the Region's words: "For example, the establishment of the rural poverty reduction task force in Andhra Pradesh and the proposed rural policy review in Karnataka will give an opportunity to lay these issues out and discuss them with major partner states. In Uttar Pradesh and Rajasthan, the Water Sector Restructuring projects offer an opportunity to come to grips not only with the pricing issue with regard to water but also with institutional reform of water management agencies." A number of states are finally "taking water resources management seriously. Cost recovery in irrigation is no longer a controversial issue. The issue is rather one of when and how it must be phased in."

substantial institutional development impact, and only three were evaluated as having likely sustainability (for an example of a failed project, see box 2).

Box 2: An Extraordinary Failure—The Upper Krishna Irrigation II Project

Objectives. The *Upper Krishna Irrigation II* project (a \$167 million IDA credit approved in 1989 and closed in mid-1997) had the commendable objective of increasing employment and incomes of 100,000 poor families in the arid north of Karnataka. It was to do this by developing 150,000 hectares of irrigation, including dam construction; resettlement, and improvement of the living standards of displaced persons; strengthening capacity in irrigation management; and contributing to an effective anti-malaria campaign.

Weak Implementation. The physical objectives were only partially achieved (80 percent). While the plentiful availability of irrigation water at virtually zero cost to users has increased yields and returns by 200–400 percent, slow development of the command area and inefficient utilization of water resources has led to practically no net benefits to the project because of the substantial project cost. There are now no functioning water users associations, despite fifty having been created during 1990–92. Association members had stopped water rotation soon after the project delivered ample water, as they saw no reason to ration water and submit individual delivery preferences to group decisions. Moreover, the oversupply of water with considerable water logging has caused serious damage to houses and crops.

For the state government, dam construction on the Krishna river was the priority. As a result, despite written assurances, dam construction took place and many villages were submerged without completion of the resettlement arrangements. Resettlement expenditures by the state government after closing of the Bank's credit have been \$166 million, compared with \$101 million during the eight years of Bank assistance. This influx of funds, combined with improved administrative procedures and institutional capacity, has led to more resettled families utilizing income-generating-scheme grants (from 12 percent to 16 percent), land purchase grants (from 16 percent to 29 percent), and house construction grants (from 33 percent to 51 percent).

Outcome and Lessons. Despite the late corrections to the resettlement component, this project had an unsatisfactory outcome and is unsustainable. The project provided the following lessons: the Bank ignored its own agreement with the state government on the need for coordination between irrigation development and resettlement; water management reforms were not pursued; and supply-led irrigation development cannot be sustained.

In the second half of the 1990s, following the release of a global Water Resources Policy Paper by the Bank (but at the same time as the Bank's review of irrigation strategy for India in 1998), the Bank's irrigation assistance has focused increasingly on strengthening the institutional capacity of irrigation management systems, the establishment of water users associations, and cost recovery for irrigation water. The new crop of projects appears to be performing much better than their forerunners.

The Uttar Pradesh Sodic Lands Reclamation project, for example, has not only been technically successful but has also created increased opportunities for women and the poor to gain access to productive land and higher incomes (see box 3). Another example of the Bank's new approach is the ongoing irrigation component of the Andhra Pradesh Economic Restructuring project, which focuses on reducing the role of government and enhancing the role of beneficiaries in the management of major parts of irrigation systems. In three years there has been a remarkable improvement in the rehabilitation of canals, water management, and cost recovery in Andhra Pradesh as a result of the empowerment of water users groups to manage the tertiary irrigation systems.

Box 3: Strong Local Institutions and Right Incentives: Uttar Pradesh Sodic Lands Projects

The main objective of the two Uttar Pradesh Sodic Lands Reclamation projects (the first approved in 1993 and almost completed, and another approved in 1999) is to reclaim areas that have become contaminated with high levels of salt in the soil and were unproductive under previous water management regimes. Backed by enthusiastic support from the state government, the approach involves large-scale drainage, the use of chemicals, on-farm development, the promotion of forest species on community lands, and strengthening local institutions so they can participate in implementing the land reclamation program. An important target group for the use of the reclaimed land is the poor and landless.

Very substantial benefits have come from crop diversification and increased crop yields, leading to an almost 50 percent increase in family income. Paddy and wheat yields have risen from 1.2 to 3.74 tons per hectare and from 0.75 to 2.63 tons per hectare, respectively. About 11,138 hectares have been allocated to the landless (average farm size is about 0.5 hectare). Village implementation committees review and decide on land allocation. Women's self-help groups operate small-scale credit schemes.

Planned recovery of operation and maintenance costs will be only partial in the short term. But since most of the beneficiaries are poor and the farms are very small, this may well be a better way to transfer resources to the poor.

Improving the quality and quantity of rural water supplies is one of the important development challenges in India—on average, only about 75 percent of the rural population has access to public water supplies, which still leaves some 175 million people without safe public water. While many rural development projects also contain rural water supply components, the performance of two completed stand-alone projects in Maharashtra and Kerala was modestly satisfactory at best, but two other ongoing projects in Karnataka and Uttar Pradesh are progressing satisfactorily. The thrust of the ongoing Bank assistance—to improve health and productivity by creating conditions at the state level for the sustainable supply of safe water through increased involvement of the private sector—is appropriate, as neither the Bank nor governments can possibly assist all rural areas directly.

Two watershed management projects (classified as environment projects) were approved in FY90 and implemented satisfactorily. They addressed watershed issues in the “plains” and the “hills” in a number of states. At the end of FY99 a second hills project, designed to intensify a participatory approach to implementation, was approved. A series of watershed projects is being planned, in contrast to area development projects, to reflect the idea that watersheds should be the organizing principle for area development in rural settings. While Bank assistance for rural roads has been relatively limited, it has been highly relevant and efficacious throughout the decade.

In the early 1990s, the Bank launched a new program of assistance for the forestry sector based on the government's policy statement of 1988 and the Bank's forestry policy paper of 1991. The Bank's policy (similar to the government's) was based on four principles: multisectoral approach and international cooperation; rectifying market and policy failures that led to deforestation and unsustainable land use; financing operations that lead to socially, environmentally, and economically sustainable resource expansion and intensification; and preserving intact forest areas.

In addition to the multistate Forestry Research, Education, and Extension project and the Ecodevelopment project, the Bank financed six state forestry projects in the 1990s that supported the development strategies of the state forest departments and also aimed at strengthening the capacity of the relevant state institutions. Much of the population living around forests is poor, and hence this assistance has an impact on poverty reduction through employment and the generation of productive assets.

There is considerable variation in the performance of these projects depending on the commitment of the state forestry agencies, but their main contributions have been to:

- Provide crucial additional financing for important state forestry programs that have generated employment for the poor.
- Strengthen local capacity for forest resource management.
- Improve forestry officials' attitudes toward community participation.
- Raise policy and institutional development issues for discussion among stakeholders.

Issues that need attention in future Bank assistance include an expanding role for the private sector, the revenue-raising capabilities of the forest sector, the marketing of non-timber forest products, the clarification of the respective roles of the center and the states in forestry, and project sustainability.

Power

The poor performance of power projects and the post-1991 adjustment spirit led the Bank in 1993 to decide that new lending would be conditional on the adoption of far-reaching restructuring of the state electricity boards. The conditions included unbundling generation, transmission, and distribution; establishing an independent state regulatory authority; and privatizing all distribution facilities and all new generation investment. Since 1996 a new series of highly relevant power projects has emerged in a few states, with strong client ownership (Orissa, Haryana, Andhra Pradesh, Uttar Pradesh) and a substantial demonstration effect on others. A QAG review panel found the ongoing Andhra Pradesh Power adaptable program loan (\$210, approved in February 1999) highly satisfactory, and noted that the Bank's sequential state-by-state approach yields opportunities for learning from experience across states with eventually important cost savings. Both the OED sector evaluation and the QAG review panel concluded that the South Asia Region's approach in India is a best practice model that should be emulated throughout the Bank's energy sector portfolio.

Transport

The Bank's intrasector lending shift from a focus on railways in the 1980s to highways in the following decade was appropriate, given the government's unwillingness to address the railway's pricing distortions (with subsidies for passenger traffic financed by very high freight charges) and continuing poor corporate governance, exemplified by resistance to corporatizing (and eventually privatizing) Indian Railways' large manufacturing units and social sector activities. At the same time, the decision by government in the mid-1980s to accept international competitive bidding procedures opened the door to highway lending. The increasing emphasis on subnational lending,

however, has resulted in tilting the balance of sector assistance too much in favor of state projects, given that the national highway system represents only 8 percent of all major roads but carries 35 percent of the traffic and is the most congested.³

Box 4. Best Practice Projects

Among the five dozen Bank-financed projects completed since FY95, six projects in five different sectors received the highest possible evaluation ratings, including highly satisfactory outcome. These projects were all very successful at achieving their physical and institutional strengthening objectives, but they differed greatly in their support for sectorwide policy and institutional change. OED has not yet audited these projects; it has only conducted brief desk reviews of the completion reports. What they all share is a high degree of commitment, ownership, and long-term vision.

The **Oil India Ltd. Petroleum** project (\$140 million, FY88-95) focused narrowly on maximizing oil recovery from declining oil fields in Assam. Components were limited to investment and improvements in technical and management capability for a committed and already financially viable public enterprise.

The **Industrial Technology** project (\$200 million, FY90-98) was relevant in the pre- and post-liberalization environments, it catalyzed change, helped launch a domestic venture capital industry, attracted foreign venture capitalists, supported a stronger industry orientation, increased self-financing of technology research institutes, and contributed to liberalization of import policies. The project took into account market failures and distortions created by government import policies. Strong, committed intermediaries, flexible project design, strong financial incentives, consensus building, and training were crucial to success, allowing adaptation to the changing economic environment, changing technology institutions' attitudes, and creating new skills.

The two **Technician Education** projects (\$472 million, FY91, FY98-00) were complex, multistate projects affecting the entire polytechnic system in 20 states and surpassing all physical and institutional targets, including women's enrollment (up to 30 percent from 11 percent before the projects). This includes making a new policy framework final in partnership with employers. Success factors are strong state ownership, frequent joint meetings and reviews fostering knowledge sharing among all states, a collegiate relationship between the Bank team and national and state counterparts, and full national policy support. Noted shortcomings are uneven state performance in adopting a flexible curriculum, instruction quality, and employer participation.

The **Private Power Utilities** project (\$200 million, FY92-97, in parallel with a complementary project, aimed at transforming the Mumbai utility—majority-owned by three public financial institutions—from a distribution company into an integrated power utility. It also aimed to provide additional electricity capacity to meet increasing demand, and to support efforts to transfer ownership to the private sector. Not devoid of controversy, preparation was delayed by a court action initiated by nongovernmental organizations on environmental grounds. Political commitment, ownership by the utility's management, and the company's financial strength and willingness to address the environmental implications proved key to the project's success.

In the **Maharashtra Emergency Earthquake Rehabilitation** project (\$217 million, FY94-99), commitment, ownership, participation, long-term vision, and repair and reconstruction activities on an unprecedented scale succeeded in providing safe replacement dwellings for nearly one million people in the state's southeastern region. Vulnerability to seismic events was reduced by installing modern seismic equipment and preparing widely disseminated construction guidelines, a manual for nonengineered masonry construction, and a statewide disaster management plan.

³ In its comments on an earlier draft, the South Asia Region noted that while the Bank has indeed been working closely with a few states and its sector lending has expanded in the state road subsector, the Bank continued to have a strong program with the National Highway Authority. Indeed, looking at recent lending operations (FY00) and the lending program for FY01-03, about 40 percent of the Bank's lending volume will be for national highway projects.

Environment

Since 1990 the Bank has lent to India \$1.94 billion for 19 projects to mitigate environmental damage. Another \$97 million was granted under Global Environmental Facility and Montreal Protocol trust funds for four other projects to protect the global environment. The Bank has also supported various studies addressing environmental issues. According to OED interviews with stakeholders, the Bank's sector work has had considerable impact on policies and environmental awareness in the country. The Bank's most significant achievement is in mainstreaming environmental concerns in its agriculture, power, irrigation, and water supply and sanitation portfolio. Substantial progress has lately been made on more rational power pricing in a few states that have embarked on Bank-supported reform. Price subsidies for water and energy producers and consumers, however, remain in most states and are highly damaging to the environment. Moreover, the overall impact of Bank and government actions to prevent environmental problems has been modest.

Environmental project performance has been mixed. Most forestry and water resource projects, the Uttar Pradesh Sodic Lands Reclamation project, and the Renewable Resources Development project, to cite a few, have performed well. Others, however, such as the Environmental Management Capacity Building project, the Bombay Sewage Disposal project, the *Industrial Pollution Control* project, and the *Ecodevelopment* project, have had difficulty in implementation for various reasons, including poor compliance by the borrowers, inadequate management, procurement problems, and difficulty with social issues.

Mainstreaming environmental concerns in policy reforms and in the public investment program should be an important focus of Bank efforts in India. This would include addressing environmental safeguards further upstream, supporting alternatives to public sector management of water supply and sewerage systems, promoting rational pricing of natural resources, backing enforcement efforts of the existing comprehensive environmental legislation, and expanding the utilization of the Global Environment Facility to address greenhouse gas and ozone production, and to reverse threats to biodiversity.

Health

The Bank health program is now on the right track, having improved considerably during the last decade. Its assistance program was built on the findings of the *1993 World Development Report*, solid sector work conducted in collaboration with Indian expertise, effective policy dialogue, and the recognition that there needed to be a focus on specific diseases. The result was a series of broad-based projects that focused on maternal and child care (also as a way to address population policy issues), on specific diseases, and on state-level health system reform. Comments from the Ministry of Health and Family Welfare express satisfaction with the Bank's contribution to physical capacity, but also note its modest past achievements in institutional development. The government's withdrawal from the Tamil Nadu nutrition model has been a big disappointment, but the Bank has continued to encourage the incorporation of successful aspects of that experience in the Integrated Child Development Services projects.

Four projects addressing specific diseases—leprosy, blindness, tuberculosis, and malaria—were included in the program, and two HIV/AIDS projects were added during the 1990s. The first of these, which closed in FY99, initiated significant nationwide HIV/AIDS prevention and awareness activities. It has achieved dramatic qualitative improvement in the blood supply situation, substantial increases in the public knowledge of HIV, and a considerable increase in condom use in high-risk groups. Bank performance on the design and supervision of this complex project was rated highly satisfactory by OED in its review of this project's implementation completion report.

Education

In the early 1990s, the Bank overcame the line ministry's resistance to lending for education projects, which was mainly due to fear of interference by outsiders in sensitive curriculum matters. Initially, the Bank assisted in the vocational/technical education area, with four projects that have been recently and successfully completed. Since October 1993, seven District Primary Education projects (DPEPs) have been approved and are still ongoing, for a total of \$1.2 billion in gross commitments from the Bank and with a large amount of parallel donor financing. These projects focused on increasing access to primary education for the disadvantaged, particularly children from scheduled tribes and castes and girls, capacity building, and quality improvement.

The large efforts to promote primary education have been accompanied by high government commitment, innovative thinking, and an emphasis on carrying out the project preparation work with local staff only, who in the process learned a great deal. Overall, about 50 million children have been involved, and large enrollment increases, especially of girls, have been reported in the most deprived areas.⁴ Some questions have been raised among donors, scholars, and nongovernmental organizations (NGOs), however, regarding the reliability of enrollment data, the extent of quality improvements, the functioning of the village education committees, and the tight control by the government of school visits and supervision reports.⁵

⁴ For example, in the Uttar Pradesh Basic Education project (UPBEP), enrollments in the 1991–2000 period reportedly increased by 67 percent at the primary level and by 74 percent at the lower secondary level. The gross enrollment ratio increased from a baseline level of 66 percent to 107 percent (including overage children), although the target level was only 78 percent. Girls' enrollment increased significantly, reportedly by 97 percent. The dropout rate decreased, textbooks were provided on a large scale and were available in classes, while 100,000 teachers received in-service training through block and cluster resource centers. Large numbers of teachers were appointed, particularly locally residing para-teachers. Instructional methodology was emphasized and child-centered methodologies were disseminated to teachers and parents.

⁵ In its comments, the Ministry of Human Resource Development argued that there is no merit to such questions. The Ministry's view is that, under the District Primary Education Programme, extensive and large numbers of research studies and over 250 evaluations have been made; data reporting systems have been effectively strengthened over the years; there are effective monitoring and training components for village education committees; and the elaborate joint supervision mechanism—involving donors, national research institutes, and other local experts—is very collaborative with no question of government domination.

Public Financial Accountability: A Promising Beginning

The risk of fraud, waste, and abuse of public funds has been growing during the past decades, partly fueled by the rapid economic growth that has benefited many in the private sector and by the increased availability of luxury goods. Public financial accountability is a recent area of emphasis for the Bank, whose knowledge of the issues in this area at the country and state levels is growing. That knowledge is mainly centered on financial management and internal control procedures in the central government and, very recently, in a few focus states, especially Uttar Pradesh. But there are still significant gaps in knowledge—the most significant being the effectiveness of the legislative scrutiny processes at the center and at the states.

The Bank has not yet articulated a comprehensive long-term assistance strategy for strengthening public financial accountability in India. While elements of a strategy have been slowly emerging at the state level, the Bank has yet to deal with PFA issues at the country level. At the project level, the Bank has made efforts to improve accounting, auditing, and budgeting systems at the implementing agency level and in specific operating departments in state governments. Outside Uttar Pradesh, however, these interventions were not designed to address the significant capacity problems in the state or country's overall public financial accountability systems.

Regarding Bank-financed projects, lessons with implementing the Loans Administration Change Initiative suggest the importance of:

- Bank and borrower commitment to enhance financial management and control
- Training and experience of Bank staff in public sector auditing, accounting, and scrutiny systems
- Communication to the borrower of consequences for less-than-satisfactory compliance with fiduciary obligations as specified in the loan agreements.

With the recent emphasis on programmatic lending in India, the adequacy of the overall public financial accountability systems at the national and subnational levels has assumed greater importance. The Bank has done pioneering work in this area in Uttar Pradesh, but this initiative alone may not be sufficient. Unless the Bank engages in a productive dialogue and partnership with the central government on the systematic modernization of public financial accountability systems in the country, its current efforts in a few focus states may be neither effective nor sustainable. The June 2000 Lucknow conference for speakers of state legislatures proved to be an ideal forum and first step for the Bank to articulate its views to a national audience on the need for improvements in this area.

Mainstreaming Participation, but Resettlement Safeguards Are Still Contentious

Social development received inadequate attention in Bank-assisted projects before the 1990s. Serious problems had accumulated, mainly caused by poor involuntary resettlement practices, seriously damaging India's and the Bank's reputation (the Morse Commission's review in 1992 highlighted serious deficiencies on the part of the Bank) and forcing remedial work. Much of this work, however, was concentrated on specific projects, with limited attention to systemic issues. Numerous projects were canceled,

suspended, or restructured.⁶ The Bank became reluctant to take on, and the government hesitant to seek Bank support for, projects with resettlement implications, such as large-scale irrigation, power generation, and road projects.

Recent Bank initiatives hold more promise, but to assess the longer-term results and sustainability of the steps taken so far, better monitoring and evaluation systems are needed. The emphasis has expanded from "do no harm" in social safeguard policies to a more proactive approach in the second half of the 1990s of improving Bank and borrower performance through social assessment, participatory approaches, decentralization, increased transparency and accountability, and community empowerment. During FY94-98, India had the second highest percentage (81 percent) of Bank-assisted projects approved with community participation among all Bank borrowers with more than 10 projects. Each later project round has built on the lessons of previous efforts to achieve greater participation.⁷ Social development issues have indeed become more integrated and mainstreamed in Bank operations. Although the government has made uneven progress in adopting participatory approaches, it is moving forward with Bank encouragement and assistance.

The application of the Bank's resettlement policy, however, remains contentious. In complaints raised by community and nongovernmental organizations about the NTPC Power Generation project in 1997 and the Ecodevelopment project in 1998, an independent Inspection Panel found merit to the claims of project-area residents and tribal people that they had been (or might be) harmed by involuntary resettlement and that their interests had been neglected. The Bank admitted policy violations in regarding the involuntary resettlement complaint and implementation shortcomings regarding the peoples' interests. It adopted corrective action plans.

At the same time, the Bank is often seen as too rigid in applying its resettlement policy and too accommodating of NGOs' agendas. Some senior NTPC and government officials raised with OED missions the issue of the Bank's insistence on retroactive application of its resettlement policy to projects the Bank did not originally finance. They also raised the issue of differential treatment of resettled people in Bank-financed projects compared with other projects, some covering adjacent areas, where lower standards were applied. They expressed dissatisfaction with the lack of authority by field office staff to make decisions based on local realities and with such issues being routinely referred to headquarters staff, who apply rigid interpretations of the Bank guidelines on safeguards.

Despite the concerns of some officials, for the most part the government accepts and supports the Bank's approach. The Bank has indeed positively influenced the resettlement debate in India and its guidelines have become the de facto standard against which civil

⁶ Including withdrawal of support for the Sardar Sarovar dam and a power project on the Narmada river.

⁷ For example, the Karnataka Rural Water Supply and Environmental Sanitation project (approved in FY93) built on lessons of a previous project in Maharashtra, which in turn led to improvements and greater investments (7 percent of project budget devoted to participation compared to 2 percent in the Karnataka project) in the Uttar Pradesh Water Supply project (approved in FY98). The District Poverty Initiative Projects (DPIPs) and Integrated Watershed Development Projects (IWDPs), some of which have already been approved, are founded on a social development approach of empowering the poor through the formation of community groups, and represent the state of the art.

society measures government performance. During the 1990s, in an attempt to harmonize approaches, the Bank engaged in policy dialogue about the differences between Bank and other donor guidelines and Indian laws and practices. The major difference is that, while the Indian approach is limited to compensation for loss of land and other assets, Bank standards require that attention also be given to potential loss of livelihood for poor and vulnerable people. Thus, Bank-supported projects require a broader set of supportive measures for affected people. Such additional support, however, is complementary to, rather than in conflict with, Indian laws and practices.

Given the impasse at the center, the Bank focused on sector and state policies where it has had greater success. Sectoral resettlement policies in line with Bank safeguards have been adopted for the coal sector and for highways by the central and a few state governments. Similarly, some states have adopted safeguards for all their public irrigation projects. The recently approved *National Highways III* project, with full attention to safeguards, and the central government's application of the Bank's approach to resettlement and social assessment to some other non-Bank financed road projects, are strong evidence of commitment and ownership by at least some parts of the government.

Nevertheless, the high-level policy dialogue has been insufficient so far at the national and state levels. Drafts of a new national resettlement policy and proposed amendments to the Land Acquisition Act in line with Bank guidelines have been waiting cabinet approval for the past five years. And the perception of unreasonableness regarding the Bank's application of its guidelines among some senior officials in central ministries and in NTPC remains an area of concern that the Bank needs to address.

Gender: Unsuccessful Mainstreaming

The Bank has not succeeded in mainstreaming gender issues across sectors. Attention to gender issues has been mainly confined to enclave activities in the social sectors. While Bank lending and nonlending operations in education and women's health have taken women's issues into account, the picture for operations in agriculture, basic health, water supply and sanitation, irrigation, rural finance, rural transport, and environment is disappointing. The failure is at the level of implementation rather than conceptualization. The Bank's sector work in these areas recognized women's issues, and many project documents addressed gender concerns at entry. However, at implementation, these concerns often take a back seat. Moreover, the monitoring of gender disaggregated results of lending operations remains deficient. Finally, in such sectors as industry, energy, transport, and finance, there has been little or no recognition of gender issues.

ANNEX A – Table A.1: Sectoral Assistance Ratings¹
(Lending and Non-lending, FY1995-99)

Item	Poverty Focus	Public Sector Mgmt.	Finance Sector Dev.	Private SectorDev.	Urban Dev.	Water Resources Mgmt.	Rural Dev.	Forest Sector	Energy Sector	Transport Sector	Enviro -nment	PHN	Education Sector	Social Dev.	Gender
Sectoral Performance Rating															
Outcome²	M. Sat	M. Sat	M. Sat	Sat	Unsat	M. Sat	M. Sat	Sat	Sat	M. Sat	M. Sat	Sat	Sat	M. Sat	Unsat
Relevance	Sub	Sub	Sub	Sub	Mod	Sub	Sub	Sub	High	Sub	Sub	High	Sub	Sub	Mod
Efficacy	Mod	Mod	Mod	Sub	Mod	Mod	Mod	Sub	Sub	Mod	Mod	Sub	Sub	Mod	Mod
Efficiency	Na	na	na	Na	Na	na	na	na	High	na	na	na	na	na	na
ID Impact	Mod	Mod	Mod	Sub	Mod	Sub	Sub	Mod	Sub	Mod	Mod	Sub	Mod	Mod	Mod
Sustainability	Unc	Lik	Lik	Lik	Unl	Unc	Unc	Unc	Lik	Unc	Unc	Lik	Unc	Unc	Unc
ASPI³	6.0	7.5	6.5	8.25	4.25	7.0	7.0	6.75	8.25	6.0	6.0	8.25	6.75	6.0	4.5

PHN = Population, Health & Nutrition; M=Moderately; SAT=Satisfactory; UNSAT=Unsatisfactory; MOD=Modest; NEG=Negligible; LIK=Likely; UNC=Uncertain; UNL=Unlikely

• METHODOLOGICAL NOTES

1. Sectoral Rating Scales

Outcome	Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory and Highly Unsatisfactory
Relevance	High, Substantial, Modest, Negligible
Efficacy	High, Substantial, Modest, Negligible
Efficiency:	High, Substantial, Modest, Negligible
ID Impact	High, Substantial, Modest and Negligible
Sustainability	Likely, Uncertain and Unlikely

2. Outcome Components and Aggregation Methodology

We have slightly modified the standard OED algorithm embedded in OED's Project Information File (PIF) used for aggregating the component ratings (i.e., the combination of relevance, efficacy, efficiency) for project outcome to give more weight to relevance. In this study, when rating sectoral or country-wide Bank assistance, almost all combinations with less than substantial relevance yield a moderately unsatisfactory or worse outcome rating. There is one exception: modest relevance and high efficacy yield a moderately satisfactory outcome.

3. Aggregate Sectoral Performance Indicator (ASPI)

OED has developed during the last two years an Aggregate Project Performance Indicator (APPI) summarizes the project-specific project ratings of Outcome, Institutional Development Impact, and Sustainability. The average APPI in the Bank-wide portfolio of projects at the time the ratings for India were decided was about 6.42 and the standard deviation was 1.9. See Table R3 for the APPI for projects in the India portfolio and for scores for some regions as well as for some large countries. For this study, we have applied the same methodology to derive Aggregate Sector Performance Indicators (ASPI) from sectoral Outcome, ID Impact, and Sustainability ratings. These cover the lending and non-lending sectoral assistance by the Bank. The APPI/ASPI is a cardinal index from 2 to 10 whose additive components are as follows. Outcome: HS = 7.75; S = 6.0; MS = 5.25; MU = 4.5; U = 3.75; HU = 2.0; ID Impact: SUB = 1.5; MOD = 0.5; NEG = 0; Sustainability: LIK = 0.75; UNC = 0.25; UNL 0

Annex A – Table A.2: Matrix of Country Assistance Issues for Major Sectors

I: Poverty

Strategic Objectives	Strategic Actions	Bank Assistance	Progress Indicators	Evaluation of Bank Assistance
<p>FY 90-94: A. Poverty reduction regularly featured as part of the Bank's strategic goals, but without any quantitative aims. B. In the early nineties the Bank's poverty reduction assistance strategy was mainly based on growth and employment.</p> <p>FY95-99: C. Poverty reduction continued to be the main strategic objective. In 1997 the Bank's CAS proposed the possibility of a 50% reduction in the incidence of poverty to about 15% by the year 2010. Not until the end of the nineties was poverty reduction a systematic focus of the assistance programs.</p>	<p>FY 90-94: Deregulation of domestic industry and financial sector, liberalization of exchange regime, better enabling environment for private sector growth. Analysis of poverty and the role of rural development in poverty reduction in FY 89 and 91.</p> <p>FY95-99: Increased lending for social sectors and for rural development. Research and sector work on poverty became more relevant to policy options for poverty reduction, and at end of the decade was more focused on strategic issues. Bank produced two poverty assessments (1997 and 1998), and a report on rural development and poverty reduction (1999).</p>	<p>FY 90-94: SAL/SAC in 1991 to support the economic reform program, accompanying Social Safety Net Project, External Sector and Investment Regime Liberalization project, and the Export Development project. Lending for education started. But, agricultural lending declined.</p> <p>FY95-99: Lending: Continued high level of lending in primary health and education services. Increased lending for rural development, forestry and agriculture research, but irrigation (with only indirect impact on the poor) still dominant. At end of period, APERP approved with conditions relevant to poverty reduction. Increased focus on more poverty targeted projects such as District Poverty Initiatives Projects of which two approved in April, 2000. Non-lending: Towards the end of the decade research and sector work on poverty highly focused on strategic issues.</p>	<p>FY 90-94: Export growth of 12 % in early 90s, and 6% growth of GDP. Deficit reduced. Continued reduction in urban poverty, but much less reduction in rural poverty. No poverty monitoring in Bank projects. Some advances in social services. Continuation of the unwieldy and costly targeted government programs. Sound analytical work in FY89 and FY91 had negligible impact.</p> <p>FY95-99: Growth rate of GDP remained above 6%. Still further declines in incidence of urban poverty but relatively small change in rural poverty although data controversial. Other estimates suggest reduction in rural poverty in the nineties. Still no systematic monitoring of the poverty reduction impact of Bank-assisted projects.</p>	<p>FY90-94: The SAL/SAC, ED and ESIRLP were satisfactory in terms of impact on growth, mainly in non farm sector, SSN was marginally satisfactory with negligible impact on institutional arrangements for targeted programs. Weak program for rural poverty reduction.</p> <p>FY95-99: The second half of the nineties has seen substantial improvements in the poverty reduction focus of Bank operations. Nevertheless the outcome was still moderately satisfactory because, while relevance was substantial, efficacy in terms of poverty reduction and ID Impact were both modest. Sustainability of programs is uncertain. There is still no systematic application of poverty monitoring. Ratings: Outcome: Moderately Sat. Relevance: Substantial Efficacy: Modest ID Impact: Modest Sustainability: Uncertain</p>

II: Public Sector Management and State Level Lending

Strategic Objectives	Strategic Actions	Bank Assistance	Progress Indicators	Evaluation of Bank Assistance
<p>FY90-94 A. Lower the fiscal deficit (warnings in ESW of unsustainability of deficit) B. Lower the central government fiscal deficit to 11% by 1990/91 and to 8% by 1995/96 C. Restructuring/reform of public enterprises:</p> <p>FY95-99 D. State level improvements in fiscal management and reform as well as in public enterprises.</p>	<p>FY90-94 Structural Adjustment Loan I (\$500m.) in 1991 introduced PER as component but reform was very slow. PER introduced into state lending. But fiscal issues were not transformed into lending. Structural Adjustment Loans II (\$500m.) and III (\$300m.) were important in reducing balance of payment problems, but were without macroeconomic conditions, in particular did not address fiscal policy.</p> <p>FY95-99 1997 CAS introduced reduction of central government deficit to specific percent of GDP as trigger points for moving from low to high level lending.</p>	<p>FY90-94: The Structural Adjustment Loan I (SAL I - \$500m.), the Social Safety Net project (SSNP/SAL II- \$500m.) and the External Sector and Investment Regime Liberalization Project (\$300m.) were completed in FY92 (SAL I & SSNP) and FY93 respectively.</p> <p>FY95-99 Andhra Pradesh Economic Restructuring, multi-sector project (1998) includes, inter alia, a fiscal component consisting of state and public enterprise reforms.</p>	<p>FY90-94 Adjustment at the central and state level did not materialize; fiscal deficits continued to pose a major threat. Social Safety Net project (SAL II), which inter alia, supported ongoing social safety nets, did not advance policy issues on those programs.</p> <p>FY95-99 Central government deficit remained high. Focus on public sector management at state level. Andhra Pradesh (AP) project became effective in FY99, so limited experience. But most of fiscal conditions for 1998/99 were met and fiscal program broadly on track. AP project is progressing satisfactorily; sectoral and fiscal programs are broadly on track.</p>	<p>FY90-94</p> <p>FY95-99 Bank overestimated the GOI capacity to implement fiscal adjustments. Public enterprise reform was also slow to develop.</p> <p>Ratings: Outcome: Moderately Sat. Relevance: Substantial Efficacy: Modest ID Impact: Modest Sustainability: Likely</p>

III: Financial Sector

Strategic Objectives	Strategic Actions	Bank Assistance	Progress Indicators	Evaluation of Bank Assistance
<p>FY95-99</p> <p>A. Fostering competition among banks, improve allocative efficiency.</p> <p>B. Financial liberalization, and gradual privatization of public sector banks.</p>	<p>FY95-99</p> <p>Recapitalization of six public sector banks, through Financial Sector Development Project (FSDP) enhancing efficiency and profitability of these banks through technological improvements and management development</p>	<p>FY95-99</p> <p>Lending: Started the Financial Sector Development project (FSDP) in 1995. Possible future assistance on wider financial sector reform.</p> <p>Non-lending: Financial sector studies on banking and payment system; seminar on banking reform; organized continuous and informal advice connected with FSDP.</p> <p>Commitment by government to undertake studies on debt market, pension fund, and capital market jointly with IFC.</p>	<p>FY95-99</p> <p>Two of the six public sector banks issued equity in the market. Five of the banks realized capital adequacy ratio of 8 percent of assets.</p> <p>All six banks reached target profits.</p> <p>Modest progress in management efficiency</p>	<p>FY95-99</p> <p>Ratings:</p> <p>Outcome: Moderately Sat.</p> <p>Relevance: Substantial</p> <p>Efficacy: Modest</p> <p>ID Impact: Modest</p> <p>Sustainability: Likely</p>

IV: The Private Sector

Strategic Objectives	Strategic Actions	Bank Assistance	Progress Indicators	Evaluation of Bank Assistance
<p>FY89-99</p> <p>A. Create an enabling environment for the private sector to be an effective exporter to acquire and develop technology, to help small innovative firms obtain financing and to encourage</p>	<p>FY89-99</p> <p>Structural reforms like industrial deregulation and opening of the economy to support venture capital activity, and assist financial institutions to strengthen the capacities of their clients in export activity and development of technology.</p>	<p>FY89-99</p> <p>Lending: Loans approved to Haryana, Orissa, and Andhra Pradesh for Power Sector Restructuring projects.</p> <p>Non-lending: A discussion paper on Regulatory Reform and a handbook on competitive procedures for power sector project were prepared</p>	<p>FY89-99</p> <p>Venture capital activity gathered popularity and speed. In 1999, the Government of India announced a Rs. 1bn. (US\$23.2m.) venture capital fund. Exporters were familiarized with foreign markets.</p>	<p>FY95-99</p> <p>Ratings:</p> <p>Outcome: Satisfactory</p> <p>Relevance: Substantial</p> <p>Efficacy: Substantial</p> <p>ID Impact: Substantial</p> <p>Sustainability: Likely</p> <p>Note: During the first half of the decade the relevance of private sector development was evaluated as "high". Other ratings were the same.</p>

Strategic Objectives	Strategic Actions	Bank Assistance	Progress Indicators	Evaluation of Bank Assistance
B. Participation in the infrastructure activities.	Three states: Haryana, Orissa, and Andhra Pradesh enacted necessary legislation to set up Regulatory Commissions to look into power sector reform. Public participation facilitated the consensus among all parties obtained. Preliminary steps taken at state level to un-bundle the energy services.		Three states, namely Haryana, Orissa, and Andhra Pradesh created a framework for private sector participation in power	
C. Deregulation of domestic industry and promotion of foreign direct investment, liberalization of trade and foreign exchange regime.	Major industries freed from licensing. Removal of restrictions in 1993 on firms holding 40 percent foreign equity to dispose of assets or borrowing in Indian market.			
D. Fiscal consolidation and public sector enterprise reform	Public sector reform began with hard budget constraints imposed on public sector enterprises and sale of equity to public.			

V: Urban Development, Water Supply, Sewerage, Sanitation, Transport and Housing

Strategic Objectives	Strategic Actions	Bank Assistance	Progress Indicators	Evaluation of Bank Assistance
The 1990s A. Improve urban infrastructure in a sustainable manner. B. Augment the institutional capacity for improving the supply and distribution of water, and rehabilitate the collection, conveyance, and treatment of sewage. C. Strengthen the capacity of institutions in the management of the provision of sewerage services. D. Sustain financial viability in the provision of water supply and sewerage services.	The 1990s Strengthen the management, financial and technical capacities of urban local bodies. Report in 1997 titled, Urban Infrastructure Services Review prepared in light of weak project performance. This report outlined plausible reform scenario which included: professionalize municipalities create/support long term financing facilities for infrastructure financing develop public/private sector partnership eliminate regulatory constraints on mobilization of financial resources free land/property markets	The 1990s One urban development project (Tamil Nadu) with a financial commitment of US\$105 million. Three water supply, sewerage and sanitation projects with a financial commitment of \$557.7 million. A special Maharashtra earthquake relief project with a financial commitment of \$246 million.	The 1990s Number of municipalities assisted. Market-based conditionalities for loan assistance to municipalities. Number of households covered by water supply. Quantity and quality of water. Leak detection. Revenue collection to billing ratio. Staff per number of sewage connections.	FY95-99 Ratings: Outcome: Unsatisfactory. Relevance: Modest Efficacy: Modest ID Impact: Modest Sustainability: Unlikely

VI: Water Resource Management

Strategic Objectives	Strategic Actions	Bank Assistance	Progress Indicators	Evaluation of Bank Assistance
<p>FY90-94</p> <ul style="list-style-type: none"> • Irrigation <p>A. Introduce comprehensive river basin planning and water management</p> <p>B. Focus on increasing the reliability of water supplies through improved system operation and maintenance, and increased cost recovery.</p> <p>C. Introduce technical solutions that curtail opportunities for mismanagement and increased transparency.</p> <p>D. Reform state irrigation departments' way of doing business.</p> <p>E. Introduce beneficiary participation.</p> <p>F. Enforce safeguard policies,</p> <p><u>Water supply and sanitation</u></p> <p>A. Move towards demand management.</p> <p>B. Tailor services to social capital.</p>	<p>FY90-94</p> <p>Implement India's 1987 National Water Policy (NWP) in Bank projects.</p> <p>Undertake system diagnostics to optimize engineering and management interventions.</p> <p>Introduction of structured irrigation systems that allowed beneficiaries to operate the lower distributaries.</p> <p>Restructure irrigation departments and accounting systems to be transparent.</p> <p>Introduce water user associations.</p> <p>Design resettlement of indigenous people, environment and dam safety components in projects.</p> <p>Involve beneficiaries in project design, operation and maintenance.</p>	<p>FY90-94</p> <p>1991 Irrigation Sector Review diagnosed problems and proposed partial adoption of NWP. Highlighted that severe organizational and institutional problems persist despite NWP. Between 1989 and 1993 there were 38 active water and water related investments. Of these 16 projects with a Bank investment of US\$2,023m. closed during 1989-93 period. 13 of these 16 were irrigation and water management projects, 2 were urban water supply projects. 22 projects with a Bank investment of US\$2,547m. were, on-going. Of these, half were irrigation, and 7 were water supply.</p> <p>Eight new projects were started at a total cost of US\$3,034m. that included US\$773m. of investments in water. These investments covered dam safety, resettlement, 2 irrigation loans one rural development project that included minor irrigation and drainage and provision of drinking and one drainage improvement project 2 comprehensive watershed development projects. 22 operations were closed during this period of which 11 were irrigation and 8 water supply and sanitation.</p>	<p>FY90-94</p> <p>Unsuccessfully implemented irrigation system diagnostics and operational planning through the \$157m. National Water Management Project, as it became clear that this would not work, project became a disbursement exercise. Attempts to reform and restructure irrigation department became cosmetic. State irrigation deficits continued to increase. Beneficiary participation was very modest.</p> <p>Safeguard policies mainly in non-compliance, in line with the most notable - the Narmada/Gujarat Sardar Sarovar Dam safety project.</p>	<p>Before FY90-94</p> <p>Ratings:</p> <p>Outcome: Unsatisfactory</p> <p>Relevance: Modest</p> <p>Efficacy: Modest</p> <p>ID Impact: Modest</p> <p>Sustainability: Unlikely</p>

Strategic Objectives	Strategic Actions	Bank Assistance	Progress Indicators	Evaluation of Bank Assistance
<p>FY95-99:</p> <p>A. Ensure sustainable water supplies and meet the needs of competing users including the environment.</p> <p>B. Adopt a comprehensive river basin planning framework considering both surface and groundwater conjunctively to improve water resource assessment, water allocation and management.</p> <p>C. Improve service delivery in the water subsectors</p> <p>D. Improve water service to the poor</p> <p>E. Achieve financially sustainable water supplies for all sectors</p>	<p>FY95-99:</p> <p>Reform policy, legislation and regulation</p> <p>(a) Develop an appropriate policy framework at Center and State levels</p> <p>(b) Separate policy and regulatory functions from operations</p> <p>Institutional strengthening and reorganization:</p> <p>(a) Shift from a supply-driven to a demand-driven approach;</p> <p>(b) Reduce the role of government and enhance the role of non-government stakeholders in decision-making, implementation and management;</p> <p>(c) Change the role of government from being sole provider and financier to one of facilitator, enabler and regulator;</p> <p>(d) Devolve water sector operations and management to the lowest level compatible with effective administration i.e.: subsidiarity</p> <p>Develop financial incentives with full cost recovery including capital cost sharing.</p> <p>Improve planning, technology and information systems.</p>	<p>FY95-99:</p> <p>There were 14 new projects approved for a total cost of US\$4,583 million with Bank contributions of \$2,683 million. Almost all of these projects promoted principles of the Bank's new water policy.</p> <p>The vanguard of these projects was the AP Economic Restructuring project (APERP), which included \$282 million for irrigation, is in accord with the Bank's sectoral objectives such as devolution of management and operation and maintenance by beneficiaries.</p>	<p>FY95-99:</p> <p>GOI National Water Policy ['87]</p> <p>Bank's Indian Irrigation Sector Review (December '91)</p> <p>Joint GOI/Bank Water Resource Management Sector Review (June '98) implemented.</p> <p>GOI National Commission for Integrated Water Resources Development established (June '98)</p> <p>State Water Policies Approved in Orissa, Tamil Nadu and Rajasthan</p> <p>State Water Policies drafted in Uttar Pradesh, and Madhya Pradesh</p> <p>Water Policy for Irrigation Sector was reformed in Andhra Pradesh: (a) farmers' management of irrigation systems Act (April '97), under which 10,300 water user associations were formed; and (b) water charges were increased by 300% in 1997 which now meet 73% of operation and maintenance costs.</p>	<p>FY95-99:</p> <p>Outcome: Moderately Sat.</p> <p>Relevance: Substantial</p> <p>Efficacy: Modest</p> <p>ID Impact: Substantial</p> <p>Sustainability: Uncertain</p>

VII: Rural Development

Strategic Objectives	Strategic Actions	Bank Assistance	Progress Indicators	Evaluation of Bank Assistance
<p>FY 90-94: A. Country strategy dominated by macroeconomic objectives.</p> <p>B. Bank sector analysis in late eighties and early nineties pointing to need for agricultural sector policy change set aside in Bank's strategy.</p> <p>FY 95-99: C. Greater focus in lending program on a few main themes</p> <p>D. Increased focus on importance of improving agricultural and rural policy</p>	<p>FY 90-94: No specific Bank rural development strategy. Inadequate attention to agriculture policy framework. Implicit assumption that sound macro policy would benefit agriculture, rural employment and the poor in rural areas. On the other hand a review of irrigation sub-sector in 1991 which led to change in Bank lending strategy.</p> <p>FY 95-99: Highly relevant analysis of rural development and poverty reduction (1999), indicating importance and impact of improving agricultural policy. Increased focus on lending for broad-based rural development and on state agricultural policy issues. Still no comprehensive Bank rural development strategy statement.</p>	<p>FY 90-94: Lending: Lending to sector declined in FY 90-94 (\$1.24 billion compared with \$2.5 billion in FY85-89). Main focus on irrigation and drainage (37%), strong continuation of forestry and watershed/area development lending (21% and 18%). The rest was a mixture of projects with little strategic content. Non-lending: Highly relevant ESW on poverty, rural development and irrigation in FY89, FY90 and FY91.</p> <p>FY 95-99: Lending: Agricultural lending increased by 43% to \$1.78 billion in FY95-99. It was more focused on major themes of irrigation, watershed/area development and forestry, and research compared with first half of nineties. Non-lending: Major, highly relevant, sector analyses in irrigation, rural development and poverty reduction (1999).</p>	<p>FY 90-94: Moderate, fluctuating growth in agriculture. Incidence of rural poverty not changed significantly according to official Bank government data. No improvement in the policy and institutional framework.</p> <p>FY 95-99: Still no significant change in incidence of rural poverty. Very substantial improvement in the understanding of policy issues following sector work but declaration of Bank assistance strategy for rural development sector not yet stated explicitly. No evidence of strong engagement with the central government on policy issues.</p>	<p>FY 90-94: In terms of the objective of rural poverty reduction the outcome for the program as a whole was moderately unsatisfactory because of modest relevance and efficacy. ID Impact was modest and sustainability was uncertain.</p> <p>FY 95-99: Outcome marginally satisfactory based on highly relevant sector analysis, substantial institutional development, but modest efficacy based on weak poverty reduction impact. Ratings: Outcome: Moderately Sat. Relevance: Substantial Efficacy: Modest ID Impact: Substantial Sustainability: Uncertain</p>

VIII: Forestry

Strategic Objectives	Strategic Actions	Bank Assistance	Progress Indicators	Evaluation of Bank Assistance
<p>1991-99</p> <p>A. The Bank-supported forestry program in the nineties was based on the Indian and World Bank forest development policies of 1988 and 1991 respectively.</p> <p>B. The Indian government policy envisaged forests as an ecological necessity, a source of goods for local use, and source of raw material.</p> <p>C. The Bank's policy was based on five principles namely: a multisectoral approach; international cooperation; rectifying market and policy failures that lead to deforestation and unsustainable land use; finance operations that lead to socially, environmentally, and economically sustainable resource expansion and intensification; and preserve intact forest areas.</p>	<p>1991-99</p> <p>The Bank's strategy was to support the strategy developed in 1988 by the India government. The policy paved the way for Joint Forest Management (JFM) which was also embraced by the Bank's 1991 forest policy paper. The Bank's policy focused on five actions, namely: sustainable and participatory approaches to policy and institutional change; clear definition of the roles and rights of stakeholders/people in conservation and development plans; base commercial use of forests on adequate social, environmental, and economic assessments; provide adequately for maintain biodiversity and the interests of forest dwellers; establish adequate enforcement mechanisms.</p>	<p>1991-99</p> <p>In retrospect the Bank has made four important contributions: (a) bridging the budget gap to enable forestry development (b) improving capacity for technology generation and transfer (c) aiding forestry departments to work in a participative mode with the poor on forest protection and regeneration (d) playing a catalytic role by focusing attention on important unresolved policy institutional issues</p> <p>Six state level projects (\$ 460.3 million) and two national projects approved in the nineties (\$ 95 million) While the details of each state level project varies, the main focus of these projects were: forestry sector reform, joint forest management, training and research, regeneration and afforestation, technology improvement, wildlife and biodiversity conservation fodder development, and social forestry.</p> <p>The national projects supported; forestry research, education and extension (1994); and biodiversity and ecodevelopment (1997).</p>	<p>1991-99</p> <p>Overall there is significant progress on a number of fronts: (a) forest cover in India has to a large extent stabilized; (b) participation in forest management has increased; (c) the Bank has followed through on its 1991 forest policy paper in India; (d) the quality of interaction between state forest departments and stakeholders in India forests has improved significantly.</p> <p>Only one state project (West Bengal Forestry) has been completed so far. According to an OED evaluation the outcome was satisfactory but there were serious concerns about sustainability. Overall, while there is considerable variation in the performance of the state level projects depending on the commitment of the state forestry agency. The Maharashtra project is the only one that has been rated as problem project. The Andhra Pradesh project has been successful. In 1999 none were regarded as at risk or potentially at risk.</p> <p>The research, education and extension project is currently rated as satisfactory in terms of its Development objectives and implementation. On the other hand the ecodevelopment project is rated as unsatisfactory on both counts and is also under scrutiny by the inspection panel for not having taken into account the interests of tribal groups.</p>	<p>1991- 1994</p> <p>Ratings: Outcome: Moderately Sat. Relevance: Substantial Efficacy: Modest ID Impact: Negligible Sustainability: Uncertain</p> <p>FY95-99</p> <p>Ratings: Outcome: Satisfactory Relevance: Substantial Efficacy: Substantial ID Impact: Modest Sustainability: Uncertain</p>

IX: Energy Sector

Strategic Objectives	Strategic Actions	Bank Assistance	Progress Indicators	Evaluation of Bank Assistance
<p>Before 1993: <u>Power:</u> A. Accelerate the installation of generating capacity and improve efficiency to gradually eliminate the prevailing power shortages in the country; B. Introduce long-range system planning on a nationwide basis; C. Strengthen the finances of the institutions involved in the sector, particularly of the State Electricity Boards (SEBs).</p> <p><u>Coal:</u> A. Increase productive capacity of Coal India Limited in support of GOI's policy of domestic coal reliance.</p> <p><u>Oil & Gas:</u> Expand production from India's gas and oil resources</p>	<p>Before 1993: <u>Power:</u> Bank supported the development of NTPC and POWERGRID to increase generating capacity, improve planning and accelerate the creation of a national transmission grid. The Bank also initiated support for renewable energy projects. Loans made during 1991-1993 recognized the increased importance of the private sector in power sector development, but did not address underlying sector problems. The Bank loans to the SEBs were designed to increase generating capacity, improve efficiency, and improve financial situation of the State-owned entities.</p> <p><u>Coal:</u> Loans were designed to increase productive capacity of Coal India Limited (CIL) through development of lower cost open-cast pit mines.</p> <p><u>Oil & Gas:</u> The Bank loans were designed to support physical infrastructure development to expand production.</p>	<p>Before 1993: <u>Power:</u> The Bank approved loans and credits for 16 power sector projects between 1987 and 1993, representing a commitment of over US\$5 billion. Few of the SEB projects were satisfactorily implemented, and most were closed with substantial cancellations due to non-compliance with agreed-upon loan covenants.</p> <p><u>Coal:</u> The Bank made 1 loan to the coal sector in 1987 for \$300 million. The Bank did not provide support to the Indian coal sector for the next 10 years</p> <p><u>Oil and Gas:</u> The Bank supported 5 projects between 1987-1993, totaling \$1.3 billion.</p>	<p>Before 1993: <u>Power:</u> The Bank succeeded in supporting the development of NTPC as a viable public sector enterprise, yet failed in its attempts to correct the inefficiencies and institutional failures present in the SEBs. In 1992-1993, energy shortages had increased to 8%, and peak electric capacity shortages were estimated to exceed 20%. The aggregate annual losses of the SEBs in 1996 had increased to US\$2.2 billion per year (about .8 percent of Indian GDP).</p> <p><u>Coal:</u> The loans contributed to significant productivity gains and better financial results. Three of the five Coal India Limited subsidiaries are now profitable.</p> <p><u>Oil and Gas:</u> The loans to the oil and gas sector led to significantly increased productive capacity. Sectoral policies, product pricing, and allocation issues (gas) were not effectively addressed.</p>	<p>Before 1993: <u>Power:</u> The Bank's lending (with the exception of the SEB loans) was highly efficient. Most projects were completed in a timely fashion at reasonable costs.</p> <p><u>Coal:</u> CIL was successfully broken down into several separate operating companies (each with its own unique area). Several of these were unprofitable but were subsidized by the profitable companies.</p> <p>The Bank was less successful in achieving its stated sector objectives, especially with respect to improving the resource mobilization of the sector.</p>

Strategic Objectives	Strategic Actions	Bank Assistance	Progress Indicators	Evaluation of Bank Assistance
<p>Post – 1993 The Bank shifted its focus to improve the energy sector's institutional, financial and environmental sustainability.</p> <p><u>Power:</u> The Bank only supports new projects in states that make real commitments to reforming their energy sectors. Such reforms include the creation of an independent state regulatory authority, tariff reforms, incorporation of power sector activities, and eventual privatization of distribution.</p> <p><u>Coal:</u> The Bank provided support for India's current market-oriented reforms in the coal sector and, specifically, provided financial and technical support to Coal India Limited to make it commercially viable and self sustaining. Additionally, the Bank's objective was to make coal production more environmentally and socially sustainable.</p>	<p>Post – 1993</p> <p><u>Power:</u> The Bank has provided assistance to three states to initiate significant reform of their power sectors. Four additional states have initiated restructuring studies or have adopted policies that endorse sufficient power sector reform. The Bank has utilized an APL approach in its efforts to support power sector restructuring, to allow for more flexibility in the pace of implementation. Energy efficiency components now represent a significant portion of the physical investments supported by the Bank loans to the SEBs.</p> <p><u>Coal:</u> The Bank required the successful implementation of improved environmental and social (R&R) policies before providing support to allow for modernization of the sector. Additionally, the Bank withheld assistance until Coal India Limited initiated a restructuring process to make each of its subsidiaries managerially and financially self sufficient.</p>	<p>Post – 1993</p> <p><u>Power:</u> There were no loans between 1993 and 1996 while on intensive policy dialogue was underway. After 1996, the Bank approved three loans to SEBs (Orissa, Haryana and Andhra Pradesh) to support power sector restructuring, two of which are APL loans, totaling \$615 million.</p> <p><u>Coal:</u> Starting in 1996 the Bank approved loans and credits for two coal projects totaling \$595 million.</p>	<p>Post – 1993</p> <p><u>Power:</u> The restructuring process is underway. The states have approved necessary legislation, and are in the process of unbundling the SEBs and privatizing the distribution entities.</p> <p><u>Coal:</u> Coal India Limited has separated its subsidiaries and implemented improved environmental and social policies, although the sustainability of the improved environmental and social capability is uncertain. GOI has not addressed several underlying issues in the coal sector. Coal pricing does not address coal quality issues, and there are continued difficulties in establishing commercially enforceable purchase contracts. In addition, the Bank has made little progress in loosening the GOI's coal allocation system, which is often determined independently of economic cost minimization criteria.</p>	<p>Post 1993</p> <p><u>Power:</u> The Bank's lending to the SEBs in support of power sector restructuring is highly relevant to the underlying problems in the sector. The expected outcome of the restructuring projects is highly satisfactory.</p> <p><u>Coal:</u> While the Bank lending has led to significant improvement in the coal sector operations and environmental and social sustainability, there are several issues which require continued attention such as pricing, combined monopolistic behaviour, and sustainability of improvements in environmental and social policies.</p> <p><u>Oil & Gas:</u> There has been no meaningful oil & gas sector dialogue since 1993.</p> <p>FY95-99 Ratings: Outcome: Satisfactory Relevance: High Efficacy: Substantial Efficiency: High ID Impact: Substantial Sustainability: Likely</p>

X: Transport Sector

Strategic Objectives	Strategic Actions	Bank Assistance	Progress Indicators	Evaluation of Bank Assistance
<p>1980 to 1990</p> <p>A relative unfocused strategy with predominance of railway operations with objective to improve efficiency and capacity, but also including a broad mix of transport modes including ports, rural, national and state roads and urban transport.</p> <p>Post - 1990</p> <p>A sharper focus on the highway system and on encouraging more market oriented approaches and a larger role for the private sector.</p> <p>Overall bias towards state-focused projects which may not adequately provide for needs of national highway system.</p>	<p>1980 to 1990</p> <p>A relative unfocused strategy with predominance of railway operations with objective to improve efficiency and capacity, but also including a broad mix of transport modes including ports, rural, national and state roads and urban transport.</p> <p>Post - 1990</p> <p>Substantial increase in highway lending, launched in late 1990s, mainly focusing on improving the management and condition of state highway systems.</p> <p>Launching other operations seeking to corporatize railway container operations and introduce private finance in infrastructure.</p>	<p>1980 to 1990</p> <p>Highways: 2 operations for \$450 m Ports: 1 operation for \$250 m Railways: 3 operations for \$870 m Rural roads: 2 operations for \$155 m Urban transport: 1 operation for \$56 m</p> <p>Post -1990</p> <p>Highway: 3 operations for \$715.5 m Container transport: 1 operation for \$94 m Infrastructure finance: 1 operation for \$205 m.</p>	<p>1980 to 1990</p> <p><u>Railways</u>: Projects approved since 1980 in railways generally had satisfactory economic returns although investments in electrification were not economically justified. Projects failed to corporatize the industrial units in railways; Highways: implementation delays, procurement etc, International Competitive Bidding was accepted.</p> <p>Post - 1990</p> <p>Three projects closed during '95-99 were marginally better compared with others approved since '80; the monitoring and evaluation component in the Andhra Pradesh Economic Restructuring Project has transport components and the four ongoing projects are performing satisfactorily. Three road projects had substantial loan/credit cancellations.</p>	<p>FY95-99</p> <p>Ratings: Outcome: Moderately Sat. Relevance: Substantial Efficacy: Modest ID Impact: Modest Sustainability: Uncertain</p>

XI: Environmental Sustainability

Strategic Objectives	Strategic Actions	Bank Assistance	Progress Indicators	Evaluation of Bank Assistance
<p>FY90-94: General recognition of environmental issues, but no clear strategy. Focus on lending for environmental safeguards..</p> <p>FY95- 99: Introduction of “environment-poverty linkage” and biodiversity. More emphasis placed on review processes (sector/environmental assessments) to minimize adverse environmental effects. In 1997 CAS a recognition of need for a more strategic approach to identify and exploit “win-win” situations. Substantial convergence of government and Bank strategy on environment.</p>	<p>FY90-94: National Environmental Action Plan published in 1993 by GOI; which fulfilled IDA requirement but lacked ownership. CASs were to follow NEAP recommendations. Safeguard policies instituted bankwide.</p> <p>FY95-99: Increased sector studies which helped define problem, not as lending based but as policy based (e.g. power, water supply). Forestry policy reviewed.</p>	<p>FY90-94: Lending for safeguards. An increase in lending from \$180 million to \$266 million (48%) for forestry over the previous five years. Watershed/land development projects (including UP Sodic Lands Reclamation) went to total lending level of \$219 million from none for the previous five years.</p> <p>FY95-99: Decreased lending for urban sector due to its ineffectiveness. Three loans (\$615 million) for energy against policy reform, and reduced lending for forestry (\$150 million) and watershed/land development (\$130 million) projects.</p>	<p>FY90-94: Internal Bank review of environmental assessments in India found that for 1990-97 most safeguard mechanisms were satisfactory. On the other hand environmental assessments weak. Some major pollution issues were addressed, with the most progress in the rural sector. UP Sodic Lands Reclamation successful.</p> <p>FY95-99: A number of Bank-assisted projects deficient in the implementation of environmental components (e.g. Bombay Suburban Electric Supply and TEC Power projects). Impacts of Bank efforts to address air and water pollution have been minimal. Investments in rural sector promising where watershed projects designed to deal with erosion control, but less effective than planned because of inadequate participation.</p>	<p>FY95-99: Ratings: Outcome: Moderately Sat. Relevance: Substantial Efficacy: Modest ID Impact: Modest Sustainability: Uncertain</p>

XII: Population, Health & Nutrition

Strategic Objectives	Strategic Actions	Bank Assistance	Progress Indicators	Evaluation of Bank Assistance
<p>FY90-99: A. Improve maternal and child care services with state focus B. Lower fertility, mortality and morbidity C. Disease control (leprosy, blindness, tuberculosis, malaria, HIV/AIDS), increase nutrition levels</p>	<p>FY90-99: Strategic focus since '87: has emphasized (a) outreach, accelerate the extension of the service delivery (b) temporary methods versus sterilization (c) attention to MCH (maternal & child health) (d) less resources for expansion, more for service delivery (e) priority to high fertility states, and (f) improve service delivery to slums. Following the WDR 1993, a greater emphasis on improving services.</p>	<p>FY90-99: Basic health: 7 operations totaling \$1,400m., Targeted Health: 12 operations totaling \$1,502m. (this group include population, ICDS, AIDS, and nutrition projects)</p>	<p>FY90-99: Between the mid 1980s to the mid 1990s primary health center coverage increased from 19-29% to 48-72%. Data on budget allocations to public health services compare badly with similar countries. The latest data for 1990 show that in 1990 India spent only 1.2% of GDP on public (federal and state) health services. More recent data are not available. The Bank's sector report on health in 1997 noted that this proportion had increased to 1.3%.</p>	<p>FY90-99: <u>Ratings:</u> Outcome: Satisfactory Relevance: High Efficacy: Substantial ID Impact: Substantial Sustainability: Likely</p>

XIII: Education

Strategic Objectives	Strategic Actions	Bank Assistance	Progress Indicators	Evaluation of Bank Assistance
<p>Pre-FY89 A. Human resource development to reduce poverty and universalizing primary education.</p> <p>FY89-94 B. Assist in economic development through more relevant and better skilled manpower</p> <p>C. Providing universal access to basic education (particularly for girls and other disadvantaged groups) through improving access and quality of education</p> <p>FY95-99 D. Continued focus on providing universal access to education through improving access and quality of education</p>	<p>Pre-FY89 Initiated a dialogue on possible participation in achieving India's goals of universalizing primary education.</p> <p>FY89-94 Bank co-sponsored the Jomtien Conference ('90) and continued dialogue with GOI officials in Education and Human Resource Development. Bank focused on work-force education with skills development, vocational training and technician education. First basic education project launched in Uttar Pradesh in 1993.</p> <p>FY95-99 Bank expanded its focus on basic education with District Primary Education Projects (DPEP).</p>	<p>Pre-FY89 1973 –First Education loan of \$12m. to two agricultural universities</p> <p>FY89-94 Five projects launched: 1989: Vocational Training (\$280m.); 1989: Electronics Industry Development (\$8 m) 1990: Technician Education (TE) I (\$260m.) 1991: TE II (\$301.1m.) 1993: Uttar Pradesh Basic Education (\$165.m.)</p> <p>FY95-99 Five projects launched: 1995-96: District Primary Education (DPEP) I & II (\$685.5m.) and III (Bihar; \$152m.) 1998-99: Uttar Pradesh Basic Education (\$59.4m.) and Rajasthan DPEP (\$85.7m.)</p>	<p>Pre-FY89 Systematic faculty development. Upgraded physical facilities.</p> <p>FY89-94 Achievements included modernization of workshops and laboratories, increased access for women, handicapped, and improved interaction between industry and the polytechnics. Shortcomings remain in the areas of curriculum flexibility, interaction with industry particularly in institutions in smaller towns where industry presence is not so strong. Policy support is weak in some regions.</p> <p>FY95-99 Government data, (subject to independent verification) showed significant increases in primary schools enrollment, progress in reducing the gender gap and lower pupil-teacher ratios in targeted districts. Village education committees (VECs) formed but have limited impact in poorer areas. Teachers and committee (VEC) members trained. District and state Institutes of teacher education remain significantly understaffed.</p>	<p>Pre-FY89 Quality of teacher's training was less than satisfactory; community participation had been achieved to some extent but the goal of community 'ownership' remained unfulfilled. The SIETs and SIEMATs needed strengthening in staffing, training, and research.</p> <p>FY95-99 Evaluation and monitoring capacity of the states remains weak. Administrative and managerial capacity as well as streamlining of financial procedures needs improvement</p> <p>Ratings: Outcome: Satisfactory Relevance: Substantial Efficacy: Substantial ID Impact: Modest Sustainability: Uncertain</p>

XIV: Social Development

Strategic Objectives	Strategic Actions	Bank Assistance	Progress Indicators	Evaluation of Bank Assistance
<p>FY90-94: A. No social development strategy to speak of, only a series of uncoordinated actions, mainly at the project level. B. Resolve involuntary resettlement issues to the point where they would not impede the lending portfolio (i.e. damage control after Narmada).</p> <p>FY95-99: C. Develop a coherent strategy to integrate social development concerns into lending and non-lending operations. D. Develop a more community-based, participatory, decentralized approach to development, to link with GOI panchayat raj system. E. Continue to mitigate negative social impacts of lending operations, but with a broader focus than just impacts of involuntary resettlement.</p>	<p>FY90-94: India Resettlement Review (FY93-94), first comprehensive review of the portfolio, to identify and resolve major involuntary resettlement problems. Social development unit (ASTHR) created in Washington and initiates a social development program for India.</p> <p>FY95-99: Social development unit (part of SASSD) established in the New Delhi Office (FY95), shifting the center of the work program to the Field Office. Expansion of work to issues other than involuntary resettlement, especially to participation and community-based development. Scaling up from projects to more macro interventions such as CAS, policy dialogue, and sector strategies.</p>	<p>FY90-94: The Bank cancelled Sardar Sarovar (Narmada) and Karnataka Power projects (FY94), suspended Upper Krishna II Irrigation project twice (FY92, FY95), and restructured Maharashtra Composite Irrigation III (FY93) due to involuntary resettlement problems. Remedial action plans developed for projects with involuntary resettlement problems.</p> <p>FY95-99: New projects devote more resources to participation and build upon the lessons of previous projects. Percentage of projects with social assessments increased from 67% (FY94) to 86% (FY97) before decreasing to 68% (FY99). No additional projects suspended, cancelled, or restructured due to involuntary resettlement problems, although project related resettlement problems remain.</p>	<p>FY90-94: Problems with involuntary resettlement are mainly associated with large dams for irrigation. As these projects are completed, resettlement problems decrease. Bank financed first generation of participatory projects, mainly pilots, to see if participatory approaches would be effective.</p> <p>FY95-99: Bank developed resettlement training program, encouraged state and sectoral resettlement policies, and devolved most supervision to the New Delhi Office. Bank financed second generation of participatory projects (e.g. UP Water, UP Sodic Lands) and designed a third generation (e.g. DPIP, IWDP) with empowerment of the poor through participatory formation of community groups as the central strategy. Bank conducted a major consultation process on the revised policy for indigenous peoples.</p>	<p>FY90-94: Ratings: Outcome: Unsatisfactory Relevance: Modest Efficacy: Negligible ID Impact: Negligible Sustainability: Unlikely</p> <p>FY95-99: Ratings: Outcome: Moderately Sat. Relevance: Substantial Efficacy: Modest ID Impact: Modest Sustainability: Uncertain</p>

XV: Gender

Strategic Objectives	Strategic Actions	Bank Assistance	Progress Indicators	Evaluation of Bank Assistance
<p>FY 90-94: Country strategy dominated by macroeconomic stabilization objectives. Gender objectives confined to support for goals of primary education for girls and improved maternal health.</p> <p>FY 95-99: Some increase in focus on gender beyond education and reproductive health — but still no well-defined gender objectives or quantitative aims in the context of liberalization. Gender objectives confined primarily to reducing disparities in social sectors.</p>	<p>FY 90-94: Major Economic Report on Gender formed the basis of a WID strategy. Extension of analytical work beyond education and reproductive health. However, no analytical work on gender issues in the context of macroeconomic adjustment or in the “hard” sectors.</p> <p>FY 95-99: Increasing relevance of analytical work outside education and reproductive health sectors. Increased attention to gender issues in policy dialogue. Still no analytical work on gender issues in the context of macroeconomic adjustment or in the “hard” sectors</p>	<p>FY 90-94: 29 of 58 projects approved in the India portfolio were identified as relevant for gender issues by PREM. Gender relevant projects largely confined to social sectors, with relatively few exceptions. context of adjustment in the form of the Social Safety Net Project.</p> <p>FY 95-99: 33 of 46 projects approved in the portfolio were identified as relevant for gender issues by PREM. Thus, gender focus of individual operations improved somewhat. More of a focus on gender issues beyond education</p>	<p>FY 90-94: Decline in most measures of gender inequity — though large gaps remained. Insufficient attention to monitoring gender in non-WID projects.</p> <p>FY 95-99: Decline in most measures of gender inequity — though large gaps remained. Insufficient attention to monitoring gender in reproductive health projects. Attention to gender issues in the non-WID projects.</p>	<p>FY 90-94: Progress towards mainstreaming of gender issues was unsatisfactory. The overall assessment of outcome and efficacy is unsatisfactory, based on modest relevance and efficiency.</p> <p>FY 95-99: Progress towards mainstreaming of gender issues, although it was improved over the earlier half of the decade, relevance was still of modest. Efficacy is also modest due to the neglect of gender issues during implementation of relevant projects.</p> <p>Ratings: Outcome: Unsatisfactory Relevance: Modest Efficacy: Modest ID Impact: Modest Sustainability: Uncertain.</p>

XVI: Public Financial Accountability

Strategic Objectives	Strategic Actions	Bank Assistance	Progress Indicators	Evaluation of Bank Assistance
<p>FY 90-99: The Bank did not articulate a clear and consistent long-term strategy for strengthening public financial accountability in India.</p>	<p>FY 90-99: Strategic actions by the Bank were to highlight problems in financial management at state level, and prepare papers on financial management to assist strengthening financial accountability and management. In addition, dialogue between the Bank and the State Legislature (UP) was initiated in order to focus attention on parliamentary control of the public purse.</p>	<p>FY 90-99: Lending: No assistance. Non-Lending: Bank prepared brief paper at the request of the Ministry of Finance on government accounting and auditing systems (FY98). The Bank also prepared a Country Profile on Financial Accountability in FY99. In addition, the Bank provided a small IDF grant for training of auditors.</p>	<p>FY 90-99: There has been no follow up on financial management and accountability issues with the central government.</p>	<p>FY 90-99: The Bank has yet to deal with public financial accountability at the country level, and needs to build up its own capacity to deal with these issues and strengthen its dialogue with the central government and the Comptroller & Auditor General of India (CAG).</p>

ANNEX B: EVALUATING BANK ASSISTANCE FOR POVERTY REDUCTION

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The focus on poverty reduction by the Indian government goes back many years and those declarations continue to this day.⁸ Declarations about the importance of poverty reduction are also found regularly in the World Bank's country assistance strategies. The objective of this paper is to assess the extent to which the Bank's analytical (non-lending) work and lending operations have had an impact on poverty reduction in India over the last decade with the main focus on the last five years.

Disappointing Poverty Trends

Despite the declarations and many government programs for poverty reduction, it is not clear that poverty has been reduced in India during the 1990s. The National Sample Surveys (NSS) of Indian households, when the official price indexes are used to determine poverty lines, indicate that on average the incidence of rural poverty was the same in 1997 as it was at the end of the eighties, namely 36 percent. This was surprising because the nineties were generally years of strong economic growth. It was also in contrast to the steady decline in rural poverty during the eighties when its incidence came down from 45 percent in 1983 (the closest measure available) to about its current level. Urban poverty also declined steadily from 36 percent since 1983 but continued to decline to its estimated level of 30 percent in 1997. On a national basis the incidence of poverty declined from 43 percent in 1983 to 34 percent in 1997. The latest NSS data up to 1998 show a decline in poverty but because of problems with the questionnaire these results have been rejected.

In the light of the relatively slow decline in poverty up to 1997 based on estimates using official price indexes the unit values of consumption implicit in the consumption expenditures collected in household surveys have been used to re-estimate price indexes for 1987/88, 1993/94 and 1995/96. These revised price indexes were then used to re-estimate poverty lines and re-calculate the incidence of poverty. The re-estimated incidence of poverty was calculated to be 39.2, 32.9 and 31.6 percent in rural areas for the three years, and 22.6, 18.5 and 16.8 percent respectively in urban areas. This result gives a much more favorable picture of the poverty trends in the nineties than when estimated using the official price indexes. Another recent estimate of poverty based on the private consumption component of national income claims that the incidence of poverty in India in 1997 was only 26 percent.

There is at present no consensus on the incidence or depth of poverty in India. The Bank therefore finds itself in the unenviable position of having a country assistance strategy aimed at reducing poverty but without adequate baseline information on the current incidence and depth of poverty at the national or state level.

Regardless of which estimate of poverty is accepted, and even if it is concluded that a decline in poverty has taken place, the reduction in poverty is disappointing considering that average growth in GDP in the mid-nineties has been around 7.5 percent per annum following a respectable average 5 percent per annum during the eighties. GDP growth for agriculture, the sector that employs most of the poor, has been around 3.4 percent per annum during the nineties which was a modest increase compared with the average growth rate in the eighties of 3.1 percent per

⁸ See companion background paper by T. N. Srinivasan, *India's Development in the Near Term: Constraints and Prospects*, background paper for India CAE, draft, June 1999.

annum, but still at least a percentage point above the growth rate of population. There is evidence that, despite the higher growth, the agricultural sector had a reduced ability to maintain previous levels of employment. In addition, those traditionally employed in agriculture have had difficulties finding alternative remunerative employment outside agriculture.

Changes in poverty at the state level vary substantially compared with the national average reflecting their current levels of poverty and economic growth, as well as weaker primary social services. In states such as Bihar, Rajasthan and Uttar Pradesh, where many Indian poor live, the incidence of poverty (based on the use of official prices) has tended to increase over the decade to 1993/94 when the last comprehensive survey data are available. On the other hand in states where economic activity has been strong, where economic and social endowments are generally better, and where poverty was generally not so high such as in Andhra Pradesh, Madhya Pradesh, Maharashtra, and Kerala, poverty has declined. The Punjab and Orissa are interesting exceptions. In the Punjab (a high income state), which had a relatively low level of poverty in 1983 (headcount index of 21.5 percent) experienced an increase in its headcount to 25.2 percent in 1993/94. On the other hand, Orissa (a poor state) had a headcount of 56.8 percent in 1983 but reduced this to 40.3 percent in 1993/94. Recent research sheds some light on the pre-conditions for poverty reduction in different states. These will be discussed later in the paper.

Moneymetric measures of poverty do not, of course, paint the complete picture of poverty and deprivation in India. Many reports by the government, the Bank and other institutions have illustrated the desperate condition in which about one-third of India's population live. While the situation is improving slowly, the UNDP Human Development Report for 1999 ranks India as 132nd out of 174 countries in terms of the human development index.⁹

World Bank Non-Lending Activities – An Improving Focus on Poverty Reduction

The Bank's Country Assistance Strategies (CASs) have always emphasized poverty reduction as the over-arching objective of the Bank's assistance program, but they have been unclear about the likely impact of assistance strategies on poverty reduction. In the early nineties the Bank strongly supported the government's focus on improving macroeconomic policies to achieve economic growth and poverty reduction. This was a necessary first strategy. There was, however, an inadequate focus by the Bank on the need to adjust national and state agricultural and rural development policies, as part of the growth and poverty reduction strategy, until the latter part of the nineties.¹⁰ On the other hand, projects aimed at broad based improvement of primary social services (e.g. national primary education and health programs), while a relatively small part of the lending program in the eighties, were an increasingly important second part of the strategy and lending program in the second half of nineties. Of course poverty reduction resulting from improved primary services takes many years. Third, projects with a narrowly targeted group of beneficiaries such as the poorest groups were a relatively unimportant part of the Bank assistance strategy until recently.

Overall there has, however, been a "sea change" in the attention to poverty reduction in the Bank's assistance programs from moderate interest in the late eighties and the first half of the nineties to acute concern evident in the CAS of 1997. The 1999 CAS update and the draft Comprehensive Development Review for India reflect a continued attention to poverty reduction in the Bank's assistance strategy. The focus by the Bank matches the concern in the Indian

⁹ United Nations Development Programme, *Human Development Report 1999*, Oxford University Press, 1999. The human development index is a composite index designed to measure human development.

¹⁰ See companion background paper for the India CAE on agricultural and rural development. The Region's view is that achieving changes in policies at the central government level, while desirable, is fraught with the difficulties of an unpredictable political economy. It is, in the Region's view more direct and practicable to negotiate changes in state policies in the context of agreements on credits and loans at the state level.

government and in public debate about the effectiveness of national and state poverty reduction programs. It also underlines a concern to achieve better governance and a more effective implementation of the poverty reduction programs through the Panchayats following the 73rd and 74th amendments to the constitution.

Bank research on poverty in India in the eighties and early nineties focused mainly on analysis of National Sample Survey data to evaluate trends in poverty and the decomposition of those trends into growth and distribution components. There was also considerable analysis of the government's targeted programs. This has been high quality work and highly valued. It is used regularly in Indian academic and policy circles, and in the Bank. In recent years research has become increasingly focused on analyzing policy issues which are relevant to public expenditure allocations for the reduction of poverty.

The Bank's economic and sector analysis on poverty over the last ten years included first a Review of Poverty, Employment and Social Services in 1989 (the country economic memorandum for that year). It discussed the substantial progress made in poverty reduction during the eighties, the constraints to a continued reduction in rural poverty, and the issues that lay ahead. The 1991 CEM laid out policies and public expenditure strategies that constrained the opportunities for income growth in the agricultural sector and drew conclusions on actions that needed to be taken to stimulate agricultural growth. These reports, with strong and clear messages about strategies for poverty reduction, were both virtually ignored within the Bank. They contained, for example, warnings about the difficulties of achieving continued poverty reduction in the nineties compared with the eighties. They also emphasized the necessity of stimulating rural development for poverty reduction.

After a hiatus in sector work on poverty issues, two poverty assessments were prepared in 1997 and 1998. They covered respectively the importance of growth and employment to poverty reduction, and the role of social services and targeting in poverty reduction. Both were informative relying heavily on Bank research, and interestingly written. The first report of 1997 focused on the importance of growth in general as the solution to poverty reduction but without any analysis of the pattern of growth that would be necessary to reduce poverty. It therefore added little value in terms of how to design Bank operations to achieve poverty reduction. The second report was more strategic in its discussion of options and recommendations for poverty reduction. A follow-up report on poverty in 1998 drew from the results of qualitative surveys in Uttar Pradesh and Bihar providing additional perspectives of poverty and drew attention to the importance of developing social capital as a way for the poor to insure against risks of social exclusion and as a basis for pursuing income generation. This work has recently been developed into an interesting poverty assessment for Uttar Pradesh.

There were also a number of country economic memoranda (CEMs) and a plethora of sector reports in the second half of the nineties. The CEM for 1995 included a chapter on rural development and poverty, but generally CEMs did not focus a great deal on poverty reduction strategies. There were sector reports on sugar and livestock (1996) primary education, health, and oilseeds (1997), and irrigation (1991 and 1998) which all could have focused to a large extent on poverty reduction. In the event their content (except for education) was narrowly sub-sector driven missing a broad perspective on major challenges such as poverty reduction. Indeed these sector reports reflect very well the overall conclusion that until the late nineties poverty reduction was not the central theme for the Bank's assistance strategy in India.

Finally, the report on rural development and poverty reduction in 1999, capping five years of background work, drew similar conclusions to those in the 1991 CEM. This report analyzed the linkages between rural development, the non-farm sector and poverty reduction. It promises to be

a flagship product for intensifying the Region's focus on rural development and poverty reduction in India if its messages can be effectively disseminated and discussed with the central and state governments. The most important aspect of rural development is that it will involve an increased role for the private sector in contributing to poverty reduction.

Growth Strategy for Poverty Reduction

A cohort of 53 projects approved in FY94 through FY99 was classified according to their generic objectives and implicit strategy for poverty reduction, namely stimulating growth, providing broad-based improvements in social services, or financing narrowly targeted services and assistance to the poor. For most of the second half of the nineties during which the Bank's strategy focused more explicitly on poverty reduction the project assistance was seen to intensify considerably 58 percent of project commitments was devoted to primarily supporting growth, namely projects addressing broad macroeconomic policy issues, increased output, or improving the enabling environment for increased output such as more reliable power supplies. About 34 percent of project commitments financed broadly targeted support for poverty reduction such as the development of primary services in education and health, and domestic water supplies. There was very little (8 percent) of the lending program devoted to narrowly targeted programs for poverty reduction. The forestry projects, which originally were not designed primarily to focus on poverty reduction, are the main projects in this third group. A surprising aspect of all projects was that, despite the rhetoric in CASs about the importance of poverty reduction being an important objective of the Bank's operations, there were no targets established for these projects that were directly relevant to poverty reduction and no systematic monitoring of the poverty reduction impact of the projects financed. By and large this was typical of the situation in many countries. Reflecting a renewed concern for monitoring the Bank's India field office has held a workshop in mid 2000 with the objective of improving monitoring and evaluation in the Region.

Another approach to assessing the poverty focus of the lending program is to use the Bank's classification of the expected impact of projects on poverty reduction (referred to as poverty targeted interventions or "PTIs") assessed at the time of Board approval. For India 56 percent of Bank-financed projects were classified as PTIs since FY 94¹¹, but it should also be noted that there is a healthy skepticism among many Bank staff about the veracity and usefulness of the PTI classification. It is no more than a rough guide to the focus of projects on poverty reduction.

Evaluation of Main Assistance Programs

Non-lending (research, economic and sector work). This evaluation gives the greatest weight to poverty assessments, followed by other economic and sector work (ESW). The reason for this weighting is because poverty assessments and ESW generally are intended to be relevant to the Bank's operational work on poverty reduction. At the same time it is acknowledged that the Bank's excellent research work on India has been extensively used in preparing the two poverty assessments. The relevance and quality of the Bank's ESW work for poverty reduction in the first half of the nineties were respectively substantial and satisfactory. The impact on Bank operations, however, was negligible since the two economic reports most relevant to poverty reduction were virtually ignored because of the Bank's exclusive focus on macroeconomic issues at the time.

In the second half of the nineties research was highly satisfactory and substantially relevant. The 1997 poverty assessment was also substantially relevant to the Bank's poverty reduction strategy and operational work in India. While it adopted the conventional growth-led poverty reduction

¹¹ The classification of projects as PTIs or non-PTIs started in 1992.

strategy, it was based on considerable research work (mostly by the Bank) and provided an important baseline of knowledge about poverty in India that the Bank had heretofore not been able to present. That was an important breakthrough in the Bank's collaboration with the Government. The generality of the 1997 poverty assessment no doubt stimulated the preparation of a specific Bank strategy for poverty reduction in the 1997 CAS. The next poverty assessment on social services and targeting in 1998 was more strategic, but it added relatively little to the Bank's existing strategy in the social sectors. The Bank had already placed considerable emphasis on putting development of the social sectors into high gear in India in the early nineties. Also, an explicit strategy had already been laid out in the earlier 1997 CAS. The chapter on targeting in the second poverty assessment was not relevant to the Bank's strategy and operations since it had no intention of providing assistance in this area. Nevertheless it was an excellent chapter and has no doubt generated many benefits outside the Bank. Overall the relevance of the second poverty assessment was also judged to be substantial. The quality for both poverty assessments was satisfactory, but their impact was modest since they contained few new strategic insights. The other major ESW output directly relevant to poverty reduction was the 1999 report on rural development and poverty alleviation was substantially relevant to poverty reduction, had relevant but weakly presented recommendations for agricultural policy change, and was of a satisfactory quality.

Lending. The outcome of projects in terms of poverty reduction for both the first and second halves of the nineties is likely to be moderately satisfactory, although there have been some improvements in project design (and therefore better prospects for poverty reduction outcomes) in the last half of the nineties. This assessment of outcome is based on substantial relevance of projects to poverty reduction, and modest efficacy since these projects were mainly directed at people with assets - namely not the poorest. In addition, because of the substantial surplus labor in rural areas, additional employment opportunities would have been limited. There was virtually no monitoring and evaluation of poverty reduction or employment generation in any of the Bank projects so the impact of projects on poverty reduction cannot be ascertained. The institutional development impact of projects for poverty reduction is expected to be modest but in some cases negligible because, apart from a few exceptions, project documents show that Bank-assisted projects have not developed long term institutional structures to address poverty. Sustainability of projects as mechanisms or models for poverty reduction is uncertain because in most cases a replicable approach for economic development and poverty reduction did not evolve.

Overall Evaluation

On the basis of actual and expected results for poverty reduction, and giving most weight to the portfolio of project investments compared to non-lending work over the last five years, the overall outcome for the Bank's assistance program over the last decade is rated as moderately satisfactory. The basis for this evaluation is the substantial relevance of the program to poverty reduction. While the absence of poverty monitoring in most projects makes it impossible to assess their impact on poverty, it is expected that their efficacy in terms of poverty reduction will also be modest. Institutional development impact of Bank-assisted projects in terms of poverty reduction programs is expected to be modest, and sustainability of projects or components of projects focused on poverty reduction, such as exist, is uncertain.

ANNEX C: EVALUATING BANK ASSISTANCE FOR PUBLIC SECTOR MANAGEMENT

Author: Baran Tuncer, Consultant

This paper reviews and evaluates the Bank's involvement and performance in the area of public sector management. It also takes a close look at the state-level policy-based lending in India which has gained major importance in recent years. Under public sector management issues, fiscal adjustment, public enterprise reform, governance and institutional development are covered.

There is a growing consensus inside and outside of India that the problems faced in public sector management seriously constrain the economy to fully realize its potential. However, despite the government's recognition of the need and the Bank's efforts to assist the government, most would agree that public sector reform remains illusive. Clearly the challenge for the Bank is not only to identify the issues and to provide the analytical underpinnings, but it is also to better understand and adapt to the complexities of India's rapidly changing political economy and the pace of change in public sector management.

Therefore, the Bank needs to cover a number of public sector management issues. Further analytical work may be needed in some areas. In others, the Bank can play an important catalytic role in helping to identify promising reforms in certain states and sectors, and in helping to gather and disseminate information regarding public sector performance. These actions could help strengthen the Bank's dialogue with the authorities, stimulate debate, and encourage change in vitally important areas within public sector management. Areas where such action would be beneficial are identified in the paper.

The Bank has considered fiscal adjustment an integral part of public sector reform, since persistent fiscal deficits in the public sector has been the major macroeconomic weakness of the Indian economy. Fiscal adjustment was a component of the 1991 SAL operation but. The outcome was only moderately satisfactory. After an initial decline in the first half of the decade, the consolidated fiscal deficit has once again reached the pre-1991 level. Since the 1991 operation, no lending instrument addressed the fiscal deficit issue at the center. CEMs have made reference to the problems associated with the deficit, but they did not make lasting impact on the government. In the second half of the 1990's, the Bank shifted its attention to the finances of the states, where the need for fiscal adjustment is also great in view of worsening state finances. Also, it is in the states that the Bank decided its impact would be greater. While this is an appropriate strategy, the Bank should also explore ways to help the authorities address fiscal problems at the center.

The pace of public enterprise reform has been very slow. The government and the Bank have agreed that reforming the public enterprise sector essential because of the large impact of this sector on the economy, and of its negative contribution to overall fiscal deficit. Public enterprise reform was part of the 1991 adjustment operation, the outcome

of which was only moderately satisfactory. Since then, the Bank was devoid of any lending instrument to address the problems of central public enterprises. References to public enterprise reform in various ESW were also inconsequential. However, the authorities are finally taking a more active stance and are selling the majority shares in a number of enterprises. In fact, privatization is now an acceptable term. Currently, the Bank has shifted its focus to public enterprise reform from the center to the states through state-level lending. Given the prominence of the central public enterprises in the economy, however, the Bank should not drop them from the agenda for reform altogether.

Governance issues have been attracting more attention recently in the Bank. In India, economy-wide corruption is a major issue. The legal system falls short of fully supporting the economic transformation the country is going through. There is room for improvement in the fiscal system to strengthen transparency and accountability. The Bank is looking into these areas mostly in the context of ESW. Also, with the shift of focus to state-level lending, governance issues have gained even more importance where it is a much bigger issue. Without major improvements in states' governance, the Bank's impact through policy-based lending in the states can not be very beneficial. The Bank demonstrates full awareness of this point, and governance issues are increasingly dealt with in ESW and policy-based lending in various states. However, the Bank should explore other entry points to contribute to the dialogue in economy-wide governance issues. The Bank may also consider lending in specific areas, such as legal system reform.

Institutional development issues are being dealt with in the context of individual sector projects, some of which have a formal ID component. The impact of these projects, which on average is modest, is more relevant from the "agency" perspective than from the "national." The adjustment operation of 1991 was supportive of institutional changes in areas such as the financial sector, trade and foreign exchange regimes, and taxation. However, there are certain areas that require much closer attention both from the government and the Bank. Reforming the civil service and rationalizing of public expenditures are two such areas. The Bank needs to put more emphasis on these issues, and to strengthening the linkage between reforming core systems of government and sector institutions. Recently, it has begun moving proactively in this direction. These efforts need to be strengthened and encouraged.

The shift to state-level policy-based lending in the second half of the 1990s is clearly in tune with the change in political environment and the needs of the country. States have the responsibility for the provision of basic services and poverty alleviation. To cope with such responsibilities, states need to initiate penetrating reforms and reverse the trend in fiscal deterioration. Therefore, public sector management issues, including governance, have gained in importance in the states, and the Bank's response to this need has been timely. Also, state-level public sector management issues are increasingly the focus of recent ESW.

The current Bank strategy favors the reforming states. This strategy is appropriate since the impact of Bank lending is the highest in a reform environment. Also, this creates an incentive for the non-reforming states. Moreover, state-level policy-based lending provides a framework to link various elements of public sector management, tying fiscal

adjustment and reform to governance issues, and to institutional development. Meanwhile, the first project on broad-based state lending is being implemented in Andhra Pradesh. Even though the project is going well, it cannot easily be replicated elsewhere because of its complex nature. A recently approved second project, which is structured differently, addresses the fiscal reform and public sector restructuring in Uttar Pradesh.

Certain issues emerge from the limited experience with state-level policy-based lending. The Bank should make additional efforts to let the new criteria for lending be better understood by all. There is additional concern that the need for assistance in social sectors may even be larger in some poorer states who are not in the reform mode. While such needs should not totally be ignored, it is important for the Bank to continue to focus on reforming states to demonstrate the benefits of fiscal adjustment, better governance, and institution building.

ANNEX D: EVALUATING BANK ASSISTANCE FOR FINANCIAL SECTOR DEVELOPMENT

Author: Dinanath Khatkhate, Consultant

The Indian financial system has been a government instrument over the last four decades, to mobilize resources and to allocate them to the public and private sectors. Though the financial sector grew both in size and diversity, it remained highly repressed, with negative real interest rates and inefficient allocation of resources. Despite this, however, there was impressive financial deepening. In 1991, the beginning of the reform period, M3/GDP ratio was high at 49 percent; the ratio of household sector's saving in financial assets was around 9 percent and there was a wide choice of financial instruments. India's financial sector compared well with those in East Asian countries; commercial banks dominating the sector accounted for 70 percent of total financial assets. But the resources were preempted, to the extent of 80 percent, by liquidity and cash requirements, directed credit and special programs. Discretion for management was limited; bank concentration was pronounced with interest rate spread of 12 percent; most of the public sector banks (PSBs) were involved in losses; foreign banks yielded better results; capital adequacy ratios were too low at 1-5 percent of assets. The financial position of banks was fragile with NPAs ranging between 15-45 percent; legal framework was weak to recover bad loans; accounting standards were not uniform; Reserve Bank of India's (RBI) supervision was weak as the emphasis was on economic regulation rather than prudential.

Following sweeping financial reform policies initiated in mid-1991, the Government of India (GOI) and the RBI adopted a medium-term strategy of financial sector reform which comprised strengthening capital adequacy ratio, tightening supervisory capabilities, recapitalization of banks, enhancing flexibility in asset management (lowering liquid assets and cash ratios, removal of subsidy in directed credit, elimination of interest rates both on loans and deposits, raising of auditing standards, improvement of asset classification; etc. The impact of the reform was substantial and in a desired direction. NPAs at end 1997-98 were about 18 percent of total loans and 9.25 percent net of provision. Competition from private domestic banks and foreign banks increased to some extent. The profit/total assets of PSBs was positive even in excess of provision. Asset classification was generally below international standards, and compared favorably with the standards in East Asia, and the autonomy of PSBs still remained limited.

The World Bank's involvement in India's financial sector needs to be viewed not only by what it did for the financial sector but also by the extent to which it contributed to minimizing the microeconomic distortions in the Indian economy. The World Bank had a clear strategy regarding assistance to India, both relating to the overall economy and the financial sector, articulated through its economic and sector work (ESW), country assistance strategies (CAS), country economic memorandums (CEM), sector report on the financial system (in 1990) and a stream of regular informal dialogues and policy notes on specific topics. The Bank's strategy emphasized removal of macroeconomic risks that might arise from the unsound banking system and that the financial system should meet adequately and efficiently the credit needs of the deregulated private sector. The Bank's diagnosis of the financial sector rightly stressed that it was good at mobilization of resources but weak at allocation and functioned without prudential norms.

The Bank used three lending instruments, structural adjustment loan/credit (SAL/SAC, 1991), external sector and investment loan (ESIL, 1993), which had considerable impact on the financial system, and FSDP (1995). The first two addressed the problems of macroeconomic distortions and structural change central to the financial sector reform and the last one FSDP focused on the six PSBs in respect of recapitalization and management and institutional development. The

implementation of the first two was quick and impact was immediate in creating space for the growing private sector and the congenial environment for the efficient development of the financial sector. The FSDP objectives were achieved, partially or otherwise, but their effect on management of the concerned banks was not so far apparent nor was its components well formulated as one of its constituents was dropped at the very beginning of the program implementation.

Only two of the six banks were recapitalized. Two of the banks started privatization through issue of equity in the market. Five of the banks reached stipulated CARs of 8 percent of assets. All the banks reached targeted profits. The project succeeded to some extent to demonstrate the best practices to other banks in India. However, the impact of the project on the management development of the targeted banks was imperceptible. There was a doubt whether those banks would not lose capital again. The FSDP is still ongoing but on present indications based on supervision reports, the probable outcome would be moderately satisfactory; its expected ID impact and sustainability would be at best modest and likely respectively.

The Bank's effectiveness in improving the aggregate performance of the financial sector is viewed in two ways—first by evaluating its ESW and second by evaluating its two major adjustment loans—SAL/SAC and ESIL and FSDP. As regards the first, the Bank's nonlending assistance played an important role in financial reform as it set out all issues involved and indicated the policy choices to the borrower. Its report on the banking system (1990), a subsequent volume on the proceedings of the banking seminar (in 1997) and the payments system (1998) contributed to a better understanding of the financial reform by the policymakers, the bankers and the public at large. On this count, the ESW is given a top billing of 1, in all categories—strategic relevance and timeliness, internal quality, presentation, and likely impact. The Bank's SAL/SAC operation among the three operations had a large impact on the development of the financial sector as it aimed at removal of the microeconomic distortions in the economy. Interest rate controls were dismantled, directed credit scaled down, new accounting standards set, competition ushered in, prudential and supervision system introduced. Despite all this, the banking system still remains massively inefficient state-controlled system. Competition is minimal, foreign and private banks have not had any significant impact; privatization is used simply as a revenue-raising device; bank supervision is still compliance-oriented; accounting system has some major flaws and the auditing standards are out of alignment, with international norms and NPAs are growing as fast as fresh lending because of poor lending practices and the flawed legal framework. For all these reasons, the Bank's aggregate sectoral assistance performance is rated as moderately satisfactory in regard to outcome, modest in regard to relevance, efficacy, institutional development impact and likely in respect of sustainability. However, there is a heavy agenda of reforms of the financial system that is still unfinished. The Bank's effectiveness in future will depend on how it could accelerate those reforms, both through its lending and nonlending services. NPAs problem still is serious, the operational efficiency of banks is low without the incentive structure, as in the Western countries. Privatization of banks is slow and management efficiency will not improve, unless the majority share holding and management are in the private sector. The Bank's ESW was prescient and focused on the major relevant issues for the sector and the Bank is likely to continue this work even with greater effectiveness than in the past. The Bank needs to devise a lending instrument with appropriate policy content which will give weight to sequencing of various elements of second generation financial reforms and their effective implementation.

ANNEX E: EVALUATING BANK ASSISTANCE FOR PRIVATE SECTOR DEVELOPMENT

Author: Dinanath Khatkhate, Consultant

The GOI's economic policy since 1952 was predicated on two basic premises—that the economy should operate as a closed economy, producing as many products as possible domestically and that the public sector should occupy the commanding heights in the economy. These policies had the most constricting impact on the private sector, financial sector and the external sector. There were severe restrictions on the external transactions, both current and capital. A major dent on India's closed economy was made by the economic reforms adopted in 1991, which related to the industrial policy deregulation, liberalization of foreign trade regime and investment, the financial sector and the fiscal policies. As a result, the Indian economy has been slowly opening out with a steadily rising ratio of exports/imports to GDP since 1991. India's links with the global financial markets become stronger with growing inflow of FDI, private portfolio investment and deposit inflows from nonresident Indians. The degree of financial integration of India with the international financial markets as reflected in interest rate differentials or the integration index has been increasing.

Despite the hostile economic environment, the private sector in India remained a major source of national income growth as well as employment. Efficiency-wise, however, the private sector remained high cost for lack of competition in view of the tight import and foreign exchange controls and the industrial policy. The microeconomic distortions to which these policies gave rise, created difficulties in pursuing a sound macroeconomic policy. Eventually India faced a severe balance of payments crisis in 1991, and to get out of the impasse, the GOI unleashed a radical reform program under which the industrial and trade regimes were substantially liberalized, thereby both opening the economy and providing an expanding space for the private sector. In particular, the protection from competition previously enjoyed by the PSEs was drastically attenuated by the liberalization of capacity licensing, trade policy and the imposition of hard budget constraints on PSEs. The long-term impact of these reforms on the private sector were favorable. There was a sharp turnaround in FDI and foreign portfolio inflows and the private sector recorded progress in many areas of their operation such as profit margin, pattern of sources of funding and net worth. With all the impressive results of reform, the private sector still suffered from many constraints, like high fiscal deficit, weak allocative policies of banks, and the continued dominance of the PSEs, labor market rigidities and lack of corporate governance.

The basic thrust of the World Bank's strategy in regard to opening of the Indian economy and the role of the private sector was that its lending should be linked to the progress on stabilization and the structural reforms which included private sector development, financial sector deregulation, industrial deregulation, and the orderly public sector retrenchment. This strategy and the dialogue based on it emanated from the several studies on industrial deregulation, trade reform, and the private sector and its participation in infrastructure. The central feature of these studies was that unless the microeconomic distortions, such as subsidies, wrong pricing of public utilities, labor market rigidities, high tariffs, and PSE's inefficient functioning were removed, the private sector development would not accelerate. Judging the Indian reforms ushered in 1991, it seemed that the ESW was very influential in crystallizing the GOI's thinking on the reform policies.

Amongst the Bank's lending instruments, three adjustment loans—SAL/SAC, SNN, and ESIRLP aiming at stabilization, structural transformation, fiscal consolidation, deregulation of the industry, and trade reform helped open the economy and reduced barriers to the growth of the

private sector. Of these, two SAL/SAC and ESIRLP were well implemented and their outcome and impact were satisfactory. There were other programs like IT, ED, and IL&FS, addressing the issues of the private sector, which were also reasonably successful in advancing the private sector. In addition, the three power sector loans to three state governments—OPSR, HPSRD, APPSR, and the investment loan APERP to one of them, have paved the way for the entry of the private sector into the power sector, hitherto the virtual monopoly of the public sector.

Of the five completed lending operations of the Bank during 1991-99, SAL/SAC, ESIRLP, IT, and ED, are rated satisfactory in regard to outcome. Their relevance, efficacy, institutional development impact are also rated as substantial, while their sustainability as likely. The third adjustment operation SNN fares poorly in most of the rating categories. Of the other completed projects specifically directed at the private sector development, IT and ED also attract, more or less, the same rating as those for the SAL/SAC and ESIRLP and the present indications of their future performance. The other four OPSR, HPSRDP, APPSR, and APERP on the basis of the supervision reports, are rated as high in regard to relevance, substantial in respect of efficacy and institutional development impact, and likely in regard to sustainability. This somewhat optimistic rating is warranted on the ground that a consensus amongst all parties—consumer groups, and the labor—has been attained. It is too early to give rating in regard to outcome.

The overall effectiveness of the Bank's sectoral assistance strategy is judged to be satisfactory. There are, however, still many impediments to the private sector growth, such as labor market rigidities, lack of improvement in corporate governance, slow privatization of banks, the faltering reform of the PSEs, lack of development of ports, roads, and communication, all part of the infrastructure essential for the private sector development. It is in these areas that the Bank's needs to focus on in its future lending programs.

The Bank's ESW is awarded top rating in strategic relevance and timeliness, internal quality and likely impact. In particular, its studies on industrial deregulation, trade reform and the financial sector deregulation, coming as they did before the onset of the Indian reforms, had been influential in shaping those reforms. The Bank may be even more effective in its ESW if it could involve the research institutions in India in preparation of its ESW. The Bank's comparative advantage lies in being a knowledge provider.

ANNEX F: EVALUATING BANK ASSISTANCE FOR URBAN DEVELOPMENT

Author: Om Prakash Mathur, Consultant

The World Bank began its urban operations in India with the launching in 1973, of the Calcutta Urban Development Project. Over the period 1973–1999, the Bank has financed thirty urban sector projects, comprising twelve urban development projects, fourteen water supply, sanitation and sewerage projects, two urban transport projects, a special project designed to assist the earthquake-affected areas in Maharashtra, and a loan to Housing Development Finance Corporation (HDFC). The total financial commitment of the World Bank towards these projects is placed at US\$3.17 billion.

Increasing the public supply of land, shelter and services, and developing and financing packages consisting of sites and services, slum upgrading, water supply and sanitation, and transportation for the poorer groups was the central objective in much of the Bank's urban lending programme in the 1970s and 1980s. Projects in water supply and sanitation formed a part of a broader programme of infrastructure and institutional development, and sought to not only improve the level of urban services and shelter, but also address the problems of efficiency and effectiveness of resource mobilization, resource utilization and strengthening of institutional frameworks.

The Bank's urban lending in India has shrunk sharply since 1990, with the Bank having approved three stand-alone water supply, sewerage and sanitation projects, the recently-approved urban development project in Tamil Nadu, and a special relief project for the earthquake-affected areas in Maharashtra. These projects of which the Maharashtra Earthquake project and one of the three water supply projects were closed in December 1998, are guided by the objective in the case of water supply projects, of augmenting the management capacity of institutions responsible for the sector and achieving financial viability in the provision of water and sewerage, and in the case of urban development project, improving urban infrastructure services with private sector participation.

Concerned at the reduction in Bank's urban lending to India, the World Bank produced in 1997, a major study entitled, *India: Urban Infrastructure Services Review*, whose purpose was to "create a reasonably explicit and well-documented basis for the Bank's future lending operations and sector work for urban infrastructure in India." Drawn up in the aftermath of country-wide economic reform, the Constitution (seventy-fourth) Amendment on Municipalities, and over two decades of experience with urban lending in the country, this study outlined what it called, "a plausible reform scenario" for the urban sector. According to the study, the main features of the reform agenda for the country's urban sector were as follows:

- create and support long term financing facilities and intermediaries for urban infrastructure financing;
- use public/private partnership to enhance efficiency in urban infrastructure provision and service delivery;
- eliminate the regulatory constraints on effective mobilization of resources for urban infrastructure financing;
- free the land and property markets from different kinds of controls; and
- professionalize municipalities.

Review of the Bank's Urban Lending Programme

The OED evaluation of the World Bank's lending to the urban sector involving 27 completed projects and a financial commitment of US\$2.60 billion shows the outcome to be satisfactory in 59.3 percent of Bank-assisted projects, and unsatisfactory for 29 percent of projects. In the sphere of institutional development, 22 percent of Bank's urban projects were able to substantially build capacities and enhance the ability of institutions to better use the human, financial and organizational resources. Further, the benefits from Bank-assisted projects were likely to be sustained in only 26 percent of projects. The level of performance of the Bank's urban projects completed in the 1990s was far from satisfactory.

The less-than-satisfactory performance is explained by a number of factors, including (i) highly complex nature of projects in relation to the limited planning, engineering, financial, administrative and implementation capacity of the borrowers; (ii) reluctance on the part of borrowers to compensate for the shortcomings in capacity deficit by utilizing external consultants; (iii) lack of ownership of, and commitment to, Bank's projects by the borrowers, and to the covenants attached to projects; (iv) difficult and lengthy procedures for land acquisition, procurement, and corruption; and (v) weak municipal institutions.

The relevance and efficacy of the Bank's urban lending to India in the post-1990 period consisting of five projects (including a special earthquake relief project) can, at best, be judged as modest. At the same time, the two projects, namely, the Maharashtra Earthquake project and Hyderabad Water Supply project which stand completed, have performed well on the three measures of outcome, institutional development, and sustainability. The implementation progress rating of the ongoing projects is reported to be satisfactory. These projects have shown greater sensitivity to market trends and general macroeconomic environment, with emphasis on private sector participation in urban infrastructure financing, and financial viability in the provision of services.

Impact of the Deceleration of Bank's Urban Lending Operations

The deceleration in Bank's urban lending to India in the 1990s when the country had embarked on economic liberalization, and initiated steps to strengthen the municipalities with such measures as the Constitution (seventy-fourth) Amendment, and when the Bank itself decided to strengthen the link between its lending assistance and the pace of implementation of reforms, is a case of missed opportunities on the part of the Bank as well as the Government of India and other tiers of government. The Bank lost a unique opportunity in supporting decentralization policies as provided for in the Constitution (seventy-fourth) Amendment Act, 1992, creating financial intermediaries for financing municipal infrastructure, and promoting private sector initiatives in infrastructure development and financing. On their part, the Government of India and other tiers of government missed out on utilizing the World Bank's expertise in developing an urban reform agenda that would support and contribute to country-wide economic reform.

The widely-disseminated World Bank's study, *India: Urban Infrastructure Services Review* which reflected on in depth understanding and appreciation of the India's complex urban sector has also not been brought to its "logical conclusion." The agenda, as proposed in the study, has not been followed up and translated into projects or project ideas. In other words, despite its satisfactory quality, after some three years it has had no impact. This indicates an overall moderately satisfactory outcome.

Overall Evaluation

In the light of the modest relevance and efficacy and therefore unsatisfactory outcome of projects completed during the 1990s, their modest institutional development and unlikely sustainability, together with the moderately satisfactory outcome of the sector work, the overall evaluation of this program in the 1990s is evaluated as unsatisfactory.

ANNEX G: WORLD BANK ASSISTANCE FOR WATER RESOURCE MANAGEMENT

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and
Inderjit Singh, Consultant, OEDST**

India has made little progress to reform its water sector institutions even though there has been active debate on water policy and sustained Bank support to its water sector. India's 1987 National Water Policy preceded the Bank's by six years and central government has long been concerned about maintaining water infrastructure. Yet only recently has this become an important issue at state level, driven by the 1991 constitutional and fiscal reforms, pressure from the center and a few reformist state politicians. With assistance from the Bank, some states have issued their own water policies – most notably Tamil Nadu (1994), Orissa (1995) and Rajasthan (1999). Andhra Pradesh issued an Irrigation Sector Policy (1998) that stresses participatory management with less emphasis on water resources management. Transforming policy into action has, however, been uneven.

Following the 1991 Irrigation Sector Review and the Bank's 1993 Water Resources Management Policy, the Bank switched from project to sector loans that would finance agreed statewide programs through water resources consolidation projects, thus enhancing the state as the focus of decentralization in national policy. The Narmada controversy and the Independent Review (Morse Commission) also focused intense international scrutiny on the Bank's water-related work and helped shape Bank strategy in the 1990s. Unlike earlier project-by-project investments, these new projects covered water resources management, addressed current and future intersectoral needs and provided support for institutional development and reform in line with the Bank's new water policy. Although though the Bank's policy advice is highly regarded and India is the Bank's second largest borrower for water investment, nationally the operational impact has been modest. Bank lending historically accounts for less than a tenth of India's water investment, and even that amount was widely dispersed among many states thus lowering its impact for reform.

Fortunately, the move by the Bank in 1996 to focus large integrated investment packages on the few states willing to undertake public expenditure reform has given the Bank much greater leverage than it had before. So far, only three of 17 states have qualified: Andhra Pradesh is on board and Uttar Pradesh and Karnataka are in the pipeline; dialogue continues with Rajasthan and Orissa. The comprehensive packaging also ensures that Bank dialog in each sector/subsector addresses institutional and financial reform issues consistently – a major problem in the past.

Translating action into results, however, has remained difficult. While performance of completed Bank water projects has been unsatisfactory because of over-optimistic appraisal and state's unwillingness to tackle institutional and financial reform, there are signs of improvement. India's comparative performance for water projects designed in the late 1980s and early 1990s and recently completed is below that of similar Bank investments in China, other South Asia countries and globally. However, the quality of the Bank portfolio has improved substantially following more stringent management since 1996 and the proportion of satisfactory completions increased markedly in 2000. Many ongoing Bank projects are also doing better – three projects have received excellence awards for supervision by the Bank's Quality Assurance Group – but it is too soon to make a definitive judgment on eventual outcomes.

Much still remains to be done on developing sustainable mechanisms for water allocation and management. Severe water shortages, pollution and flooding affect many major cities with the poor being most adversely affected. Much more attention needs to be given to management of groundwater which supplies the majority of rural water supplies. While more than half of the Bank's post-policy water resources operations addressed water resources management issues from a national perspective, only a third addressed them at river basin or state level. In part this is because continued fragmentation of responsibility for planning and management at national and state level across sectors and organizations frustrate sound resource management and provide few incentives for cooperation.

Protracted inter-state water disputes have thwarted rational water planning and investment. The tribunal process to adjudicate water disputes has encouraged a race among some states to build dams to establish prior appropriation and often caused involuntary displacement of tens of thousands of people. Unfortunately, government is not receptive to the idea that allocation of interstate rivers should be brought within the purview of the central government rather than the state governments. This lack of agreement about water development priorities has curtailed Bank investment on interstate rivers, and a more holistic treatment of all water management and resource issues at the river basin level remains elusive.

There has been headway on reform of water institutions in the few reformist states where there is political will to change after decades of malaise – but in some the reforms appear to be cosmetic. While the focus is stronger on fiscal reform than on the underlying organizational and institutional issues that create perverse incentives in the water sector, subsidies, especially for rural electricity, encourage inefficient water use. Implementing water tariffs to cover supply costs remains as a challenge. Operation and maintenance suffer as a result, further reducing revenues. For fiscal reform to succeed, sooner or later state governments must address subsidy issues and right-size public sector agencies to increase efficiency.

Key issues that must be addressed are persuading state governments to limit their role to water policy rather than management – excellent examples of what is possible is the unbundling of several state electricity boards. The primary objective is efficiency. While privatization is normally evoked as a cure, this is neither essential nor necessary if government and states can change their incentive structures to induce and sustain reform. Investment and operation and management activities should be separated. Bulk water delivery, maintenance and financial management should be assigned to autonomous and financially self-sufficient units that are accountable for performance to regulators and users. There must also be greater attention to good governance and decentralization that allows the private sector, including users' groups, to take a greater stake in water planning, investment and management.

The comprehensive water resources sector review of 1998, a collaborative effort of government, the Bank and several development partners covered, for the first time, all subsectors. Unlike the 1991 irrigation review, it focused only on India's performance, not the Bank's. The review found that little had changed since 1991: *“in recent years there has been realization and policy pronouncements regarding the need to address these problems; however the policies have not been translated into action.”* In response, it proposed a comprehensive water reform strategy.

This strategy was developed following in-depth consultation with key central agencies and a number of states. Many of the recommendations, for example, reducing the size of public sector agencies and decentralizing to beneficiaries, affect both Bank projects and nationwide practices in the water sector. Other recommendations, such as establishing private water markets, are the subject of intense debate in India. Indeed, Indian participants at the May 2000 water roundtable in Delhi stated that the Bank was too doctrinaire on privatization and that its water investments were

insufficiently pro-poor. These issues require more debate at state level to create a broader consensus and ownership in India and factor-in the Bank's global experience.

The water sector reform strategy lays out a very ambitious and detailed agenda that covers most of the principles of the Bank's 1993 water resources management policy. It contains more than 80 national and intersectoral recommendations aimed at the central and state governments, and more than 170 for the main subsectors. Notably lacking, however, is clarity about the role of the Bank in these reforms.

The scope of this strategy suggests that the Bank has learned little from the 1991 Irrigation Sector Review that contained 52 recommended actions, which largely failed – most of the recommendations have yet to be acted upon – because incentives and ownership were lacking. The Bank needs to be more candid about the performance of its own projects informed by more pragmatic monitoring and evaluation and inclusive of local stakeholders' experience. This would encourage development of Indian (rather than Bank-imposed) solutions that fully factor in their suitability to Indian conditions and indicate where reform is likely to succeed. And this would enable the Bank to tailor its assistance to what is practicable and feasible for both the Bank and India in the short to medium term.

Since political economy is at the root of many problems in the sector, the Bank should pay more attention to issues of political will and commitment, and include political and civic leaders in the Bank's dialogue on water reform. Inviting them to see successful water projects and reforms in other countries could prove effective, as it did for Turkey. The Bank also needs to work better with other development, research and donor agencies in India, not only keeping them informed but also opening itself to learning from their hard-won experience.

Under the 1998 reform agenda, institutions and practices that have remained unchanged for decades are to be tackled and changed quickly – an approach to institutional reforms that flies in the face of institutional realities and the political will such as they exist in India today. The future of water sector reform in India depends critically on GOI enforcement of its national water policies. Without such enforcement – that may mean withdrawing support from states unwilling to reform – there will be little progress towards modernizing India's failing water institutions.

Time is also needed for ownership of new water sector institutions to grow to maturity – Europe's water institutions, for example, are still evolving 30 years after the first privatizations of the 1960s, indicating that not everything can be done at once. A more selective and incremental approach to key policy and institutional reforms might be more productive. This is particularly important as the Bank has limited capacity to help India implement the ambitious 1998 reform program and it must avoid spreading its resources too thinly to be effective.

ANNEX H: EVALUATING BANK ASSISTANCE FOR AGRICULTURAL AND RURAL DEVELOPMENT¹²

Author: Jack W. van Holst Pellekaan, Consultant

Continued agricultural growth but sluggish increases in productivity. Agriculture provides employment for about two thirds of the national workforce in India and, therefore, growth of the sector has always been important for poverty reduction. Taking 1989/90 (which was close to an average production growth year) as a base, agriculture has been growing at an average rate of 3.4% per annum up to 1997/98, a modest increase over the average for the previous decade of 3.1% per annum. The sector has been undergoing structural change, with a reduction in the relative importance of rice and wheat production in response to moderate demand growth for foodgrains, and an expansion of production of other high value crops, that bodes well for the long-term sustainability of growth in the sector.

Nonetheless, India's agricultural performance was far below that of China (5.9% per annum production growth in the 1980s and well above 4% in the 1990s). Moreover, the drought conditions in parts of India in 1999 may well pull the sector's performance down for the decade as a whole. Apart from the misallocation of resources resulting from distorted agricultural policies, a slow-down in technological progress in the major grain crops also affected negatively total agricultural output. The reduced productivity growth in the sector appears to have had a detrimental impact on real rural earnings. Despite the higher agricultural GDP growth, the rate of increase of the real wages of unskilled rural workers slowed down compared to the previous decade and was actually negative in many large states.

The Bank's 1999 rural development report concluded that during the 1990s, despite the depreciation of the exchange rate and trade liberalization in other sectors that improved the overall terms of trade for agriculture, producers and traders of agricultural products were over-regulated and faced unbalanced policies that had a negative impact on rural employment. The allocation of substantial resources to subsidies were associated with low levels of public investment in rural infrastructure (particularly rural roads) and major factor market distortions. These policies constrained (and still constrain) the ongoing structural change in the sector and need to be reformed for improved efficiency and long-term sustainability of income gains.

Rural poverty reduction stalled to some extent. The extent of change in rural poverty reduction remains controversial in India. The official government and Bank data series show that, compared with a rapid decline in the 1980s, the incidence of poverty in rural areas stalled in the 1990s so that by 1996/97 (the latest available reliable survey estimate) the incidence of rural poverty was about the same as it had been at the start of the decade. Alternative estimates of the incidence of poverty for two years in the mid nineties (1993/94 and 1995/96) show that rural poverty declined to levels significantly below those at the beginning of the decade. While the first story is consistent with the slower growth of real rural wages mentioned above, the second one is more consistent with the reported increase in the rate of growth in agriculture.

Strategic neglect. Agricultural and rural development policies were never at the top of the Bank's strategic agenda during the first half of the 1990s, despite their crucial role in reducing poverty in

¹² This paper should be read in conjunction with other CAE background papers on transport, environment, and on poverty as well as a sectoral reviews on forestry and water resources in India by OEDST. There are important linkages between this paper and the other papers.

India, which had been clearly recognized in the Bank's 1991 main economic report. The Bank's policy dialogue and lending program did not address the serious shortcomings in Indian agricultural policy at the central and state government levels. In addition, the issue of how the distortions in agriculture could undermine the success of the stabilization and adjustment policies and the overarching objective of poverty reduction was ignored. Regional management and government focus was overwhelmingly on macroeconomic and trade issues, which were clearly very important but were not the key issues for poverty reduction.¹³

Bank lending continued despite inadequate policy framework. This neglect of policies also held up development of relevant analytical work by the Bank as the basis for a strategic vision for its contribution to poverty reduction through assistance for agriculture and rural development. There was a reduction in Bank lending for agriculture in the early 1990s, but largely due to a review of the dominant irrigation lending component rather than a response to the unsatisfactory policy environment in the sector as a whole. The Bank still continued to lend substantial amounts in the sector in an acknowledged over-regulated, inefficient policy environment, with many "stand alone" projects addressing relatively narrow issues.

Lending increased by 43% in the second half of the 1990s compared with the previous five years, but the Bank concentrated it on a few main sub-sectors and placed more emphasis on state-level reforms. The new sharper focus of Bank assistance arose out of the realization that the earlier neglect of agricultural policy issues and the dispersion of projects had limited sustainable impact on poverty reduction and were creating serious problems in project implementation and performance. The Bank's increased lending was for irrigation and drainage, watershed/area development, and forestry, including some project components directed at agricultural research and extension and was largely directed to those states willing to adopt significant policy reforms, such as on water management and pricing. This more selective and more relevant sector orientation had a potentially larger impact on rural development institutions than the dispersed and narrowly-focused projects of earlier years.

Nonetheless, this increased lending and support for reforms was not accompanied by any in-depth dialogue with the central government on the many agricultural and rural development policy issues for which it had responsibility, that continued to exert negative effects on production incentives. Furthermore, lending took place without an explicit Bank assistance strategy for fostering policy changes in the agricultural sector.

At the end of the 1990s, however, the Bank showed a greater commitment to poverty reduction in the design of rural development projects. These projects will pursue pillars of the Bank's Comprehensive Development Framework (CDF), such as establishing a long term comprehensive institutionally sustainable approach to development, forging client ownership of the program, working with and improving the commitment of existing governance frameworks to poverty reduction, and achieving partnerships and targeted outcomes, and developing social capital which will directly benefit the poorest groups

¹³ The Region acknowledged that inadequate improvements were made in agricultural and rural development policy in the 1990s, but considers that this evaluation does not appreciate the imperative for the Bank to focus on supporting the resolution of the macroeconomic crisis of the early 1990s and on the investment and trade reforms that India was prepared to undertake. An earlier draft of this paper was also criticized for not taking into account the impact of a number of changes in government during the 1990s which had a detrimental impact on central—state government relations and in turn had a major impact on the nature and pace of policy dialogue on reform with the World Bank.

Relevant ESW. The main analytical reports in the sector during the 1990s were the Irrigation Sector Review (1991), the Water Resources Management Review (1998), and Towards Rural Development and Poverty Reduction (1999). All were prepared in close collaboration with many institutions and experts in India. The first two formed the basis for Bank support of major institutional changes in water resource management and are highly relevant to the Bank's support for reform of the irrigation sub-sector at the state level.

The 1999 rural development report was based on a large number of sub-sectoral background papers. The main report was also highly relevant, but it was not timely. It was regrettable that the Bank waited so long to come to conclusions on crucial strategic issues that were quite obvious and had already been emphasized by Indian and international scholars, and in Bank documents nine years earlier. The internal quality, presentation and readability of the report were satisfactory and the substance had been carefully researched, in many cases collaboratively with Indian partners. Its conclusions, however, were not as forthright as they could have been to make a strong impact on policy change. Apart from the presentation of this and related reports at a successful workshop in New Delhi in April, 1999, there was no further dissemination of its important messages in the nineties. At the end of the decade the impact of the report on agricultural and rural development (including investment in rural infrastructure) was uncertain. There has, however, been much more debate and action on grain marketing and storage policy in the last year, including the commitment by the central government to lift grain storage and movement controls. Unfortunately no government action has yet been taken

Overall evaluation. For the decade as a whole, Bank-financed rural development projects have had modest relevance to poverty reduction because the overwhelming proportion of their beneficiaries were those with already significant assets rather than those below the poverty line. Poverty reduction was certainly amongst project objectives in appraisal documents, usually tied to increased employment opportunities supported by Bank assistance, but one could find neither analysis nor monitoring that would show that such increased employment would benefit the poor. Moreover, the Bank expanded lending in an inadequate policy environment, that was over-regulated by government, where production and marketing incentives were distorted, and where public resources were used inefficiently for subsidies while investment in rural infrastructure suffered. However, the stronger focus on policy issues justifies a substantial relevance rating for the agricultural and rural development program of the last five years of the decade.¹⁴

Although most ongoing agricultural projects are expected by the Bank to achieve their implementation and development objectives, the low ambitions with respect to poverty reduction of many of the projects in the Bank's portfolio during the late 1990s, the inadequate identification and monitoring of project beneficiaries, the still prevalent (albeit changing) shortcomings in the policy environment, made it inevitable that the Bank's contribution to India's goal of poverty reduction was modest. Thus, when measured against the Bank's core objective of poverty reduction, the outcome of the Bank's assistance program for agriculture/rural development in the second half of the 1990s was only moderately satisfactory.

¹⁴ The Region considers the evaluator's assessment that Bank-assisted rural development projects had only modest relevance to poverty reduction, because they were overwhelmingly focused on people with assets, overly constrained. The presentation in the paper, the Region claims, does little justice to the type of relationship the Bank had in India, and the strategic thrust of its assistance program. While acknowledging the limitations of the poverty monitoring arrangements, the Region pointed out that its projects were aimed at enhancing agricultural growth and hence poverty alleviation indirectly. In its comments the Region also pointed out that a number of operations target at the poor explicitly, such as the recently approved watershed projects. The background paper recognizes the poverty reduction focus of some projects (e.g., the *Sodic Lands Reclamation, Watershed*, and DPIP projects, among others) but does not cover projects approved in FY00 and pipeline projects.

The institutional development impact of the program, while modest for the first half of decade, has been substantial over the last five years on account of the changes that have taken place at the state level. Sustainability of the Bank assistance program's achievements without continuing external support is judged as uncertain. The prospects for improving agricultural policy at the central government level have been also uncertain in recent years, but have been improving over the last year. Of course one year is not a good basis for evaluation but recent evidence suggests a much more vigorous focus on agricultural policy issues.¹⁵

Lessons and Agenda for Future Assistance Programs. The Bank should intensify the focus of its rural development program on poverty reduction. Moreover, the Bank's impact on rural development, technological progress, and poverty reduction could be much greater and more sustainable, if financial assistance were tightly linked with substantial sector or sub-sector-wide policy reforms such as removing over-regulation of the rural economy and bringing the policy framework for the agriculture sector at the national and state levels in line with liberalization in other sectors of the economy.¹⁶

Such an approach would have a much greater and broader impact on agricultural and rural development and poverty reduction than a focus on specific technical and institutional issues that are at the core of the Bank's ongoing rural development portfolio. Unwillingness of state or central governments to agree to a different path should result in the elimination of any new Bank lending for agriculture.

¹⁵ In the context of an interaction with the Ministry of Agriculture and Cooperatives on an earlier draft, Ministry officials advised that a fresh draft of the National Agricultural policy is in the final stages of preparation. Fertilizer and rural electricity subsidies have been reduced and the Government is actively addressing grain marketing efficiency.

¹⁶ The Region, while agreeing with the need for an intensified focus on rural development and poverty reduction, objected to the link between financial assistance and substantial sector or sub-sector-wide policy change. This was considered by the Region as too broad, too restrictive, counterproductive and confrontational. It was also pointed out by the Region that, in view of the small proportion that its lending represents compared to India's total public expenditures, the Bank has limited impact on policy change.

ANNEX I: WORLD BANK ASSISTANCE FOR FORESTRY

**Authors: Nalini Kumar (OEDST), Naresh Chandra Saxena, Yoginder K. Alagh,
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India has the largest number of poor in the world, many of whom depend directly or indirectly on forests for a living. Poverty, and large and expanding human and livestock populations, put unrelenting pressure on the forests of India. The consequence is severe degradation of the country's forest resources. The government has attempted to slow losses to its forests and increase tree cover through a series of programs with support from the World Bank: industrial forestry, social forestry, and, most recently, joint forest management (JFM). The Bank's involvement in JFM is the largest experiment in participatory forest management ever funded by the Bank anywhere in the developing world. This review of World Bank Group activities in India's forest sector draws lessons from the experience of these programs which is intended to help articulate a forest sector strategy for all of India that would contribute not only to the development of its forest sector but also to meeting the Bank's larger strategic goal of poverty alleviation and sustainable development.

The review is in two parts. Part I surveys the changing state of the forests in India. It explores causes of change in the extent and the quality of the forest cover, including the consistency and accuracy of the information on which the conclusions are based. The major conclusions of this section are as follows:

- Degradation, not deforestation, currently is the major problem in the forest sector in India, though deforestation was more important in the past.
- Data on forest cover, its rate of change, and the demand and supply of forest products are unreliable. While the database needs improvement, most observers, including the authors of this paper, believe that enough is known to support actions on various fronts.
- India's agricultural intensification has had a major positive impact, relieving pressure on marginal lands on which most of the forests remain. On the other hand, urbanization, industrialization, and income growth are putting a tremendous demand pressure on forests for products and services.
- The shrinking common property resource base, the rapidly increasing human and livestock population, and poverty are all responsible for the tremendous degradation pressure on the existing forest cover.
- Although India has a well-articulated forest policy that has evolved over time, forest laws have lagged in translating the policy into an implementable strategy. Even with a well-defined forest policy, India currently lacks a strategy to meet the many diverse demands for forest products and services from the forest sector.

Part II explores the World Bank's lending and non-lending activities in India before and after the Bank's 1991 Forest Policy. While the focus of the review is on the post-policy period, the pre-policy experience is also relevant for drawing lessons for the future. The Bank has invested US\$830.14 million in India in 16 projects, 9 of them complete and 7 in various stages of implementation. The major conclusions of this section are as follows:

- The Bank has largely lived up to its 1991 Forest Policy in India.
- • There is considerable congruence between the Bank's 1991 Forest Policy and India's 1988 Forest Policy. Both emphasize the environmental role of forests and the need to fulfill the subsistence requirements of the local population dependent on forests. India's current forest strategy, to which the Bank has been responsive in the post-1991 period, is relevant but not sufficient. An ideal forestry strategy for India would provide a balance of all the three policy phases that India has experienced since independence: industrial forestry, social forestry, and protection/regeneration.
- A large percentage of the poorest in India live in and around forests and the Bank's forestry strategy has the potential to contribute substantially to poverty alleviation in the country. Since 1992, the Bank has financed six state-level sector-wide projects that support the forest sector development strategies of individual state forest departments. The joint forest management (JFM) strategy used in these projects involves villagers cooperating with the Forest Departments (FDs) in forest protection in exchange for a share in the usufruct and final harvest. A two-pronged approach is followed to involve communities: increasing the stake of the neighboring communities in the management and utilization of the forests, and creating alternative sources of employment to reduce the pressure on forests. These include work on plantation and regeneration activities as well as building of sources of drinking water supply, approach roads, schools, check dams, and other facilities. India has more than 68 million tribal people, a large percentage of whom live close to the forest areas and constitute the most disadvantaged section of society based on per capita income, literacy rates, nutritional and health status, and lack of access to social and technical services. The Bank projects have the potential for alleviating poverty by building in the communities adjacent to forests the grassroots capacity for forest protection and regeneration.
- The Bank projects have been successful in promoting a major attitudinal change in the FDs towards working with the local people. The benefits of a people-oriented approach for the FD (e.g. higher rate of tree survival, protection of forest areas, improved public image) outstrips the cost to the agency.

Too few of the post-1991 projects have been completed to inform a judgment of their impact on the development of the forest sector in India. Supervision ratings show implementation progress to be satisfactory, but the performance among the states varies. Though the long-term involvement of the Bank in the forestry sector has promoted important policy and institutional reforms, the Bank and India need to give far greater attention than they currently do to financial sustainability concerns and to the complex social and political realities of India. Sustainability of a participatory institutional development process is a complex issue, in a highly differentiated society like India, where the poor have little voice and the FDs are resource starved.

India is perhaps the only country in the world where the Bank has been continuously involved in the forestry sector for over two decades. Over that time, the design and implementation of Bank projects have improved substantially, reflecting the considerable learning that has taken place. In retrospect, the Bank has been making four important contributions to India's forest sector:

- By bridging the budgetary gap for a vital sector the Bank is enabling India to implement its forestry strategy.
- By following a systemic approach towards building the capacity for production and management of good quality planting material it is helping build in country capacity for production technology generation and transfer.
- By helping change the attitude of the ED towards working with the poor in tree/forest protection and regeneration it is helping build consensus for a new strategy of forest protection and management.
- By playing a catalytic role in bringing several policy and institutional issues to the table it has been helping focus attention on areas in need of reform. The Bank clearly recognizes that the policy, legal, and institutional environment is not yet right in forestry in India. Even so, it has continued lending to the sector, clearly recognizing that it can be effective in a country of India's size and complexity only by remaining engaged and taking an incremental approach to achieving desired results. The Bank has tried to deal with policy, legal, and institutional issues in the context of individual projects, but its project-by-project approach has not enabled it to build an overarching Bank strategy towards Indian forestry.

This review argues that Bank lending to India has been relevant in the past and can contribute significantly to forestry development and poverty alleviation in the future. However, both the Bank and India need to work towards removing the weaknesses that have hindered progress in the past. The issues that need attention in the forest sector are complex (Table 3.4 captures the complexity of the issues and the viewpoints of various stakeholders). The role of the private sector, the revenue-earning capacity of the forest sector, the marketing of non-timber forest products, the relative role of the center versus the states in forestry are some examples. The Bank needs to continue to remain active in the sector. However, more commitment is needed from the Government of India to view the Bank's involvement in forestry in the larger and longer-term context of poverty alleviation and not simply as a source of finance for the forest sector. Moreover, the Bank can bring to bear in India positive lessons of experience from other countries that will help improve the performance of the forest sector and its contribution to the economy. For example, India could benefit from what has been learned in Costa Rica about increasing the revenue-earning capacity of the forest sector.

Though what Bank forestry projects can finally achieve depends on several factors, the recent approach towards concentrating Bank lending in selected states that are more open to fiscal, policy, and institutional reform may be a step in the right direction. The Bank could focus its forestry lending efforts in these states. It is already doing so in Andhra Pradesh and successes with the policy and institutional reforms in that state could serve as a model for other states. However, effective implementation requires that the Bank's forestry strategy in these states be planned and implemented as a part of the overall development strategy (that integrates the agricultural, rural, and forestry strategies) instead of an effort pursued in isolation from other sectors as has largely been the case in the past.

ANNEX J: WORLD BANK ASSISTANCE FOR ENERGY

Author: Richard Berney, Consultant, OEDST

During the first four decades following independence, Indian policy makers reached a broad consensus that self-reliance and the provision of cheap energy should be the twin goals of India's energy sector, with public ownership of the means of production. Since nationalization of the sector in 1948, installed electric capacity increased from 1,500 MW to more than 89,100 MW by 1998, making it one of the largest power sectors in the world.

Until 1993, Bank energy sector lending largely followed the government's lead, focusing on expanding productive capacity through large-scale projects, implemented by central or state monopolies. Institutional strengthening focused on improving financial performance by raising prices and studying ways to improve technical performance. The Bank provided 13 loans and 3 credits to help the National Thermal Power Corporation (NTPC) rapidly expand generation capacity and become the largest power generator in India. In the 1980s, it began supporting state electricity board (SEB) generation expansions, with the view to improved efficiency of operation. In the coal sector, lending in the 1980s focused on increasing the proportion of coal produced through large, low-cost open-pit mines. Oil and gas projects also focused almost exclusively on the physical infrastructure needed to expand production. Sectoral policies, including product pricing policies and, in the case of gas, allocation policies were not effectively addressed.

The Bank and IFC have also supported development of the small but strategically important private power sector; and in 1992, the Bank financed a renewable energy project that supported private sector development of wind, solar, and mini-hydro power generation projects. The wind power component has been particularly successful, and India is now one of the world's largest wind power producers, with over 900 MW from this source.

Outcomes

In seeking to expand productive capacity, the energy sector projects of the 1980s were essentially "nuts and bolts" physical investments in power plants, transmission facilities, coal mines, and oil and gas production facilities.

Efficiency was the primary design and implementation concern. Projects were designed to produce a planned output, and to be implemented in a reasonable time and at a reasonable cost. Financial viability of the implementing agency was an important issue, but little attention was paid to sector policies. Early loans for expanding power generation, building transmission lines, expanding coal production, and increasing oil and gas production all were of this type. With the exception of loans to SEBs, the Bank's energy sector lending program in the 1980s and 1990s was highly efficient at achieving its output targets, and played a significant role in production gains in the power, coal, and oil sectors.

Efficacy of the lending program—its effectiveness in strengthening sector policies and institutions—took on greater importance only in the late 1980s, particularly with loans to the SEBs to improve operational performance; to Coal India to institute a program of cost-cutting efficiency improvements in activities not being financed by the Bank; and to Oil India to introduce modern business practices. The Bank's lending program was far less successful in

improving the sector's overall operating efficiency, particularly in the areas of institutional financial performance and sector resource mobilization. The outcomes of loans to SEBs were almost uniformly unsatisfactory on institutional grounds. Institutional development was also less than satisfactory in the oil and coal sector projects.

The lending program's lack of *relevance* to the Bank's broader goals of establishing long-term viability and sustainability in the power sector began to become evident in the early 1990s. While the lending program of the 1970s and 1980s was highly relevant to the Bank's policy objectives on an individual project level, it was becoming less and less relevant to the real problems of the power sector. SEB performance continued to decline throughout the 1980s and 1990s. On operating efficiency, distribution losses in many states were reaching levels of 40 percent and more. By the early 1990s, SEB financial losses reached \$1.8 billion or 0.5% of GDP, diverting state and central government resources from other development objectives. By 1996, the subsidy to agricultural and residential consumers had reached 1.5 percent of GDP. Resource mobilization issues were important because the heavy burden of subsidizing the power sector drained state resources away from investment programs that could directly help the poor.

India's economic crisis of 1990/91 led the Bank to reevaluate the relevance of its sector objectives. The failure of the SEBs to improve their performance or to meet their financial commitments led the Region to decide in 1992 to close loans to SEBs that could not meet their covenanted commitments. Over the next three years the Bank cancelled over \$2 billion in non-performing loans, and shifted its lending strategy to focus on the sector's institutional, financial, and environmental sustainability. It decided to lend only to states that agreed to totally unbundle their SEBs, privatize distribution, and facilitate private participation in generation. In the coal sector it would lend only when Coal India initiated its restructuring process by making each of its subsidiaries managerially and financially independent (with no inter-subsidiary cross-subsidization), and for projects focused heavily on improving environmental and resettlement/rehabilitation practices. In the gas sector, the Bank ceased lending because it was unable to establish an effective dialogue on pricing and other relevant sector issues.

The program in the power sector, where most of the Region's effort has gone, is beginning to bear fruit. The Bank spent three years supporting reform efforts in five states, with the help of significant funding for technical assistance from bilateral development agencies, particularly DFID (UK), CIDA (Canada), and USAID (US). The Bank made no energy sector loans between 1993 and 1996. Three of restructuring projects came to fruition between 1996 and 1999. Since that time, Orissa has established an effective, independent regulatory authority, fully privatized three of its four distribution networks, sold a hydropower generation plant, and is well advanced toward contracting an independent power producer for a new thermal power plant. Haryana and Andhra Pradesh are also implementing restructuring programs supported by the Bank. In all these states, government resources that previously went to support the power sector will now be available for investments that directly improve the well being of the poor.

OED strongly supports the South Asia Region's strategy for the energy sector, initiated in 1993, that concentrated all its power sector resources into promoting SEB structural reform and only financed distribution system upgrading. The strategy is highly commendable for its relevance to India's development objectives, its efficacy in rehabilitating a critically weakened sector, its efficiency in use of Bank resources, and its mobilization of private sector resources. In light of the radical institutional changes that are being implemented, the reform is likely to be sustainable. OED deems this a best practice model that should be emulated throughout the Bank's energy sector portfolio.

Major Lessons

- Projects that focus on physical investments, with the primary objective of increasing energy production, facilitate the continuation of inappropriate and unsustainable sector policies. More efficacious results would be obtained if energy sector projects were evaluated for their contribution to sustainable, balanced growth of the sector.
- Low energy prices lead to high consumption and excessive investment to support this consumption. Bank support greatly facilitated the growth of India's coal, gas, and electricity production, which helped the state governments to avoid changing their pricing and institutional structures. The Bank should refuse to lend to sectors where sustainable growth is not possible because distorted prices restrict the sector's ability to generate its own resources.
- Although physical investments in energy infrastructure projects may be efficient, in the narrow sense that they are supporting the least-cost energy development program, these investments are unlikely to effectively utilize the country's limited resources where prices are far below real costs.
- Efficiency of energy sector enterprises (and enterprises in any productive sector) requires competitive markets and profit-oriented private sector participation. The Bank should lend only in sectors that are making clear progress toward introducing private participation.
- One-shot, reversible actions to improve the financial viability of institutions are seldom effective, as long as the underlying causes of the financial problems are not addressed. In particular, in the energy sector, tariff increases are unlikely to have a long-term impact if future increases remain within the political arena; and financial weakness brought about by excessive accounts receivables is likely to continue as long as the energy purchaser is financially unstable.
- Because of their size, energy sector projects will always engender concerns about environmental and social safeguards. While the Bank has improved its safeguard policy assessment at appraisal, some of these concerns can only be resolved after the project is in operation. Continued Bank supervision may be required. The support of local governmental agencies is also essential to maintain supervision and monitoring. The Bank needs to help these agencies develop the capability to implement their monitoring and reporting responsibilities and should only lend for environmentally sensitive projects when governments demonstrate ownership of their environmental standards.

Recommendations

Power

- The Bank should not support power generation projects (including private power projects) that supply power to inefficient, loss-making distribution entities, even if the generation company is itself efficient.
- Institutional reform that eliminates direct political control over the process of adjusting tariffs should be a fundamental criterion for Bank support of power generation projects.

Coal

- Further Bank support for this sector should be premised on central government implementation of real, irreversible structural change, especially through encouraging new private sector mining operations and, to maintain pressure to improve efficiency, through further unbundling Coal India subsidiaries as independent companies.
- More attention needs to be focused on detailed analysis of the contractual interface between project entities and their suppliers and consumers, since the structure of these contracts can be critical for the economic and financial success of the undertaking.

Oil and Gas

- The Bank needs to find ways to maintain a policy dialogue on critical gas sector policy issues because gas policies affect central government resource mobilization and has fundamental implications for the longer-term structure of the energy sector.
- Setting gas prices administratively at levels below import parity hinders the development of new indigenous gas reserves and the viability of import schemes for liquefied natural gas. Policy discussions should emphasize moving gas prices up to parity with imported gas, so that the market for imported LNG can develop in a smooth and economic manner.

Environmental and Social Safeguards

- Monitoring and supervision of environmental and social compliance agreements should be made a central issue in the Bank's ongoing dialogue with the national and local governments. State institutions will need to be strengthened to meet their supervision obligations. Until they are strengthened, other independent agencies should be contracted to do the job. The Bank should continue to supervise projects until agreed social safeguard policies are fully implemented. For environmentally sensitive energy projects, the Bank should continue to review the performance of the state environmental institutions until the loan is repaid.
- To ensure that its environmental mandate is taken seriously, the Bank needs to hold state governments to their commitments to implement monitoring agreements. The Bank should refuse to lend for any environmentally sensitive project needing monitoring after completion of construction, if these institutions are unable to meet their existing obligations.

ANNEX K: EVALUATING BANK ASSISTANCE FOR TRANSPORT SECTOR DEVELOPMENT

Author: Hernan Levy, Principal Evaluation Officer, OEDST

Sector Characteristics and Challenges

The transport sector in India is characterized by high costs and poor service quality, the underlying causes of which are antiquated and saturated road and rail systems. These transport problems have been aggravated with India's sustained economic growth since the early 1990s. During this period, the country has made substantial progress in deregulating industry (including transport), liberalizing trade and opening up to foreign investment. Yet, little has been achieved in attracting private capital to infrastructure investment and finance, with the exception of telecommunications, a few power plants, and the concessioning of some port facilities. Government funding for infrastructure has been low due to fiscal constraints and budget reallocation towards the social sectors. By comparison, China over the past 10-15 years launched the construction of a modern interstate highway system to support its export-oriented economy. By 2000, it had 12,000 km of freeways, while India had practically none.

While insufficient infrastructure investment is transport's most obvious problem, there are other significant sector issues: resistance to modern technology; antiquated public agency organizations; too large a role of the state in direct provision of transport services; inadequate funding of road maintenance; large distortions in the pricing of services; inefficient road transport regulations; and, weak capacity of the domestic construction industry.

World Bank Assistance Program

Composition of Program. World Bank assistance to India is currently undergoing a dramatic shift. From about 1 project every two years during the past 20 years, the latest CAS proposes two to three transport projects per year. The focus is also shifting from an eclectic mix in 1980s covering practically all areas in the transport sector with predominance of railways, to roads. Four out of the five ongoing (as of March 2000) transport projects are for roads. Two more road projects were ready for Board presentation. In addition, several non-transport projects include rural roads components. A related trend is increasing lending for sub-national governments through state (rather than national) highway projects. The mediocre performance of railway projects, especially their failure to modernize the railway's organization or to corporatize its industrial units, and the heavy cross-subsidies from freight to passenger services, coupled with the very urgent priorities of India's highway system lend strong justification for changing the direction of transport lending.

The Bank has prepared five transport sector papers over the past 10 years. These papers have had different focuses, one on roads, one on ports, one on transport, one on container logistics, and the most recent on private participation on infrastructure (1999). All these papers are well focused and thoughtful, and some have excellent chapters that include relevant experience in other countries. However, it is difficult to assess their impact, since none of the papers contained recommendations for a lending strategy. The shift in lending strategy is not buttressed by a current analytical paper, although recent appraisal reports contain elements for such a strategy. The Bank has recently launched preparation of a paper to address long-term strategy issues in the transport sector.

Lending performance. Of the nine transport projects approved since 1980 and already closed, only four had satisfactory outcomes. Within this cohort, the three projects that closed from 1994 did moderately better, since two had satisfactory outcomes. Yet, these three projects suffered substantial implementation delays (between 1 and 3 years) and had hefty cancellations of loan and credit amounts (more than one third of the original amount was canceled). All the projects had mediocre ratings in institutional development and sustainability. Ongoing projects seem to be doing better since current QAG assessment shows three of these projects as being not at risk, and one as potentially at risk. However, this assessment needs to be viewed with caution, since in the past there was a high disconnect between the ratings at the last supervision (only one out of nine rated unsatisfactory) and the evaluation ratings (five rated as unsatisfactory). On the basis of lending ratings (closed and ongoing projects), and sector work, this report rates overall performance in the transport sector for the 1994-1999 period as follows: outcome, moderately satisfactory; sustainability, uncertain, and institutional development impact, modest.

The Future

The following is suggested as an agenda for future development:

- *Highway development and lending.* A strategy should be formulated to help India develop a modern interstate highway system (with a significant proportion of expressways), and ensure that it would be managed efficiently. The Bank's overall emphasis on sub-national lending is correct but in transport it means a bias towards state-focused projects. While both the national and the state highway systems need to be substantially improved—operations, management and physical condition—this paper finds that development of a modern interstate highway system should be considered the most important single priority in India's transport sector. The report suggests that a lending arrangement could be devised that would facilitate the channeling of Bank assistance to the national system via state governments.
- *Role of the private sector.* The Bank should continue its strategy of supporting an increased role of private capital in infrastructure. Experience both in India and abroad suggests that this will be a slow process and the lesson is that this essentially long-term strategy should not preempt the needed public sector funding for highway development in the coming years.
- *Rural roads.* The Bank should continue to support rural roads, both through transport and non-transport projects, but should ensure that design standards meet economic criteria, since some states appear to use too high design standards (eg, paved surface) for even very low trafficked roads.
- *Railway.* The Bank needs to assess whether to retain its arms'-length relationship with the railway or, alternatively, find practical ways to further encourage modernization and reform. This report favors the latter. Despite losing much traffic to the road, the railway remains a key component of India's transport system, and there is a large scope for improving efficiency and making its service more market-oriented through a variety of institutional reforms and better focused investments.

ANNEX L: WORLD BANK ASSISTANCE FOR ENVIRONMENTAL SUSTAINABILITY

**Authors: Klas Ringskog, Principal Evaluation Specialist
and Ms. Nola Chow, Consultant, OEDST**

India's environmental problems are deep-rooted and severe. Estimates of annual environmental damage range from 4.5% to 8% of GDP, in line with annual economic growth. Out of the estimated environmental costs 59% are related to the burden of disease due to unsafe water and unsanitary excreta disposal, 20% to soil degradation, and 13% to air pollution. With this in mind, the OED evaluation pays special attention to these three areas of environmental damage.

Since 1990 the World Bank has lent India \$1.94 billion for 19 projects to mitigate environmental damage and another \$97 million was granted under GEF and Montreal Protocol trust funds for four projects to protect the global environment. Although sizable, the Bank's role will remain marginal compared to India's own actions. Most of the Bank projects are still active or have only recently closed, which prevents a full evaluation of the impact of the Bank's environmental program at this time. The Bank has also supported a spectrum of economic and sector work (ESW) that address environmental issues based on country assistance strategies. Interviews with Indian stakeholders show that the Bank's ESW has had considerable impact on environmental awareness and policies.

OED's summary rating of the Bank's results is *moderately satisfactory*. The summary rating is predicated on India's intractable environmental imbalances where poverty reduction is at times at the expense of the vulnerable environment. As could be expected for a country of India's complexity, the Bank effort has comprised a wide range of projects. The Bank's most significant contribution is in mainstreaming environmental concerns in sectors such as agriculture, power, water resources, and water supply and sanitation. Compared to the present situation where electric energy and water are under-priced, more realistic pricing of natural resources and energy would reduce both the consumption and pollution through the demonstrated elasticity of demand. Some environmental projects have also had implementation problems, including one that is currently under Inspection Panel review. In contrast, there are highly successful projects, such as the Uttar Pradesh Sodic Lands Reclamation Project and those that aim at reducing the use and production of ozone-depleting substances. The Sodic Lands Project is proof that poverty reduction is possible with lasting environmental improvements. The same would be true of efforts to conserve natural resources and biodiversity since the most vulnerable people are often relegated to the most vulnerable lands.

The Government of India (GOI) has attempted to regulate the environment for several decades, but its institutional capacity for efficient monitoring, enforcement, and promotion of more sustainable alternatives does not match the task. The GOI produced a major environmental document, the National Environmental Action Plan (NEAP) in 1993, but its implementation is lagging. Identified main priorities include addressing the

pollution of air and water resources, and land degradation that threaten the health and prosperity of the population.

OED's evaluation suggest a number of general lessons. The Bank's *safeguards* to minimize environmental damage have been moderately successful and their performance has improved as the Bank and India have become more familiar with policies and issues. Good *stewardship* in the Bank's environment programs is conditioned on in aligning the Bank's commitment with GOI's priorities and most serious environmental problems (e.g., water supply and sanitation), and change the incentives to rely more on market-based mechanisms. *Mainstreaming* environmental concerns into other sectors has begun, but further efforts are needed. *Global issues* deserve attention since mitigating India's own environmental problems would also benefit global environmental issues to such a large degree, given India's size and diversity..

The report identifies eight conclusions for the Bank's future environmental assistance to India. The eight conclusions identify cost-effective measures with both short-and long-term benefits:

- ***Integrate safeguards earlier in the project cycle.*** Environmentally sounder project alternatives can be accommodated at the least cost early in the project cycle. To do so will require added resources to enable Bank staff to review *all* projects and ensure their compliance with safeguards with a set of relevant monitoring indicators.
- ***Provide alternatives to public sector management of water supply and sewerage systems.*** Estimates are that close to 60% of the environmental damage is explained by unsafe water supplies and the absence of sanitary excreta disposal. Alternatives to inadequate and unsafe public management are overdue. One possibility is private management underpinned by a clear separation between public regulation of results achieved and private management
- ***Greatly expand support of sanitation programs.*** A recent Bank research project in the state of Andhra Pradesh has pinpointed the crucial health importance of sanitary excreta disposal. The cost effectiveness of sanitation programs compares favorably with the cost of other health interventions. Safe sanitation is of priority to both urban and rural poor since they are more likely to lack service and quality service. If possible, sanitation programs should use community-based organizations and NGOs as implementers.
- ***Air pollution needs to be targeted as a priority measure.*** Air pollution has rapidly reached crisis proportions in all of India's major cities. Incentives to move to less polluting technology and enforcement of emission standards are urgently needed to start addressing the problem. In-door air pollution deserves special attention because of its direct link to health of the poor.
- ***Step up efforts to promote rational pricing of natural resources.*** Much of the stress on air and water resources can be attributed to unrealistically low resource prices and ineffective metering, billings, and collections in the power and irrigation sectors. More rational prices will remain ineffective unless reforms can create the capacity to administer prices and relate payments to resource use.
- ***Monitoring and enforcement of environmental standards is lagging and undermines the whole regulatory effort.*** Indian environmental legislation is comprehensive, but its enforcement is weak. One good alternative would be to use *private subcontractors* under public regulators Bank projects can raise effective regulatory enforcement rapidly.
- ***Links between poverty reduction and ecological balance must be more fully documented.*** The poorest population segments often live in the environmentally most vulnerable areas. The

Bank, through economic and sector work, could further explore this relationship and seek development paradigms that achieve both goals.

- ***Better recognition of global environmental threats would also address local concerns.*** India is a significant source of greenhouse gases (mainly from coal-based power plants), remains one of the few ozone-producing countries, and faces the extinction of some its threatened species. The Bank through the Global Environmental Facility can and should do more. The greatest positive effect on global issues would be through mainstreaming environmental sustainability in all Bank programs through correct levels and administration of prices of inputs.

ANNEX M: WORLD BANK ASSISTANCE FOR POPULATION, HEALTH AND NUTRITION

**Authors: Ronald Ridker, Task Manager
and
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Fertility, mortality, and morbidity have slowly and steadily declined in India since independence but remain unacceptably high. While the root causes are poverty and low levels of education, the public health programs bear some of the responsibility. These programs have faced a series of well-recognized problems, the most serious of which are inadequate access by the most vulnerable groups, poor quality of primary and secondary facilities, which has resulted in their under-utilization, and until recently, excessive focus on sterilization and inadequate focus on maternal and child health.

Since 1972, the Bank has assisted the government in its attempt to correct these problems through 23 projects to which the Bank contributed over \$2.6 billion, plus studies (sector work) and policy dialogue. This study evaluates this program by first reviewing the projects and sector work that the Bank funded and then by taking up a number of special issues in more depth.

Evolution of Programs and Projects

From 1972 to 1988, the Bank funded five population projects that primarily consisted of helping the government carry out its Family Welfare Program, a family planning-cum-maternity and child care (MCH) program. The Bank had little influence on the direction of these programs, among other reasons because the government only wanted assistance expanding its existing program and the Bank had little leverage because its inputs were small and it did little to develop viable alternatives prior to 1988. The overall goal of these projects was to accelerate the extension of the service delivery network for the Family Welfare Program in specific districts. With a couple of exceptions, however, the projects did not make significant differential improvements in project districts compared to non-project districts, among other reasons because inputs other than infrastructure were largely neglected, no attempt was made to apply different delivery models in project districts, and project districts continued to operate under the same personnel and recurrent budget constraints as non-project districts.

After the reorganization of the Bank in 1987, a new operational team took over and rapidly expanded sector work. These studies have generally taken up the proper subjects and are an excellent source of information and diagnosis of problems. The most recent sector work is generally better than earlier work at analyzing the underlying (sociological, political, institutional) forces that explain why things work the way they do. One reason for this is that task managers made a point of involving the government in selecting and designing the studies and local consultants in their execution. This change

in style is at least as important as content and soundness of analysis in explaining their greater influence.

In January 1987, India and the Bank agreed to a five-point sector strategy: (i) increased emphasis on outreach; (ii) increased emphasis on temporary methods versus sterilization; (iii) increased attention to MCH; (iv) fewer project resources for expansion of the system and more for enhancing quality of service delivery, training, and IEC; and (v) priority to improving these services in urban slums and backward, high fertility states not covered by previous projects. It has taken some time for these principles to be reflected in projects, but all of them have now been fully incorporated.

The Bank has supported two, quite different, nutrition programs. The first, the Tamil Nadu Integrated Nutrition Project, designed largely by Bank staff and consultants, was an innovative program that focused on changing the way mothers feed themselves and their preschool children, rather than on feeding *per se*. This program has been well implemented and quite successful in reducing severe malnutrition.

The second program, Integrated Child Development Services (ICDS), initiated before TINP, has become the government's predominant program for preschool children. It is meant to be holistic, offering non-formal preschool education, supplemental nutrition, immunization, and health checkups for children age 0–6, and nutrition and health education for pregnant and nursing mothers. Recent assessments suggest that the program is having only modest positive effects.

The GOI has shown no interest in continuing the TINP model, despite its relative success. Rather than pressing for this, the Bank decided to support ICDS and try to influence it to incorporate the more attractive elements of TINP. The Bank has provided support for ICDS through three free-standing projects and components in at least two others. Outcomes to date have been disappointing. The TINP experience seems to have been lost on India, and with it, a clear emphasis on malnutrition as a leading risk for ill health, although it has affected the design of some nutrition projects in other parts of the world.

The first free-standing health project was funded in 1992. Today, this portfolio consists of two types of projects: five specific disease control projects and four state systems projects with several more in the planning stage. These projects bring to bear Bank experience elsewhere, introduce new treatment protocols, and attempt to involve the private sector and nongovernmental agencies. They have resulted in a significantly more rapid decline in prevalence of leprosy and cataract blindness than would otherwise have occurred, an increase in the pace of detection and treatment of tuberculosis, substantial improvement in the safety of blood transfusions, and modest improvements in protective behavior among some high-risk groups, but, so far at least, no visible impact in slowing the AIDS epidemic and no progress in bringing malaria under control.

The state systems projects provide the Bank with an opportunity to influence more fundamental determinants of how the public health system works, to do so at the level of the states, which are responsible for health care, and where the Bank can have more leverage than is possible at the national level, and to provide assistance tailored to the vastly different circumstances in different states. The first of these projects focused on

improving secondary hospitals in one state. This improvement is a necessary, though not sufficient, step toward establishing an adequate referral system between primary and secondary institutions. The other projects are extending the principles of the first but in some cases adding more work at the primary level.

Much of the above can be summarized by comparing projects, sector work and style of operations before and after about 1988. Before this time there were no free-standing health projects, population projects were usually supply-oriented, the Bank's stance was to support the government program without seriously pressing for the policy changes it believed to be necessary, and there was almost no sector work. Since 1988, sector work has flourished and raised policy issues that are being taken seriously, health projects have been added to the portfolio, serious efforts have been made to shift the balance within the FW program from family planning to MCH, contraceptive targeting was dropped, and health and state system reform projects have proliferated. This sea-change resulted from a number of factors: evidence that old approaches were not working, the emergence of some new, cost-effective treatments for some diseases, the emergence of new diseases, pressures to pay more attention to what women actually want, changes in personnel in both the ministry and the Bank, and perhaps most important, the deterioration in economic conditions in 1990/91 which increased the government's interest in acquiring foreign assistance and led to an agreement that assistance obtained by the MOHFP would be considered additional to its plan budget, thus giving the ministry a strong incentive to acquire such assistance.

Selected Topics

In addition to the historic approach, this study considered several special topics and issues,¹ two concerned with components included in nearly all HNP projects (training and IEC), three concerned with policy initiatives the Bank has been advocating for some time (dropping sterilization targets, decentralization, and involvement of NGOs and the private sector) and two involving efforts to assess the extent and determinants of overall progress. While the historic approach indicates that recent programs and projects are much better designed and executed than earlier efforts, this second view of the situation suggests that many serious problems remain.

The empirical studies suggest that the quality of primary services provided by the government did not improve significantly between 1987 and 1996, that income, education, and the overall quality of state administration are more important than specific public health interventions in explaining differences in demographic and health indicators during the period 1981–91. The Bank's main contribution has been to expand capacity. Its efforts to improve quality have not accomplished much and it has devoted inadequate attention to content, monitoring and evaluation, and feedback of results. Another study shows that shortly after the immediate drop in contraceptive rates brought about by a change in policy, rates were beginning to recover and staff were beginning to emphasize temporary methods and MCH. But clients perceived little change in behavior of health personnel. The study of Bank efforts to involve NGOs and the private sector concludes that progress in this direction has been very slow. The study of decentralization concludes

¹ The discussion of these issues is based on commissioned papers and their review in a special workshop that took place in April, 1998. These papers are listed in the appendix and available on request from OED.

that little authority over budget and personnel has yet been given to local agencies. It also questions the wisdom of doing so, in contrast to devolution to state and district level.

The studies are more cautious in their conclusions than is possible in this brief summary and all need to be qualified in important ways. Most important, given the improvements in programs and projects in recent years, repeating these studies five years from now would probably yield more positive results. But it is sobering, nonetheless, to observe how little progress has been made despite the considerable efforts extended during the first two decades of the Bank's involvement. And the studies caution against excess optimism about how much these new initiatives can accomplish in a country as large and complex as India.

Conclusions and Policy Implications

The Bank is now on the right track, but it took an inordinately long time to get there. Reasons for this include resistance on the part of the government prior to the early 1990s and the Bank's rather cautious approach to India, which for a long time manifested itself in continuing to support expansion of programs it knew to be seriously flawed, willingness to continue funding even when project goals were not achieved or agreements not met, and failure to insist on adequate monitoring and evaluation to come to hard judgments about performance. This reluctance to enforce reasonable performance standards may be related to the reluctance, or inability, of the MOHFW to do so *vis-à-vis* the states, which have responsibility for implementation of most projects. Recent instances where the Bank or the MOHFW has taken a firm stand and obtained real improvements are encouraging and, one hopes, will stiffen the backbone of both organizations. The performance-based allocation mechanism built into the RCH project is also encouraging.

The report concludes by focusing on the following policy implications.

- Project outcomes are more dependent on personalities and style of operations than anticipated. Large bureaucracies like the Bank and the MOHFW are reluctant to admit this, hoping no doubt that work plans, rules, and regulation will insulate programs from the exigencies of personnel assignments and different operating styles. But in incident after incident it is difficult to explain outcomes without taking these factors into account. In designing projects, more conscious attention should be devoted to these issues.
- Closely related is the neglect of personnel issues in project implementation, by the Bank and perhaps also by the MOHFW. These issues include policies and practices regarding compensation, assignment and transfer, promotion and demotion, work rules and supervision, all of which determine the incentives that govern how individuals do their job. Provision of plant, equipment, supplies and even training will not accomplish much if these incentives are incorrect.
- Sector work and project design need to take more account of field conditions, not just to make sure that project designs are realistic but to find solutions to implementation problems. A case in point is the need to understand the incentives that determine performance of workers in direct contact with clients. The related tendency to add new initiatives before older ones are adequately implemented needs to be resisted.

Thus, for example, we need to ensure that family planning is not neglected in the wake of the reproductive health initiative and that basic, simple, services for the poor are not neglected in the wake of the attention being paid to secondary hospitals.

- There needs to be more focus on determinants of health status that are outside the traditional confines of the formal medical care system. Transport, communications, environmental pollution, and health education are examples. Civil service rules and regulation as they affect health workers is another.
- The establishment of an effective referral system requires more than upgrading skills and facilities at both ends of the chain; it also requires good transport and communications and the willingness on the part of the referral hospital to make the system work. The latter cannot be done without supervising some aspects of lower level operations and that may require some institutional changes. It probably also requires that qualified staff at the referral hospital be assigned this function on a full-time basis.
- Mobilizing the private (profit and non-profit) sector to serve public health goals raises issues about using public money to buy private services, which implies the need for contracting, accreditation, regulation, referral, and appropriate division of labor between the public and private sectors—all complex issues that other countries are wrestling with as well. The Bank can help by encouraging experimentation with different approaches in the projects it funds and by bringing to bear information on how these issues are resolved in other countries.
- The recent initiatives to introduce performance-based budgeting into projects needs to be extended and intensified. In principle, it could help the government resolve one of its most perplexing problems, how to make the system more accountable.

ANNEX N: EVALUATING BANK ASSISTANCE FOR EDUCATION SECTOR DEVELOPMENT

**Authors: Helen Abadzi, Sr. Eval. Officer, OEDST; Sukhdeep Brar, Consultant
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World Bank lending in education has taken place through a unique working relationship in line with India's principle of self-sufficiency and domestic development. Until the late 1980s, the government of India strongly resisted external funding for education programs. Subsequently, the goal of universal elementary education resulted in demand for additional resources, leading the Department of Education (DOE) to review its policy on external funding in education. The Bank's continued efforts towards a dialogue with DOE aimed at confidence building also contributed to this change in policy. Since 1980, the Bank's investments in education in India have grown from an almost negligible amount to \$2 billion. The Bank has approved four vocational and technical education and training (TVET) projects and six basic education projects.

Completed Projects – Technical and Vocational Education and Training

In addition to civil works and equipment, the TVET projects focused on improving the quality of instruction and on empowering institutions to carry out the tasks needed to train students who would be valuable to industry (curricular revisions, updating teacher skills, self-maintenance of equipment, improved linkages with industry, income generation, financial, and academic autonomy). They also focused on increasing female participation in TVET.

All four TVET projects are completed and audited. Although the Vocational Education Project (Cr. 2008-IN) fell short of some of its targets, the Technician I and II projects achieved or surpassed theirs. Altogether, about 1,100 institutions were constructed or received additions, equipment, and furniture. Overall, their capacity increased more than 50 percent, by roughly 100,000 student places, and expansion often exceeded targets. The Operations Evaluation Department (OED) has rated project performance as satisfactory or highly satisfactory, though substantial improvements are still needed in industry linkages, quality of trainers and academic flexibility.

Ongoing Projects – Primary Education

The primary education projects, which focus on local-level delivery of inputs through innovative means, are still under implementation. Therefore, evaluative statements about them are tentative. There is much state variance in achievement of various project outcomes, but joint review mission reports and other materials show achievements in the following areas:

- A very high level of government commitment at the central and state level. Donor staff have been very much impressed by the eagerness of various officials to implement the very large and complex district-based projects. Overall, about 50 million children have been involved.
- Large enrollment increases in the most deprived areas. For example, in the Uttar Pradesh Basic Education Project (UPBEP), enrollments in the 1991–2000 period reportedly increased by 67 percent at the primary level and by 74 percent at the lower secondary (also called upper primary). The gross enrollment ratio increased from a baseline level of 66 percent to 107 percent (including overage children), although the target level was only 78 percent.

- Large increases of female enrollments. Girls' enrollment reportedly increased by 97 percent in the UPBEP and by 39 percent in DPEP; girls' attendance was 77-87 percent in project areas. Dropout decreased.
- Textbooks that are actually used in classes were provided on a large scale.
- In-service training of about 100,000 teachers through block and cluster resource centers. Instructional methodology was emphasized and child-centered methodologies were disseminated to teachers and parents.
- Large numbers of teacher appointments, particularly locally residing para-teachers.
- Formation of over 171,000 village education committees, some of which are very active.
- Construction of thousands of schools, toilets, and drinking water fountains through local village authorities and through suitable local designs.
- Establishment of block and cluster resource centers as well as district institutes of teacher education.

Areas of concern for primary education include:

- Less than impressive learning outcomes. Baseline to mid-term comparisons showed strongest improvement for grade 1 and minimal improvement for the higher primary grades. Overall, achievement in the poorer districts remained far below expected minimum standards.
- Fewer teachers in areas where need is greatest; some teachers may be reassigned near their homes, leaving the poorest children under-served.
- Uneven quality of in-service training and modest development of training institutions.
- School construction problems in poorer areas and in the earlier project stages.
- Limited function of village education committee activities in the poorer areas.

In addition, it has been difficult to verify program effects due to:

- Uncertainty regarding the provision of inputs, partly because donors are usually unable to visit project sites unannounced and observe operations as they happen under everyday conditions;
- Uncertainty regarding outputs, because donors have limited access to data and studies; studies are executed by a few chosen institutions;
- Some questions regarding the reliability and methodology of data collection and reporting;
- Agreements between government and donors that remain unwritten, omission of some controversial issues in aide-memoires; and
- Inadequate procedures for ensuring financial accountability.

Nevertheless, the government has tackled, with great energy, extremely difficult and complex problems. It would be impossible to improve quickly on all fronts, and some imperfections are inevitable. OED rates the outcome of the educational program as satisfactory, with high relevance and substantial efficacy and efficiency. Institutional development is rated as modest and sustainability as likely.

Specifically for primary education, OED suggests:

- *Independent verification of enrollments, project benefits, and flow of funds at the local level.* NGOs or independent academics might undertake these activities and report to the government and the donors, thus giving the government the opportunity to mitigate problems early. Donors should visit many school sites unannounced.

Data sets from independent studies (e.g. health surveys and PROBE) should be analyzed to compare sampled DPEP and non-DPEP districts.

- *Increased availability of the studies to donors and qualified academics, improved quality of reports and statistical analyses. More extensive data analyses at the local, district, and state levels, particularly by independent academics.*
- *Assessment of the local-level processes that greatly influence project success. Study of the social or other types of obstacles which arise (e.g. difficulties of operationalizing village education committees, keeping teachers in remote areas, local microcorruption customs) in search of remedies.*
- *Eliminating some fundamental limitations of lower-income classrooms (e.g. densely packed large and noisy classes of children who receive limited teacher attention) through after-hours remediation of the weakest students and specific training to help teachers focus on low performers early on.*
- *Restructuring the district and state institutes of education which thus far have not been able to provide suitable service or locate suitable staff. Study world experience in locating such capacity in various administrative entities, such as local colleges of education.*

For the lending program in sectoral terms, OED recommends:

- An integrated approach and study of the effects of one subsector on another;
- Increased financing of higher education through user fees and alumni contributions;
- Direct lending to states;
- Better use of donors' technical expertise and world experience in various methodological and administrative issues.

ANNEX O: EVALUATING BANK ASSISTANCE FOR SOCIAL DEVELOPMENT

Author: Warren Van Wicklin III, Social Scientist, OEDCR

Social development issues received inadequate attention until 1994. Problems had reached unacceptable levels, requiring enormous remedial work by the Bank and the government. There were widespread problems in involuntary resettlement operations, limited stakeholder participation in Bank operations, few social assessments, and little attention to indigenous peoples issues. It is easy to forget how undeveloped and unsophisticated the Bank's work was on social development issues only six short years ago. The Bank has taken major actions to emphasize social development in its operations, first focusing on resettlement, but since 1995, on participation and social assessment, and more recently on indigenous peoples and other issues.

Much of the Bank's social development work has not had as much results on the ground as the Bank and NGOs hoped. As the 1998 OED involuntary resettlement evaluation found, the main failings were not due to lack of Bank attention or commitment as to the difficulty of reaching Bank objectives, relying on public sectors agencies with limited capacities, the appropriateness of Bank interventions, and follow through. This is true of the social development agenda more broadly. The Bank needs to find ways to achieve greater government commitment, or else be more selective in its involvement. The Bank cannot afford to compromise its principles; this would be an abdication of responsibility. But the Bank needs to remain engaged, to promote more effective government approaches to poverty alleviation. Most Indian government programs tend to be too centralized, not very participatory, and not very effective at reducing poverty. Because the GOI's anti-poverty programs' \$2 billion of annual resources dwarfs the Bank's program, the Bank's influence on GOI programs may well make more of a difference than improving the Bank's own programs. So far there has been inadequate connection between Bank and government plans and programs.

Recent Bank initiatives are promising. The India social development team has made major strides in just the past five years, but the outcomes of those efforts will require a longer time horizon to evaluate with confidence. Even so, there is preliminary evidence of success in some areas, especially participation. Each new round of projects builds upon the lessons of previous efforts to achieve new higher levels of participation. For example, the Karnataka rural water supply project built upon lessons from participation in the Maharashtra water project, which in turn led to improvements in the participatory approach in the Uttar Pradesh water project. Good practices are extending throughout sectors across India. The assumption now is that participatory projects are the norm, not the exception. A broad strategy is emerging for improving government performance through decentralization, increased transparency and accountability, and community empowerment. Given that past strategies have not reduced the number of people living in poverty, this relatively new social development strategy should be given a fair chance to determine its efficacy and sustainability.

Nonetheless, social development remains insufficiently mainstreamed and integrated into the core of Bank operations. Civil society observers of the Bank emphasized that the Bank needs to believe in what it promotes, and to demonstrate real commitment.¹⁷ Some NGOs especially feel that there is a lot of talk, but not enough results, and are starting to become skeptical. They believe social development should be about empowerment and social change. These NGOs are pressing for a much more proactive social development agenda, and the Bank is caught in between as government has not been able to respond quickly to Bank social development initiatives. More time is needed to see significant improvements, although clearly there has been progress over the last 10 years. The tension is more over the rate of progress. NGOs urge the Bank to take the initiative with other donors to move the social development agenda forward.¹⁸

Although this is a brief review, some conclusions are apparent.

- *The impact of assistance for social development needs to be increased through quality enhancement and working more on the policy level.* Even though the Bank has made major progress on social development in its operations in India, there are many areas of shortcomings and excessive unevenness in the quality and impact of the work. Social development work needs to move more to the policy level. Achieving government ownership and capacity to effectively implement social development are crucial. Holding government accountable, and creating or supporting the local level institutions to do this is the key.
- *The Bank needs to take a more institutional, capacity-building approach, to social development.* The Bank has tended to take a project approach, but that raises questions of sustainability. Institutional structures are the instruments by which social development interventions can be sustained. This means both promoting increased government capacity, and local institutions that represent the interests of the poor and vulnerable.
- *The Bank has progressed further in rethinking its approach to social development than in implementing it.* The DPIP's have been in preparation for five years, and were approved only in 2000. The Inclusive Institutions proposal has not yet been implemented. Many approaches still need to be field tested. The criticism that rhetoric is outpacing results is fair.
- *The quality and impact of social assessments needs to be significantly improved.* Social assessments should be carried out by competent and credible organizations and of sufficient quality to improve the design and implementation of projects. Social assessment needs to be an ongoing process throughout the project, not a one-off data collection effort. The impact that high quality social assessments made reinforces the need for quality.
- *There needs to be more training and capacity-building of all stakeholders in all areas of social development.* Participation, social assessment, indigenous peoples, and involuntary resettlement are all at fairly early stages of development. While some individuals and organizations are quite advanced, most are not. This is generally the case at lower levels of government. The capacity exists in India, much of it in NGOs. Their skills and experience need to be shared much more broadly, especially with government. Tripartite (the Bank,

¹⁷ Taped participant comment, India CAE Workshop on Social Development, New Delhi, April 3, 2000.

¹⁸ Taped participant comment, India CAE Workshop on Social Development, New Delhi, April 3, 2000.

government, and civil society) programs are one means of capacity building. Even Bank staff need to develop their social development skills, especially at the sector and country level.

- *Relations with NGOs and civil society should be better organized, with more continuity and follow-up.* NGOs should not be brought into consultations on a random, occasional basis. Instead, a long-term partnership should be forged. Currently the situation does not reflect a genuine, equal partnership. There should be more systematic communication and interaction. NGOs and communities have a lot of valuable experience, and the Bank should be learning from that experience, trying to strengthen and support it, not reinvent it.
- *Participatory monitoring and evaluation (PM&E) would provide greater accountability to clients, greater transparency, increased learning, and a focus on results.* Too often the Bank has not followed up its worthy efforts which end up wasted. The 1998 OED resettlement evaluation found far too many completion reports with inadequate reporting on resettlement outcomes. The focus had been on acceptable plans at appraisal, but plans do not necessarily lead to results. The social development team has made progress in shifting its focus towards results, but putting PM&E systems in place—especially in projects—would help a great deal.
- *The involuntary resettlement and indigenous peoples policies require raising the issue at the level of policy dialogue to achieve greater Indian government ownership of these issues.* Pursuing these policies on a project by project basis is inefficient. If the Bank cannot succeed in getting its policies and standards applied to non-Bank projects, the Bank is protecting only people affected by projects its assists, at a high cost, and not very effectively. The Bank is raising the issue in policy dialogue, and needs to follow through until government takes ownership of these issues.
- *Integration of social development work yields higher returns.* High quality social assessments contributed to good designs for participation in several projects. The work on indigenous peoples and involuntary resettlement benefited from a more participatory approach. Inclusive Institutions is a promising framework for integrating the social development approach. Whereas previously social development tended to apply to only one theme or component of a project (e.g. resettlement), more recently social development has been the underlying project concept (e.g. the DPIP's). Designing projects starting with social development should be further developed and tested.
- *Social development requires more resources.* Participation, and social development more generally, have been underfunded. For example, about 2 percent of the project budget in the Karnataka water supply project is devoted to participation, but it has made a significant difference to the project. The UP water supply project invested about 7 percent on participation and that has allegedly led to even better participation and project effectiveness. Much of the social assessment work was financed by Strategic Compact funds which have ended, so new sources will be required, if social assessment work is judged worthwhile.
- *Work with international and local development partners to promote the social development agenda.* NGOs and CBOs have much valuable experience on participation and other social development tasks. They have a sustained presence in communities, and therefore outlast Bank projects. They can contribute to the institutional mechanisms that can sustain and advance social development. International partners can help mobilize consensus for promoting the social development agenda, and often have comparative advantages in skills and experience. Even within government, there are individuals and agencies that are internal

champions of participation and social development. The Bank should seek opportunities to develop partnerships with all these allies to promote social development.

- *The Bank should stay the course on its participatory, decentralized poverty alleviation strategy.* It is still too early to evaluate the longer-term results and sustainability of this strategy. We can only observe the improved participatory process and differences in short-term outputs and outcomes. Nonetheless, the approach appears to be paying off based on early indicators. The Bank should work with the government to strengthen the panchayat raj system and to make it more participatory, democratic, and responsive to communities.

ANNEX P EVALUATING BANK ASSISTANCE FOR GENDER EQUALITY

Author: Ananya Basu, Research Economist, DECRG

This background report, prepared for the Operations Evaluation Department (OED) of the World Bank for the Country Assistance Evaluation (CAE) for India covering the 1990s, analyzes the relevance, and, to the extent possible, the efficacy of the Bank's assistance to India from a gender perspective. This report is based exclusively on a desk review of Country Assistance Strategy (CAS) documents, Economic and Sector Work (ESW) and various project documents, supplemented by interviews with Bank staff and gender experts in India. Relevance is judged by the degree of gender awareness displayed in the Bank's own actions, inputs and processes. With this end in view, the paper examines the extent to which the Bank has succeeded in the integration of measures to address gender disparities into all aspects of country assistance programming—into its lending and non-lending operations within and across sectors, and into overall development policy. Efficacy is measured by information on outcomes and impacts of the Bank's strategy.

The broad conclusions that emerge from our review of lending and non-lending operations can be summarized briefly.

- Assistance for Education and Reproductive Health has been reasonably successful in integrating gender issues into analysis, design and implementation.
- Assistance for Agriculture and Basic Health has been disappointing from a gender perspective, and the failure is more pronounced at the level of implementation than analysis, though isolated examples of success do exist.
- Assistance for Environment, Water Supply and Sanitation, and Social Protection has been only partially successful in integrating gender concerns, and there is significant room for improvement.
- Assistance for Electrical Power and Energy, Industry, Finance, Oil and Gas, and Transport has failed to even recognize gender issues adequately.
- Mainstreaming of gender issues across sectors is far from a reality, even though there has been some progress over the 1990s.
- Gender concerns have not been integrated into overall development policy, especially in the context of structural adjustment.

The progress that the Bank has made in addressing gender issues over the 1990s should not be discounted. The total package (consisting of ESW reports, the CAS, and projects) all display an increasing degree of attention to gender issues. Gender concerns form a part of the Bank's policy dialogue with GOI. A number of targeted interventions for the development of human resources have achieved success. The Gender Action Plan for India has aimed at reducing the literacy gap, improving women's health care and nutrition, improving access to productive resources, creating better living environments and gender sensitization of key stakeholders through a combination of lending focused on women, sector work and dialogue with GOI and other institutions concerned with women. Gender issues are moving out of Education and Reproductive Health sectors into operations in other sectors like Agriculture, Basic Health, Water Supply and Sanitation, Environment, Urban Development and Social Protection. This is indicative of the fact that the Bank has achieved some measure of success in addressing women's problems in India within its own actions.

However, the Bank could have achieved more. Despite there being encouraging success stories in selected subsectors, the World Bank does not appear to have achieved much success in mainstreaming gender issues. Officially, gender is a priority. However, it has certainly not permeated all Bank operations in India. Gender concerns are still confined to discussions and activities in the social sectors as an enclave to the overall India program, and have not been mainstreamed into the overall macroeconomic policy in the context of liberalization and adjustment. There are clear indications of disinterest in and lack of support for gender concerns even within the Bank which should be addressed. At the very least, gender issues should be taken more seriously by task managers.

This evaluation calls for some modifications in the existing gender strategy. First, the strategy should focus more on empowerment of women. In that regard, the Rural Women's Development and Empowerment Project (FY 97), which has among its goals to strengthen processes that promote economic development of women and create an environment for social change, is a step in the right direction.

Second, it is necessary to clarify, in analytical work, what mainstreaming of gender issues actually involves. Part of the failure of the Bank's strategy in addressing aspects of the gender gap can be attributed to inadequate sector work. The gender relevance of analytical work in the neglected sectors (for example, Finance, Electrical Power and Energy, Transport, and Industry) should be extended to recognize that policies and programs in these sectors can have gender-differentiated impacts, and to suggest possible counter-measures to address these. It would also be useful to update the 1991 Country Gender Study to take into account the continued liberalization of the Indian economy. The collection and analysis of gender-disaggregated data would be a critical strand of further analytical work in the macroeconomic context.

Third, the Bank should strike a balance between mainstreaming gender and working through WID-specific projects. It is also important not to neglect women's projects in the social sectors. Existing gender disparities in social indicators suggest that WID-focussed projects in education and health, where the Bank has achieved reasonable success during the preceding decade, could still play an important role in addressing gender imbalances. However, it is critical that gender issues should not be confined to the social sectors, and gender should develop into more of a cross-cutting concern.

Fourth, even within the framework of the existing strategy, gender issues need to move from appraisal to monitoring and implementation. It is necessary to set realistic but meaningful targets for women and supervise the achievement of these goals.

Finally, the Bank is in a unique position to make a stronger impact through its dialogue and comparative advantage in influencing policy. It could play a more enhanced and effective role with more serious commitment to women's issues in India.

ANNEX Q: EVALUATING BANK ASSISTANCE FOR PUBLIC FINANCIAL ACCOUNTABILITY

**Authors: Vinod Sahgal, Lead Evaluation Officer
and Deepa Chakrapani, Research Analyst, OEDST**

Public financial accountability is the system by which the legislature and citizens of a country hold the government to account for its performance and its use of public resources. It encompasses a range of stakeholders including legislature, government, external auditors, media and civil society. The Bank and many other stakeholders in India have explicitly raised concerns on public financial accountability. These concerns relate to the need to increase effectiveness of the Legislative Committee system, to improve and reform civil service culture, to modernize the accounting and auditing functions including, further strengthening the Office of the Comptroller and Auditor General, to revitalize state-level financial management and control, and to enhance public awareness on the economic and social costs of corruption and waste.

This Operations Evaluation Department (OED) desk review assesses the impact of the Bank's efforts on public financial accountability in India. It finds that public financial accountability is a recent area of emphasis for the Bank and that the Bank's knowledge of the issue area at the country and state levels is nascent and growing. The Bank's limited knowledge is centered on financial management and internal control procedures in the central government and very recently, has extended to a few "focus" states. There are significant gaps in knowledge—the most significant being the effectiveness of the legislative scrutiny processes at the center and at the states.

The Bank has not articulated a clear and consistent long-term strategy for strengthening public financial accountability in India. While elements of a strategy are slowly emerging at the state level, the Bank has yet to deal with public financial accountability issues at the country level. At the project level, the Bank has made efforts to improve accounting, auditing and budgeting systems at the project implementing agency level and in specific operating departments in state government. These interventions, however, were not designed to help resolve the significant capacity problems in the country's overall financial accountability systems.

The nature and extent of risk of fraud, waste and abuse of public funds is growing. With the recent emphasis on programmatic lending in India, the overall public financial accountability systems assume greater importance and the Bank is commended for some pioneering work in this area in the state of Uttar Pradesh. But this initiative alone may not be sufficient. Accountability has to be induced, it cannot be decreed by fiat. Accountability is a result of a complex set of incentives, transparency in processes and decisionmaking, and checks and balances at various levels of government. Thus, unless the Bank dialogues with the Government of India (GOI) on the need to modernize India's overall public financial accountability systems, its efforts at the state level alone may be neither effective nor sustainable. The proposed conference for speakers of state legislatures to be organized by Uttar Pradesh is an ideal forum for the Bank to articulate its recommendations on public financial accountability issues at the national level.

The Bank also needs to further build its own capacity to deal with country and state level issues in public financial accountability. Lessons of experience with implementing LACI (Loan Administration Change Initiative) suggest the importance of: (a) Bank and borrower commitment to enhance financial management and control, (b) training and experience of Bank staff in public sector auditing, accounting and scrutiny systems, and most importantly, (c) communication to the borrower of consequences for less than satisfactory compliance with fiduciary obligations as specified in the Loan Agreements. The Bank should supplement and build on its existing skill base in project financial management with specialists in public accountability systems. There is an urgent need to upscale capacity building to the national and sub national levels.

ANNEX R: MAIN LESSONS FROM EVALUATIONS

**Authors: Rema Balasundaram, Evaluation Officer
and
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OEDPK**

Main Lessons from Donors' India Country Program Evaluations¹

The development of partnerships is at the core of the Swiss Agency for Development Cooperation's (SDC) assistance strategy for India. Thanks to the quality of its selective assistance (mainly for sustainable land use, livestock, small and micro enterprises, and sericulture) effective policy dialogue has been possible for even a donor as small as the SDC (the Government recently invited SDC to contribute to the formulation of a national livestock policy). SDC's emphasis on partnerships was not at the cost of a healthy business-like relationship, that included temporary suspension of cooperation (e.g. with Andhra Pradesh's Animal Husbandry Department) and disengagement from programs that had no common basis (the Punjab Livestock Project and the Goat Project Rajasthan). SDC had, however, problems disengaging itself from successful programs like that of the Indo-Swiss Kerala Project.

The 1999 SDC's country program evaluation found a large potential for emerging institutions and new initiatives. Realizing the importance of the sectoral policy framework and that the pace of work largely depends on the capacities of the partners, SDC's intends to enhance its policy dialogue and its support for organization strengthening and institutional development among partners, and also to increase its partnerships with state governments, the private sector, regional rural banks, private financial institutions, promotional associations, and local NGOs and elected bodies at the village level.

The Dutch Government's 1994 country program evaluation concluded that, while the Netherlands's macroeconomic support (including fertilizer aid) contributed to the country's economic achievements, it also contributed to its failures by enabling India to postpone the necessary policy adjustments for a long time. It also faulted a number of activities that were funded in a poor policy and institutional environment (e.g., for rural credit) or without paying sufficient attention to the ultimate beneficiaries (e.g., better off farmers often appropriated benefits from land and water schemes). The report recommends that new assistance be concentrated on direct poverty alleviation programs, including to rural development programs and the social safety net, but that it be more supportive of better policies at the state and sub-state levels, especially in the drinking water supply and land and water sectors. Poor preparation of the program by country desks because of managerial constraints, personnel limitations and extensive aid procedures on both the Indian and the Netherlands side had negative effects on the speed and quality of assistance. The evaluation called for a reconsideration of the scope of the overall project portfolio to reflect the capability of the embassy to guide and monitor the preparation and implementation of projects. It also recommended greater joint planning in preparation, monitoring and implementation of programs and greater use of Indian expertise to increase Indian ownership.

¹ This section summarizes the findings of the country assistance program evaluations by three bilateral donors (Switzerland, the Netherlands, and the United Kingdom). See *Country Programme For India: 1996-2003*, Swiss Agency for Development Cooperation (SDC), 1999; *Evaluation of the Netherlands Development Programme with India, 1980-1992*; *Evaluation of DFID's Support to Poverty reduction, India Country Study (Draft) 1998*.

The evaluation believed unjustified the Netherlands' over-reliance on the World Bank for monitoring and evaluation (which failed to raise the alarm over the bankruptcy of the rural banking system) and called for an independent analysis of the Indian Government's and the Bank's economic reports, so as to contribute more to social and policy discussions at the regular consortium and bilateral meetings. The evaluation further suggested that the Netherlands' Government pay more attention to performance criteria while determining aid levels, and that regular performance reviews assess the program's effectiveness and their implementation efficiency in terms of both the Netherlands' and India's policy objectives.

DFID's India program was highly poverty focused. The study notes that there was an Indian consensus about what did work in reducing poverty in India. In addition to sustained economic growth, the study emphasized the importance of female literacy. DFID's assistance strategy moved in opposite direction to that of the Bank with respect to state-focus: it shifted in the mid nineties from state level primary social sector services to support for national programs implemented in selected states.

The study notes missed opportunities in the social sector and a reluctance to engage with the central government on its poverty reduction programs. Moreover, the components of its assistance program, despite its concentration on three states, remained too isolated from each other to make a significant impact on poverty. DFID's lack of consistent engagement with the Indian development discourse meant that it formulated its strategies from first principles. Given such an approach in a complex environment such as India, the development of best practice models turned out to be an uphill task. Central policy guidance which was not poverty focused also obscured the value of innovative work. The most controversial component of DFID's program was its support for the energy sector, with a tenuous link to poverty reduction. Among the lessons learned, the inclusion of gender issues has generally accompanied and helped enhance the focus on poor people; knowledge products combined with working in the "mainstream" were the most effective combination for influencing government; and "insiders" were better able to influence policies and outcomes than outsiders. Insider status was highly dependent on the length of time committed to an activity or sector, staffing patterns (especially the employment of Indians) and networking capacity.

Recurring Lessons from OED India Evaluations

The general lessons gleaned from the OED's evaluation database of project completion reviews, project performance audits and sector impact studies for India for improved development effectiveness are related to: (i) the adequacy of the policy and institutional environment; (ii) client ownership and commitment; and (iii) quality at entry;

For successful achievement and relevance of project objectives, it is important to ensure that the appropriate policy environment is in place or is well understood and its shortcomings directly addressed by the project. Project objectives and design must therefore be matched against local rules, existing policies and legal boundaries to check for compatibility. Successful policy-based operations require patience, investment in consensus building, and a deep appreciation of the appropriate speed and sequencing of reforms. Reliance on strong local partnerships is necessary to meet these challenges and assure client ownership and commitment.

Adjustment operations in India in the early 1990s were typically successful, as the Government took ownership of the reform agenda and the Bank played a supportive, not leading, role. For example, the *External Sector and Investment Regime Liberalization* loan, whose outcome was highly satisfactory, was prepared in 1992/93 to support the Government's ongoing reform of the country's trade regime and to liberalize the investment licensing systems. It was designed as a one-

tranche operation and all agreed reform measures were undertaken prior to Board approval in June 1993. With the Government fully committed to the reform agenda, over the following twelve months, exports grew by 20 percent in dollar terms, foreign investment inflows and foreign exchange reserves increased, domestic and external confidence was restored and, despite considerable external debt service payments, medium-term external financing needs turned out even lower than projected.

Unsatisfactory quality at entry generally has led to unsatisfactory outcomes. Poorly grounded project objectives and overly complex project designs lower the likelihood of success from the outset. This was particularly evident in the Kerala Power Project, in which the institutional and financial capability to undertake the project was not realistically assessed. At the time of appraisal, all the technical and bidding documents were not available for review, the forest and land acquisition clearances had not been obtained prior to the issuance of the bidding documents, and the procurement plan had an excessive number of contracts.

Hence, it would be useful from the outset of project preparation to understand capacity constraints, to identify the needed institutional changes and staff development efforts, and then design the project accordingly. Prior sector work, intensive policy dialogue, beneficiary close involvement, and use of small scale pilot projects before design of larger projects contribute to a better understanding of the existing policy and institutional framework and provide a testing ground for reforms and innovations. Bank teams which adopted a combination of these features improved relevance of their interventions, and achieved better quality at entry and effective consensus building -- negotiation processes were smoother and subsequent communications and cooperation with the Borrower were easier.

Continuity in task management, including careful planning for a change in task manager, contributes substantially to successful implementation. Equally important is the need to have realistic implementation schedules at entry and to convey to the local institutions the appropriate Bank procurement procedures and its operational policies. In addition, OED evaluations have called for increased use of the logical framework approach to connect effectively project inputs to monitorable results. The challenge with this approach lies with ensuring that indicators measured are meaningful to participants.

ANNEX S: AID COORDINATION SURVEY RESULTS

Author: Barbara Yale, Consultant, OED

I. Country Context

For this evaluation, a survey of the main donors' views about aid coordination was conducted, with a good response rate.¹ The main focuses of responding donors are: health, environmental protection, poverty reduction and gender issues. The majority of the 8 donors have significant decision-making authority at the operation level and 5 of the 8 report that their governments have specific policies regarding aid coordination in India.

II. Goals for Aid Coordination (AC)

Important Objectives of AC (Q6): The most important reasons given were: a) to reach a consensus on the country's overall development strategy (4.67); b) to ensure poverty alleviation (4.43); b) to highlight environmental concerns (4.29); d) to encourage participation of civil society and the private sector (4.14); and e) to raise issues of governance (4.14).

Evolution of AC Meetings (Q7): Although responses are divergent, the general picture seems to be that, even though India AC meetings have not evolved to "partnership exercises," the country's interests are not neglected and come before commercial or national interests, despite the fact that the majority of donors commit the bulk of their aid budgets prior to AC meetings.

comments: (USAID) -- *that this question was besides the point, since GOI is in charge. In which case the question becomes whether the India Development Forum (IDF) is useful to either the donors or the GOI, and most donors agree that the IDF is a waste of time.*

III. Relevance of Aid Coordination Activities

Relevance of Activities (Q8): Most issues of relevance were rated moderate to highly relevant, ratings 4.00 and above were: a) poverty reduction, b) sustainable human development; c) a national development plan; d) environmental stability and e) capacity development. All of which coincide with the prominent thematic focuses for the donors surveyed .

IV. Efficacy: Achievement of Results

A. Impact (Q9): Issues of impact were rated moderate - all ranging from 2.4-3.4. The two top impacts were: a) environmental sustainability; and b) capacity building (both rating 3.43). Thus, the impacts of AC are seen as rather limited.

B. Outcome (Q10): The donors seem mixed in their views of outcome. Policy reform and institutional capacity tied at 3.57 and resource mobilization rated 3.29. However, results were scattered in some cases. Overall, it would appear that AC outcomes are seen as rather modest.

C. Output (Q11): The questionnaire reveals that AC outputs are seen as moderate. The results range between 2.7-3.8. The outputs that stand out are "focus of aid on key development priorities" which was rated at 3.86, "co-financing of projects" at 3.57 and "coherence among donor supported programs" which averaged 3.43. However, the results fall sharply when the questions come to donor selectivity or comparative advantage and provision of technical assistance for capacity building (3.29), and to 3.00 for procedural harmonization and 2.71 regarding consistency of policies and practices for hiring local staff.

¹ Eight donor representatives in Delhi responded out of fourteen solicited with a written questionnaire. Most donors indicated that an assessment of the Bank's effectiveness in aid coordination was not possible, as the Government was the one in charge.

V. Instruments or Inputs to Aid Coordination

Factors contributing to most successful AC meeting attended (Q14): Some of the meeting factors are too divergent to evaluate. However, what was unanimously assessed as the most important factor in meeting success was "the policy measures the government had implemented during the previous year" - which averaged 4.71 (very important). Also important were the Government's coordination with donors throughout meeting preparation and the skill of the chairperson (4.29), and leadership of the government head of the delegation (4.00). All of which substantiate comments presented in other parts of the survey, that indicate that a) the Government of India is "in-charge" of directing aid coordination and b) without close Governmental collaboration, a meeting is doomed to failure (see questions 7, 22 and 24).

Effectiveness of WB in most recent AC meeting (Q15): Although most ratings for Bank effectiveness were moderate to good (3.00-4.00 range), the lack of responses (4 donors) and disparity in individual responses, makes this section all but impossible to assess. Noted, however, was that the OECF had never been invited to, or attended one of the WB AC meetings.

VI. Efficiency or Cost-Effectiveness of Aid Coordination Activities

Bank effectiveness in minimizing cost (Q16): Ratings were moderate at 3.33.

VII. Aid Coordination at the Country Level

A. Aid Management Issues (Q18): Donors agreed moderately that the Bank should promote local AC meetings, and convene them if necessary (3.50). They also agreed moderately with the idea that major sector donors in concert with the government should lead sector meetings -- rating 3.29. However, they disagreed, albeit in differing degrees, with the ideas that in-country AC should not be held unless the government takes an active role; as well as with the idea that the Government should always chair the meetings -- both rated 2.29 and 2.43 respectively. Which would indicate that donors are not confident in the Government's ability to conduct AC.

"Suggestions" (Q22-24): The GOI is seen to maintain the lead role in In-Country AC. Yet, the AC efforts are floundering under a lack of information among donors. There needs to be greater coordination and information sharing across the board, while managing to maintain a strong government involvement.

Value Added (Q27): There seems to be no conclusive answer as to whether AC has been beneficial in mobilizing more resources for India than could have been arranged under bilateral agreements. The average hovers at 3.29, but responses are extremely divergent on this issue, making it difficult to provide a summary assessment.

Advantages/Disadvantage (Q28): Opinions on most of the advantages/disadvantages of AC are highly scattered. Most respondents agree that AC a) stimulates debate on local issues (4.33); b) brings government policy under public scrutiny (3.83); c) encourages greater collaboration with civil society and the private sector (3.67); and c) does not pose a serious logistical problem (1.33).

VIII. Role of the Government in AC

Role of Government (Q29): Donors agree that responsibility for AC should rest primarily with the Government - rating 4.00.

Government Effectiveness (Q31): Despite the fact that the unit in charge of AC (in the GOI) is considered a strength, donors agree that the GOI is weak in a) its unwillingness to deal with donors as a group (which concurs with comments during the CAE mission meeting with donors in India); b) its degree of authority vis-a-vis the line ministries; and c) its staff capacity and budget.

IX. General Questions

Major strengths of WB in AC (Q36): Some examples: High quality analysis and caliber of staff; most influential donor, with institutional clout with national and state governments.

Major shortcomings of WB in AC (Q37): Some examples: Distant decision making; weak on follow-up activities; lack of motivation.

Lessons from AC (Q38): Some examples: Government participation/ownership vital; need for more state-wide coordination.

ANNEX T: EFFICIENCY OF BANK BUSINESS

Authors: Jack van Holst Pellekaan and Oliver Rajakaruna (Consultants)

Overall Budgetary Trends

India and China each absorbed on average 1.3 % of the Bank's total annual operational budget, during FY90-99. As a percentage of the total budget of all regional vice presidential units, thus removing much of the Bank's overheads, it was on average 2.8 % for both India and China. On a per 1,000 population basis over the last two year, India's share was about US\$17, compared with US\$13 for China. These per capita budget allocations are about one-quarter of those for medium-sized countries such as Pakistan and Brazil. The Bank's budget for India in FY99 has been allocated, as intended, predominantly to areas that are highly relevant for poverty reduction (human development, rural development, anti-poverty interventions, economic management) and to reforming sectors such as the power sector.

The average Bank project preparation cost per project (to Board approval) increased in nominal terms by 42%, from about US\$359,000 to US\$510,000 per project approved, between the first and second half of the decade (FY1995-99), although average project size remained about the same. Some of the increase in costs may be due to the greater emphasis placed in more recent years on a participatory approach to project preparation. These rising preparation costs for the India program compare with a decline by 11% for China, from US\$467,000 to US\$416,000. In Argentina, Brazil, Mexico, and Pakistan, preparation costs have also been lower (US\$245,000, US\$285,000, US\$376,000, and US\$346,000, respectively) over the last five years.¹⁹

On a per US\$ 1 million of commitment basis, preparation costs for projects in India (about US\$2,600 per US\$ mill. commitment) are also higher than in China (about US\$2,400) during the last five years. Similarly, preparation costs for other large but more developed countries during FY95-99 were generally lower than for India, namely Argentina (\$1,300), Brazil (\$2,100), and Mexico (\$1,400). On the other hand, costs in India are slightly lower than for all other regions, except for the East Asia Pacific (EAP), and the Bank average (\$3,700).

Supervision costs in India per project during FY95-99 (US\$67,000) were higher than for China (\$58,000), Argentina (\$64,000), Brazil (\$53,000), and Mexico (\$50,000), but lower than for Pakistan (\$87,000), and almost the same as the Bank average (\$66,000). On a per US\$1 million of commitment basis, supervision costs for both India or China are comparable (\$2,000 and \$1,800) and are much lower than the Bank average. On this basis, India also compares well with other large countries, except Mexico (which has a cost per US\$1 million commitment of \$1,200). In comparing India's costs with those of China, it should be noted that in China the government carries out a much higher proportion of the supervision work than in other countries and regions.

The cost of ESW in India is difficult to evaluate because the practice of lumping together under one umbrella various sub-tasks (such as background papers) as well as the main report may well invalidate the emerging picture of relatively expensive ESW tasks based on cross-country comparisons of costs per task. India's ESW cost per scheduled output has been rising in nominal terms between the first and second halves of the decade, namely from about US\$243,000 to about US\$308,000 per formal report (a 27% increase), whereas in China the costs per formal report declined by 4% to US\$218,000. For FY95-99, the average costs per ESW task for Argentina,

¹⁹ These figures do not include the actual cost of projects under preparation and not yet approved (by the Board) during the period specified (see also R.6)

Brazil and Mexico and Pakistan were also lower at \$231,000, \$173,000, \$240,000 and 183,000 respectively per scheduled output (see Table R6).

Against the rising operational costs noted above, there have also been notable improvements in the performance of the recent portfolio (albeit not yet reflected in higher OED ratings for completed projects). For example, by FY99, the proportion of projects at risk had declined from its FY93 peak of 33% to 11%, and the proportion of problem projects (i.e. with unsatisfactory supervision ratings for either development objectives or implementation) had declined from its FY96 peak of 21% to 7%. Other indicators point also to faster project implementation. For example, disbursement ratios are up from 13.0% in 1992 to 16.2% in 1999 and 17.9% in 2000. Moreover, whereas in the early 1990s the average project age (including adjustment operations) was about 4.5 years, it had declined by the end of FY99 to around 3.9 years. For FY2000, however, portfolio performance indicators show a somewhat puzzling deterioration.

regions. For example the portfolio composite management index, the project status report update frequency, and the elapsed time for disbursement approval and that for actual disbursement were all at end FY99 levels which either very close to the Bank's service standards or close to the Bank's average.

Decentralization of Operations

Until 1997, the large Bank office in New Delhi was still a "resident mission", even though the resident representative shared de facto management responsibility with the Washington-based India department director. At least as far back as 1991 the resident mission was already responsible for a significant part of supervision work. In the following years its role expanded to encompass all of supervision, to support procurement, disbursement, auditing, and to deal with strategic and policy issues related to infrastructure development, social development, public affairs and state focus.

The July 1997 reorganization of the Bank created a new matrix structure, with a small country unit headed by a country director posted in the "field office" and virtually all operational staff working on India (whether New Delhi- or headquarters-based) placed administratively under regional sector unit managers (based at headquarters). In addition, senior staff at both headquarters and in the Delhi office were assigned to lead India sector teams. The strength of the field office increased from 50 to 57 professionals between FY91 and FY97, but its size jumped to 83 professionals in FY99 as a result of the recruitment of India professionals financed by resources made available under the Strategic Compact.

Preliminary estimates from a study of total field office costs currently underway as part of a Bank-wide review show that in FY99 the Bank spent about US\$8 million or 24% of its expenditures on the whole India program (US\$33 million). This is about the same percentage as for the Africa and South Asia regions, and slightly lower than for the EAP region (26%). The Bank's total expenditures for operational work for the India program for FY99 represented about 5% of those for all regions, a much lower percentage than the country's share of the developing world's population or the poor.

Benefits of Decentralization

Bank staff and OED evaluators with exposure to the Bank's activities in India all praise the Bank's enhanced appreciation of country culture and conditions, client-focus, connectivity, and responsiveness that management and staff decentralization in India has brought about. In spite of earlier fears in some quarters that having nationals doing procurement might present some conflicts of interest, Bank staff perception is that the field-based procurement unit staff have been rigorous in

upholding the Bank's guidelines and have proved as capable as the internationally recruited procurement specialists in the Bank. Expanded field presence was crucial to the increased focus and successful expansion of Bank activities during the 1990s in education, social development and the focus on state level operations. On the other hand, the shrinking field presence in agriculture and gender has paralleled less successful performances in these areas.

A (pilot) 1998 client satisfaction survey also pointed to an improvement, albeit small, in Bank effectiveness compared to the previous year. Respondents expressed satisfaction with the effect that the post FY97 Bank decentralization had achieved, especially in respect of the speed of decision making and the strength of the Bank/client partnership. They also rated personal interactions with field office staff higher on virtually every aspect than they did headquarters staff. The overall degree of client satisfaction with field office staff (albeit still less than full praise) was higher than for any other category. However, the respondents still appeared dissatisfied with the degree of authority delegated to field office staff. The Bank was, however, rated only slightly better than other donor agencies, and the survey showed less than full client satisfaction for all service dimensions, especially for the category of technical support, strategy and program of assistance, and project design.

Conclusions

Although efficiency is not at China's high level, the India program has average project preparation costs on a commitment basis and average total costs on a satisfactory commitments, when compared to neighbors and other relevant regions. In supervision, performance is more cost-effective compared with all other large countries except China and Mexico. There should be, however, an urgent review by the Region of the reasons for the significantly higher preparation costs when compared to all other large countries. Up to FY99, there was evidence of higher service indicators, improving outstanding portfolio performance, expanded stakeholder participation in Bank operations, higher relevance of the assistance strategy (the new state-focus since mid-1990s also being a more expensive approach for the Bank), and a stronger impact of the sector work and the policy dialogue on the internal debate over reforms.

ANNEX U: IFC ASSISTANCE TO INDIA

Authors: Regional IFC Staff

India has been a member of IFC since 1956, and the Corporation has built up a significant portfolio over the years, which has been among IFC's five largest and most diversified ones. At the beginning of the 1990s, the portfolio consisted of loans of just under \$300 million and equity investments of \$37million, which were concentrated in basic industries, general manufacturing and financial intermediaries.

Investment Climate and Response. It was with great expectations that foreign investors in general and IFC in particular participated in the liberalization efforts in India during the 1990s. Foreign direct investments more than doubled and so did IFC approvals, which amounted to 102 approved projects, providing \$1.45 billion for its own account and close to \$ 650 million for the accounts of participants in IFC's loan syndication program. The record would have been even better if liberalization had proceeded as anticipated and without several sectors remaining hampered by regulatory obstacles (particularly in infrastructure). In addition, bureaucratic delays and strict regulations on foreign commercial borrowings in the mid-1990s and sanctions enforced by the Bank Group's shareholders after India's nuclear testing over the last two years resulted in a decline in IFC's activities. However, a substantial pipeline has been built up, and IFC investments can be expected to rise rapidly, if the current favorable economic and political situation can be maintained.

Strategy. IFC's ability to bring about significant development impact through direct project financing is challenged by India's status as one of the world poorest and most populated nations. As a consequence IFC has focused on: (a) projects with significant demonstration effects, particularly in infrastructure; (b) export-oriented projects to boost the foreign exchange earning capacity of the country; and (c) capital and financial market projects, which contribute to a stronger financial sector. More recently, special attention has been paid to initiate investment in education and health, as well as to support the SME sector. In addition, India has become the focal point for IFC's decentralization effort, with the establishment of a full scale regional office in Delhi and smaller offices in Mumbai (and in Bangladesh, Sri Lanka and Nepal).

Portfolio. In July 2000, IFC's held portfolio stood at \$797 million, of which 33% was equity, up from 11% in 1990. In line with the assistance strategies crafted during the 1990s, it has become more diversified, with large investments in power and transport becoming dominant (nearly 50% share in value terms). With respect to number of projects, IFC is most active in India's financial sector, where it undertook a large variety of investments, including support to private commercial banks, housing finance institutions, and leasing and venture capital. While IFC succeeded in carrying out sound and successful investments in the 1990s, the portfolio showed signs of stress in 1998/99, following a period of more stringent monetary policies, which affected a number of manufacturing and financial companies negatively. The recovery in the real and financial sectors during 1999/00 helped alleviate those problems and also had a positive impact on India's security markets.

Technical Assistance and Advisory Services. Through its Corporate Services Department IFC has been actively promoting privatization in areas as diverse as regional ports and water supply as well as power in basic manufacturing. At the same time IFC's Central Capital Market Department continued to advise various government agencies on financial, legal and regulatory matters related to the development of a market-oriented financial sector. Regional seminars on topics as

diverse as the development of bond markets and industry and environment were also part of IFC's technical assistance program in the 1990s. The World Bank Group's Foreign Investment Advisory Service (FIAS) examined India's foreign investment incentives in the mid-1990s and is now engaged in looking into foreign investment issues of individual states.

Collaboration with the Bank. After several years of divergence, which were linked to the rather gradual process of liberalization of the Indian economy, IFC collaborated more closely with the Bank in a number of areas at the end of the decade. Examples are the power and distribution projects in Orissa, as well as joint support for IDFC, India's major infrastructure finance company. Further joint efforts are underway to work closely together in the social infrastructure fields of education and health, in which the continuously high demand of India's population can better be met by joint public and private initiatives than by pure government support as in the past.

ANNEX V: REPORT FROM THE COMMITTEE ON DEVELOPMENT EFFECTIVENESS (CODE)

The Informal Subcommittee of the Committee on Development Effectiveness (SC) met on March 16, 2001 to discuss the *Country Assistance Evaluation (CAE) for India* (CODE2001-18). OED remarked that the evaluation had been OED's largest and most complex CAE exercise with intensive involvement from all stakeholders. OED particularly thanked the Government of India (GoI) and Management for the collaborative approach in CAE preparation. OED reported that in the 1990s, Bank assistance was timely and effective in supporting India's structural adjustment program, energy sector reforms, water resource management at the state level, and human development. While there was progress in the Government's reform program at this time, it was well below India's potential and the sustainability of the reforms remain uncertain. Moreover, there was insufficient attention to rural poverty reduction, and the gender and social gaps are persistent problems. OED stressed that an important weakness in Bank assistance had been in neglecting the policy reform needs of the agriculture and rural sectors. OED welcomed the Region's agreement to link the Bank's overall lending volumes with the implementation of an effective rural and agricultural development strategy, and to improve the monitoring of the poverty and gender impacts of the GoI's programs. OED emphasized that the next CAS needed to provide quantifiable indicators to measure the future success of Bank assistance in this and other areas. Lastly, OED stressed the importance of increasing the impact of ESW, improving the country's resettlement safeguards, and strengthening aid coordination as outlined in the CAE.

Management welcomed the CAE and the lessons learned through the preparation process. However, Management questioned the feasibility of carrying out a single evaluation exercise for a country as large and complex as India and suggested that it was difficult to evaluate the impact of the many aspects of the Bank's programs given the size of the country. Management considered that the CAE simplified the richness and complexity of the issues faced both by the country and the Bank's program as a result. Management agreed with the importance of addressing rural poverty and stressed that this played a central role in the upcoming CAS. While acknowledging that the dissemination of ESW needed improvement, Management noted that the CAE underestimated the ultimate impact of the Bank's ESW.

The SC welcomed the CAE and thanked OED for a well-written and comprehensive study noting the challenge presented by the large scale of the country and the Bank's programs. The SC recognized the tensions (as outlined in Management's remarks) in evaluating the Bank's program in a country as large and complex as India and there was debate about the most effective approach to undertaking evaluations in large countries. The SC particularly welcomed the broad consultations in the preparation of the CAE and hoped that the chapter outlining feedback from the GoI and civil society would become a regular feature in all CAEs.

The Chair representing India also thanked OED for its efforts and noted that the CAE was a useful report for the GoI and was the result of an intensive consultative process. He stressed, however, that the CAE should be understood as an evaluation of the Bank's program in India and not of India's reform program as a whole. He also noted that the report was not an exhaustive commentary on the range of development issues affecting a country as complex as India and often did not convey the nuances of the country and the Bank's program. With regard to the CAE recommendations, he noted that the GoI supported the state focused approach, including the proposal to engage poor and non-reforming states with non-lending services and demonstration projects, but that it did not wish to see the Bank concentrate its social sector lending on the focus states alone as the GoI had a responsibility in this area to all states regardless of their reform inclinations. Finally, he stressed that the GoI objected to the linkage of lending volumes to reforms in agricultural and rural development as proposed by the CAE.

Among the specific issues raised by the Subcommittee were:

Rural Development. The SC shared OED's concerns on the lack of progress in addressing rural poverty and stressed that the Bank needed to focus more aggressively on implementing a rural and agricultural development strategy. Members emphasized that rural poverty must be tackled if the International Development Goals were to be attained. Management responded that this was a pillar of the new CAS.

Assistance to States. Many members welcomed Management's approach of focusing efforts on reforming states but also stressed that the remaining states had serious development needs and the Bank should not disengage entirely with them. Members agreed with the CAE approach that support to the poorer performers take the form of ESW and Technical Assistance programs, but supported recent shifts in the Bank's program in favor of good performers and selectivity in Bank interventions based on receptivity to reform. One member asked whether reform was a political issue in many states and whether lack of political consensus on reform had led to "poor performers". The SC encouraged the Bank to create demonstration projects through its work with reforming states to be replicated in other states. Management commented that the Bank's current support to the states included some of the poorest and most populous states in India and that the state of Bihar was the only left in the category of "poor performers". The new CAS was addressing this issue.

In this regard, the SC also noted that the complexities in a country as large as India created a tension between focusing Bank assistance on states versus the center. Some speakers stressed that while working with the states was welcome, this should not be done at the expense of attention to the central government which was still the Bank's primary counterpart and client.

Donor Coordination. The SC expressed concern about weak donor coordination in India as a continuing problem. While acknowledging and welcoming the GoI's lead in this matter, the Subcommittee stressed the need for the Bank to play a role and asked how the Bank planned to improve coordination with other donors. One member noted, however, that donor coordination would be far more effective if tackled on a sector-by-

sector basis and given the sophisticated democratic processes in India, should be led by the GoI. The Subcommittee urged Management to immediately address the Bank's role in improving donor coordination, particularly leveraging the decentralization of the Bank's programs in India.

Economic and Sector Work. Many speakers welcomed the quality of ESW done by the Bank in India but expressed concern at the lack of dissemination noting that only a small group of Indian experts seemed to be using Bank ESW. The SC urged Management to work with the GoI to improve ESW dissemination and ensure broader access to the Bank's work as recommended in the CAE. Some members questioned why ESW was still necessary given the capacity, human resources, and expertise available locally in India and questioned the relevance and audience for the over 200 ESW reports done in India in the past decade. Members further stressed that the CAE needed more in-depth analysis on ESW focusing on relevance, duplication, presence of local knowledge and expertise, and selectivity from the Bank. In this regard, the Subcommittee expressed concern that only one Public Expenditure Review had been carried out and there had been no ESW on corruption and governance issues in this time period. Speakers stressed that limited IDA resources, the fungibility of funds, and the shift towards programmatic lending necessitated a PER at the central level. Though many members agreed with Management that it was difficult to undertake a traditional PER in a country as large and complex as India and that innovative approaches may be required, they, nonetheless, noted that a PER type exercise was necessary. Management responded that a PER was in the work program for the coming year. Management also responded that the Bank's economic reports had addressed public expenditure issues, at both the central and state levels, although these reports were not formally called PERs. Furthermore, the Bank's engagement at the state level placed particular emphasis on fiscal performance and extensive advisory and analytical work was done to develop programs of fiscal adjustment and improved public expenditure. Management also noted that while governance was not a pillar of the 1997 CAS, it was central to the upcoming CAS.

Project Implementation Units. Many speakers expressed concerns about the enclave nature of PIUs and urged Management to mainstream implementation through the line ministries in India. One member stressed, however, that the role of PIUs should be decided on a country by country basis as many line ministries did not have the required capacity and PIUs served the important function of creating a critical mass of reformers that moved development programs forward. OED noted that the India CAE had not evaluated the PIU issue in India in detail as it did not appear to be a concern for the GoI. However, OED's overall view has been that PIUs are generally found to not be conducive to sustainable institutional development though there are cases where low capacity or emergency situations warrant establishing PIUs. The Subcommittee emphasized that the Bank needed to move away from the PIU concept and build capacity within ministries.

Evaluation Methodology. Some members questioned whether the CAE was meant to be an evaluation of the Bank's program or India's reform program. Members stressed that the development paradigm was shifting towards collaborative and comprehensive (i.e.

Programmatic Adjustment Lending) approaches and thus, it was difficult to clearly demarcate the Bank's program from the country's program.

Process. Many members of the SC questioned the timing of the CAE discussion and the process for Board input noting that the CAS had already been circulated for Board discussion. They wondered how members' comments on the CAE would be incorporated into the CAS. Management responded that it had been logistically difficult to schedule the CAE discussion prior to the finalization of the CAS but that the CAS had been prepared in close consultation with the OED CAE team and incorporated the lessons from the CAE. Furthermore, the CAS would be revised after the April 5 Board discussion leaving an opportunity to incorporate the Subcommittee's comments as required.

Lewis Holden, Acting Chairman

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