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INDEPENDENT EVALUATION GROUP

# World Bank Engagement at the State Level

## The Cases of Brazil, India, Nigeria, and Russia

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# Abbreviations

| | |
|---|---|
| AAA | Analytic and advisory activities |
| ADB | Asian Development Bank |
| AfDB | African Development Bank |
| AusAID | Australian Agency for International Development |
| CAE | Country Assistance Evaluation |
| CAF | Andean Development Corporation |
| CAS | Country Assistance Strategy |
| CASPR | Country Assistance Strategy Progress Report |
| CIDA | Canadian International Development Agency |
| CMSIDP | Ceará Multisector Social Inclusion Development Project |
| CODE | Committee on Development Effectiveness |
| CPS | Country Partnership Strategy |
| DFID | Department for International Development (U.K.) |
| DPL | Development policy lending/loan |
| EBRD | European Bank for Reconstruction and Development |
| EC | European Commission |
| ESW | Economic and sector work |
| FFRFRP/L | Fiscal Federalism and Regional Fiscal Reform Project/Loan |
| FRL | Fiscal Responsibility Law |
| GDP | Gross domestic product |
| GSDP | Gross state domestic product |
| IBRD | International Bank for Reconstruction and Development |
| IDA | International Development Association |
| IDB | Inter-American Development Bank |
| IEG | Independent Evaluation Group (World Bank Group) |
| IFC | International Finance Corporation |
| ILO | International Labor Organization |
| IMF | International Monetary Fund |
| JBIC | Japan Bank for International Cooperation |
| MDGs | Millennium Development Goals |
| MGDPL | Minas Gerais Development Policy Loan |
| NGO | Nongovernmental organization |
| PAF | Fiscal adjustment program |
| PBL | Policy-based lending |
| PER | Public Expenditure Review |
| RFRF | Regional Fiscal Reform Fund |
| RFTAP | Regional Fiscal Technical Assistance Project |
| SAL | State-level adjustment loan |
| SEEDS | State Economic Empowerment and Development Strategy |
| SIDA | Swedish International Development Agency |
| SWAp | Sectorwide approach |
| UN | United Nations |
| USAID | U.S. Agency for International Development |
| WHO | World Health Organization |

All dollar ($) amounts are in U.S. dollars.

View down central boulevard with high-rise construction in the background, Russian Federation. Photo by Yuri Kozyrev, courtesy of the World Bank Photo Library.

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The study draws extensively on four country background papers prepared by Joao Oliveira (Brazil), Tapas Sen (India), Olufemi Taiwo (Nigeria), and Galina Kurlyandskaya (Russia).

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The Women in Movement Project sponsors an AIDS prevention clinic, Brazil. Photo by Alejandro Lipszyc, courtesy of the World Bank Photo Library.

# Foreword

This report summarizes the past 10 years (1998–2008) of World Bank engagement at the state level in four selected large federal countries: Brazil, India, Nigeria, and Russia. This pilot cross-country study combines elements of a country assistance evaluation and a thematic review, looking at the evolution of four country strategies as well as the Bank's state-level operations. The evaluation limited its review to selected cases of lending and analytic work where the state governments were the principal partners of the Bank and the primary party responsible for development outcomes.

Evaluating state-level engagement posed several strategic and operational questions, among them the selection of states, the scope, and the modalities of engagement. Two ideas—often at odds with one another—featured in most approaches to selection of states for direct engagement. One was to support better-performing, reformist states (the *lead or focus states* approach), while the other was to support the poorest states as a more direct route to reducing poverty.

The initial area of engagement was typically fiscal reform, where the Bank generally helped to enhance the capacity of state governments for public financial management. In some states Bank involvement extended to multisector engagement that usually involved a mix of analytic work, development policy lending, and investment lending, the aim being to derive synergies from the mix. The instruments deployed by the Bank evolved over the review period and included state-level development policy loans, multisector results-based investment lending, and reimbursable technical assistance. There was considerable successful innovation in the development of the instruments used, yet little knowledge sharing among countries.

The report identifies lessons and good practice examples that warrant further examination and wider dissemination. First, the study confirms the desirability of continued selective lending in a few focus states. The Bank's engagement with progressive, reformist states has added value and has been highly appreciated, but to enhance the poverty impact of state-level interventions, greater weight should be given to the needs of the poorest states by balancing states' propensity to reform and the concentration of poverty within them. Experience shows that it has been possible to achieve results in some of the poorer, low-capacity states through persistent work with committed state counterparts and partnerships with other donors. Second, continued focus on public finance management appears sound, irrespective of whether engagement is confined to this area or serves as an entry point for broader engagement. Third, there is considerable scope for greater impact from knowledge transfer and expanded knowledge services.

Cheryl Gray
Director, IEG-World Bank

Gathering for a meeting, India. Photo by Curt Carnemark, courtesy of the World Bank Photo Library.

# Executive Summary

Beginning in the late 1990s, the World Bank significantly expanded its engagement at the state level in Brazil, India, Nigeria, and Russia. This pilot cross-country study reviews selected cases of World Bank lending and analytic work at the state level in those four large, federated countries. In each case, state governments were the Bank's principal development partners. The study looks at the evolution of the four country strategies and the Bank's mode of engagement at the state level to glean lessons from that experience for both the Bank and its federal and state partners.

State-level engagement posed several strategic and operational questions, among them *which states* to engage, the *scope* of engagement, and the *modalities* of engagement. The Bank set out its approach to selecting states in country strategy documents. Two tendencies—often at odds—featured in most approaches. One was to support better-performing, reformist states (the *lead or focus states* approach). The other was to support the poorest states as a more direct route to reducing poverty.

Concerning the scope of engagement, the initial and principal area of engagement was typically *fiscal reform*—fiscal sustainability, medium-term fiscal frameworks, strengthening the public financial management capacity of state governments, and fiscal federalism. In some states, Bank involvement extended beyond fiscal reform to *multisector engagement* focused on the growth and poverty-reduction agenda. The modalities of engagement and the instruments deployed by the Bank evolved over the review period and included state-level development policy loans, multisector results-based investment lending, and reimbursable technical assistance. There was considerable successful innovation in this area, yet little knowledge sharing among countries.

The following findings are worth highlighting:

- First, the study confirms the desirability of continued selective Bank lending in a few states. But the poverty impact of those interventions could be enhanced by balancing the propensity of states to reform and the concentration of poverty within them, giving greater weight to the needs of the poorest states.
- Second, continued focus on public finance management as the core area appears sound, irrespective of whether engagement is confined to this area or serves as an entry point for broader engagement.
- Third, there is considerable scope to gain greater impact from analytic work, knowledge transfer, and expanded knowledge sharing—not so much in concepts and theories as in the practical experience of what works and what does not.

## Evolution of Bank Strategy

### *Why State-Level Engagement?*

Over the past decade, the World Bank significantly expanded its engagement at the state level in four large federations: Brazil, India, Nigeria, and Russia, mainly through lending, but also through policy dialogue, technical advice, and analytic work. Both demand and supply factors contributed to this expansion.

On the *demand side*, federal governments focused on fiscal stabilization following the financial crises of the late 1990s. They saw the potential for the Bank to provide state governments with incentives for reform through financing, while encouraging discipline through agreed policy measures and provision of technical support for implementation. Federal governments had limited scope to differentiate among states based on factors such as commitment to reform. They saw in the Bank's capacity to do this a means of assisting states willing to take the lead, with the possibility of a demonstration effect for other states.

State governments were also eager to borrow from the Bank because its loans, denominated in foreign currency, generally came at lower rates than those provided by the federal government or the domestic market. Bank loans, while often financially modest at the federal level, could be a major source of financing at the state level. State governments welcomed the Bank's focus on their economy as well as the associated dialogue, advice, and analytic work. In addition, with the increasing concern about meeting or achieving outcomes with regard to the Millennium Development Goals, both federal and state governments saw the Bank as having a comparative advantage in supporting better service delivery in the relevant social and economic sectors at the state level.

On the *supply side*, with the combination of fiscal stabilization and improvement in the fiscal situation of the four countries during the commodity boom of 2000–07, there was limited appetite to borrow from the Bank for federal programs (this trend was more pronounced in Brazil and Russia; Nigeria, an International Development Association [IDA] borrower, was an exception; in India, federal-level borrowing increased slightly in 2004–07). A level of Bank engagement commensurate with the size and importance of these countries almost mandated the shift to the state level, where demand remained buoyant. The increasing focus of the Bank on poverty reduction after 1995 was also an important factor. There is a distance between federal-level programs and results on the ground in such large countries. The majority of the public expenditure categories most closely associated with poverty reduction in the short and long terms are usually state responsibilities in these countries. Therefore, increasing the Bank's impact on poverty reduction meant increasing the focus on activities at the state level. In addition, many Bank country and sector staff found work at the state level in these countries more rewarding, given the clients' greater interest in the Bank's financial and knowledge resources.

### *Which States?*

The shift to the state level presented the Bank with a number of operational issues. Among them was which states the Bank should engage. The four countries have large numbers of states—26 states and a Federal District in Brazil, 28 states and 7 union territories in India, 36 states and a Federal Capital Territory in Nigeria, and 83 Regions ("subjects of the federation"—republics, *oblasts*, *krays*, and *okrug*s) in Russia. Working in all of them would obviously be beyond the Bank's budgetary and human resource capacities.

The Bank defined the strategic approach to the selection of states in its Country Assistance Strategies (CASs). Some attempts were made to develop quantified criteria for selective engagement, but the Bank generally preferred to keep the criteria broad to allow for flexibility. It is clear from all the countries reviewed that there was tension between the Bank's interest in identifying progressive, reforming states that could serve as demonstrations to others and its interest in supporting poverty reduction by assisting the poorest states. In addition to these two key criteria—effectiveness of assistance and need (poverty)—another equally important criterion was the political economy, unique in each country and including (but not limited to) relations between the federal center and the states; capacity and political affiliation of the state-level leadership; level of trust and the relationship of the Bank teams with the clients; and local politics and electoral cycles.

In *Brazil*, the shift toward states was proposed in a mid-1990s CAS, directing lending to creditworthy reforming states. The next CAS, prepared at the turn of the millennium, continued this approach, using criteria established by the federal Fiscal Responsibility Law (FRL) and stressing the intention of providing assistance to the states of the Northeast region with highest poverty levels. Lending to states became more multisectoral, and significant innovations were introduced, such as state-level sectorwide lending (multisector SWAp) and state-level development policy loans (DPLs). Both instruments were applied in states that had turned the corner fiscally, despite significant disparity in their income levels. The 2008 Country Partnership Strategy (CPS) (World Bank Group 2008a) focused on a technical assistance program of modest size with the federal government and a major demand-driven lending program with states, conditioned on perceived commitment, ownership of reforms, and fiscal responsibility. The Bank engaged with some of the more prosperous and reformist states. Although initially the Bank attempted to expand investment lending, this proved cumbersome, given the two-tier approvals required by the state and federal governments. As a result of joint consultations with state and federal counterparts, by 2008 the composition of state-level lending shifted toward cross-sectoral operations in support of economic policies and public sector reforms (DPLs and multisector SWAps).

In *India,* the Bank shifted its focus to the state level in the mid-1990s. At the time, states were facing financial problems, and both the federal and state authorities were keen to tap into the Bank's resources and take advantage of technical assistance. The Bank opted for major involvement in progressive reforming states (the *focus states* approach). The 2004 CAS (World Bank Group 2004a) signaled a change of strategy, noting that the focus on reforming states was leading to neglect of the lagging states. Therefore, the CAS proposed the provision of technical assistance to the lagging states and an effort to shift lending to them as well. This proved to be difficult. As the 2009 CAS completion report noted, while lending at the state level remained a large share of the overall program, the share of lagging states in the program actually declined.

In *Nigeria*, the Bank reactivated and intensified its lending activities after return to civilian rule in 1999. During that period, Bank strategy passed through two phases: a period of interim strategies (fiscal 2000–05) following re-engagement; and the fiscal 2005–09 CPS (AfDB, DFID, USAID, and World Bank Group 2009), when the Bank adopted a medium-term focus. Engagement at the state level in Nigeria was largely driven by the social and poverty reduction agendas, with focus on improving infrastructure and providing support for agricultural and rural development. During the CPS period of fiscal 2005–09, the Bank's strategy formally moved to focus on well-performing states (*lead states*), seeking to leverage state efforts and resources by granting them access to a *performance package*. Five states were selected based on the government-led State Economic Empowerment and Development Strategy (SEEDS) benchmarking process.

In *Russia,* the mid-1990s CAS emphasized regional investment projects (despite recognition that they were expensive to prepare and supervise). The next CAS (World Bank Group 1999) outlined a phased shift in lending, away from investment projects in infrastructure and energy in favor of increased emphasis on systemic aspects of institutional development. A subsequent strategy in the early 2000s continued the strategy shift, emphasizing support for reforms at the regional level, particularly to strengthen public sector management. The 2005 CAS Progress Report (World Bank Group 2005b) stated that work at the regional level was to be carried out in a multisectoral manner and would concentrate on a small number of regions in agreement with the federal government. The 2007 CPS (World Bank Group 2006) added a finishing touch: the plan for a gradual shift to the new modalities of cooperation and instruments, such as the subnational facility that allows the Bank Group to provide funds without a sovereign guarantee to states and municipalities and provision of technical assistance on a reimbursable basis (fee for service).

## The Scope of Engagement

The second issue for the Bank was the *scope* of its engagement. In Brazil, India, and Nigeria, the Bank had carried out numerous state-specific projects as part of its support for nationwide sectoral programs. The decision about which states to engage—for example, in support for agriculture and rural development in India or education in Brazil—was sometimes a matter of strategic choice, but more often a matter of historical engagement or the availability of analytic work, based in turn on opportunistic involvement of the Bank in particular states. In the new context, the Bank was steering toward a new model of engagement. This tended to have two elements: support for *fiscal reform* and broader *multisector engagement* at the state level.

### *Fiscal Reform*

The Bank expanded its involvement in fiscal reform in selected states. With the focus on stabilization and the need to reduce growing state deficits or enhance state public expenditure management capacity, the Bank engaged in two areas.

The first of these was *fiscal federalism*. Fiscal relations between the federal and state governments are politically highly sensitive, since this is often at the core of balancing regional interests. From a strictly economic perspective, the resources available to the state governments need to be balanced with their expenditure responsibilities. For many taxes it is more efficient to centralize collections. This disconnect generally creates an imbalance between the revenues collected by the states and their development mandate. In Brazil this imbalance is relatively modest, but in Nigeria it is very large. This means that the federal government is required to transfer resources to the state, generally based on various formulas that take account of population, per capita income, and the state government's own tax effort. In the countries reviewed, federal transfers have not been very effective in reducing disparities in expenditure capacity among states.

A second key issue in fiscal federalism concerns discretionary transfers from the center to the states, usually intended to provide an incentive to states to undertake high-priority programs. The government of India has used such schemes a great deal. For the Bank, the political sensitivities make fiscal federalism a difficult area for intervention unless there is an explicit request from the federal government. The Bank has undertaken substantial analytic work in this area. Russia, where new fiscal relations were being defined in the past decade, is a very good example.

A second and far larger part of Bank engagement in fiscal reform is its direct support to *public finance management* at the state level, including enhancements in tax capacity, modernizing the tax structure, developing a sustainable fiscal policy and medium-term expenditure framework, and improving budget and expenditure management. The Bank's engagement model generally started with a trigger mechanism that required states to show commitment to fiscal reform.

This requirement was highly formalized in Brazil, where the federal government requires strict adherence to the FRL. In India and Nigeria the requirements were less formalized, but generally related to timely budgeting and reporting. In Russia, criteria were established for participation in the fiscal reform projects supported by the Bank. Once the triggers were met, the Bank was able to further support fiscal reform through an engagement model that combined analytic work with multisector lending and focused technical assistance in the areas of fiscal and governance reform.

Elements of this model are present in each country. In Lagos, Nigeria, for example, intensive analytic work at the state level was combined with investment lending and technical assistance, but the Bank is only now considering the possibility of using multisector lending in support of its approach. In Andhra Pradesh and Orissa in India, the Bank carried out analytic work and subsequently used multisector loans to support fiscal reform, but technical advice, except that embedded in the analytic work and lending activities, has not been a focus of the approach. The Bank's involvement with tax policy has been relatively light; the focus of its efforts has been on budgeting and public expenditure management systems, and increasingly on governance issues associated with transparency and accountability for efficient service delivery.

### *Multisector Engagement*

In addition to fiscal engagement, the Bank has also undertaken a broader state-level *multisector engagement*, which has focused on the growth and poverty reduction agenda. This has involved a mix of analytic work, adjustment lending, and investment lending. The Bank produced an explicit strategy for its activities in a particular state in only a few cases. Such strategies were usually covered in broad-brush fashion in the CAS.

At their most developed, as in Andhra Pradesh in India and in Ceará in Brazil, the Bank programs combined investment lending in most of the core economic and social sectors with multisector lending. The objective was to derive synergies from the combination of activities. In Andhra Pradesh, for example, the Bank was explicit in its view that the difficult measures required for fiscal reform needed to be matched by increased investment in agriculture, rural development, health, and education to provide a politically acceptable package of reforms.

The selection of states for this broader engagement focused more on fiscal reform than on the broader poverty issue. The Bank spent a great deal of time in these countries supporting relatively high-income, high-capacity states (such as Minas Gerais in Brazil, St. Petersburg in Russia, and Karnataka in India). While this support added value, it came at the expense of Bank efforts in poorer states that lack capacity.

## Modalities of Engagement

*How to engage* was also a concern for the Bank during the period, and there was considerable evolution in the approach. The first bridge to be crossed was the use of adjustment (development policy) lending at the state level (the first such adjustment loan was made in March 2000 to the state of Uttar Pradesh in India). Until that point the Bank had struggled to find an instrument to attach to its policy dialogue and strategic approach at the state level. The multisector restructuring loan in Andhra Pradesh, an investment loan undertaken in 1998, was a way to accomplish this, but it was an enormously costly operation to prepare and supervise.

Adjustment lending rapidly became the instrument of choice to support fiscal reform and statewide strategies in Brazil and India, but in Brazil there was a sense that it was less effective in reaching out to the line ministries in key sectors. The Bank's Brazil country team developed the innovative approach of a multisector SWAp, a results-based instrument with target indicators defined for each sector and disbursements associated with achievement of the targets. This had very positive outcomes: it brought to the fore the linkages required to achieve results, such as the need for improved water supply in order to reduce infant mortality. Another important innovation was the pioneering of reimbursable technical assistance at the state level in Russia. Bank budgets rarely allow the level of analytic work demanded by intensive engagement in three-to-five states, and an approach that permits states to pay for additional work has considerable promise for other middle-income countries.

## Findings

Overall, the analysis leaves little doubt that the Bank's engagement at the state level did add value. There was a great deal of enthusiasm at both the federal and state levels in these countries regarding the Bank's contribution and a large number of specific achievements. Although state-level engagement often requires additional effort and can be resource-intensive, it is usually worth the cost.

The main findings of this review, which may be helpful in guiding the organization of future work at the state level, include:

On *selection* of states:

- The strategy to be selective and concentrate lending services on a few states to enhance the impact of the Bank's program is right in principle, but selection criteria and the mode of implementation could give greater weight to the needs of the poorest states.

- Bank engagement with high-performing states clearly added value, both strengthening in-state capacity and encouraging state-to-state knowledge transfer, albeit mainly between high performers. However, there is little evidence that it had the desired demonstration effect on poor, lagging states on the scale the Bank hoped for, or that the Bank had an exit strategy to permit increased focus on poorer states over time. At the same time, experience shows that it is possible to achieve results in the poorest states through persistent work with committed state counterparts and strong partnership with the federal government and other donors.
- It is important to stay engaged not only in states that are able to borrow from the Bank, but also in states that have no fiscal space to borrow but demonstrate a genuine commitment to development that can be supported through analytic work and technical assistance.

On the *scope* of engagement:

- Continued focus on public finance management as the core area for state-level work appears sound, whether engagement is confined to this area or it serves as an entry point for broader engagement.
- The lending programs and Bank budgets in some states are often larger than for many Bank clients. For states where the Bank plans or has a major engagement, a brief state strategy document could be a useful tool for defining the scope of engagement and developing a medium-term outlook.

On *modalities* of engagement:

- There is considerable scope for greater impact from knowledge transfer and expanded knowledge services. In particular, there is strong demand for better knowledge sharing, both within the Bank and across the countries concerned. This is not so much a matter of sharing of concepts and theories as it is of communicating practical experience regarding what is working and what is not.
- Widening the scope and increasing the amount of analytical work at the state level could be helpful in identifying high-impact, high-priority areas. There seems to be a potential for closer partnership between state governments and the Bank in this area.

# Chairperson's Comments: Informal Subcommittee of the Committee on Development Effectiveness (CODE)

On September 21, 2009, the Informal Subcommittee of the Committee on Development Effectiveness (CODE) considered an Independent Evaluation Group (IEG) report entitled *World Bank Engagement at the State Level: The Cases of Brazil, India, Nigeria, and Russia*. Staff representatives from the four countries considered in the report were present at the meeting.

## Summary

Members commended IEG for the well-written and informative report and welcomed management's broad agreement with its findings. The Subcommittee held a rich discussion, where members noted the importance of this report as a basis for further considering the direction and potential of state-level engagement by the Bank. Some members remarked on the considerable innovation and creativity in this area, which was considered a critical aspect of a country's development. Going forward, the need to bear in mind the poverty focus in engaging at the state level and to strengthen knowledge sharing within and across countries was noted. Members' interventions focused on IEG's findings related to the need for the Bank to have a strategic approach to state-level support, selection of states, modalities of engagement, and knowledge transfer, which are elaborated below. The comparative analyses of the experiences in the four countries covered by the report and staff elaboration of country experiences were appreciated.

## Recommendations and Next Steps

The Subcommittee recommended the following to management:

- Consider this IEG report as a basis for further thinking toward a more comprehensive framework to guide the Bank's engagement at the state level, and to continue adjusting its instruments to meet the needs of the states.
- Maintain a flexible approach to selection of states, to accommodate different country contexts while keeping in mind the poverty focus.
- Consider ways to strengthen systematic knowledge sharing and learning from ongoing work at the state level.

## Main Issues Discussed

**Framework for Bank Engagement.** Some members noted the potential benefit of IEG's suggestion to prepare brief state-level strategy documents for states with significant long-term Bank engagement. *Management clarified that the strategic analysis and dialogue with client countries on the Bank's engagement at the state level takes place as part of the CAS process. It also expressed concerns about adding another layer of strategy paper, but noted that integrating separate strategies for the most important state clients within a CAS could be a useful way to approach this issue.*

**Selection of States**. Members supported selectivity in engaging at the state level and discussed the approach to selecting states, i.e., whether the Bank should work with more progressive, reformist states or with poorer states in light of IEG's findings, taking into consideration the Bank's mandate to reduce poverty and the potential added value of focusing on lagging states. There was general consensus to preserve flexibility to accommodate different country contexts and political economies and to enable the Bank to work with active state actors at the state and substate levels, while keeping in mind the poverty focus.

The importance of transparency in selecting states was emphasized. *IEG noted the tension between the two approaches and reiterated that to enhance the poverty impact of state-level intervention, greater weight to the needs of the poorest states was merited since there was no clear evidence of the desired demonstration effect. IEG added that it is possible to achieve results through persistent work, even in the poorest and low-capacity states. Management commented on the country realities that have driven the selection of states, as in the case of India, where the Bank is making an effort to work more with lagging states. Reference was also made to the CPS in Nigeria that describes the principles of engagement at the state level; a key principle is the level of human development indicators.*

**Federal Government and States**. Some questions were raised about ownership and involvement of the federal government with regard to Bank assistance to states and any tensions encountered between the federal and state levels. In addition, interest was expressed in the Bank's comparative advantage in working directly with states, the costs and benefits of working directly with states, and approaches to addressing foreign exchange risks at state levels. *IEG and management stressed that Bank engagement at the state level is predicated on federal government support. Referring to the example of Brazil, management also noted that the federal government has encouraged Bank involvement at the state level as a way to incentivize states to carry out difficult reforms (such as reducing the fiscal deficit). It also indicated that the Treasury Department has offered assistance to Indian states interested in addressing exchange rate risks.*

**Scope and Modality of Support**. Some members highlighted the potential for Bank support for fiscal federalism and governance and capacity building at the state level. A member sought more clarity on the *outcomes* of fiscal reforms and another encouraged conducting Public Expenditure Reviews at the state level. Others emphasized the importance of analytical work at the state level, including in lagging states. A few members suggested that the IFC model of state-level support be reviewed. *Management described some of the ongoing analytical work at the state level such as the Doing Business reports in Russia and Nigeria, Public Expenditure Reviews in Nigeria, and Social Expenditure Reviews in Russia.*

**Demonstration Effect and Knowledge Sharing.** A few members sought more clarity regarding the limited demonstration effect on lagging states, noting that the experience in Russia seems to have been more positive. Speakers stressed the importance of strengthening knowledge sharing across states and countries. For example, the potential for other countries to learn from Russia's experience with fee-based services was noted. A few members urged that the Bank should give the highest priority to demand for services where the recipient was willing to pay a fee, because this indicated the seriousness and the will to carry out reform and change. The possibility of a Global Expert Team to improve knowledge sharing among staff was suggested. *Management elaborated on the demonstration effect in Nigeria and Russia. The Nigeria country team representative described their efforts in reaching out to other regional departments to learn from their experience and about sharing of experience across states through the Governor's Forum in Nigeria. It was also noted that there have been institutional efforts to share experiences on provision of fee-based services. It was noted that Brazil is now considering fee-based services at the state level.*

Giovanni Majnoni, Chairman

# Chapter 1

## Evaluation Highlights

- The Bank began to think of the state as a strategic unit in the mid-1990s.
- State effectiveness in planning, budgeting, and implementing programs contributes to development effectiveness.
- The four country programs examined—in Brazil, India, Nigeria, and Russia—had a similar aim of engaging at the state level.
- In each case, state governments were the Bank's principal development partners.

Town gathering, Nigeria. Photo by Curt Carnemark, courtesy of the World Bank Photo Library.

# Introduction

The World Bank has traditionally focused its lending, analytic work, and policy dialogue on federal governments.[1] This is a requirement of the Bank's Articles of Agreement, which specify that the Bank lend either to a federal government or with a sovereign guarantee. It has also been a practical matter.

National projects with a single implementing ministry or agency are less costly to prepare and supervise than multiple subnational projects. This did not prevent the Bank from preparing and implementing projects at the subnational level, but, in general, subnational units were seen as administrative agents, with responsibility for their development residing with the federal government. In large countries where the bulk of economic and social expenditures that affect the living standards of the poor are under the control of state governments[2] or other decentralized units, Bank efficiency in fulfilling its poverty reduction mandate was impeded.

For much of its history, the Bank has provided investment loans for projects located within the territory of particular states in federations. State governments have often been signatories to project agreements in the irrigation, roads, water supply, agriculture, and education sectors and have shared responsibility for the implementation of these projects. However, until the mid-1990s, the Bank did not think about the state as a strategic unit. Nor did the Bank consider its package of state lending a vehicle for reform and poverty reduction or as elements in a coherent state-level development program.

In the late 1990s, with a renewed focus on poverty and the adoption of the Millennium Development Goals (MDGs), the Bank turned increasingly to engagement with states as the logical evolution of its programs in support of poverty alleviation in large federal countries. Despite some initial hesitation, federal governments soon warmed to the approach. They saw a number of potential benefits from the Bank's involvement, including the Bank's capacity to differentiate between states, to reward reforming states by transferring additional resources, or equalize funding to help states with weaker social service coverage or quality to improve them—something that can be politically difficult for some federal governments. In addition, the Bank can both create incentives for increased state-level expenditure through lending in specific areas and provide knowledge services to add to effectiveness in addressing the MDGs.

***The Bank's engagement with states in federations began to change in the mid-1990s.***

In some of the larger federal countries where the Bank is active, state governments have emerged as important development actors, with major responsibility for infrastructure and social service provision. Table 1.1 shows the size of Bank lending at the state (or provincial) level in some of its biggest borrowing countries. The effectiveness of state governments in planning, budgeting, and implementing programs has therefore emerged as an important determinant of constraint in overall development effectiveness. Consequently, the Bank's programs in countries such

***State governments have gradually emerged as important players in development.***

**Table 1.1: Bank Lending to State/Provincial Governments (1998–2008)**

| | Number of loans | | | Amount (US$ billions) | | |
|---|---|---|---|---|---|---|
| Countries/operations | State | Total | Percentage of state lending | State | Total | Percentage of state lending |
| India | 72 | 107 | 67 | 12.7 | 22.9 | 57 |
| Brazil | 47 | 101 | 47 | 5.2 | 15.9 | 33 |
| China | 71 | 112 | 63 | 11.5 | 15.7 | 73 |
| Argentina | 18 | 57 | 32 | 3.6 | 11.6 | 31 |
| Mexico | 5 | 49 | 10 | 0.85 | 11.5 | 7 |
| Pakistan | 26 | 40 | 65 | 2.0 | 7.4 | 27 |
| Nigeria | 19 | 32 | 59 | 1.8 | 3.1 | 58 |

*Source:* World Bank data, ImageBank.

as Brazil, India, Nigeria, and Russia have increasingly been geared toward providing support for the state governments.

The Bank has engaged with state governments in two broad areas. First, it sought to improve fiscal outcomes and governance at the state level. Second, it tried to increase the focus on poverty reduction by steering resources and advisory services to states where poverty is greatest and those most critical for achievement of the MDGs.

*The Bank has engaged them on fiscal outcomes and governance and sought to increase its focus on poverty reduction.*

The increase in the Bank's state-level engagement has not been a coordinated effort. State-level activities have been, and continue to be, driven by individual country programs. During the period of state-level engagement the Bank did not examine its approach from a cross-country perspective. Each country team has had to find its own way and develop programs from first principles, often "reinventing the wheel." By now, however, there is a significant body of experience in dealing with state governments and some emerging good practice that warrants further examination and wider dissemination. This was the motivation for this Independent Evaluation Group (IEG) cross-country review.

## Scope and Objective of the Evaluation

Although the Bank has had substantial programs of state and province-level lending in many countries (see table 1.1), given time and resource limitations, this evaluation focused on selected cases in four countries that are major clients of the Bank: Brazil, India, Nigeria, and Russia.[3] These four countries were selected taking into account geographic representation, regional importance, size of state-level programs, and use of innovative instruments and approaches by the country teams. The study covers the period from 1998 to 2008 and combines elements of a Country Assistance Evaluation (CAE), looking at four country programs with a similar aim of engaging at the state level in a large federal system, and a thematic review based on a limited number of case studies. The study looked at a number of projects in two states in each country. Therefore, it neither claims universal knowledge of all specifics and outcomes of Bank lending and nonlending activities in all large federal countries, nor does it suggest universal recipes for other large federal countries not included in this review. Instead, it looked at the evolution of four country strategies and the Bank's mode of engagement in order to draw lessons from that experience.

The evaluation limited its review to state-level lending and analytic work where the state governments were the Bank's principal partners, and therefore a primary party responsible for development outcomes. These include loans supporting improved fiscal management and governance in particular states and loans that were strategic at the state level—that is, loans designed to support a state-level economic development program or a state-specific sectoral or thematic issue (including state-level development policy lending and multisector sectorwide approaches). Several federal-level loans that supported improved systems of fiscal federalism were also included.

## Structure

Chapter 2 summarizes the evolution of thinking in adapting the Bank's policies to encompass lending and other work at the state level. It also covers how the Bank dealt with selecting states with which to engage in different country contexts. Chapter 3 reviews the scope of the Bank's engagement at the state level, including support for fiscal reform and addressing poverty reduction and the growth agenda through multisector engagement and policy dialogue. Chapter 4 covers the modes of Bank engagement at the state level, including selection of lending instruments, analytic and advisory activities (AAA) and capacity building, and the process implications of working at the state level. Chapter 5 summarizes the findings from the four country case studies.

***This evaluation looks at the evolution of state engagement in four country strategies from 1998 to 2008.***

***In these cases, the states were the Bank's principal development partners.***

# Chapter 2

- After the financial crises of the late 1990s, states gained the fiscal space to allow them to seek financing for their investment programs.
- Engagement in each country was conditioned by demand, capacity, and ownership of reforms.
- In most cases the decision to engage at the state level was reasonable and based on demand and state capacity.
- The most difficult issue has proven to be selectivity—which states to choose—with tension between engaging those with capacity and willingness and those that are the poorest.

Women harvesting cotton, India. Photo by Ray Witlin, courtesy of the World Bank Photo Library.

# Which States? Evolution of the Bank Strategy

The 1998–2008 period saw a major expansion of Bank engagement at the state level in four large federations: Brazil, India, Nigeria, and Russia, mainly through lending but also through policy dialogue, technical advice, and analytic work. Both demand and supply factors seem to have fed this expansion.

On the demand side, federal governments focused on fiscal stabilization following the financial crises of the late 1990s. They saw the potential for the Bank to provide state governments with incentives for reform through financing, while enforcing discipline through conditionality and providing technical support for implementation. Federal governments have limited scope for differentiating between states on the basis of nontangible factors such as commitment to reform and saw the Bank's capacity to do this as a means of assisting states willing to take the lead, with the possibility of a demonstration effect for other states.

As a rule, state governments were also eager to borrow from the Bank. Bank loans, denominated in foreign currency, typically came at lower rates than those provided by the federal government or the domestic market.[1] Bank loans, while often financially insignificant at the federal level, could be a major source of financing at the state level. Finally, state governments welcomed the Bank's focus on their economy and the associated dialogue, advice, and analytic work. In addition to increasing concern about meeting MDGs, or at least achieving respectable outcomes, both federal and state governments saw the Bank as having a comparative advantage in supporting better service delivery in the relevant social and economic sectors at the state level.

On the supply side, with the combination of fiscal stabilization and improvement in the fiscal situation of the four countries during the commodity boom of 2000–07, there was a limited appetite to borrow from the Bank for federal programs (this trend was more pronounced in Brazil and Russia; Nigeria, an International Development Association [IDA] borrower, was an exception; in India, federal-level borrowing increased slightly in 2004–07). A level of Bank engagement commensurate with the size and importance of these countries almost mandated the shift to the state level, where demand remained buoyant. The Bank's increasing focus on poverty reduction after 1995 was also an important factor. There is a great distance between federal-level programs and results on the ground in such large countries. Most of the public expenditure categories most closely associated with poverty reduction in the short and long term are usually state responsibilities in these countries. Hence, increasing the Bank's impact on poverty reduction meant increasing the focus on and the activities at the state level. A final point is that Bank country and sector staff found work at the state level in these countries more rewarding given the generally greater interest of the client in the Bank's financial and knowledge resources.

***In the late 1990s, federal governments saw potential for the Bank to support state-level reforms, and states themselves were eager to borrow from the Bank.***

***The Bank saw in the states an opportunity to increase its impact on poverty.***

**Table 2.1: Comparative Data on Population and Gross Domestic Product (GDP) per Capita in States/Regions**

| Country | Population (millions, 2007) | Number of states/ regions | Average population per state (millions) | GDP per capita (PPP, 2007) | Average GDP per capita of the three richest states (2005/06) | Average GDP per capita of the three poorest states (2005/06) |
|---|---|---|---|---|---|---|
| Brazil[a] | 191.6 | 26 states<br>1 Federal District | 6.1 | $9,034 | $10,464 | $1,829 |
| India[b] | 1,123.3 | 28 states<br>7 union territories | 30.2 | $2,598 | $1,376 | $229 |
| Nigeria[c] | 147.9 | 36 states<br>1 Federal Capital Territory | 3.8 | $1,867 | $4,021 | $131 |
| Russia[d] | 141.6 | 83 regions | 1.6 | $14,743 | $27,107 | $1,078 |

*Source:* Population and GDP per capita (purchasing power parity [PPP], 2007) data are from World Bank data. GDP per capita of states/regions are from: Brazil, Instituto Brazileiro de Estatistica (IBGE), Regional Accounts 2005; India, Central Statistical Organization of the government of India and the State Statistical Bureaus; Nigeria, Economic Associates (economic consulting firm; the Nigeria National Bureau of Statistics does not yet publish state GDP data); and Russia, Federal State Statistics Service. Data for 2005/06 are used because that is the most recent year available for all four countries.

*Note:* GDP = gross domestic product; PPP = purchasing power parity.

a. Three richest states in Brazil are São Paulo, Rio de Janeiro, and Federal District. São Paulo's GDP would rank 22nd largest in the world. The poorest (by per capita GDP) are Alagoas, Maranhão, and Piauí.

b. Three richest states (union territories) in India are Goa, Chandigarh, and Ponicherry. The poorest are Bihar, Uttar Pradesh, and Orissa.

c. Three richest states in Nigeria are Bayelsa, Cross Rivers, and Delta. The poorest are Adamawa, Taraba, and Jigawa.

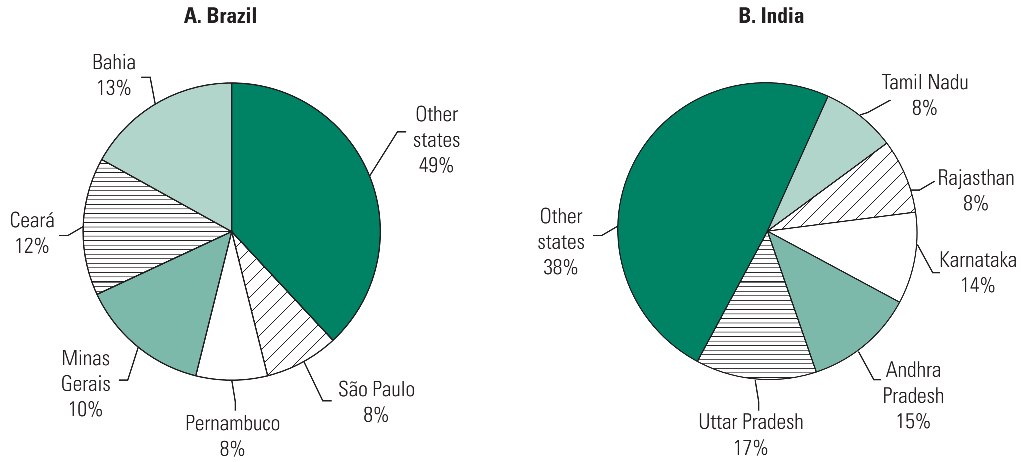
d. The three richest regions in Russia are Khanty-Mansi Okrug, Yamal-Nenets Okrug, and Sakhalin Oblast—all remote and sparsely populated oil- and gas-producing regions. The poorest are Ingush Republic, the Republic of Chechnya, and the Republic of Kalmykia.

*The problem for the Bank was the matter of which states to engage.*

The shift to the state level presented the Bank with a number of operational issues. First among these was which states the Bank should engage. Most of these countries have large numbers of states—26 states and a Federal District in Brazil, 28 states and 7 union territories in India, 36 states and a Federal Capital Territory in Nigeria, and 83 subjects of the federation (republics, *oblasts, krays,* and *okrugs*) in Russia (table 2.1). The Bank's budgetary and human resource capacity generally allowed engagement in perhaps three-to-five states at any given time. Selection was thus strategic and was usually defined in the Bank's country strategy documents. Some of these documents attempted to develop quantified criteria for selective engagement, but generally the Bank preferred to keep the criteria broad to allow for flexibility. It is clear from all the countries reviewed that there was tension between the Bank's interest in finding progressive, reforming states that could serve as demonstrations to others and its interest in supporting poverty reduction by assisting the poorest states. The motivation and timing of the Bank's engagement at the state level differed by country.

In terms of distribution of state-level lending within particular countries, the Bank generally tended to concentrate its engagement on a select number of states, instead of spreading its efforts thinly across the entire country. In Brazil (figure 2.1),[2] approximately 51 percent of the state-level lending (in number of projects) was allocated to five states. In India (figure 2.1), approximately 62 percent of the state-level lending (in number of projects) was allocated to five states. In Nigeria, four states—Bauchi, Cross River, Kaduna, and Lagos—implemented projects that were specifically tailored for individual states. The other states in Nigeria were evenly distributed in implementing state programs designed to roll out to all states. In Russia, the scale of state- and regional-level engagement was much smaller (only a few loans), but it nonetheless provided important lessons about competitive selection of states

**Figure 2.1: Distribution of Projects by State**




*Source:* World Bank data.

based on fiscal performance and the use of new engagement modalities.

## Brazil

The Constitution of 1988 created a Brazilian federation, which today consists of 26 states, one Federal District, and 5,564 municipalities.[3] After the decentralization drive fostered by the constitution, Brazilian states were given responsibilities for the provision of key social services. At the time, it was believed that devolution of responsibility to the states would lead to more efficiency. Instead it led to unsustainable spending[4] and the accumulation of large state-level debts.[5] This began to change with the adoption of the Real Plan in 1994, which set the stage for economic stabilization[6] and increased transparency in the finances of the Brazilian states.

With stabilization, federal borrowing declined, and the Bank faced a new situation in Brazil. To stay active with a sizeable program, and to be relevant, it formally re-oriented its lending strategy in the mid-1990s Country Assistance Strategy (CAS), proposing to shift the focus of lending, policy dialogue, and advisory work toward the states. Because state indebtedness had reached crisis proportions, the Bank suggested that lending be directed to creditworthy states undertaking reforms in public finance and social expenditure/anti-poverty policies.[7] The 1997 CAS advocated continuing the same state-centered assistance strategy (table 2.2).

*The initial Bank strategy in Brazil was driven by the desire to engage with likely reformers, but it was limited by high state-level debt.*

The CASs of the mid-1990s pointed out the risks to stabilization posed by the growing fiscal imbalances at the state level and signaled the Bank's willingness to support meaningful reforms through adjustment lending. The federal government was not yet ready to start a major reform at the state level, but requested Bank assistance in its efforts to reform the finances of Brazilian states. In response to these requests, the Bank initiated policy dialogue with several states, culminating in the preparation of four state reform loans (de facto development policy loans [DPLs]).[8] These loans accounted for 10 percent of new commitments to Brazil and supported the privatization of banks and several infrastructure enterprises owned by the states.

*In the late 1990s, the Bank began to engage with reforming states.*

The millennium strategy continued direct lending to states within fiscal eligibility criteria established by the federal government's Fiscal Responsibility Law (FRL), adopted in May 2000.[9] This was a time of transition for many states, because they had to

**Table 2.2: Evolution of Bank Engagement in Brazil, Fiscal 1998–2008**

| | Mid-1990s strategies | Millennium strategy | 2003 CAS | 2008 Country Partnership Strategy |
|---|---|---|---|---|
| Bank strategy | Focus on creditworthy reforming states to support stabilization | Explicit focus on the Northeast (NE) region (states with the highest poverty levels) | Reinforcement of the commitment to the Northeast region. | Continue special focus on creditworthy states, with state governors defining the priorities |
| | Alleviate poverty in Northeast states | | Special focus on states that were "turning the corner" fiscally | Emergence of a state-dominated lending portfolio |
| Major instruments/ milestones | Policy-based investment loans are given to four states | Bank's lending commitments to states decline because of the need to comply with the FRL | First subnational SWAp is developed (Ceará) | Expand the SWAp instrument to several states |
| | | Eligible NE states receive loans for poverty alleviation or improving social services | First subnational DPL is given (Minas Gerais) | Greater coordination of Bank lending cycle and Brazil's political cycles at the state level |
| Portfolio (in dollars) | States: 33 percent | States: 19 percent | States: 18 percent | States:[a] 70 percent |
| | Federal: 65 percent | Federal: 81 percent | Federal: 82 percent | Federal: 30 percent |

*Source:* World Bank country strategy documents.
*Note:* DPL = development policy loan; FRL = Fiscal Responsibility Law; SWAp = sectorwide approach.
a. The portfolio for fiscal 2008–11 shows the planned allocation between state and federal governments.

prove their creditworthiness by producing a primary surplus in the preceding year and a debt/revenue ratio of 1 or less, or be in line with the agreed time path for debt reduction toward a debt/revenue ratio of 1. During this period of state-level fiscal adjustment, direct lending to states by the Bank was expected to decline temporarily. The Bank intended to focus its lending and nonlending services on the states of the Northeast region, including states with the highest poverty levels.[10] Meanwhile, the Bank also planned to step up its nonlending services to a broader group of states.

During the early 2000s, Brazil's economy was on a downward spiral prompted by the currency crisis of 1998. The drain on foreign reserves had been dramatic,[11] and the federal government needed to increase these reserves quickly to protect itself from external shocks. The Bank responded by approving several large programmatic DPLs to the federal government.[12] Because of the dual effect of the federal need for Bank funds and the limitation placed on states' borrowing through the FRL, the Bank's actual lending to states from fiscal 2001 to 2003 was small, about 19 percent of the total lending volume, down from 33 percent during the previous CAS period (fiscal 1998–2000).

The 2003 CAS reinforced the commitment to focus on the Northeast and started building a new focus on states with higher levels of poverty through a concerted effort to strengthen institutional capacity. Since virtually all states showed demand for Bank support, an additional filter for state selectivity was needed.

To accomplish this, the 2003 CAS set out a framework for lending to states, with selection criteria covering sectoral integration (in particular, emphasizing "horizontal" support to public sector management[13]), and with special focus (agreed with the federal treasury) on states that were "turning the corner" fiscally.[14] In some cases, poverty criteria gave way to other considerations, such as the demonstration effect.[15]

Lending to states under the 2003 CAS (fiscal 2004–07) became more multisectoral. Significant innovations in lending instruments[16] were introduced, including state-level DPLs and a state-level sectorwide lending approach (multisector SWAp).[17] Both instruments were applied in states that had "turned the corner" fiscally, despite significant disparity in their income levels,[18] and supported state teams that had defined innovative, well-tailored reform programs.

Despite introduction of new instruments, overall lending to states in fiscal 2004–07 remained modest—comprising only about 18 percent of new commitments.[19] Bank lending was dominated by large, federal-level DPLs targeted at mitigating vulnerability to external shocks. Toward the end of the CAS period of fiscal 2004–07, with the sharp rise in primary commodity prices, the federal government's position improved dramatically, which sharply reduced demand for Bank lending.

Reflecting on these changes, the 2008 Country Partnership Strategy (CPS) (World Bank Group 2008a) proposed a much smaller federal program, largely consisting of technical assistance loans, some SWAps, and programs that promoted synergies across federal and state lending (for example, education and water resource management). The majority of financing (70 percent) was to be directed to state programs, which were in compliance with the FRL. This emerging state–dominated program was branded as one based on "principled opportunism," where state governments interested in working with the Bank would define their development priorities and main challenges, while the Bank would present the options (instruments) it could offer, based on its analytical work and experience in Brazil and elsewhere. Another significant change in the 2008 CPS was the attempt to better coordinate the Bank's lending cycle with the political cycle at the state level.[20]

***After 2003, the Bank focused on lending to states with higher levels of poverty and shifted away from adjustment lending in favor of multisectoral instruments.***

## India

The 1950 constitution established the Indian Republic with a two-tier federation of states and unions; today it consists of 28 states and 7 union territories.[21] The center is traditionally strong and exercises control over the most significant spheres in the economy. Since the early 1990s, several factors have contributed to greater decentralization and strengthening of the federal system. First, the overall trend to liberalize the trade and investment regime in India led to increased competition between states to attract new businesses and investments. Second, the decline of the once nationally dominant Congress Party and the emergence of regional political parties distributed power. Third, a 1992 amendment to the Constitution added a third tier of local self-government—the *panchayats*.

***More recently, the focus on state-level lending has increased as the need for federal-level lending has declined.***

Until the 1990s Bank engagement at the state level was mainly a matter of the location of sectoral projects in infrastructure, agriculture, and the social sectors. This was determined by the sectoral dialogue with individual states and the interests of the central government.[22] Only after informal direct negotiations (subsequently formalized in tripartite agreements) were allowed could the Bank consider the option of direct engagement with the state governments. A mid-1990s CAS emphasized, for the first time, the need to focus efforts on state-level sector and fiscal adjustment issues.

***In the 1990s, decentralization and other factors created an environment conducive to state-level engagement in India.***

A second mid-1990s CAS introduced a strategy of focusing on reforming states (later called *focus* *states*). The timing of this shift was significant. In general, the states were in serious financial difficulties, with combined fiscal deficits gradually climbing from 2.28 percent of gross domestic product (GDP) in 1993–94 to 2.85 percent in 1997–98, and eventually to 4.17 percent in 1998–99. The central government faced increasing pressure from states for special bailout packages. Given the fiscal problems of the central government, it was not only open but keen to find ways of sorting out the problems of state finances. Hence, when the Bank decided to direct its assistance to reforming states, both the central government and several states were eager to do business.[23, 24]

***The Bank initially focused on progressive states.***

The concentration of Bank effort in a few progressive states had four main justifications. First, aid was most effective when used in a good policy environment (Burnside and Dollar 1997). Second, it would have a demonstration effect, signaling to other states the benefits of reform and demonstrating the returns to specific policy changes or institutional development in the selected states, which could then be rolled out in others. Third, in a vibrant democracy such as India, it seemed to make more sense to support willing reformers. Fourth, it enabled the Bank to be selective: it was likely to be more efficient and effective for the Bank to focus on a limited number of states rather than to spread itself thinly across many.

Among the reforming states, Andhra Pradesh was one of the first to promote reform and fiscal adjustment and the first to reach out to the Bank for assistance in this endeavor. As a result, Andhra Pradesh was the natural choice for a focus state. The culmination of the Bank–Andhra Pradesh partnership led to the Bank's first subnational policy-based loan in India:[25] the Andhra Pradesh Economic Restructuring Project. This massive multisectoral investment project, underpinned by an agreed multiyear fiscal framework with a total loan/credit value of $540 million, was approved in May 1998. Andhra Pradesh also benefited from a number of other investment projects. In 2000, the Bank reported $1.5 billion in commitments to the state.

***As concern began to grow that lagging states were being overlooked, the Bank shifted to a broader focus on the largest and poorest states.***

The major change in strategy around the millennium relative to the mid-1990s was the official endorsement of adjustment lending as an instrument to pursue the focus state strategy.[26] The Bank's support to cross-cutting reform programs in the focus states also generated interest from other states. In two cases (Orissa and Tamil Nadu) this interest led to agreement in principle with the central government to move toward adjustment lending.[27] In other cases (Maharashtra, Punjab, and Bihar) it was agreed instead that the Bank should provide analytical support for cross-cutting reforms.

Even so, there was growing concern that lagging states were being overlooked in the Bank program. The implementation review of the millennium CAS (World Bank Group 2004a, prepared in 2004) found that the focus state approach was too narrow and left the bulk of the poor unaffected by Bank activities.[28] At about the same time, India adopted ambitious targets to achieve the MDGs, and the performance of the lagging states with large concentrations of poverty was essential in this regard. Hence, the core strategic issue for the 2004 CAS became how to scale up impact in a national context (table 2.3).

The 2004 CAS proposed a change from the focus states approach to a broader focus on the 12 largest and poorest states. It proposed four ways of engaging in states. First, it proposed opening dialogue with the largest and the poorest states on the cross-cutting reforms that are the focus of adjustment lending (fiscal management, governance, service delivery, the power sector, and investment climate). Second, more resources were promised for the four poorest states with the weakest public institutions—Bihar, Jharkhand, Orissa, and Uttar Pradesh. Third, state-level DPLs were targeted to reach 15 percent of total lending. Finally, there would no longer be an upfront decision to concentrate substantial state-level investment lending on focus states that were also receiving policy-based loans in support of cross-cutting reforms. Instead, investment lending would be channeled to states that were able to comply with the federal guidelines for specific sector engagement.

**Table 2.3: Evolution of Bank Engagement in India, Fiscal 1998–2009**

| Category | 1998–2001<br>Mid-1990s strategy | 2002–04<br>Millennium CAS and 2003 CAS Progress Report | 2005–08<br>2004 CAS and 2007 CAS Progress Report | 2009–12<br>2009 CAS |
|---|---|---|---|---|
| Bank strategy | *Focus States*<br>Engage with states that have chosen to embark on a comprehensive program of economic reforms. | *Focus States*<br>Reinforce reforms in focus states with selective interventions in other states. | *Lagging States*<br>Open up new engagements with the largest and poorest states. | *Lagging States*<br>Intensify engagement with low-income states that are lagging but reform-minded. |
| Priority states | Andhra Pradesh | Andhra Pradesh<br>Karnataka<br>Uttar Pradesh<br>Tamil Nadu (added later) | Bihar<br>Jharkhand<br>Uttar Pradesh<br>Orissa | Bihar<br>Uttar Pradesh<br>Orissa |
| Major instruments/ milestones | The first subnational policy-based lending is delivered using a multisector investment lending approach. | Subnational DPLs are introduced. | Lending to Centrally Sponsored Schemes increases significantly. | Programmatic DPLs and sector investment loans for lagging low-income states (Bihar, Orissa, and Uttar Pradesh).<br>Sector investment loans for advanced low-income states. |
| Portfolio (in dollar terms) | States: 54%<br>Central/federal: 46% | Focus states: 34%<br>Other states: 44%<br>Central/federal: 22% | Low-income states: 9%<br>Other states: 36%<br>Central/federal: 54% | Low-income states: 29%<br>Other states: 27%<br>Central/federal: 44% |

*Source:* World Bank country strategy documents.
*Note:* The portfolio for fiscal 2009–12 shows expected allocations

In the end, the buildup of state lending envisaged during the 2004 CAS period did not take place. Out of the seven state-level adjustment lending operations (SALs) planned, five were approved, but the total was below the target of 15 percent of total lending.[29] Single-state loans to the four poorest states fell from about 14 percent of total lending volume to about 9 percent during the same period.[30] In contrast, the stock of outstanding commitments directed to the three previous focus states—Tamil Nadu, Karnataka, and Andhra Pradesh—increased from 22 to 24 percent. Much of the operational engagement during fiscal 2004–08 (an average of 20 percent of total lending volume) was linked to the significant expansion of Centrally Sponsored Schemes.[31]

***The envisaged buildup in state lending did not occur and in the 2008 CAS the Bank intensified its focus on the poorest states.***

At the request of the central government, the Bank intensified its program for low-income/lagging states under the 2008 CAS (World Bank Group 2008c). This time the Bank stressed selectivity and the need to develop intensive engagement (programmatic DPLs, sector investments, technical assistance, and International Finance Corporation services) in only three low-income states, which were lagging but also reform minded. Programs in other low-income states would be limited to sector investments and dialogue with the Bank. In more advanced/higher-income states, the focus would be on helping to strengthen institutions so they could deal with emerging middle-income challenges, relying on International Bank for Reconstruction and Development (IBRD) lending, cutting-edge analytical work, and International Finance Corporation (IFC) activities for private sector clients.

## Nigeria

Nigeria is a three-tier federation consisting of 36 states, the Federal Capital Territory, and 774 local governments. The three tiers have overlapping responsibilities; subnational governments account for a substantial part of fiscal activity but have become over-dependent on federal transfers.

Bank activities in Nigeria came to a standstill during 1993–99, amid deteriorating governance under the military regime. During this period, the Bank remained engaged through supervision of projects already being implemented and a limited amount of analytic work. The Bank quickly reactivated its program after a democratically elected government assumed power in May 1999. Since that re-engagement, Bank strategy has passed through two phases: the period of interim strategies, 1999–2003, with short-term focus;[32] and the period following the adoption of a full CPS in 2004 (World Bank Group 2005a).

*The Bank re-engaged with Nigeria at the end of the 1990s with state-level lending disbursed across the country.*

Under the interim strategies, Bank lending at the state level was dispersed across the country: projects were essentially sectoral programs. Since it was impractical to carry these out in all 36 states, the Bank attempted to choose a subset of states, usually determined on the basis of the Bank's knowledge of and dialogue with the state and the interest of key ministers or officials. However, the Bank was constantly under pressure from the central government to expand the number of states covered under any project, with the federal government insisting that one state in each of the six broad geographic regions of the country be included for parity reasons. This often created serious problems for the Bank in project supervision and contributed to weak portfolio performance.[33] There was no incentive mechanism in place for the state governments to compete for resources, and no correlation between state reform efforts and the resources available to them.

*To better focus its resources, the Bank opted to have the states compete for them.*

The Bank soon realized that it was spreading its resources too thinly to the states and that a more selective approach, based on competition among states for the Bank's resources, could be beneficial for the overall impact of Bank interventions. As a result, the Bank made significant efforts to engage reformist states, Lagos in particular.[34] The identification of Lagos as a priority under the last Interim Strategy Progress Report (fiscal 2004; World Bank Group 2004a) was an attempt to coordinate the various efforts of the Bank's sector units to derive synergies in Nigeria's largest and most important state.

The Bank's strategy formally moved to focus on well-performing states (or *lead states*) during the period of the fiscal 2005–2009 CPS. Following the lead states approach, financial and technical assistance would be designed to leverage state efforts and resources in the selected states to boost economic activity and improve social service delivery. Lead states would be able to access a "performance package," a more programmatic, cross-sectoral approach to both analytical work and financing, drawing on both IDA and U.K. Department for International Development (DFID)[35] resources. It was expected that SWAp-type operations would be developed for the lead states as well.

In selecting lead states, the Bank relied on the benchmarking process of the government-led State Economic Empowerment and Development Strategy (SEEDS). Participation in the process was voluntary for the states, which were ranked in four areas: policy; fiscal management and budget process; service delivery; and communication, transparency, and corruption. Five states—Cross River, Enugu, Kaduna, Kano, and Lagos—were selected based on poverty level, regional importance, and previous engagement (table 2.4).

**Table 2.4: Evolution of Bank Engagement in Nigeria, Fiscal 1998–2008**

| Category | 1993–99 | 2000–04<br>Interim Country Strategy | 2005–09<br>2009 CPS and 2008 CPS Progress Report |
|---|---|---|---|
| Bank strategy | The Bank has no new lending activities in Nigeria as a consequence of poor governance during the military dictatorship. | **Reengagement in Nigeria**<br>The Bank reengages in Nigeria in May 2000 with a wide-ranging program of investment lending after a democratically elected government assumes power in May 1999.<br><br>**Gradual focus to reforming states**<br>Initial attempts to guarantee national coverage diluted the Bank resources available for each state. Lagos emerged as a priority state (after 2002) in an attempt to coordinate efforts in one large and important state for greater impact. | **Lead State**<br>The Bank formally shifts its focus to top-performing, reform-minded states; that is, lead states. Lead states are selected in early 2006 based on the government's SEEDS benchmarking process.<br><br>**Semi-lead states**<br>Several nonlead states demonstrate strong demand and commitment to sector reforms. As a result, projects designed for lead states are implemented in nonlead states, known as semi-lead states. |
| Priority states | None | Lagos | **Lead states**<br>Cross River, Enugu, Kaduna, Kano, and Lagos<br><br>**Semi-lead states**<br>Bauchi, Kwara, Osun |
| Portfolio (percentage of total volume, end of period) | None | *Federal projects:* 31 percent<br><br>*State projects—centrally designed for rollout to all states:* 58 percent<br><br>*State project—tailored to the needs of specific states:* 11 percent | *Federal projects:* 38 percent (expected)<br><br>*State projects—centrally designed for rollout to all states:* 39 percent (expected)<br><br>*State project—tailored to the needs of specific states:* 23 percent (expected) |

*Sources:* World Bank documents.

Nigerian counterparts had opinions that differed from those of the Bank on the value and modalities for the lead states approach. First and foremost, the concept was challenged for excluding the poorest states. In practice, the focus on reforming and well-performing states limited access for poor states to the assistance and support they needed from the Bank, since almost by definition they have less technical and financial capacity.[36] Second, there was an arbitrary element to the ranking of states, which in some cases contradicted the common knowledge about front-runners in both performance and quality of services. Third, in addition to the 36 states with a high level of independence and authority, the federal government attached a great deal of weight to the balance among the 6 geopolitical zones in developing its policies. Because only four of the six geopolitical zones were represented in the selection of the five lead states, the concept was perceived as flawed.

***This approach evolved into a focus on well-performing lead states.***

***Nigerian counterparts argued against the approach because it excluded the poorest states.***

As soon as the selection was completed, some nonlead states started to challenge the selection. In many cases, they were making the case for engagement in specific sectors, where these states' governments had managed to demonstrate commitment to reforms and even achieve visible results. As a result, the lead states approach rapidly became diluted, and projects that were designed for lead states were implemented in nonlead states (referred to as semi-lead states). Examples include an education project in Kwara, a rural roads project in Osun, and a state governance and capacity building project in Bauchi. Concern was not limited to neglect of the lagging states; it extended to the possibility of the annual selection process resulting in frequent changes in classification and instability in donor interventions from the viewpoint of a state. For example, Cross River, initially chosen as one of the lead states, will cease to be so with the new CPS coming into force. From Cross River's perspective, this created a disruption in the amount of Bank lending it could expect. At the same time, many observers admit that the lead state principle has had several positive effects, including inducing some nonlead states to invest in improving public institutions.

***Hence, the lead state approach was quickly diluted.***

The CPS Progress Report (fiscal 2008; World Bank Group 2008b) noted that the Bank would continue to implement the lead state approach and would use engagement in other states to inform its decision on whether to expand into other lead states when the next CPS is prepared.[37]

## Russia

The Russian Federation consists of 83 constituent units that are referred to as subjects of the federation or regions.[38] The intergovernmental system has been undergoing a series of changes since the early 1990s. Subnational units, which traditionally had a marginal set of responsibilities, suddenly found themselves having to undertake more mandates with fewer resources.[39] In the 1990s, excessive expenditure obligations led regional governments to accumulate overdue liabilities.

***The first CASs for Russia focused on the private sector through regional projects, an approach that turned out to be premature.***

The period after 2000 was marked by the strengthening of the federal government's position: the federation was subdivided into seven federal *okrugs,*[40] each headed by a plenipotentiary presidential envoy; the governors were to be appointed by regional legislatures following presidential nomination. Income disparities among regions became especially pronounced. In 2005, per capita gross regional product in one of the richest regions (the oil-producing Tyumen *oblast* in Siberia) was about 69 times higher than that of the poorest region (Republic of Ingushetia in the Northern Caucasus). In 2006, per capita revenue before transfers in the richest region was 151 times that in the poorest region.[41]

Uneven distribution of industrial capacity and the colorful tapestry of multiethnic and multilingual groups add another layer of complexity to regional inequality. Industrial production is concentrated in the European part of Russia, mostly in Moscow and St. Petersburg and their vicinities, as well as along the Volga River and in the Ural Mountains, while a large portion of the country's natural resources, including oil and gas, is located in Siberia.

The Bank's first two CASs for Russia in the mid-1990s emphasized the role of the newly emerging private sector in promoting Russia's transition to a market economy. One of the specific objectives of the second of the two CASs (World Bank Group 1999) was to promote private sector development through regional infrastructure projects. Regions' participation in these projects was conditional on demonstrated commitment to the reforms needed to improve long-term creditworthiness. Lending to the regions, however, proved to be difficult, because only one of the four planned large infrastructure projects at the regional level was approved.[42]

Based on this experience, the 1999 CAS found that the strategy of lending to the regions was premature. It concluded that "*regional approaches may well become appropriate at a later time when efforts to improve their basic financial management and soundness have been clarified and fiscal and administrative relations between Regions and the federal government have ma-*

**Table 2.5: Evolution of Bank Engagement in Russia, Fiscal 1998–2008**

| | 1998–2009 | 2000–02 | 2003–06 | 2007–09 |
|---|---|---|---|---|
| **Category** | **Mid-1990s CAS** | **1999 CAS and 2001 CASPR** | **Early 2000s CAS and 2005 CAS Progress Report** | **2007 CPS and 2009 CPS Progress Report** |
| Bank strategy | Focus on reforming regions. Large regional investment loans in infrastructure. | Regional approaches are not appropriate for Russia. Subnational reforms would be targeted through systemic reforms through the federal level. | Focus on well-performing and creditworthy regions. | Deepen direct involvement in the regions by identifying a subset of 6–10 regions.<br>Type of Bank support would be based on the income level of the selected regions. |
| Progress/major developments | Lending to the regions does not progress as planned, resulting in approval of only one regional project. | Two large federal projects (fiscal 2000 and 2002) targeting regional public sector reforms are approved.<br>For the first time, regions have to compete for selection. | Two region-specific DPLs are approved, one in St. Petersburg (fiscal 2003), the other in Kazan (fiscal 2005). | New instruments for subnational engagement are developed and implemented:<br>1. Subsovereign loans without sovereign guarantees.<br>2. Reimbursable technical assistance (fee-for-service). |

*Source:* Bank country strategy documents.

*tured*. (World Bank Group 1999, paragraph 50). Accordingly, the CAS recommended a shift in emphasis toward activities aimed at rationalizing federal-regional fiscal relations and improving basic management at the local level. In addition, the CAS stressed that the Bank "*should address the key agenda of subnational reform more through systemic reforms via the federal level than through large, regional based projects which are very expensive to prepare*" (World Bank Group 1999, paragraph 103).

During this period, two federal projects[43] that focused on fiscal reforms and public sector management at the regional level were approved. The novelty of these projects was that they piloted a competitive approach for selecting the participants. Regions were to be chosen based on demonstrated improvement of quality and efficiency of regional fiscal management mechanisms.[44]

Both the 2005 CAS Progress Report (World Bank Group 2005b) and an earlier CAS inched toward more emphasis on development issues at the subnational level.[45] The 2007 CPS (World Bank Group 2006) added a finishing touch: the plan for gradual shift to the new modalities of cooperation and instruments based on the Bank-wide strategy for engagement with middle-income countries. While the core program of activities was to focus on traditional instruments,[46] some resources were to be invested in developing new areas of cooperation, such as direct subnational lending without sovereign guarantee (jointly with IFC) and reimbursable technical assistance (fee for service) (table 2.5).

***CASs in the early 2000s put greater emphasis on subnational development issues.***

The 2007 CPS identified groups of regions based on five criteria: willingness and commitment to work with the Bank, history of successful cooperation, reform-orientation and competence, strategic importance and the possibility of scaling up in other similar regions, and creditworthiness and potential interest in Bank operations (for wealthier or middle-income regions). Regions were chosen from three groups—high income, middle income, and poor. For the three high-

*From 2007 to 2009, the Bank deepened its involvement in the regions, but with selectivity based on willingness and commitment, creditworthiness, and reform orientation.*

income participants, cooperation was focused on fee for service, with possible direct subnational lending. The 10 middle-income regions would be eligible for subnational lending, with fee for service on selected issues. Finally, the low-income group, including 11 regions from the Southern Federal *Okrug* (not eligible for subnational borrowing) would be able to benefit from Bank-supported federal projects implemented in these regions, as well as grants and AAA. Reimbursable technical assistance has recently attracted a great deal of interest among Russia's regions.[47] Subsovereign loans without sovereign guarantees are also slowly gaining ground.[48]

*As the states' fiscal stances improved in the 1990s, they were allowed to seek financing from the Bank.*

## Conclusions

Following the crises of late 1990s, the economic situation improved substantially in all four countries reviewed, and federal governments became less dependent on foreign financing.[49] At the same time, considerable improvement in states' fiscal stances (increasing primary surpluses and declining debt/revenue ratios) generated fiscal space. In this new environment, states were allowed to seek financing for their investment programs, as long as fiscal constraints, established at the federal level, were satisfied. For the Bank, this was an important development, because federal governments were scaling back on borrowing from the Bank (Brazil, Russia). Adapting to this new policy environment, Bank strategies in large federal countries proposed a major expansion in state-level engagement.

In Brazil, the fiscal 2008 CPS (World Bank Group 2008a) followed the approach of "principled opportunism," which focused on a technical assistance program of modest size with the federal government and a major demand-driven lending program with states. Bank assistance focused on some of the more prosperous (such as Rio de Janeiro, Rio Grande do Sul, Minas Gerais, and São Paulo) or reformist states (Bahia, Ceará). Bank assistance was generally demand-driven, conditioned on the perceived commitment and ownership of reforms and fiscal responsibility.

Although the Bank initially attempted to expand investment lending, this proved cumbersome given the two-tier approvals required by the state and the federal governments. As a result, by 2008 the composition of state lending in Brazil had shifted toward cross-sectoral operations in support of economic policies and public sector reforms, such as the first DPL for the state of Minas Gerais (2006), and the innovative Ceará and Minas Gerais' multisector SWAps (2006 and 2008, respectively).

In India, following the mid-1990s CAS, the Bank substantially shifted its focus to state-level engagement. The timing of this shift was significant, because states were facing financial problems and both the federal and state authorities were keen to tap into Bank's resources and take advantage of technical assistance. The Bank decided to initiate major involvement in progressive reforming states—the focus states approach—initially selecting Andhra Pradesh, Karnataka, and Uttar Pradesh for this purpose.

In 2004, the Bank CAS signaled a change of strategy, noting that the focus on reforming states was causing neglect of the lagging states. The CAS signaled the intention to provide technical assistance to the lagging states and to try shifting lending to them as well. This proved difficult to achieve. The 2009 CAS completion report noted that, in practice, while lending at the state level remained a large share of the overall program, the share of lagging states had actually declined.

In Nigeria, the Bank reactivated and intensified its lending activities after return to civilian rule in 1999, and the project portfolio rose from $80 million in 2000 to $750 million in 2007. During that period, Bank strategy passed through two phases: the first was a period of interim strategies (fiscal 2000–05) following reengagement; the second was covered by the fiscal 2005–09 CPS, when the Bank adopted a medium-term focus. Engagement at the state level in Nigeria was driven largely by social and poverty reduction agendas, with focus on improving infrastructure and providing support for agricultural and rural development. During the period of the fiscal 2005–09 CPS (World Bank Group 2008b), the Bank's strategy formally moved to focus on well-performing states, called lead states, seeking to leverage state efforts and resources by granting them access to a performance package. Five states were selected based on the government-led SEEDS benchmarking process. The lead-state approach is currently under review.

While a mid-1990s CAS for Russia proclaimed greater emphasis on regional investment projects (despite recognition that they were expensive to prepare and supervise), a CAS near the end of the decade outlined a phased shift in lending away from investment projects in infrastructure and energy in favor of increased emphasis on systemic aspects of institutional development. A Russia CAS in the early 2000s continued the strategy shift, emphasizing support for reforms at the regional level, particularly to strengthen public sector management. The 2005 CAS Progress Report (World Bank Group 2005b) stated that work at the regional level was to be multisectoral in nature and would concentrate on a small number of regions. The 2007 CPS (World Bank Group 2006) added a finishing touch: the plan for a gradual shift to the new modalities of cooperation and new instruments, such as the subnational facility that allows the Bank Group to provide funds without a sovereign guarantee to states and municipalities and provision of technical assistance on a reimbursable basis (fee for service).

Overall, the Bank's intent to invest more in reducing poverty and building capacity through engagement at the state level in large federal countries was sensible. In most cases it was an easy decision to make, because federal governments significantly reduced their borrowing from the Bank and provision of many important public services is the responsibility of state governments in most of these countries. In this context, reforming the capacity of state governments to manage their fiscal resources was a critical entry point for state-level engagement; in some cases it was a prerequisite. Once the Bank decided to engage at the state level and defined its objectives to support fiscal reform and poverty reduction in those states, the issue became how to do this effectively. It was impossible to engage in every state, so the Bank had to be selective. But the basis for selectivity has proved one of the most difficult issues to resolve. Tension often arose between supporting progressive states to carry on with reforms and helping the poorest states. Various approaches have been adopted to take these factors into account. The tension is most apparent in India, where the pendulum has swung from one criterion to the other during the period.

*The main issue was how to do this effectively and how to select states for engagement.*

*The Bank's intent to invest more in reducing poverty and building capacity by engaging at the state level was sensible.*

One approach to reconciling the two selection criteria is to treat them as two different strands or objectives in the Bank's work. First, the Bank has supported fiscal reform both with regard to center/state fiscal relations and reform of state-level finances. Second, the Bank engaged strategically at the state level, trying to adapt the instruments at its disposal (loans and analytics) to support the broader development/poverty reduction agenda. The different approaches taken by the Bank in the four countries will be looked at from these two perspectives in the next chapters of this report.

# Chapter 3

- The Bank provided support for fiscal federalism and for improved state capacity to plan and manage revenues and expenditures.
- Political economy issues make it difficult for the Bank to engage in fiscal federalism, but it can do more than it has in the four countries studied.
- The Bank's efforts in support of fiscal reforms at the state level have resulted in positive reforms in all four countries, but the outcomes are unclear.
- While the Bank had a clear and accepted federal-level strategy for state engagement, it rarely had a state-level strategy for engagement. Where it did, the strategy did not cover all the states with which the Bank engaged.

Workers from the Medniy copper processing plant walking home after their shift.
Photo by Yuri Kozyrev, courtesy of the World Bank Photo Library.

# The Scope of Bank Engagement

Another issue for the Bank was the *scope* of engagement at the state level. In Brazil, India, and Nigeria, the Bank had carried out numerous state-specific projects as part of its support for nationwide sectoral programs.

The decision about which states to engage with (for example, in support for agriculture and rural development in India or education in Brazil) was sometimes a strategic choice, but more often a matter of historical engagement or the availability of analytic work, based in turn on opportunistic involvement of the Bank in particular states. In the new context, the Bank was increasingly steering toward a new model of engagement with two distinct elements: support for fiscal reform and broader multisector engagement at the state level.

## Fiscal Reform

In the fiscal area, the Bank provided two categories of support: that for fiscal federalism, addressing the fiscal relationship between the federal and state governments; and specific support for state governments to improve their capacity to plan and manage their revenues and expenditures.

### *Fiscal Federalism*[1]

The fiscal relations between federal and state governments can be broken down into four broad areas. The first is the allocation of revenue authority between the federal and state governments. In most countries, the bulk of taxes are collected centrally, and even where sharing revenues with the states is automatic, the states have no legislative control over the policies and administration that govern taxes. The second is transfers from the center to states,[2] which are usually either formula-based or discretionary transfers to fund federally mandated programs. The third is allocation of responsibilities for public expenditures between the federal and state governments, which covers most of the major economic and social sectors. The fourth is the capacity of state governments to run deficits and borrow to meet those deficits.[3]

**Revenues.** The central government normally collects all taxes on external trade. Practice differs with regard to personal income tax and value added and excise taxes. In general, state and local governments are permitted to levy sales taxes and taxes on property, both immoveable and moveable, as well as to collect for local licenses and fees.

However, there is a vertical imbalance in the four countries studied—that is, the share of tax revenues collected by the central government substantially exceeds the federal share of expenditures, and vice-versa for the state level. There are three rationales for this. First, it is generally more efficient for the federal government to collect taxes; that is, the cost of collections per dollar raised will be lower. Second, there needs to be *equalization* across states; that is, part of the resources raised from taxation should be transferred from richer states to poorer ones. Third, the central gov-

*In the countries studied, the share of taxes collected by the federal government is much larger than its share of expenditures, requiring significant revenue transfers to the states.*

**Box 3.1: Increasing Use of Earmarked Transfers in India and Russia**

Since 2000, the Indian government increasingly has used earmarked matching grants to states for special purposes—called Centrally Sponsored Schemes. The largest of these is the Education for All Initiative. The incentive provides major funding for primary education, but instead of being channeled through state government budgets, it goes directly to special parastatals (district-level societies) that the state governments were required to set up to be eligible to receive these funds. Other major Centrally Sponsored Schemes now include the countrywide school meal program, the National Village Roads Scheme, the National Rural Health Mission, and the National Rural Employment Guarantee Scheme. The Indian government has also used these schemes to secure reforms in other areas, such as state taxes. For example, funding for the Jawaharlal Nehru National Urban Renewal Mission was made conditional on state governments reducing stamp duty rates.

In Russia, the number of designated National Projects has been increasing since 2005. These are sets of targeted programs cofinanced by regional governments. They are aimed at implementing the main constitutional guarantees that are under the joint jurisdiction of the federal government and the regions—that is, education, health care, affordable housing, and agricultural development. These are funded through earmarked capital transfers.

In both countries there is considerable debate about whether the high proportion of funding through these schemes and the loss of autonomy in expenditure allocation at the state or republic level, as well as the conditionalities associated with them, run contrary to the spirit of federalism.

*Source:* IEG consultant reports and mission interviews.

ernment needs a role in directing resources at the state level to programs that are considered national priorities.

**Transfers from the center to the states.** Transfers usually have two components. The first is block or unconditional grants that are provided based on formulas that generally give the greatest weight to population, but also include equalization mechanisms, which allocate more funds on a per capita basis to states with lower per capita incomes.[4] Sometimes the transfers also include an incentive element that ties them to the state's own revenue efforts or its willingness to engage in fiscal reform. A second set of transfers are ad hoc and are for specially defined purposes. These may have some criteria or formulas associated with them, such as matching grant programs, or they may be discretionary grants from line ministries and not necessarily nationwide in scope (box 3.1).

**Expenditures.** The allocation of expenditure responsibilities between the center and states usually relates to the locus of programs. For example, primary education is typically a responsibility of state or local governments, although in India the federal government's frustration with the slow pace of achieving the education MDG led to the involvement of the national government at the primary level (box 3.1). Federal responsibility increases as one ascends the education ladder. In Nigeria, this happens early, with joint responsibility for secondary schooling. In the other countries, secondary schooling tends to be a state responsibility, but there are exceptions for specialized schools and disadvantaged regions. There is generally a major federal role in tertiary education. In many areas, states are subject to unfunded mandates from central legislation that require them to undertake programs, but no funding is provided.

Another element of expenditure that is not fully under the control of the state government is that of public sector salaries. While in theory state bureaucrats' salaries are independent of those paid by the federal government, in practice it is impossible for state governments to resist the pressure to match salaries with those of federal officials. In the past few years, federal government salary increases in India and Nigeria have seriously worsened the financial situation of the state governments.

**Deficits, borrowing, and debt management.** Practice varies on the treatment of deficits and the

### Box 3.2: The Fiscal Adjustment Program in Brazil

As part of their 1997 debt restructuring agreement, states signed a Fiscal Adjustment Program (PAF) and committed to meet negotiated targets on the financial debt/net real revenue ratio, a minimum primary surplus, maximum wage bill expenditure, minimum own-revenue collection, structural reforms and/or assets divestiture, and level of investment expenditures. The PAF is a three-year rolling fiscal program, annually monitored by the federal government, and revised as needed, up to the 30 years during which the state is under the obligations of the debt restructuring agreement. Of 26 states and the Federal District, only 2 states (Tocantins and Amapá), which had no significant outstanding debt, did not sign the agreement.

The PAFs have been a powerful instrument for fiscal and structural reforms at the state level and for supporting macroeconomic stabilization policies. Since the PAFs were signed, states have shown significant improvement in most of the relevant indicators. There has been a reduction of debt ratios, increasing revenue collections, and primary surpluses as a ratio of state net revenue. For some states, the proceeds from privatization were a significant contributor to amortization of debt. The program has shown mixed results with respect to structural reforms of the states, such as the social security system.

Although specifically designed to resolve the states' debt crisis of the 1990s, PAFs have been critically important, paving the way for the adoption of the Fiscal Responsibility Law (FRL) in 2000, which brought a more strategic approach for a sustainable fiscal policy in the Brazilian federation.

*Source:* IEG consultant reports and mission interviews.

borrowing capacity of state governments over time both within and across countries. Borrowing presents a particular problem. On the whole, federal governments are open to the idea that better-performing state governments or their operating enterprises should be able to go to the market to borrow without a sovereign guarantee and for the markets to impose discipline. Where state governments are able to borrow from the banking system without federal guarantees, they have sometimes incurred high levels of debt that they were unable to service. In these cases the federal government has invariably been forced to step in and meet the states' deficits so that, in effect, there has been a sovereign guarantee for such borrowing. For this reason, where states or their operating enterprises are allowed to borrow, there are usually federal oversight mechanisms in place requiring approval of the borrowing.

In Brazil, there was a considerable expansion of subnational indebtedness from the 1980s to the mid-1990s, mainly through loans from state official banks and bond issues. In 1989 the federal government assumed part of the states' external debt, equivalent to 2 percent of GDP. This bailout proved insufficient, and in 1993 there was a second debt bailout equivalent to 7.2 percent of GDP. By the mid-1990s inflation was above 2000 percent a year and the Real Plan was introduced, which succeeded in establishing financial control and price stabilization. However, price stabilization limited the growth of the states' revenues, and the failure to adjust levels of state public expenditure, along with high interest rates, led to an unsustainable fiscal situation for many of them. This led to a third restructuring of state debts in 1997. This time the restructuring was associated with formal agreements (the Fiscal Adjustment Programs, or PAF), legal measures, and fiscal and structural reforms, which contributed to the significant improvement in state finances that took place after 2000 with the implementation of the FRL (box 3.2).

***Where state governments have been able to borrow from the banking system, they have sometimes incurred high levels of debt requiring the federal government to bail them out.***

In India, the government maintains tight control of all external borrowing and market borrowing through the issue of state government bonds. These require approval of the Department of Expenditure. The constitution forbids direct external borrowing by states and requires states to seek central approval for domestic borrowing as long as they have outstanding debt to the central government.

**Box 3.3: Analytic Work on Fiscal Federalism in Russia**

With the dissolution of the Soviet Union and the need to put in place new instruments and rules for the relationship between the central government and the regions and republics, the Bank undertook a substantial program of analytic work designed to stimulate and contribute to internal debate and policy formulation.

The studies published by the Bank included *Russia and the Challenge of Fiscal Federalism* (World Bank 1994), which outlined the nature of the center-regional issues and tensions and how a well-designed intergovernmental system could help reduce them; *Fiscal Management in the Russian Federation* (Le Houerou 1995); "Federal Transfers in Russia: Their Impact on Regional Revenues and Incomes" (Le Houerou and Rutkowski 1996); and *Subnational Budgeting in Russia: Preempting a Potential Crisis* (Freinkman, Treisman, and Titov 1999).

With a significant change in the approach to fiscal federalism that took place in 1999, the Bank published a Policy Research Working Paper on *Decentralization in Regional Fiscal Systems in Russia: Trends and Links to Economic Performance* (Freinkman and Yossifov 1999). This was generally regarded as a major study of fiscal federalism in Russia. It promoted an intensive dialogue between the Bank and the federal and regional governments on these issues and laid the basis for the Regional Technical Assistance Loan at end-1999 and the Fiscal Federalism and Regional Fiscal Reform Loan in early 2002.

*Source:* World Bank documents.

In Nigeria, the debt management framework also distinguishes between external and domestic debt. States cannot engage in external borrowing without federal approval and guarantees. The federal government borrows on behalf of states and on-lends to them. States are expected to execute a subsidiary loan agreement with the federal government. In domestic borrowing, some domestic debts require federal guarantees, while others do not. However, there are guidelines for each type of domestic debt. States have to comply with the guidelines that involve federal guarantees. The level of compliance with guidelines that do not involve federal guarantees is suspect.

In Russia, state governments are allowed to borrow without a federal guarantee, and indeed the federal government has refused to issue guarantees for state government borrowing and has stated clearly that it will not bail out states that encounter problems in servicing their debt.[5]

*Political economy issues make it difficult for the Bank to engage in fiscal federalism.*

There is a substantial political economy dimension that makes fiscal federalism especially sensitive for governments. First, there is the problem of the cohesion of the federation as a whole. Most federations are culturally diverse and there are centrifugal tendencies that the central government tries to counter through the transfer mechanism. Nigeria represents a particularly clear case of the use of transfers to counteract such tendencies. Second, there are often more direct political agendas dealing with the relationship of the party in power in the center with the party in power at the state level. Third, there is the interest of the federal bureaucracy in maintaining substantial say in how resources are allocated and used. Finally, there may be governance issues related to the interest at various levels in capturing rents from revenue and expenditure authority.

These factors make fiscal federalism a difficult area for Bank engagement. Where it has sensed openness on the part of the authorities to lending or analytic work, the Bank has attempted to engage. In Russia, the Bank had an intensive program of work on fiscal federalism in the late-1990s (see box 3.3). In Brazil, the Bank has undertaken some analytic work on these topics, including a study of state debt (World Bank 2002a). A study carried out in India on state-level fiscal reform has some discussion of fiscal federalism issues (World Bank 2005b). In India, the Bank has also facilitated technical discussions of the Indian Finance Commissions with internationally reputed researchers and has contributed to the national debate through occasional seminars and conferences. In Nigeria, the Bank has kept away from this topic, given its extreme political sensitivity.

While the Bank clearly needs to consult closely with the federal governments of the countries concerned to ensure the timing and nature of any interventions in this area, there would seem to be three ways in which the Bank can go further than it has to date. First, it can ensure that it has the in-house analytic capability and information in this area and can indicate to the federal government its willingness to act as an honest broker should the government find this useful. Second, the Bank can undertake more analysis of the way in which the current system is working; that is, what the impact is on state-level income and expenditure, without taking a position on whether or not the system should be changed. Third, the Bank can foster cross-country knowledge sharing on issues of fiscal federalism by bringing together policy makers and officials to discuss the problems they have encountered and their approach to addressing them.

*However, it can do more—ensuring that it has the appropriate capacity to analyze the way the current system works and by fostering cross-country knowledge sharing.*

### Fiscal Capacity at the State Level

In the mid-1990s the federal governments of Brazil and India, facing serious state deficits that contributed to overall macroeconomic instability, showed increasing interest in Bank engagement at the state level to support efforts for fiscal reform.[6] The broad criterion was that the state concerned had to have the fiscal space to accommodate borrowing from the Bank, and the carrot of Bank lending could therefore induce the states to adopt the reforms needed to establish and maintain fiscal space and facilitate the process through easing the adjustment.[7]

The determination of whether a state has fiscal space varies from country to country. In India this is assessed case-by-case by the Department of Economic Affairs, which reviews states' requests for Bank loans. In Brazil the determination is rule-based, with clear criteria established by the FRL. In Nigeria, since Bank loans are passed on by the federal government as grants, this is not an issue. The overall Bank lending program is the subject of consultation with the Ministry of Finance, and once this is agreed, the Bank goes ahead with the individual projects identified as part of the CPS. In Russia, Bank funds intended to promote fiscal reform at the regional level (the Fiscal Federalism Reform Project) were passed on from the federal government to the regions as grants, with the intention of maximizing their incentive effect. The Bank's lending for fiscal reform in Russia was based on selecting participating regions based on fiscal performance.

*Bank lending was an inducement for states to engage in reforms that would improve their fiscal capacity.*

The Bank's support for fiscal reform has four major components: increasing state revenues, use of an adjustment approach, improved public expenditure management, and support for improved governance. The next sections discuss each of these.

### Increasing State Revenues

The Bank has a rather uneven record in supporting the efforts of state governments to increase their revenues. In Russia the Bank has had major involvement in this area. In 1995, the Bank financed a first Tax Administration Project, focused on the modernization of local tax offices in Nizhny Novgorod and Volgograd. This was followed by a second Tax Administration Project in 2002. In Nigeria, in the State Governance Project, support for improving tax policy and administration was included in two of the three states covered by the project (Bauchi and Kaduna) at the specific request of the state governments. In India, the SAL/DPL programs have had a revenue-reform component. In both Andhra Pradesh and Orissa, the Bank expedited the introduction of the value added tax by making it part of the agreed conditions. In Andhra Pradesh there was also agreement on the establishment of a Revenue Reforms Commission to talk out a tax and non-tax revenue reform program. In Orissa, the Bank required tax reforms in motor vehicle taxes, stamp duty, property tax, and profession tax. Despite this, the view expressed by the Indian authorities is that this is an area where greater support from the Bank would be welcomed. In Brazil this has not been a component of the Bank's program, partly because of the support being provided in this area by the Inter-American Development Bank (IDB) and the International Monetary Fund (IMF).

*The Bank's record on support for increasing state revenues is uneven.*

One of the general impressions from all four countries was that the Bank could well do more in helping state governments improve and expand their revenue-generation activities. Almost all state governments need to reduce their dependence on federal transfers and generate additional resources for investments in physical and social infrastructure. Perhaps even more important, the relation between revenue raising and the quantity and quality of expenditure at the state level needs to be made clearer to the population of the state. Demand for good governance is closely related to the concern of the public that the money that they pay in taxes is effectively used.

### Use of an Adjustment Approach

The Bank has generally linked its adjustment loans at the state level to sound macroeconomic management. In Brazil and India this linkage has sometimes been associated with an effort to turn around a poor-performing state, so that the Bank loan was made at a time when the fiscal condition of the state was still problematic. The counterfactual of Bank involvement in fiscal adjustment is very difficult to determine, since relatively rapid growth in all the countries in this study during the period from 2000 to 2007 has meant that state finances have also improved substantially. In Brazil all the states where the Bank has been engaged have come into compliance with the FRL. Meeting the relevant fiscal indicators was a trigger for the operations. In the Ceará Multi-Sector Social Inclusion Development Project there were indicators for the primary surplus and revenue/GDP ratio. The Minas Gerais Development Policy Loan followed a similar model, with up-front requirements on meeting the conditions of the FRL and the separate agreement with the Brazilian government (the so-called PAF) that the state had signed as a condition of debt write-downs.

*Adjustment lending to states generally was linked to sound macroeconomic management.*

*The effects of the Bank's efforts have been obscured by the high level of growth in all four countries during the period.*

In India the evidence of the impact of Bank lending on state-level fiscal adjustment is somewhat mixed. In the early period of its state strategy, the Bank decided that it would try to engage with the government of Uttar Pradesh, the first state to get an adjustment loan from the Bank. However, there was no follow-up, because the Bank's partnership with Uttar Pradesh weakened amid frequent political changes in state government and weakening commitment to a program of fiscal reform.

In Andhra Pradesh the Bank determined that a substantial part of the fiscal problem was the provision of free or heavily subsidized electricity in the rural areas. Attempts to condition lending on a lowering of subsidies proved politically infeasible. In 2007 a detailed evaluation was done of the impact on fiscal adjustment of "Ten Years of World Bank Sub-National Policy-Based Lending to India" (Howes, Mishra, and Ravishankar 2007). The study (pp. 41–68) concludes that:

> *It is impossible to give a rigorous answer (to the question of the impact of state policy-based lending on state reforms). Performance against fiscal targets was largely on-track. While non-PBL states also have achieved some fiscal adjustment, overall PBL states adjusted faster and further than non-PBL ones. We attribute this largely to the effective screening put in place which avoided the adverse selection problem often associated with PBL, but also to the combination of lending, dialogue and monitoring which helped place reform higher on the political and bureaucratic agenda than it would have been otherwise.*

The authors claim that part of the achievement was that this supported the Bank's focus state strategy, which "succeeded in its aim of creating a demonstration effect across India's states to build support for reforms." But the evidence for this demonstration effect is not provided, and the Bank itself has abandoned the focus state approach as ineffective and as limiting its capacity to operate in poorer states. On balance, the judgment must be that while it is likely that there is a positive impact on fiscal adjustment through policy lending at the state level, it is a modest impact at best.

In Nigeria, the Bank adopted the lead states approach (along the lines of the India focus states approach), which proposed to allocate Bank lending to states that met certain criteria for fiscal responsibility, such as producing budgets and accounts within a certain time frame. The hope was that this would have a demonstration effect on other states, which would then also become eligible for lending from the Bank. There is no evidence to suggest that this has led either the lead states or the other states to pursue fiscal reform with more vigor (or less vigor in most cases) than they would have done otherwise. The Bank is now considering the use of development policy lending or multisector lending at the state level, which could be triggered by the passage of FRLs.

A similar approach was taken in Russia, where eligibility for the Regional Fiscal Technical Assistance Loan and the Fiscal Federalism and Regional Fiscal Reform Project (FFRFRP) was determined on a competitive basis, with criteria related to fiscal performance and the quality of the reform programs put forward. In the Russian case, the evidence seems much stronger for a positive impact on fiscal performance of the participating states.

### *Improved Public Expenditure Management*

A key part of the Bank's engagement at the state level is to improve the quality of public expenditure management. This is an important area of the Bank's comparative advantage. In this context it is surprising that the Bank has carried out very few state-level Public Expenditure Reviews (PERs), with the possible exception of India, where PERs were often part of state-specific economic reports. While carrying out PERs for states is costly, it needs to be remembered that many of these states are substantially larger than most of the countries where the Bank carries out analytic work on public expenditures. In some countries there is still ambiguity about the relative responsibilities for expenditure between federal and state governments. This is particularly so in Nigeria, where, for example, both levels are responsible for secondary education. Again, this is an area where the Bank has not undertaken analytic work or taken a clear line, even in its lending programs, on the appropriate allocation of responsibility.

Aside from the issue of allocations, however, there is also the much more significant question of improving the quality of public expenditure management—that is, enhanced and timely budgeting, the use of Medium-Term Expenditure Frameworks and outcome targeting, the accounting and auditing procedures, oversight by state legislatures, the implementation of treasury systems, state procurement, monitoring and evaluation, and so on. In Nigeria and Russia in particular, this has been the core of the Bank's efforts to support fiscal reform at the state level.

***Although improved public expenditure management is a key part of the Bank's engagement at the state level, it has done very few Public Expenditure Reviews for states.***

**Brazil.** The Bank's adjustment and multisector loans in Brazil can be characterized as mainly supporting more effective state government programs for growth and poverty reduction. The specific content of the loans was not fiscal, but, as indicated above, the operations were conceived with the fundamental objective of supporting the adjustment of the states' investment and expenditure programs to render them consistent with the requirements of the FRL. Meeting the relevant fiscal indicators was the trigger for each operation.

Although the Ceará Multi-Sector Social Inclusion Development Project was considered very successful in meeting the agreed social and economic indicators, it did not address, for example, the existing state financial management and procurement systems, which are regarded as weak. The Implementation Completion Report noted that a more proactive approach to supervision of financial and procurement management would have been beneficial (World Bank 2008a). The Minas Gerais DPL laid the foundations for improved public sector management, helped in the state's fiscal turnaround, and enabled the state government to successfully implement a results-based management system. These operations in Ceará and Minas Gerais have had a powerful demonstration effect on other states, which have shown a great deal of interest in learning more about the implementation of results-based approaches to development management.

**India.** In the two focus states examined as part of this study, Andhra Pradesh and Orissa, the Bank agreed with the state government concerned to support a substantial set of reforms in public expenditure management. A first set of reforms related to budget management, including the setting of hard budget ceilings, the aggregation of subheads for small programs to allow flexibility, and the de-linking of departmental salary budgets from programs to allow personnel reallocation and the closing down of dysfunctional programs.

A second set of reforms related to the introduction of e-governance and e-procurement, including computerization of document registration, payrolls, pensions, and the government employee database and the introduction of an Internet-based tendering system for procurement above a designated value.

A third set of reforms related to the identification of public enterprises for reorganization, privatization, or closure; the implementation of the program; and the introduction of a voluntary retirement scheme, with provisions for retraining and reallocation of the employees. Other measures included the establishment of the Center for Good Governance in Hyderabad, with support from DFID, and the introduction of Medium-term Expenditure Framework Plans for selected government departments.

**Nigeria.** The Bank's major intervention at the state level has been the 2005 State Governance and Capacity Building Project. This was originally rolled out for three states—Bauchi, Cross River, and Kaduna—but a component in the 2006 Lagos Metropolitan Development and Governance Project uses the same model. The model has a standard package that covers all participating states. It includes public financial legislation, budget preparation, an accounting and reporting system, external audit, budget and treasury information systems, and human resource management. In addition there is a state-specific component for which each state was asked to identify its priority needs. In Bauchi and Kaduna the emphasis was on revenue through the modernization of the taxpayer identification system, while in Cross River the state requested the rehabilitation of the Management Development Institute. The project got off to a very slow start, but has now begun to show some progress. A series of targets was established for the project objectives, and there has been progress toward them, though none have been met yet. These projects represent a very small and tentative first step in tackling one of Nigeria's most serious development issues.

**Russia.** In 1999, the Russian government took significant steps to reform intergovernmental fiscal relations. An interministerial working group for intergovernmental fiscal reform was established, a government fiscal concept paper was adopted, and the government resumed dialogue with the regions on key issues of intergovernmental reform. The Bank supported this process with two key operations: the Regional Fiscal Technical Assistance Project (RFTAP) and the Fiscal Federalism and Regional Fiscal Reform Loan (FFRFRL).

The $30 million RFTAP was approved in December 1999. The purpose of the project was to support participating regions in a wide range of institutional development programs.[8] Access to RFTAP funds was determined competitively on the basis of performance. The principles were widely advertised. On the basis of this competition, six regions were selected for participation in the project.[9] Despite slow implementation, the project has produced a formidable list of achievements, including enhancements in federal and regional fiscal legislation, federal monitoring capacity, accounting and budgeting in the selected regions, and the carrying out of sectoral PERs.

The objectives of the FFRFRL of 2002 were to support the regions in the implementation of fiscal reform programs that promoted financial transparency and budgetary accountability and strengthened fiscal management policies and practices at the regional level. This was an adjustment loan intended to support the implementation of the Regional Fiscal Reform Fund (RFRF) set up by the federal government. The RFRF, in turn, was a window of the federal budget to reward regions that demonstrated effective fiscal performance and put in place fiscal reform programs. Regions competed for this Fund by meeting a set of specified standards.

Over a three-year period (2002–05), the FFRFRL made a significant contribution to the evolution of fiscal management at the regional level. Although the overall amount of the loan may seem small in relation to the size of the Russian economy, it was leveraged by the resources of the RFRF. And, for each participating region, it represented a sizeable share of their budget and a substantial incentive to improved performance. A set of quantitative proxy indicators of quality was established at the outset of the project, and the value of these had doubled by its completion. Among the achievements at the regional level were the introduction of new procedures to control budget commitments, reduction in the number of off-budget accounts, monitoring and capping of tax exemptions, improvement of the information base and monitoring of debt, improved asset management techniques, and strengthened internal audit of the use of budget funds.

### *Support for Improved Governance*

In most cases the Bank's approach to governance issues at the state level appears to have been indirect, through the various aspects of improved public expenditure management described earlier. The Bank has used Investment Climate Assessments at the state level in some countries to identify bureaucratic and, by implication, governance obstacles to private sector development. In Brazil, the Minas Gerais Development Policy Loan (MGDPL) had components for simplifying the tax regime for small and medium-size enterprises, creation of a one-stop shop, streamlining the environmental licensing procedure, and promotion of public-private partnerships.

***In some cases, fiscal reform is closely related to improved governance; in general, however, the Bank's approach to state-level governance issues has been indirect.***

Perhaps the most interesting operation of this type is the support the Bank provided to St. Petersburg in 2003 for an Economic Development Project that included reform of the business licensing regime, divestment of city-owned enterprises, reform and increased transparency of procurement procedures, and adoption of zoning legislation. This model of providing support to a state government that shows genuine commitment to tackling corruption and improving governance through institutional development and state legislation could be an important element of Bank operational engagement at the state level in the future.

On balance, the efforts of the Bank to support fiscal reform have yielded positive returns in all four countries examined by the study (box 3.4). The traction that Bank funding provided for fiscal reform at the state level was clear in all cases. While at the federal level the amounts of funding the Bank

***The Bank's efforts in support of fiscal reforms at the state level have resulted in positive reforms in all four countries.***

**Box 3.4: Improved Governance in the Fiscal Area in Orissa**

In Orissa, a contributory factor to the state's fiscal problems until 2000 was the lack of transparency about the seriousness of the problem. The government preferred to maintain silence about the fiscal problems, and instead to publicize such achievements as the size of the approved (but not implemented) annual plans.

The Bank's involvement helped to illuminate the seriousness of the problem. An unpublished Bank report on fiscal reform and economic growth in Orissa cited the importance of issuing a White Paper as the first requirement of launching the reform program. This contributed to the decision of the state government to prepare an issues paper on the state's finances.

But more than any specific action or condition, the general perception is that the Bank's involvement and focus on these issues contributed to the changes that took place. The current situation is now almost the reverse of the previous situation, and state government and officials now take pride in the openness of the Budget-at-a-Glance document and the disclosures on the Internet.

A lesson from this experience is the importance of sustained and continuous engagement with the state government on these issues.

*Source:* IEG consultant report and mission interviews.

can provide are relatively small for these large countries, at the state level they represent real financial additionality.

In all the countries the Bank's role as an honest broker in providing incentives and support for state governments to participate in the federal fiscal reform agenda was significant, and all the state representatives interviewed appreciated the externalities of a direct dialogue with the Bank and the sense that the Bank was committed to, and interested in, their success.

When one moves to outcomes of Bank engagement in fiscal reform, measurement and attribution become difficult. As indicated for all the countries concerned, 2000 to 2007 were years of growth with improving finances at all levels of government. The Bank selected states where the government had shown commitment and already started to move in the proposed direction. In every case where the state followed through to the point of borrowing from the Bank, there is evidence of improved fiscal management. In some cases (Russia and Brazil) the improvements went beyond Bank projections. In India, improvement went beyond expectations in Orissa and was perhaps in line elsewhere, and in Nigeria it fell short, but with forward momentum.

## Multisector Engagement at the State Level

In addition to the specific focus on fiscal reform (discussed in the previous section), another aspect of the Bank's engagement with states in the past decade has been to take a holistic view of development at the state level—in essence treating the state as a country—and developing a strategic approach to supporting poverty reduction at the state level. The entry point for this broad engagement has generally been a state government commitment to fiscal reform, evidenced either through its record over the years (as in Ceará in Brazil or Karnataka in India) or through specific agreements with the Bank as part of a multisector lending operation, designed to restore fiscal stability (Andhra Pradesh in India or Minas Gerais in Brazil).

***In several states the Bank has developed a broad strategic approach to poverty reduction, designating such states "lead" or "focus" states.***

***But these states were generally not the poorest in their countries.***

In some cases the Bank has labeled these reforming states "focus" or "lead" states, with the implication that it would design a package of interventions intended to support the development effort. The two cases that were most fully worked through are the states of Ceará in Brazil and Andhra Pradesh in India. In both states the Bank program combined investment lending in most of the core economic and social sectors with multisector lending. The objective was to derive synergies from the combination of activities. In Andhra Pradesh, for example, the Bank was explicit in its view that the difficult measures required for fiscal reform needed to be matched by increased investment in agriculture, rural development, health, and education to provide a politically acceptable package of reforms.

It is noteworthy that the states in which the Bank had a broad strategic engagement were generally not the poorest. Instead, the Bank has spent a great deal of time in these countries supporting relatively high-income, high-capacity states (Minas Gerais, St. Petersburg, Karnataka). While this support has added value, it has come at the expense of Bank efforts in poorer states that lack capacity. The selection of states for broader engagement often focused more on the fiscal reform criterion than on the broader poverty issue. The state of Alagoas in Brazil is a good example. The reforming government of the state is saddled with a large debt overhang from past administrations and lacks the fiscal space, required by the federal FRL for external borrowing. The Bank, with the support of the federal government, is ready to provide assistance to Alagoas, but making an exception in this case might put at risk the discipline that the Brazilian authorities have worked so hard to achieve.

On the whole, however, the fiscal entry point has been a good proxy for the commitment of the state government to development and poverty reduction. For example, when the Bank initially attempted to work with Orissa, one of India's poorer states, the poor quality of fiscal management did

**Box 3.5: The Bank Program in Andhra Pradesh**

Andhra Pradesh is considered a middle-income state in India. In the late 1990s, Andhra Pradesh became one of the first Indian states to promote reform and fiscal adjustment and to reach out for Bank assistance. At the time, the Bank's strategy in India was to target the reforming states. Andhra Pradesh was selected as the initial focus state. The culmination of the Bank- Andhra Pradesh partnership was the Andhra Pradesh Economic Restructuring Project (APERP, 1998), a massive multisectoral loan underpinned by an agreed multiyear fiscal framework with a total loan/credit value of $540 million. This was essentially a DPL that had to be constructed as an investment loan, since Bank policy did not approve of subnational DPLs at that time.

After Bank policy on subnational DPLs changed, Andhra Pradesh received three DPLs (fiscal 2002, 2004, and 2007). The Bank's first state-level policy-based loan (S-PBL) to Andhra Pradesh addressed not only the need for fiscal adjustment, but also public expenditure management reform and restructuring of public enterprises, including privatization. The later DPLs added three specific sectoral foci: power, health, and education. The Bank's S-PBL program was controversial in India because it censored some populist measures such as free power and irrigation water for farmers. Despite the initial setback in the power and irrigation sectors, the S-PBLs not only ushered in fiscal correction but also helped Andhra Pradesh to become the frontrunner in a number of reform areas, with significant demonstration effect on other states: introducing a single-window clearance system for new investments, e-procurement on a wide scale, and so on.

Andhra Pradesh also implemented a number of investment projects (in the rural poverty, forestry, water, and power sectors) over fiscal 1998–2008. The Bank has also supported significant nonlending activities in Andhra Pradesh. It started with the "Andhra Pradesh: Agenda for Economic Reforms" (World Bank 1997) report, which underpinned the subsequent lending program. In addition there have been several Andhra Pradesh *Policy Notes* covering issues such as fiscal and debt management and analysis of its growth potential and public enterprise reform.

The portfolio of Andhra Pradesh has changed with the Bank's shift in strategy away from focus states to lagging states. While Bank's commitments to Andhra Pradesh had reached $1.5 billion by 2000, after the strategy shift in fiscal 2004, the Andhra Pradesh portfolio gradually fell. In June 2004 it comprised 10 percent of the total lending volume ($1.2 billion) and fell to 5 percent ($0.74 billion) in June 2008. At the time of the 2008 CAS, only one project planned for the state was considered firm (Andhra Pradesh Water Sector Improvement).

*Source:* World Bank documents and mission interviews.

not allow for adjustment lending and broad engagement. The Bank worked patiently with the authorities until there was evidence of progress in fiscal reform, and then moved rapidly to provide a wide-ranging support program.

The Bank's broad strategy of state-level interventions generally enjoyed the approval of most stakeholders. It was closely coordinated with and endorsed by the federal government—or rather, followed the federal policy. The specific contribution of the Bank was in identifying specific measures to *implement* this strategy, prioritizing various components, and adjusting modalities to suit individual states. The state governments, often feeling somewhat constrained in implementing reforms by political factors, realized that Bank engagement provided a way of reducing the political risks of supporting reform.[10]

### State-Level Strategies

*The Bank's strategy had the approval of most stakeholders.*

Many of the states with which the Bank is working closely are larger than most of the Bank's borrowing member countries. The Bank's lending programs in Ceará, Minas Gerais, Andhra Pradesh, Orissa, and Lagos are far larger than overall lending in many countries. Yet these programs have proceeded without the preparation of strategy documents.

The overall state strategy is discussed in CAS documents, but there is no room for outlining individual state-level strategies. To do this would clearly add considerably to the work program, but there are a number of factors that argue for periodic preparation of brief state strategies for the three-to-five states in each country where the Bank has or is likely to have a major engagement. This is likely to help on several fronts. First, there is the

***Although some of the states the Bank has worked with are larger than most of its borrowing countries, its programs in those states have not benefited from fully articulated strategies.***

matter of ownership of the program. It is easier to secure a clear public commitment to the approach, as well as bringing on board nongovernmental organizations (NGOs) and civil society, if the Bank can use a strategy document as the basis for a broad dialogue. Second, in most states and regions the Bank is not the only donor, and strategy documents could be useful for donor coordination. Third, this exercise would help to identify gaps in the knowledge framework at the state level and for the Bank and the state government to plan follow-up analytic work and better integrate it into the lending strategy.

In several cases, either the Bank or the concerned state government did try to put forward additional state-specific strategy documents. But these efforts did not cover all states in which the Bank had major engagements, and they were not pursued in a consistent manner, despite an enthusiastic reception at the state level.[11] In Nigeria, in the initial period of Bank reengagement (2000–03), Lagos prepared an economic blueprint (Lagos Ten-Point Agenda) with poverty alleviation and job creation as the central themes. Later (since 2004), all state governments in Nigeria developed comprehensive development strategies—SEEDS.

***Where there were state-specific strategy documents, they did not cover all the states with which the Bank was engaged.***

The Bank's CPS later built on the Lagos strategy and SEEDS and focused on improved governance, private sector–led growth, and human development at the state level. A promising approach to establishing partnership relations with regions in Russia are the memoranda of cooperation, signed with a few regions (Khanti-Mansiisk, Tatarstan, and Voronezh). In order to become a signatory to such a memorandum, a region should have a record of cooperation with the Bank. In Brazil, the Bank prepared state economic memorandums for a few states in the late 1990s, but this effort was not pursued in all states. In India, in addition to a number of high-quality state economic reports, (for example, World Bank 1997, which underpinned the subsequent lending program), several informal state strategies have been prepared and discussed with the authorities, but they were never formalized and/or spread to other states.

# Chapter 4

- Finding the right lending instrument for states was an early challenge.
- In most cases, multisector lending proved most effective for getting funding to the right areas at the state level.
- The fee-for-service approach also offers promise, but it is relatively new.
- The Bank's implementation arrangements were adequate, though there were concerns about the length and speed of the Bank's processes.
- The Bank's analytic work and technical assistance at the state level have been timely and competent, but it has not been considered a strategic part of the Bank's state-level engagement.
- The Bank has generally partnered effectively with other donors at the state level.

Road work in Brazil. Photo by Thomas Sennett, courtesy of the World Bank Photo Library.

# Modalities of State-Level Engagement

The issue of *how to engage* has also been a challenge for the Bank, and there has been considerable evolution in the approach. The first challenge was the use of adjustment lending at the state level. The first such adjustment loan was made to Uttar Pradesh, India, in 2000. Until that point the Bank had struggled to find an instrument to attach to its policy dialogue and strategic approach at the state level.

## Evolution of Instruments

The multisector restructuring loan in Andhra Pradesh, an investment loan undertaken in 1998, was a way of squaring the circle, but it was an enormously costly operation to prepare and supervise. With the adoption of the policy to allow for adjustment lending at the state level, the Bank was much better placed to conduct a policy dialogue with the state governments and to focus on some of the key policy constraints, such as governance, the investment climate, and the quality of public expenditure management.

Adjustment lending rapidly became the instrument of choice to support fiscal reform and statewide strategies in Brazil and India. In Brazil, however, there was a sense that adjustment lending was not as effective in reaching out to the line ministries in key sectors. The Brazil country team developed the innovative Multisector SWAp (see box 4.1), a results-based instrument with target indicators defined for each sector and disbursements associated with achievement of the targets.

Multisector lending has proved an indispensable component for drawing the core ministries—finance and planning—and the line ministries into a dialogue on development priorities. It also brought to the forefront the *intersectoral* linkages required to achieve results, such as the need for improved water supply to reduce infant mortality.

***Adjustment lending quickly became the preferred instrument at the state level.***

Another important innovation has been the pioneering of reimbursable technical assistance (fee for service) at the regional level in Russia. Bank budgets rarely allow the level of analytic work demanded by intensive engagement in three-to-five states, and an approach that permits states to pay for additional work has considerable promise for other middle-income countries.

As a result of these new developments, state governments recognized that they had an independent role in promoting policy reforms and financial execution, in addition to their normal responsibility for project execution. In Brazil, State Reform Loans (de facto DPLs) for the states of Mato Grosso, Rio Grande do Sul, and Rio de Janeiro (1997–98) included considerable policy components on fiscal adjustment (cuts in staff and salary of civil servants, pension and tax reforms) and structural reform. This new trend better responded to states' own investment and reform

***Multisectoral lending helped to attract the attention of the right ministries, and in Nigeria it helped overcome federal authorities' concerns about loss of control.***

### Box 4.1: Multisector SWAp

SWAps traditionally have been associated with a single sector. From this perspective, the SWAps in Brazil are innovative because they were adapted to integrate several sectors and they were delivered at the state level.[a]

Ceará was the first state to implement a multisector SWAp.[b] This loan aimed to strengthen social inclusion while preserving fiscal sustainability. It had a unique design, because it was an Adaptable Program Loan making use of a results-based SWAp loan modality.

The key innovative features of this loan were:

- **Multisectoral Model and Activities.** The loan had two components. The SWAp component supported nine eligible expenditure programs across five key line sectors: health, education, water and sanitation, water source management, and environment. The technical assistance component primarily supported public sector management. Targeting six sectors assured that institutional reform synergies would take place across sectors.
- **Results-Based Disbursement.** The project emphasized the use of results-based disbursement. Disbursement depended on the following: (a) the borrower had reached specific disbursement-linked indicators mapped to each sector; (b) the borrowers' primary surplus was above a certain threshold; (c) performance of Ceará on three other World Bank loans (water, education, and rural development), ensuring that these loans met stated physical as well as disbursement targets; and (d) the borrower had actually spent at least 70 percent of the amount budgeted for the specific sectors.
- **Disbursement to Treasury and Not to Sectors.** The Bank released its funds directly to the state treasury as a single tranche for reimbursement of expenditures under the various programs. It allowed the government to manage its fiscal resources and allocations while forging a partnership between the central and the line secretaries.

This loan had varying degrees of success in achieving the desired outcomes in the targeted sectors. It was very successful in leveraging the Bank's support to ensure that sector expenditure levels, which had been about 28 percent of budgeted amounts before the start of the project, were up to 70 percent. The loan also helped to reinforce other traditional investment projects. Two of the three investment loans in Ceará were upgraded to satisfactory as a result of cross-conditionality. The downside of the modality of this loan is that it is complex and it can be successfully implemented only if there is sufficient institutional capacity.[c]

***Multisector SWAps in Other Brazilian States***: The Ceará SWAp model was sufficiently successful that a second SWAp was approved ($240 million, 2008). The model is also being replicated in Minas Gerais ($976 million, 2008), the Federal District ($130 million, 2009), and Pernambuco ($155 million, 2009). Each of these operations follows essentially the same SWAp structure, combining support to public sector management reforms with support for selected sector programs. In addition, each one links disbursements to the borrower's ability to meet specific performance targets over the course of the loan. The nature of the indicators varies in accordance with the institutional development of the state/sector. For example, the Minas Gerais SWAp relies to a greater degree than the others on outcome measures: appropriate "stretch goals" for one of Brazil's most developed states. In contrast, Ceará SWAp-II will use mainly output measures rather than outcome targets as disbursement indicators for the sector programs.

*Source:* World Bank documents and IEG mission materials.

a. Before Brazil, only Mexico had implemented a multisector SWAp (fiscal 2004), but it was at the federal level.

b. Ceará Multi-Sector Social Inclusion Development Project ($150 million, fiscal 2006).

c. Despite being a poor state, Ceará was considered to be relatively well managed and reform minded, making it a viable candidate for implementing the SWAp.

plans, thus strengthening their sense ownership and commitment and improving capacity.

The only country among the four that received only investment loans (on IDA terms) was Nigeria. Proposed adjustment lending (World Bank Group 2000) never materialized because of concerns about macroeconomic stability and the government's commitment to reform. There has been no such proposal since then. Federal authorities have been skeptical about the use of DPLs in Nigeria, including at the state level, and have expressed concerns about possible loss of control over the public finance system. At the same time, some state-level counterparts have expressed interest in state-level DPLs or multisector SWAps.

**Box 4.2: Minas Gerais—From Management Shock to Results-Oriented State**

After years of economic mismanagement, the budget of Minas Gerais reached a deficit of R$2.3 billion (about $1 billion) in 2003. Public investment dropped from an average of R$5 billion/year (2003 prices) in 1995–98 to R$1.5 billion by 2003. The net consolidated debt of the state amounted to 238.87 percent of the net current revenue in 2003. Because of its indebtedness, the state could not count on financial support from the federal government to contract credit operations (this was prohibited by law).

Faced with extremely adverse fiscal conditions, the newly elected state government initiated a set of bold adjustment measures, the so-called *choque de gestão* (management shock), in January 2003. This management shock can be divided into two stages: fiscal balance and fiscal quality.

**First Phase (2003–06)**

The first set of measures concentrated on traditional policies: regaining fiscal sustainability by increasing revenue and rationalizing expenditures; reorganizing the state government's macro structure (administrative reform); integrating planning and management instruments; and establishing a new human resources policy—for example, creating a ceiling for remuneration.

The innovative feature was the creation of the Strategic Resource and Action Management. GERAES, as it was known, was the operational framework that guided the allocation of resources to structural projects. In 2005, the government defined and agreed on performance goals for all 31 of the state's structural projects. These data were entered in the central project monitoring system for regular monitoring of their performance, which enabled the government to limit wasteful expenditures. The combination of the traditional policies with the impact of GERAES turned the fiscal situation around. Starting in 2004, the state had four consecutive years of fiscal surplus, after one entire decade of fiscal deficit.

**Second Phase (2007–to date)**

Taking advantage of the improvement in public accounts, the Second Phase was launched in 2007, under the label of Results-Oriented State. This meant that fiscal balance would be a prerequisite for government action, and government performance would be measured by improving outcomes; that is, it had to be results-oriented. To move toward achieving this goal, the governor of Minas Gerais asked for the Bank's support. The Bank responded with a two-tranche DPL of $170 million, which was fully disbursed in May 2007. This DPL had three pillars—fiscal stabilization, public sector reform, and private sector development. All three pillars had a well-defined action matrix and impact indicators. It helped the government to formulate its actions so that it would be results-oriented.

To continue with his program, in July 2008 the governor of Minas Gerais asked the Bank for a loan of $1 billion (the entire borrowing capacity of the state in its agreement with the federal treasury).

*Source:* Government of Minas Gerais; IEG mission materials and interviews.

## *Multisector SWAps and State-Level DPLs*

In Brazil the pioneer states in piloting the new instruments were Ceará and Minas Gerais. The Ceará multisector Social Inclusion Development Project (SWAp) was developed in response to the severe fiscal constraints faced by the state,[1] which threatened key public investment programs and delivery of core public services. The implicit criteria for selecting Ceará for this initiative were poverty, environmental challenges, fiscal sustainability concerns, and the strong commitment of state leadership to modernization and reform.

A slightly different situation led to development of the Minas Gerais[2] Partnership for Development DPL. In 2003, after a period of suspension of credit operations, the newly elected state government approached the federal government and the Bank for support of its program to turn around the inherited negative economic and financial trends and to put the state back on a sustainable fiscal path. The project was designed to put in place the state's overall budget constraints and to bring Minas Gerais back in line with the national stabilization program. More important, it adopted the state government's *choque de gestão* (management shock) approach (box 4.2) to reforms.

Apart from laying the foundations for improved public sector management, the project helped the state to complete a fiscal turnaround and enabled the government to regain its investment

*The Ceará SWAp and Minas Gerais DPL not only contributed to macroeconomic stability, but also were instrumental in introducing and institutionalizing the culture of results-based management at the state level.*

capacity. Overall, besides their obvious contributions to macroeconomic stability, a sustainable fiscal situation, and improved performance of other investment loans, the Ceará SWAp and Minas Gerais DPL were instrumental in introducing and institutionalizing the culture of results-based management at the state level and strengthening coordination within the state government.

In Russia the only two regional DPLs were implemented in the cities of St. Petersburg[3] and Kazan.[4] Both projects were designed to support the implementation of the federal government's Medium-Term Program of Social and Economic Development for 2002–04 by ensuring conformity of federal and regional legislation and by introducing clear functional divisions of authority and financial resources between the federal and regional levels. Both loans were designed as subnational DPLs, with disbursement tied to progress in the implementation of reform under specified terms and conditions.

The objectives of the St. Petersburg DPL included improving the business climate, stimulating expansion of private sector participation and promoting development of the land and real estate markets, and strengthening the city's fiscal management and ensuring the long-term stability of its fiscal revenue base. The "city component" was closed under somewhat unusual circumstances: despite meeting all loan conditions, the City of St. Petersburg declined both tranches and requested reallocation of the first tranche to the "federal component" and cancellation of the second one. The formal reason given was that a continuous budget surplus (2004–06) made the Bank resources redundant.

Unlike St. Petersburg, Kazan had not been an independent subnational entity, but an administrative unit within the Republic of Tatarstan,[5] and obtained the status of a municipal formation only in 2004 (after loan approval), which enabled it by federal law to carry out policy and institutional reforms. Originally the loan was contemplated as an investment operation, but given the time constraints,[6] it was transformed into a DPL. There was considerable skepticism in the Bank regarding the feasibility of reforming Kazan's financial management system. Some viewed the loan as a political order from the central government. Nevertheless, the importance of engaging an important region within an important client country overweighed the risks. In hindsight, the Bank's decision to proceed with the loan was rewarded with successful implementation and satisfactory outcomes,[7] and it serves as an example of a close and productive partnership with the client at the local level.

*The Russia DPLs, though successful, are unlikely to be replicated.*

Despite the overall success of both regional DPLs in Russia, they are unlikely to be replicated. First, the financial approach of the Kazan project, with loan proceeds provided to the city on a grant basis, is unlikely to be repeated in other municipalities. Second, the City of St. Petersburg accomplished the needed reforms "for free," with no incentive other than its own good will. It is worth noting, however, that regional counterparts in both cases admitted that the key value of the loans was not the monetary incentive, but the authorities' understanding of the usefulness of fulfilling the loan conditions—together with the acquired capacity and skills. With hindsight, the projects could have been even more successful had they been supplemented with sizeable technical assistance for implementation of conditions. In the absence of a technical assistance component, such assistance was limited to what could be provided by the Bank staff in the course of preparing and supervising the loan.

### Investment Lending at the State Level

Investment operations in all four countries comprised the bulk of the Bank's lending. The Bank's method of operation did not differ greatly from its practices in a regular investment operation at the federal level, or in a country of a size comparable to a state in a federation. The main value was probably the greater chance of adopting lessons and using the model of a successful state-level investment project in a similar state within the same federation, compared with country-to-country exchange of experience.

Among examples of such success is the Basic Education Quality Improvement Project in Minas Gerais (Brazil). This project helped the state government to create an enabling policy environment to increase school productivity through progressive reform measures aimed at process improvements and decentralization. The culture of monitoring and evaluation introduced to the sector by the project made it easier for the state to develop an appropriate set of education indicators for the later SWAp operation. The Minas Gerais education program is currently viewed by other states as a potential model that can be applied elsewhere.

Most of the Bank's investment loans at the state level supported infrastructure development. In Ceará (Brazil), the Bank provided support for an irrigation program that is credited with a major enhancement in the state's economic prospects. In Nigeria, with its much smaller states, infrastructure has been a difficult area for the Bank: a water supply project covering six state capitals proved extremely difficult to implement and had limited impact. In Nigeria's larger states, the Bank has been able to intervene more effectively in infrastructure, and the Lagos Metropolitan Transport Project is one of the success stories of the Bank's program there.

### Capacity Building and AAA

Overall, the Bank's analytical work and technical assistance at the state level were widely appreciated and regarded as timely and competent inputs in building capacity. At the same time, there is an appetite for more, deeper, and more state-specific economic and sector work (ESW) and technical assistance, as well as room for improving client participation and strengthening the link between the analytical work and lending.

The Bank's analytic work at the state level has focused mainly on fiscal issues. There has been relatively little other state-specific sector or thematic analysis. In the mid-1990s the Bank undertook a series of state economic memoranda in Brazil that were much appreciated by the state authorities. In most cases these were collaborative efforts, and the outputs were viewed as joint products. For reasons that are unclear, the Bank has not followed up on this model, either in Brazil or in other countries.

***Much of the Bank's investment lending to states was for infrastructure and operated in much the same way as operations in small-country borrowers.***

Analytic work does not appear to have been considered a *strategic* part of the Bank's state-level interventions—there was no organized attempt to identify key knowledge gaps and to develop partnerships with state institutions to meet these gaps. In some cases, studies have been carried out, but have not been made publicly available. Given the paucity of analysis and information at the state level in many countries, this is an obvious gap to be filled by the Bank.

***The Bank's analytical work and technical assistance—focused mainly on fiscal issues—were timely, competent, and widely appreciated.***

***Analytic work was not considered a strategic part of the Bank's state-level interventions.***

In general, wherever the Bank's analytic work preceded the projects in states, it clearly contributed to bridging the knowledge gap and to improving program design. In Russia, the Bank's work on intergovernmental financial relations (World Bank 1994; Le Houerou 1995; Le Houerou and Rutkowski 1996; Freinkman, Treisman, and Titov 1999; Freinkman and Yossifov 1999) provided a foundation for a future comprehensive program of reform and restructuring (see box 3.3). In Nigeria, the Bank had an intense AAA program, albeit mainly at the federal level (only 8 ESW products out of 75 focused on the state level), which facilitated modernization of the tax system, adoption of the Medium-Term Expenditure Framework, and the design of the FRL at the state level. In India,[8] the Bank's programs in Orissa and Andhra Pradesh to some extent owed their success to the high quality of analytical and diagnostic work preceding such engagements.

To improve the link with local demand, the Bank might want to consider formally eliciting stake-

**Table 4.1: Average Preparation and Supervision Costs of State- and Federal-Level Projects, Fiscal 1998–2008**

| Country | | Preparation cost (US$ '000) | Supervision cost (US$ '000) | Total cost (US$ '000) |
|---|---|---|---|---|
| Brazil | Federal | 237.7 | 360.1 | 597.8 |
| | State | 283.9 | 407.6 | 691.5 |
| India | Federal | 421.8 | 563.2 | 985.0 |
| | State | 517.6 | 622.5 | 1,140.1 |
| Nigeria | Federal | 469.4 | 840.9 | 1,292.9 |
| | State (designed to roll out to all states) | 650.3 | 853.4 | 1,503.7 |
| | State (tailored for individual states) | 944.5 | 804.6 | 1,749.1 |
| Russia | Federal | 773.6 | 703.4 | 1,477.0 |
| | Region | 952.8 | 552.4 | 1,505.2 |

*Source:* World Bank data, April 4, 2009.

holder views on suitable subjects for AAA. Knowledge of international best practices, a clear comparative advantage of the Bank, needs to be brought into analytical work to a greater extent.

*Technical assistance* associated with Bank loans is often seen by the state-level clients as a primary advantage of borrowing from the Bank, as opposed to other lenders (especially in middle-income countries such as Brazil and Russia). However, despite a declared focus on capacity building, the Bank rarely tested state-specific technical assistance loans, although some loans did include a component for technical assistance and/or training. Russia is the only country among the four included in this review where reimbursable technical assistance (or fee-for-service) is being implemented. It includes preparation of regional strategies, sector analyses, and technical support for specific investment activities (for example, public-private partnerships in infrastructure).

*Borrowers often see the Bank's technical assistance as a major benefit of borrowing.*

Growing demand for this new instrument can be seen in the regions, in part because of the fiscal federalism loans (RFTAP and FFRFRL, discussed earlier) that were instrumental in demonstrating the high quality of Bank's technical assistance to the regional administrations. The City of St. Petersburg used the Bank's paid advisory services to help develop public-private partnership arrangements in four investment projects. There are similar requests from a number of other regions (Khanti-Mansiisk Okrug, Chuvash Republic, Volgograd Oblast, and others).[9] It is noteworthy that reimbursable technical assistance (fee-for-service) arrangements implemented at the regional level in Russia, which were quite popular with both central and state authorities, have yet to be tested in other countries, despite seemingly fertile ground for this modality of cooperation, most notably in Brazil.

*The Bank's implementation arrangements were similar to those it used at the federal level.*

### Implementation Arrangements and Staffing

In most cases, the Bank followed standard procedures for implementing its projects at the state level—which are quite similar to those used in federal projects, with rare exceptions. At the same time, there were several good practice examples that deserve mention. In Brazil, the partner agency for Ceará SWAp was the parastatal Economic Research and Strategy Institute, which set up a project implementation unit staffed by regular state employees. This decision proved important for smooth implementation of the project. The Bank and government counterparts identified and monitored disbursement-linked indicators, with direct involvement of central and line secretariats. This arrangement improved the interagency cooperation among line secretariats, because achievement of many indicators required joint efforts.

**Box 4.3: Bank Engagement in Bihar: An Example of Effective Partnership**

Bihar is India's third-most populous state and one of its poorest. About 41.4 percent of the state's population lives in poverty compared with 27.5 percent for India as a whole. Average state per capita income is about a quarter of the all-India level. Bihar's social indicators are among the lowest in the Indian states, and if present trends continue, it will attain only two of the eight MDG targets by 2015 (reduction in child malnutrition and access to safe drinking water).

Bihar was a nonperforming state with limited Bank engagement. Between fiscal 1998 and 2004, Bihar received support through two projects—one for district primary education and the other for strengthening immunization through a national program.

The 2004 India CAS proposed a strategy for stronger engagement with lagging states, which paved the way for greater resource allocation to Bihar. This change in Bank strategy almost coincided with the November 2005 election of a new coalition and political leadership strongly committed to a developmental agenda.

The Bank initiated engagement in Bihar by delivering a report entitled "Bihar: Towards a Development Strategy" (World Bank 2005a). This document presented a basic development strategy that rested on two pillars: enhancing Bihar's growth performance by establishing a healthy investment climate and supporting basic human resource development through improved quality in basic social services.

With a strategy in hand, Bank lending to Bihar began to develop more strongly, which led to the approval of the first Bihar DPL ($225 million, fiscal 2008), an investment project (Bihar Rural Livelihood Project fiscal 2007, $63 million), and technical assistance ($5 million through a DFID-financed trust fund, complementary to the DPL). The approval of the DPL was especially significant because it accounted for over 20 percent of the state's own revenues.

Several national projects supported by the Bank are currently being implemented in Bihar, including one-third of the Bank's Lucknow-Muzaffarpur Highway Project ($620 million). Altogether, Bihar's share in the Bank's net total commitments is currently 6 percent. Looking ahead, the Bank is developing its strategy to intensify and scale up its engagement with Bihar. Projects currently in preparation may include rural roads, local governance, and development policy lending to support reforms. Future lending will depend on both the pace of reforms and the state's absorptive capacity.

Bank engagement in Bihar has taken place with significant donor collaboration. In November 2006, the Bank, DFID, the ADB, and the government of Japan agreed to pilot a strategic partnership between donors in Bihar. Since then, the ADB, DFID, and the Bank have developed a joint strategy for Bihar that was presented to the Bihar chief minister in February 2008.

This partnership has enabled the donors to better serve the client through reduced transactions costs and to offer the best possible package of support to Bihar based on a rational division of labor and innovative partnership efforts. For example, the DFID-World Bank trust fund has played an important role in supporting capacity building. An often-cited example of the work supported by DFID trust funds in Bihar is the development of a Management Information System to track flooding in some districts in Bihar.

*Source:* World Bank documents and mission interviews.

One concern surfaced consistently in conversations with state authorities in all countries (although it is not necessarily specific to the state level only): the lengthy process and slow pace of project preparation and implementation, which was often blamed on the Bank's procurement and disbursement procedures. Creation of parallel structures for project management was also mentioned as an impediment to more effective use of the Bank's loans to strengthen institutional capacity at the state level (Nigeria). The issue of the pacing of project preparation is well recognized by Bank management, and most operational staff in all four countries are now located in the field. The drive to hire native speakers and train expatriate staff in the language spoken in the country (especially in Brazil and Russia) was highly effective and appreciated by the authorities.

***State authorities often complained of the length and pace of preparation and implementation.***

Staff resources allocated by the Bank for state-level projects seem adequate. Unlike some development partners, the Bank did not pursue establishment of field offices in any of the states—regardless of engagement intensity or geographic remoteness (for example, Ceará in Brazil, Andhra

Pradesh in India, or the Far East region in Russia). Nevertheless, that did not seem to be an impediment, nor was it mentioned as such by the local (state) counterparts.

In all four countries, country management used an informal system of designating state/regional coordinators—staff members who would serve as focal points for information in a region, as well as those in charge of maintaining instant contact with counterparts. This arrangement also proved to be particularly effective in Brazil and useful, by all accounts, though not of major importance, in the other countries. The authority of these coordinators was largely moral authority; they lacked specific portfolio or budget oversight responsibility or accountability.

## Partnership[10]

The Bank has generally partnered effectively with other donors at the state level. In Brazil, the major partner is the IDB. A division of labor has emerged between the two institutions whereby the IDB works mainly with municipal governments and the Bank works with state governments. In Nigeria the Bank and DFID have a formal partnership and prepared a joint CAS in 2004. In India, DFID often complements the Bank's loans with grants for technical assistance. The recently adopted modality of multidonor strategic engagement in the state of Bihar in India presents an interesting case of potentially effective and efficient joint effort of several donors at the state level[11] in a poor lagging state (box 4.3). Also in India, the Bank has jointly worked with the Asian Development Bank (ADB) in coordinating selected projects in infrastructure.[12]

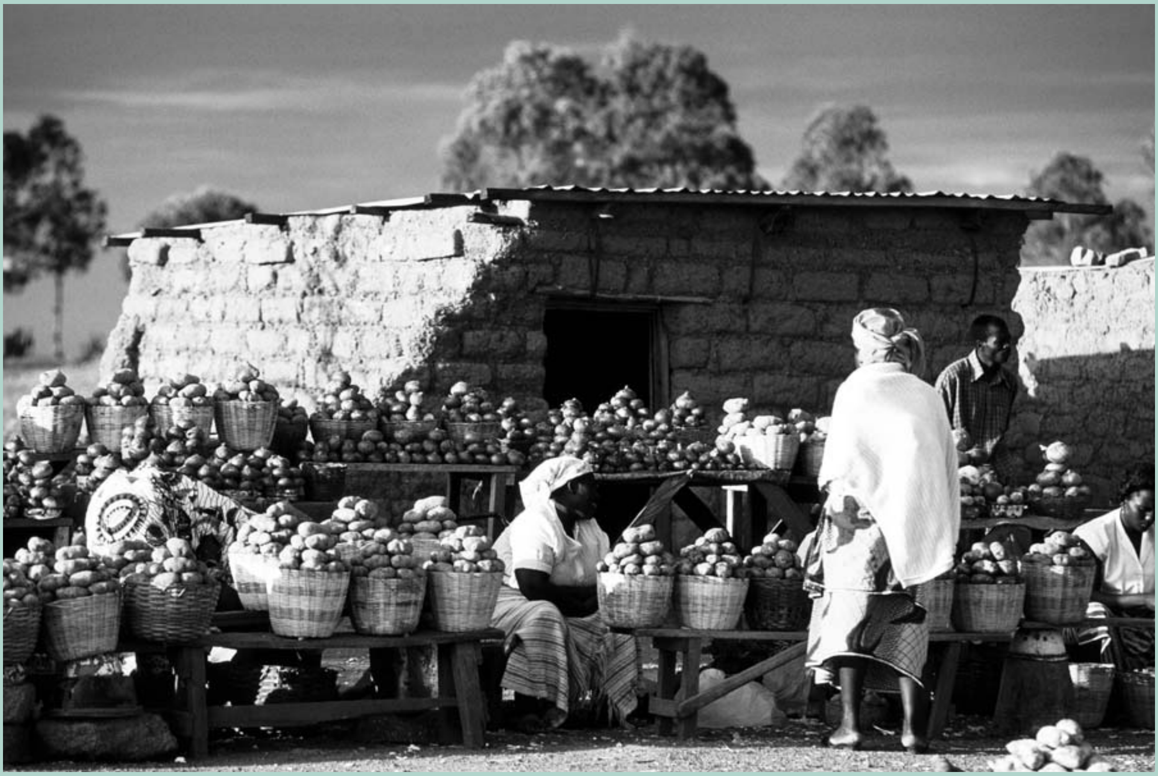
*The Bank has partnered effectively with other donors at the state level, usually in a three-way agreement including the federal government.*

*The degree to which state authorities were involved varied widely.*

The Bank's strategy in all the countries normally involved a tripartite arrangement between the federal government, the Bank (in some cases in partnership with other donors), and state governments. The participation level of other parties was uneven: in Brazil and Nigeria, for example, the nongovernmental sector played only a marginal role in the design of engagement strategy, while in Russia several NGOs and private think tanks took part in developing regional strategies.

The same can be said about the degree of involvement of state authorities, which varied widely from one country to another, as well as from state to state within the same country. In India, the Andhra Pradesh state government started the reform process, while in Orissa it was the Bank that played the role of initiator until a more committed chief minister took office. In Nigeria, input from the states at the preparation stage varied from states that actually initiated the project (Kaduna) and actively participated in the design process (Kano and Kwara) to quite limited interest, despite inputs from various line agencies (Lagos LMDGP). The last was a quite complicated case because of the unique and complex set of challenges.[13]

# Chapter 5



Village market, Nigeria. Photo by Curt Carnemark, courtesy of the World Bank Photo Library.

# Summary of Findings

There is little doubt that the Bank has added value at the state level. In the countries studied, there was a great deal of enthusiasm at both the federal and state levels regarding the Bank's contribution. A large number of specific achievements are indicative: ranging from successful fiscal reform in Orissa to effective technical assistance and capacity building in Lagos, to a wide range of achievements in Ceará, and improved fiscal management in St. Petersburg. IEG therefore concludes that although state-level engagement often requires additional effort and can be resource-intensive, it is usually worth the cost.

In all four countries, the Bank tried to engage first with progressive reformist states, aiming to achieve a demonstration effect. The programs in most selected reformer states and regions proved successful and brought about many positive changes. But there is little evidence that the intended demonstration effect was achieved (with a few small-scale exceptions) on the scale desired by the Bank. Nonetheless, the Bank's engagement in some of the poorer, lagging states (such as Orissa, and, more recently, Bihar) shows that it is possible to achieve results through persistent work with state-level counterparts and strong partnerships with other donors.

In many states and regions the Bank's program was pivotal in bringing together pro-reform government officials. It also helped to develop an expert community and a pool of local consulting institutions that were drawn into the formulation and implementation of public policy (Institute of Economy in Transition, Institute for Urban Economics, Center for Fiscal Policy, and Leontief Center in Russia;[1] IPECE in Brazil; and the Center for Good Governance in India).

Among other specific accomplishments are the following:

- Introduction and institutionalization of a results-based management approach at the state level.
- Progress in reforming public finance management and introduction of progressive practices of budget planning and execution (elements of performance budgeting, multiyear budgeting, debt and risk management, and the like).
- Improvement in local capacity to manage regional fiscal resources. Newly introduced tools—such as an integrated government account, evaluation of tax expenditure efficiency, Public Expenditure Reviews, a subnational fiscal sustainability tool, and independent audit of government expenditures—frequently became everyday practices of state governments.

## Future Research Agenda

This study has demonstrated the potential for research into the Bank's development experience at the subnational level. Additional cross-country thematic evaluations like this one could provide lessons that are applicable on a wider scale. Among the themes and directions that could be pursued are:

- Evaluations of new modes of engagement that are often piloted at the state level, such as multisector SWAps, reimbursable technical

**Box 5.1: Client Views**

Federal- and state-level clients broadly considered the Bank's state-level engagement useful and timely. But views differed from country to country on specific aspects, such as modalities of engagement and mix of products.

In Brazil, for example, both federal and state authorities seemed to prefer DPLs and multisector SWAps. Among the advantages they noted were flexibility; disbursement speed; and, most important, the role of these loans in helping to establish and institutionalize policy coordination in the state government.

In Nigeria, federal authorities expressed strong reservations about adjustment lending in general, yet a few high-level state officials expressed interest in multisector SWAps, and possibly even state-level DPLs.

In all cases, the federal governments have the final say about whether the Bank will lend to a particular state, because they approve the operations and provide the sovereign guarantee required by the Bank. The states take full responsibility for the financial execution and implementation.

In all four cases, federal governments have been supportive of the Bank's strategy of state-level engagement. Most federal governments value the discipline associated with Bank lending to the states. In Brazil, for example, the federal government appears to put considerable weight on Bank lending as a mechanism for reinforcing compliance with the FRL.

In all four countries, a detailed and structured process at the federal level for approving proposals for state borrowing is in place.[a] In Brazil and Russia, the federal governments have seen borrowing by states and regions as a way of maintaining substantial Bank engagement and presence in the country, despite the sizeable resource inflows and rising per capita income level of the past decade.

*Source:* IEG mission interviews.

a. While it would be naïve to argue that political considerations do not enter into the state selection process, in practice decisions on the eligibility of states for selection are dominated by technocratic considerations. In the choice of which of the eligible states to support, both governments and the Bank have generally tried to avoid the perception of bias by including both pro-government and opposition-led states.

assistance, and lending jointly with the IFC without sovereign guarantees.

- Looking at another set of countries (such as China, Argentina, Mexico, and Pakistan) to provide a comparison with the findings of this study.
- An in-depth study of specific sector interventions (such as health or education) at the subnational level, with possible comparison with similar federal-level programs.

## Findings

Based on the cases examined by this assessment, some general findings emerge, which may be helpful in guiding the organization of future work at the state level:

On *selection* of states:

- The strategy to concentrate lending services on few states to enhance the impact of the Bank's program is the right one in principle, but selection criteria and the mode of implementation could give more weight to the needs of the poorest states. The lead/focus state approach could be rebalanced toward poor, low-capacity states that are willing to address development problems. Engagement with better-off states can still be pursued through the use of development policy lending and reimbursable technical assistance.
- Bank engagement with high-performing states added value both in strengthening the in-state capacity and in encouraging state-to-state knowledge transfer, albeit mainly between the high performers. But there is little evidence that it had the desired demonstration effect on poor, lagging states on the scale the Bank hoped for, or that the Bank had an exit strategy to permit increased focus on poorer states over time. Nevertheless, experience shows that it is possible to achieve results in the poorest states through persistent work with committed state counterparts and strong partnership with other donors.
- It is important to stay engaged, not only in states that are able to borrow from the Bank but also in poorer states that demonstrate a genuine commitment to development that can be

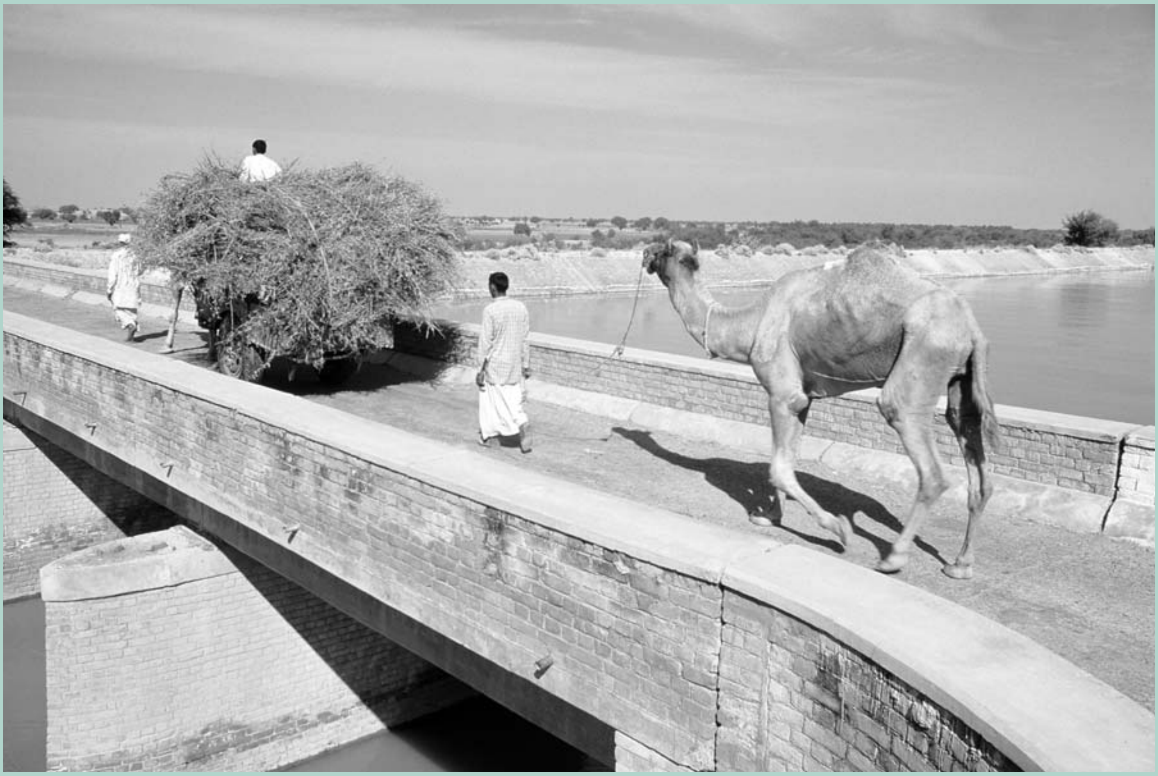
supported through analytic work and technical assistance—even if there is no fiscal space to lend to them.

On the *scope* of engagement:

- Continued focus on public finance management as the core area for state-level work appears sound, whether engagement is confined to this area or it serves as an entry point for broader engagement.
- For states where the Bank plans or has a major engagement (such as Orissa, Ceará, and Lagos), it might consider preparing a brief state strategy document. The lending programs and Bank budgets in these states are often larger than the programs for many Bank borrowing countries, and the use of a strategy document to focus the dialogue and get buy-in from counterparts, donors, and civil society could contribute to the Bank's effectiveness.
- Lower-cost lending instruments, such as DPLs, multisector SWAps, and reimbursable technical assistance (fee-for-service) seem to be a more natural choice for high-capacity, better-off states, especially in middle-income countries. This will help to redirect more Bank resources to work with poorer and low-capacity states.
- The Bank's new instruments (the state-level DPL and multisector SWAp) can be especially effective at the state level when they address cross-sector issues (such as public sector reform). However, the results frameworks underpinning these instruments need to be prepared in a manner commensurate with the capacity available at the state level, with technical assistance carefully designed to mitigate related risks and capacity constraints.
- Providing advisory services could be a convenient entry point for the Bank to expand direct cooperation with state governments. With a relatively small price tag, these types of interventions are highly valued at the state level and are useful for forging closer partnerships. In the eyes of state governments, the Bank often has a comparative advantage over private sector providers, because it has access to international best practice and has gained credibility through previous engagement.

On the *modalities* of engagement:

- There is considerable scope for greater impact from knowledge transfer and expanded knowledge services. There is particularly strong demand for better knowledge sharing, both within the Bank and across the countries concerned. This is not so much a matter of sharing of concepts and theories as it is of sharing practical experience about what is working and what is not (for example, multisector investment lending in Brazil, reimbursable technical assistance in Russia, and so on). Similarly, government officials in all countries have little knowledge of approaches being taken elsewhere.
- The Bank's analytical work at the state level is of high quality and is appreciated by the authorities. Its relative scarcity, however, could hamper the effective identification of high-impact, high-priority areas. There seems to be potential for closer partnerships between state governments and the Bank in this area. There are three dimensions to this: (i) widening the scope of ESW at the state level; (ii) stronger partnerships with the state governments in the Bank's ESW; and (iii) wider dissemination and better marketing of the Bank's ESW to state officials. More client participation in analytical work will improve the sense of ownership, which will increase the chances of linking it with lending and ensure consideration of local conditions.
- Partner state governments become increasingly exposed to the risks of foreign exchange rate fluctuation—something they normally are not equipped to handle, which puts their debt sustainability at risk. It will be quite useful for the Bank to explore ways of helping the state governments to develop mechanisms to hedge risks related to foreign exchange fluctuation, as well as maturity, interest, and liquidity risks, possibly through provision of technical assistance or training.
- It is critical to have the federal government firmly on board through assurance that state-level lending will not only stay within the federal rules, but will also help reinforce the implementation of federal laws and programs.


Walking over a bridge, India. Photo by Ray Witlin, courtesy of the World Bank Photo Library.

To understand the performance of the portfolio, this review looked at projects that were approved during or after fiscal 1998 and closed during the evaluation period. The data do not provide clear evidence of state-level projects outperforming federal projects (or vice versa), but some country-specific results do emerge:

**Brazil:** Forty-five projects closed in Brazil over the evaluation period; 33 of these were federal projects and the remaining 12 were state-level projects. At the aggregate, Brazil outperformed the Latin America and Caribbean Region, with over 97 percent of projects rated satisfactory. When disaggregated, the state-level projects were seen to perform close to the Region's average. In the evaluation period, only two state-level projects did not receive a satisfactory rating,[1] while only one of the federal-level projects did not receive a satisfactory rating. This shows that projects in Brazil generally perform well once they are approved.

**India:** Thirty-nine projects closed in India over the evaluation period; 13 of these were federal projects and the remaining 26 were state projects. At the aggregate, India outperformed the South

**Table A.1: Percentage of Projects Rated Satisfactory or Higher for Approval Years Fiscal 1998–2008**

| | Total number evaluated | Outcome satisfactory (%) | Sustainability likely (%) |
|---|---|---|---|
| **Latin America and Caribbean Region** | **304** | **84.1** | **84.0** |
| Brazil overall | 45 | 99.3 | 97.6 |
| Federal | 33 | 93.4 | 87.8 |
| States | 12 | 99.2 | 83.3 |
| **South Asia Region** | **115** | **81.9** | **79.1** |
| India Overall | 39 | 90.0 | 87.2 |
| Federal | 13 | 91.2 | 92.3 |
| States | 26 | 89.2 | 84.6 |
| **Africa Region** | **308** | **75.1** | **69.1** |
| Nigeria overall | 4 | 58.1 | 75 |
| Federal | 1 | 100.0 | 100.0 |
| States | 3 | 77.6 | 66.6 |
| **Europe and Central Asia Region** | **320** | **87.0** | **85.5** |
| Russia overall | 8 | 48.9 | 75.0 |
| Federal | 7 | 22.5 | 71.4 |
| Region | 1 | 100.0 | 100.0 |
| Bank-wide | 1,309 | 83.4 | 79.4 |

*Source:* World Bank data as of April, 2009.

Asia Region, with over 87 percent of projects rated satisfactory. Only five projects did not receive a satisfactory rating; of these, four were in the energy sector, one at the federal level (coal rehabilitation project), and the other three were at the state level (Haryana Power Adaptable Program Loan, Uttar Pradesh Power Sector Reform, and Rajasthan Power Sector Reform).[2] This indicates that although India has generally performed well, it has had persistent problems with the power sector, both at the state and the federal level.

**Nigeria:** Four projects closed in Nigeria over the evaluation period; one was a federal project and the remaining three were state programs designed to roll out to all states. Only one, the universal education project, a state program, received an unsatisfactory rating. This project targeted 16 of Nigeria's 36 states. One of the reasons this project failed to reach its objectives was that there was a limited number of states committed to reforms. There is currently another education project that targets only three states and the latest Interim Status Report shows that its performance is satisfactory. This could indicate that state programs that include a smaller number of states deliver better results.

**Russia:** Of the eight projects that closed in Russia over the evaluation period, seven were federal projects. The only subnational project was the Kazan municipal project,[3] which received a satisfactory rating. Russia's portfolio showed a lower percentage of satisfactory ratings (75 percent) compared with the Europe and Central Asia Region (85 percent) mainly because two large federal projects (Structural Adjustment Loan [SAL] II and II) closed during this time with unsatisfactory ratings. Both SAL I (fiscal 1998) and SAL II (fiscal 1999) failed to reach the structural reforms planned because Russia was going through a financial crisis during this time.

# APPENDIX B: KEY FISCAL INDICATORS AND THE LEGAL FRAMEWORK AT THE STATE LEVEL

**Table B.1: Key Fiscal Indicators and the Legal Framework at the State Level**

| Indicator/framework | Brazil | India[a] | Nigeria | Russia |
|---|---|---|---|---|
| **Tax allocation** | 9.3% of GDP (2008)<br>25.5% of total tax revenue (2008) | 6.2% of GDP (2007–08)<br>36% of total tax revenue (2007–08) | 1.4% of GDP (2007) | 9.9% of GDP |
| State/regional share of consolidated tax revenue | | | 7.0% of total tax revenue (2007) | 26.6% of total tax revenue (as of Jan. 2007) |
| **Expenditure allocation** | 10.7% of GDP (2007) | 15.6% of GDP (2007–08) | 9.3% of GDP (2007) | 15% of GDP |
| State/regional share of total expenditure | | 56.6% of total expenditure (2007–08) | 39.2% of total expenditure (2007) | 29% of total expenditure (2008). |
| **Federal transfer to states** | 2.7% of GDP (2006) | 5.2% of GDP (2007–08) | 7.7% of GDP (2007) | 2.3% of GDP (2007) |
| **Legal framework** | **Fiscal Responsibility Law**<br>Prohibits state borrowing if:<br>(i) the net consolidated debt exceeds twice net current revenue (RLC—*Receita Liquida Corrente*);<br>(ii) new credit operations exceed 16% of RLC;<br>(iii) debt service exceeds 11.5% of RLC;<br>(iv) spending exceeds 60 percent of the net current revenue; and<br>(v) the debt reduction schedules set by the debt renegotiation contracts are violated. | **Fiscal Responsibility Acts of individual states**<br>The State acts had three focal points:<br>(i) zero revenue deficit (or surplus) by 2008–09,<br>(ii) maximum 3% of gross state domestic product as fiscal deficit by 2008–09 and<br>(iii) a mid-year report on progress to the state legislature.<br>The present set of acts will be valid until the end of 2009–10 only. | **National Debt Management Framework**<br>*Domestic debt for state governments:*<br>(i) Federally guaranteed domestic loans: From time to time the Debt Management Office will establish limits on borrowings with an official guarantee.<br>(ii) Capital markets: Total amount of loans outstanding at any particular time shall not exceed 50% of the actual revenue of the body concerned for the preceding 12 months.<br>(iii) Commercial Banks: The monthly debt service ratio of a subnational should not exceed 40% of its monthly federation accounts allocation of the preceding 12 months. | **Budget code**<br>(i) Budget deficit of regional government cannot exceed 15% of current revenues (10% for heavily subsidized regions).<br>(ii) The net consolidated debt of regional government cannot exceed current revenues (it can reach 50% for heavily subsidized regions).<br>(iii) Budget deficit of municipal government cannot exceed 10% of current revenues (5% for heavily subsidized municipals).<br>(iv) The net consolidated debt of municipal government cannot exceed current revenues (it can reach 50% for heavily subsidized municipals). |

*Sources:* Brazil: Instituto Brasileiro de Planejamento Tributario (IBPT), February 2009; consultant report. India: Ministry of Finance 2008; consultant report. Nigeria: Central Bank of Nigeria various years; consultant report. Russia: www.roskazna.ru—the official site of the Russian Federation Treasury with the RF Ministry of Finance and consultant report.

*Note:* Only the highlights of the legal framework in each country are shown.

a. All data for India are based on budget estimates.

# APPENDIX C: THE GLOBAL FINANCIAL CRISIS AND STATE-LEVEL LENDING

The countries included in this study differ in their integration into the world markets, with consequent variation in their degrees of exposure to the calamity caused by the global financial crisis. In general, all four countries have seen an outflow of foreign capital, smaller export volume, falling commodity prices, and falling revenues. It is the fall in revenue collection that has one of the most significant implications for the federal-state fiscal relationship through transfer of revenues, and consequently the demand for foreign borrowing. At the same time, there is a possibility (noted by several state-level counterparts to the IEG mission) that growing demand at the federal level will decrease the amount of resources potentially available for direct lending to state governments.

The global meltdown has resulted in a gradual erosion of state government revenues. In *India*, because of both the recessionary tendencies and tax cuts, growth in tax revenues is estimated to slow in fiscal 2008–09 and 2009–10. Since a portion of the central tax revenue is shared with states, the total revenues of the states are likely to suffer significantly.

In *Nigeria*, state government revenues are largely dependent on federal transfers, which in turn depend largely on movement in crude oil prices. The fall in crude oil prices has resulted in a substantial reduction in federal transfers to states—by about half of the allocation made in July 2008.

In the *Russia*, regional governments were the first to demonstrate reduction of tax proceeds on a monthly basis. In October 2008, their revenues were the first to shrink (by 24 percent compared with October 2007), while federal revenues grew by 1.5 percent. In the period of October 2008 through January 2009, compared with the same four months of the previous year, federal government revenues on the whole decreased by 10 percent, while regional revenues decreased by 14 percent.

How will this decline in the growth of revenue affect Bank lending to the states? One would expect state governments to ultimately increase their demand for external loans. Although there have not been any explicit examples of this happening yet, there are indications that both the federal and state governments are taking measures to facilitate state-level lending. For example, in Brazil several initiatives to amend the Fiscal Responsibility Law (FRL) are running in the National Congress. The recent successful debt rescheduling for *Rio Grande do Sul*, which ultimately made this state eligible to borrow from the World Bank, is one such example.

Similarly, the government of *India* has allowed states to amend their Fiscal Responsibility and Budget Management Act (FRBM) target of a 3 percent fiscal deficit to 3.5 percent for 2009–10. While this amendment has allowed the states in India an additional borrowing of 0.5 percent of gross state domestic product (GSDP), they are careful about borrowing because the exchange rate risk now falls on the state governments because of the back-to-back on-lending system that was introduced in 2004.[1] The depreciation of the rupee brought about by the global financial crisis means that borrowing from the Bank is getting more and more expensive for the states.

For now, state governments in *Nigeria* are partially insulated from the global crisis. The pre-crisis oil boom allowed the accumulation of substantial external reserves—about US$60 billion—with 30 months of import cover. The federal government also built up excess crude reserves on behalf of all tiers of government. So far, the federal government has used the excess reserves to augment the statutory allocations to state governments. However, this cushion will not be sustainable if the crisis persists. Federal transfers to the states have already fallen by half compared with the previous year, and the states will require external funding if the crisis continues.

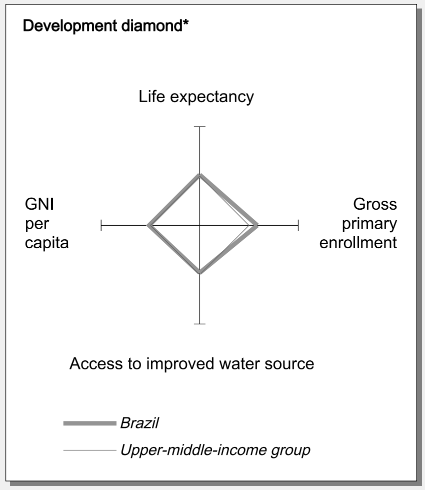
In *Russia*, some of parties interviewed by the IEG mission believed that the new economic situation may soon bring about a turn in the federal government's borrowing policy. The Federal Ministry of Finance has been considering the idea of resuming borrowing from the international financial institutions. However, it is quite likely that the bulk of new borrowing will occur at the federal level. Another hurdle to expanding subnational lending is that the most creditworthy regions, such as *the Republic of Tatarstan*, have the least fiscal space for new borrowing and will not be in a position to undertake new debt liabilities in the near future.

# APPENDIX D: COUNTRIES AT A GLANCE

# Brazil at a glance

11/19/09

| POVERTY and SOCIAL | Brazil | Latin America & Carib. | Upper-middle-income |
|---|---|---|---|
| **2008** | | | |
| Population, mid-year *(millions)* | 192.0 | 561 | 824 |
| GNI per capita *(Atlas method, US$)* | 7,300 | 5,801 | 7,107 |
| GNI *(Atlas method, US$ billions)* | 1,401.3 | 3,252 | 5,854 |
| **Average annual growth, 2002-08** | | | |
| Population *(%)* | 1.2 | 1.3 | 0.7 |
| Labor force *(%)* | 2.2 | 2.3 | 1.4 |
| **Most recent estimate (latest year available, 2002-08)** | | | |
| Poverty *(% of population below national poverty line)* | 22 | .. | .. |
| Urban population *(% of total population)* | 86 | 78 | 75 |
| Life expectancy at birth *(years)* | 73 | 73 | 71 |
| Infant mortality *(per 1,000 live births)* | 20 | 22 | 21 |
| Child malnutrition *(% of children under 5)* | 2 | 4 | .. |
| Access to an improved water source *(% of population)* | 91 | 91 | 95 |
| Literacy *(% of population age 15+)* | 86 | 91 | 94 |
| Gross primary enrollment *(% of school-age population)* | 130 | 118 | 111 |
| Male | 134 | 120 | 112 |
| Female | 125 | 116 | 109 |

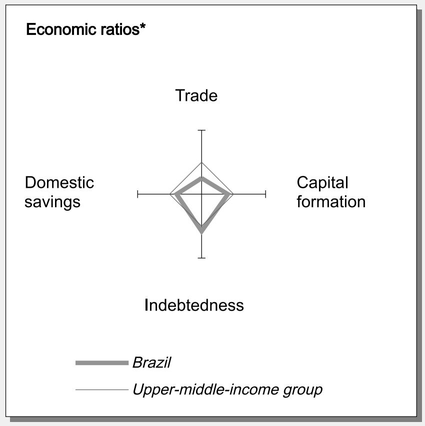


Development diamond*

**KEY ECONOMIC RATIOS and LONG-TERM TRENDS**

| | 1988 | 1998 | 2007 | 2008 |
|---|---|---|---|---|
| GDP *(US$ billions)* | 330.4 | 843.8 | 1,333.3 | 1,575.2 |
| Gross capital formation/GDP | 22.7 | 17.0 | 17.7 | 18.9 |
| Exports of goods and services/GDP | 10.9 | 6.9 | 13.7 | 14.3 |
| Gross domestic savings/GDP | 27.9 | 15.0 | 19.3 | 19.1 |
| Gross national savings/GDP | .. | .. | 17.5 | 16.9 |
| Current account balance/GDP | 1.3 | -4.0 | 0.1 | -1.8 |
| Interest payments/GDP | 1.9 | 1.7 | 1.1 | 1.0 |
| Total debt/GDP | 30.7 | 26.6 | 17.3 | 16.2 |
| Total debt service/exports | 25.9 | 75.8 | 27.2 | 22.8 |
| Present value of debt/GDP | .. | .. | 19.6 | 15.6 |
| Present value of debt/exports | .. | .. | 131.9 | 101.1 |

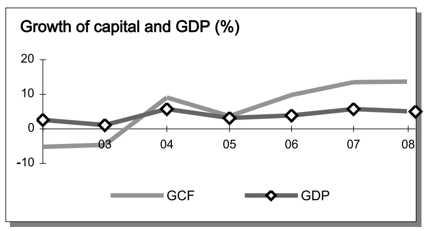
| | 1988-98 | 1998-08 | 2007 | 2008 | 2008-12 |
|---|---|---|---|---|---|
| *(average annual growth)* | | | | | |
| GDP | 2.3 | 3.3 | 5.7 | 5.1 | 3.3 |
| GDP per capita | 0.7 | 2.0 | 4.6 | 4.1 | 2.5 |
| Exports of goods and services | 5.4 | 9.1 | 6.7 | -0.6 | 14.2 |



Economic ratios*

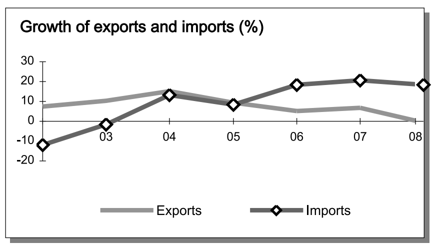
**STRUCTURE of the ECONOMY**

| | 1988 | 1998 | 2007 | 2008 |
|---|---|---|---|---|
| *(% of GDP)* | | | | |
| Agriculture | 10.1 | 5.5 | 6.0 | 6.7 |
| Industry | 43.6 | 25.7 | 28.1 | 28.0 |
| Manufacturing | 31.0 | 15.7 | 17.4 | 16.0 |
| Services | 46.2 | 68.8 | 66.0 | 65.3 |
| Household final consumption expenditure | 59.5 | 64.3 | 60.8 | 60.7 |
| General gov't final consumption expenditure | 12.6 | 20.6 | 19.9 | 20.2 |
| Imports of goods and services | 5.7 | 8.9 | 12.1 | 14.2 |



Growth of capital and GDP (%)

| | 1988-98 | 1998-08 | 2007 | 2008 |
|---|---|---|---|---|
| *(average annual growth)* | | | | |
| Agriculture | 2.5 | 4.4 | 5.9 | 5.8 |
| Industry | 1.5 | 2.8 | 4.8 | 4.3 |
| Manufacturing | 2.6 | 3.0 | 4.7 | 3.2 |
| Services | 3.3 | 4.0 | 6.0 | 5.3 |
| Household final consumption expenditure | 3.9 | 3.0 | 8.8 | 6.9 |
| General gov't final consumption expenditure | 0.7 | 2.9 | 4.7 | 5.6 |
| Gross capital formation | 2.6 | 2.8 | 13.5 | 13.8 |
| Imports of goods and services | 14.6 | 5.5 | 20.8 | 18.5 |



Growth of exports and imports (%)

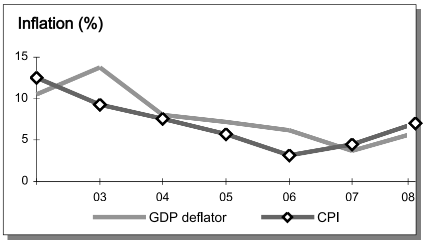
Note: 2008 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

# Brazil

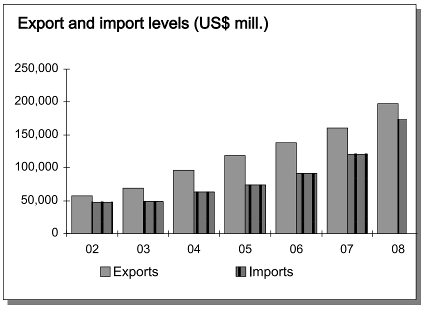
## PRICES and GOVERNMENT FINANCE

| | 1988 | 1998 | 2007 | 2008 |
|---|---|---|---|---|
| ***Domestic prices*** | | | | |
| *(% change)* | | | | |
| Consumer prices | 980.2 | 1.7 | 4.5 | 7.1 |
| Implicit GDP deflator | 651.1 | 4.2 | 3.7 | 5.9 |
| ***Government finance*** | | | | |
| *(% of GDP, includes current grants)* | | | | |
| Current revenue | 10.8 | 0.0 | 23.9 | 24.8 |
| Current budget balance | -2.0 | 0.0 | 2.3 | 3.0 |
| Overall surplus/deficit | 4.0 | -0.8 | -2.3 | -1.6 |



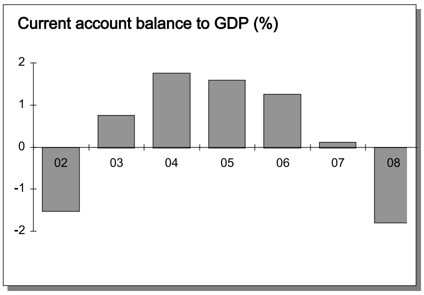

## TRADE

| | 1988 | 1998 | 2007 | 2008 |
|---|---|---|---|---|
| *(US$ millions)* | | | | |
| Total exports (fob) | 32,809 | 50,736 | 160,649 | 197,942 |
| Coffee | 2,091 | 3,253 | 10,558 | 16,539 |
| Soybeans | 3,175 | 2,178 | 6,709 | 10,952 |
| Manufactures | 18,389 | 29,387 | 83,943 | 92,683 |
| Total imports (cif) | 14,605 | 57,714 | 120,622 | 173,107 |
| Food | 376 | 2,514 | 2,082 | 2,812 |
| Fuel and energy | 4,104 | 4,100 | 20,085 | 31,463 |
| Capital goods | 4,195 | 16,102 | 25,125 | 35,929 |
| Export price index *(2000=100)* | 88 | 99 | 114 | 128 |
| Import price index *(2000=100)* | 44 | 104 | 94 | 100 |
| Terms of trade *(2000=100)* | 199 | 95 | 121 | 127 |



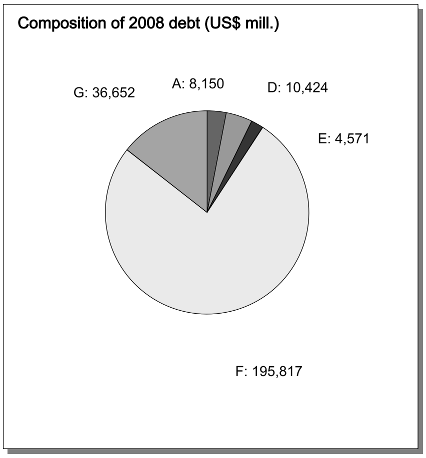

## BALANCE of PAYMENTS

| | 1988 | 1998 | 2007 | 2008 |
|---|---|---|---|---|
| *(US$ millions)* | | | | |
| Exports of goods and services | 35,650 | 59,037 | 184,603 | 228,393 |
| Imports of goods and services | 17,500 | 75,722 | 157,795 | 220,247 |
| Resource balance | 18,150 | -16,685 | 26,808 | 8,146 |
| Net income | -13,776 | -18,188 | -29,291 | -40,562 |
| Net current transfers | -20 | 1,458 | 4,029 | 4,224 |
| Current account balance | 4,180 | -33,416 | 1,551 | -28,192 |
| Financing items (net) | -2,931 | 25,446 | 85,933 | 31,161 |
| Changes in net reserves | -1,249 | 7,970 | -87,484 | -2,969 |
| ***Memo:*** | | | | |
| Reserves including gold *(US$ millions)* | 9,140 | 44,556 | 180,334 | 206,806 |
| Conversion rate *(DEC, local/US$)* | 9.53E-8 | 1.2 | 1.9 | 1.8 |




## EXTERNAL DEBT and RESOURCE FLOWS

| | 1988 | 1998 | 2007 | 2008 |
|---|---|---|---|---|
| *(US$ millions)* | | | | |
| Total debt outstanding and disbursed | 101,295 | 224,632 | 231,032 | 255,614 |
| IBRD | 1,824 | 171 | 6,704 | 8,150 |
| IDA | .. | .. | .. | .. |
| Total debt service | 9,448 | 48,465 | 53,941 | 55,420 |
| IBRD | 429 | 77 | 480 | 481 |
| IDA | 0 | 0 | 0 | 0 |
| Composition of net resource flows | | | | |
| Official grants | 46 | 103 | 155 | .. |
| Official creditors | -340 | 3,632 | -754 | 2,076 |
| Private creditors | 3,194 | 15,728 | 19,105 | 27,188 |
| Foreign direct investment (net inflows) | 2,804 | 31,913 | 34,585 | 45,058 |
| Portfolio equity (net inflows) | 189 | -1,768 | 26,217 | -7,565 |
| World Bank program | | | | |
| Commitments | 0 | 0 | 0 | 0 |
| Disbursements | 0 | 0 | 374 | 1,606 |
| Principal repayments | 268 | 61 | 115 | 146 |
| Net flows | -268 | -61 | 258 | 1,459 |
| Interest payments | 161 | 15 | 364 | 335 |
| Net transfers | -429 | -77 | -106 | 1,125 |

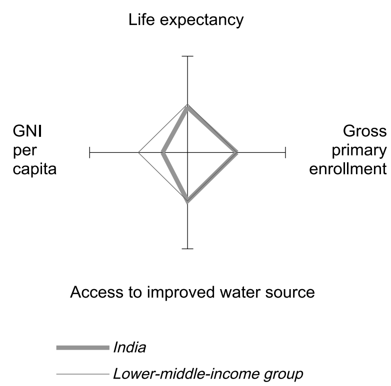


# India at a glance

9/24/08

| POVERTY and SOCIAL | India | South Asia | Lower-middle-income |
|---|---|---|---|
| **2007** | | | |
| Population, mid-year *(millions)* | 1,123.3 | 1,520 | 3,437 |
| GNI per capita *(Atlas method, US$)* | 950 | 880 | 1,887 |
| GNI *(Atlas method, US$ billions)* | 1,069.4 | 1,339 | 6,485 |
| **Average annual growth, 2001-07** | | | |
| Population *(%)* | 1.4 | 1.6 | 1.1 |
| Labor force *(%)* | 1.8 | 2.1 | 1.5 |
| **Most recent estimate (latest year available, 2001-07)** | | | |
| Poverty *(% of population below national poverty line)* | .. | .. | .. |
| Urban population *(% of total population)* | 29 | 29 | 42 |
| Life expectancy at birth *(years)* | 64 | 64 | 69 |
| Infant mortality *(per 1,000 live births)* | 57 | 62 | 41 |
| Child malnutrition *(% of children under 5)* | 44 | 41 | 25 |
| Access to an improved water source *(% of population)* | 89 | 87 | 88 |
| Literacy *(% of population age 15+)* | 61 | 58 | 89 |
| Gross primary enrollment *(% of school-age population)* | 112 | 108 | 111 |
| Male | 114 | 111 | 112 |
| Female | 109 | 104 | 109 |

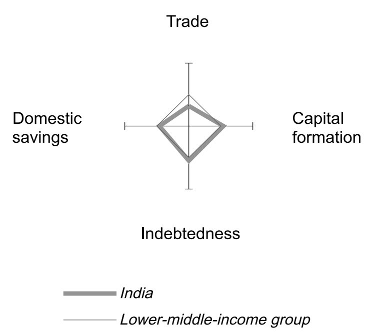
**Development diamond***




| KEY ECONOMIC RATIOS and LONG-TERM TRENDS | 1987 | 1997 | 2006 | 2007 |
|---|---|---|---|---|
| GDP *(US$ billions)* | 276.0 | 410.9 | 916.3 | 1,171.0 |
| Gross capital formation/GDP | 22.0 | 23.9 | 36.0 | 38.2 |
| Exports of goods and services/GDP | 5.7 | 10.8 | 22.1 | 21.3 |
| Gross domestic savings/GDP | 20.6 | 22.6 | 33.0 | 35.1 |
| Gross national savings/GDP | 20.9 | 24.7 | 35.3 | 37.2 |
| Current account balance/GDP | -1.9 | -1.4 | -1.1 | -2.1 |
| Interest payments/GDP | 0.7 | 1.1 | 0.7 | .. |
| Total debt/GDP | 20.1 | 23.0 | 16.7 | .. |
| Total debt service/exports | 29.7 | 21.6 | 7.5 | .. |
| Present value of debt/GDP | .. | .. | 12.7 | .. |
| Present value of debt/exports | .. | .. | 48.5 | .. |

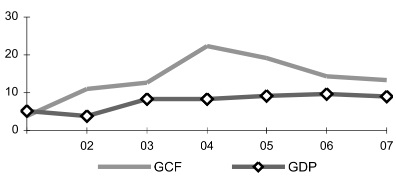
| | 1987-97 | 1997-07 | 2006 | 2007 | 2007-11 |
|---|---|---|---|---|---|
| *(average annual growth)* | | | | | |
| GDP | 5.5 | 6.9 | 9.7 | 9.0 | 8.5 |
| GDP per capita | 3.5 | 5.3 | 8.2 | 7.7 | 7.2 |
| Exports of goods and services | 11.5 | 15.4 | 18.9 | 7.5 | 13.8 |

**Economic ratios***



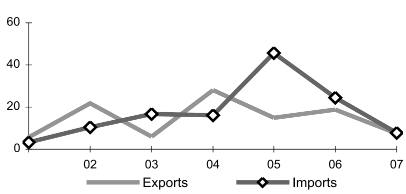

| STRUCTURE of the ECONOMY | 1987 | 1997 | 2006 | 2007 |
|---|---|---|---|---|
| *(% of GDP)* | | | | |
| Agriculture | 29.4 | 26.1 | 18.3 | 17.8 |
| Industry | 26.3 | 26.8 | 29.3 | 29.4 |
| Manufacturing | 16.4 | 16.4 | 16.3 | 16.4 |
| Services | 44.3 | 47.1 | 52.4 | 52.8 |
| Household final consumption expenditure | 67.1 | 66.0 | 56.7 | 54.8 |
| General gov't final consumption expenditure | 12.3 | 11.4 | 10.3 | 10.1 |
| Imports of goods and services | 7.1 | 12.1 | 25.1 | 24.4 |

**Growth of capital and GDP (%)**




| | 1987-97 | 1997-07 | 2006 | 2007 |
|---|---|---|---|---|
| *(average annual growth)* | | | | |
| Agriculture | 3.5 | 2.7 | 3.8 | 4.5 |
| Industry | 6.3 | 7.2 | 11.0 | 8.5 |
| Manufacturing | 6.6 | 6.8 | 12.0 | 8.8 |
| Services | 6.8 | 8.5 | 11.1 | 10.8 |
| Household final consumption expenditure | 5.5 | 5.8 | 10.3 | 7.3 |
| General gov't final consumption expenditure | 4.2 | 3.9 | 6.2 | 5.5 |
| Gross capital formation | 6.8 | 11.0 | 14.3 | 13.3 |
| Imports of goods and services | 12.3 | 14.8 | 24.5 | 7.7 |

**Growth of exports and imports (%)**



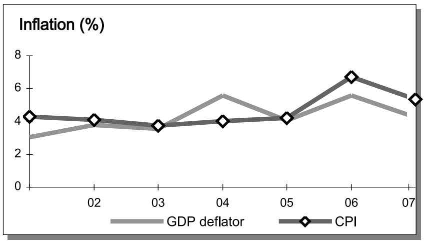

Note: 2007 data are preliminary estimates.
This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

# India

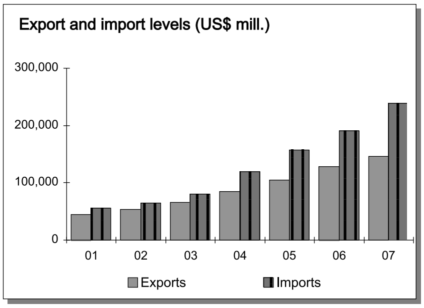
## PRICES and GOVERNMENT FINANCE

| | 1987 | 1997 | 2006 | 2007 |
|---|---|---|---|---|
| ***Domestic prices*** | | | | |
| *(% change)* | | | | |
| Consumer prices | 7.8 | 7.0 | 6.7 | 5.3 |
| Implicit GDP deflator | 9.3 | 6.5 | 5.6 | 4.3 |
| ***Government finance*** | | | | |
| *(% of GDP, includes current grants)* | | | | |
| Current revenue | 19.4 | 17.4 | 20.6 | 22.4 |
| Current budget balance | -2.7 | -3.5 | -4.4 | -1.6 |
| Overall surplus/deficit | -9.2 | -8.3 | -6.5 | -5.6 |



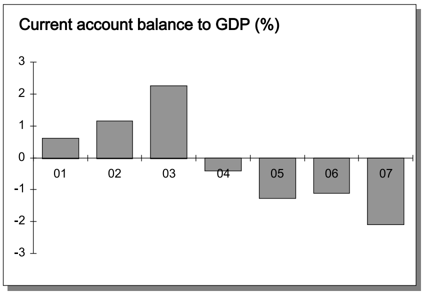

## TRADE

| | 1987 | 1997 | 2006 | 2007 |
|---|---|---|---|---|
| *(US$ millions)* | | | | |
| Total exports (fob) | 12,644 | 35,680 | 128,083 | 146,632 |
| Marine products | 411 | 1,207 | 1,744 | .. |
| Ores and minerals | 600 | 1,061 | 7,033 | .. |
| Manufactures | 8,195 | 26,547 | 82,818 | 91,657 |
| Total imports (cif) | 19,812 | 51,187 | 191,254 | 238,296 |
| Food | 1,141 | 1,483 | 3,291 | .. |
| Fuel and energy | 3,118 | 8,164 | 57,074 | .. |
| Capital goods | 5,064 | 9,796 | 52,944 | 71,311 |
| Export price index *(2000=100)* | 113 | 116 | .. | .. |
| Import price index *(2000=100)* | 116 | 110 | .. | .. |
| Terms of trade *(2000=100)* | 97 | 106 | .. | .. |



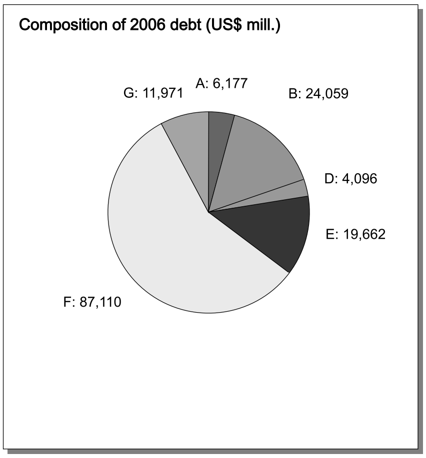

## BALANCE of PAYMENTS

| | 1987 | 1997 | 2006 | 2007 |
|---|---|---|---|---|
| *(US$ millions)* | | | | |
| Exports of goods and services | 16,216 | 45,109 | 204,264 | 246,071 |
| Imports of goods and services | 22,839 | 59,297 | 235,625 | 297,009 |
| Resource balance | -6,623 | -14,188 | -31,361 | 30,176 |
| Net income | -1,337 | -3,521 | -6,573 | .. |
| Net current transfers | 2,698 | 11,830 | 27,941 | 30,176 |
| Current account balance | -5,262 | -5,879 | -9,993 | -24,408 |
| Financing items (net) | 4,526 | 9,772 | 46,599 | 44,282 |
| Changes in net reserves | 736 | -3,893 | -36,606 | -19,874 |
| ***Memo:*** | | | | |
| Reserves including gold *(US$ millions)* | 6,223 | 29,367 | 198,710 | 218,582 |
| Conversion rate *(DEC, local/US$)* | 13.0 | 37.2 | 45.2 | 40.3 |




## EXTERNAL DEBT and RESOURCE FLOWS

| | 1987 | 1997 | 2006 | 2007 |
|---|---|---|---|---|
| *(US$ millions)* | | | | |
| Total debt outstanding and disbursed | 55,570 | 94,317 | 153,075 | .. |
| IBRD | 4,709 | 8,138 | 6,177 | 7,040 |
| IDA | 11,615 | 17,912 | 24,059 | 26,512 |
| Total debt service | 5,686 | 12,413 | 17,879 | .. |
| IBRD | 808 | 1,410 | 597 | 739 |
| IDA | 166 | 381 | 841 | 915 |
| Composition of net resource flows | | | | |
| Official grants | 531 | 549 | 873 | .. |
| Official creditors | 2,498 | -406 | 2,144 | .. |
| Private creditors | 2,877 | 1,089 | 16,097 | .. |
| Foreign direct investment (net inflows) | 212 | 3,577 | 17,453 | .. |
| Portfolio equity (net inflows) | 0 | 2,556 | 9,549 | .. |
| World Bank program | | | | |
| Commitments | 3,504 | 2,306 | 1,228 | 3,174 |
| Disbursements | 2,212 | 1,372 | 1,787 | 1,905 |
| Principal repayments | 499 | 1,070 | 942 | 1,089 |
| Net flows | 1,714 | 302 | 845 | 816 |
| Interest payments | 476 | 721 | 496 | 566 |
| Net transfers | 1,238 | -419 | 349 | 251 |

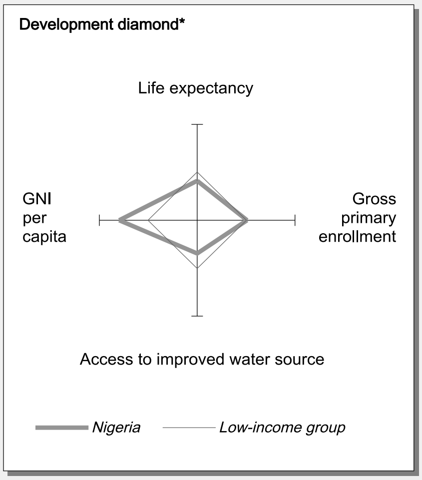



Note: This table was produced from the Development Economics LDB database. 9/24/08

# Nigeria at a glance

9/24/08

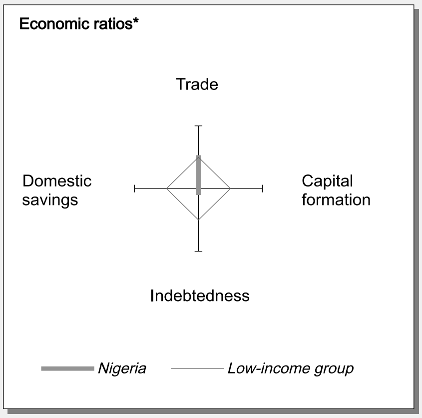
| POVERTY and SOCIAL | Nigeria | Sub-Saharan Africa | Low-income |
|---|---|---|---|
| **2007** | | | |
| Population, mid-year *(millions)* | 148.0 | 800 | 1,296 |
| GNI per capita *(Atlas method, US$)* | 920 | 952 | 578 |
| GNI *(Atlas method, US$ billions)* | 136.3 | 762 | 749 |
| **Average annual growth, 2001-07** | | | |
| Population *(%)* | 2.4 | 2.5 | 2.2 |
| Labor force *(%)* | 2.5 | 2.6 | 2.7 |
| **Most recent estimate (latest year available, 2001-07)** | | | |
| Poverty *(% of population below national poverty line)* | .. | .. | .. |
| Urban population *(% of total population)* | 48 | 36 | 32 |
| Life expectancy at birth *(years)* | 47 | 51 | 57 |
| Infant mortality *(per 1,000 live births)* | 99 | 94 | 85 |
| Child malnutrition *(% of children under 5)* | 27 | 27 | 29 |
| Access to an improved water source *(% of population)* | 47 | 58 | 68 |
| Literacy *(% of population age 15+)* | 69 | 59 | 61 |
| Gross primary enrollment *(% of school-age population)* | 96 | 94 | 94 |
| Male | 105 | 99 | 100 |
| Female | 87 | 88 | 89 |




**KEY ECONOMIC RATIOS and LONG-TERM TRENDS**

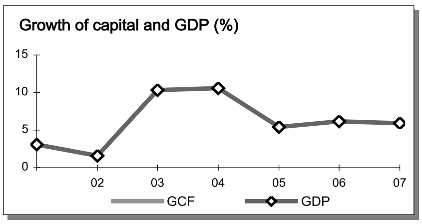
| | 1987 | 1997 | 2006 | 2007 |
|---|---|---|---|---|
| GDP *(US$ billions)* | 23.4 | 36.2 | 146.9 | 165.5 |
| Gross capital formation/GDP | .. | .. | .. | .. |
| Exports of goods and services/GDP | 28.6 | 45.0 | 43.2 | 40.3 |
| Gross domestic savings/GDP | .. | .. | .. | .. |
| Gross national savings/GDP | .. | .. | .. | .. |
| Current account balance/GDP | -7.4 | 7.8 | 9.5 | 2.1 |
| Interest payments/GDP | 2.6 | 1.5 | 0.2 | .. |
| Total debt/GDP | 123.8 | 78.5 | 5.2 | .. |
| Total debt service/exports | 14.1 | 8.9 | 10.6 | .. |
| Present value of debt/GDP | .. | .. | 4.7 | .. |
| Present value of debt/exports | .. | .. | 10.8 | .. |

| | 1987-97 | 1997-07 | 2006 | 2007 | 2007-11 |
|---|---|---|---|---|---|
| *(average annual growth)* | | | | | |
| GDP | 4.0 | 5.4 | 6.2 | 5.9 | 7.9 |
| GDP per capita | 1.0 | 2.8 | 3.7 | 3.6 | 5.7 |
| Exports of goods and services | .. | .. | .. | .. | .. |




**STRUCTURE of the ECONOMY**

| | 1987 | 1997 | 2006 | 2007 |
|---|---|---|---|---|
| *(% of GDP)* | | | | |
| Agriculture | .. | .. | 32.0 | 32.6 |
| Industry | .. | .. | 41.9 | 39.3 |
| Manufacturing | .. | .. | 2.6 | .. |
| Services | .. | .. | 26.1 | 28.1 |
| Household final consumption expenditure | .. | .. | .. | .. |
| General gov't final consumption expenditure | .. | .. | .. | .. |
| Imports of goods and services | 24.7 | 37.8 | 28.1 | 29.7 |



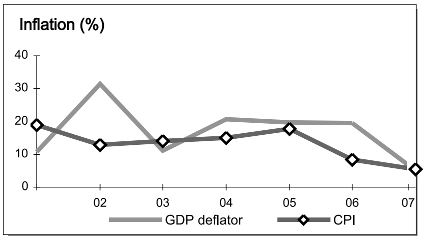

| | 1987-97 | 1997-07 | 2006 | 2007 |
|---|---|---|---|---|
| *(average annual growth)* | | | | |
| Agriculture | .. | 7.0 | 7.4 | 7.4 |
| Industry | .. | 3.8 | -1.0 | -2.9 |
| Manufacturing | .. | .. | .. | .. |
| Services | .. | 14.3 | 12.4 | 12.9 |
| Household final consumption expenditure | .. | .. | .. | .. |
| General gov't final consumption expenditure | .. | .. | .. | .. |
| Gross capital formation | .. | .. | .. | .. |
| Imports of goods and services | .. | .. | .. | .. |

Note: 2007 data are preliminary estimates.
This table was produced from the Development Economics LDB database.
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

# Nigeria

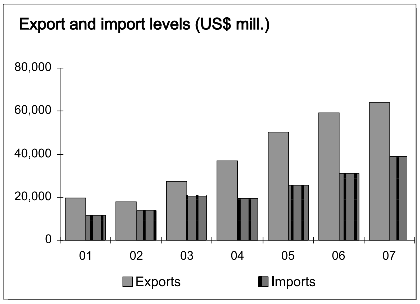
## PRICES and GOVERNMENT FINANCE

| | 1987 | 1997 | 2006 | 2007 |
|---|---|---|---|---|
| ***Domestic prices*** | | | | |
| *(% change)* | | | | |
| Consumer prices | 11.3 | 8.3 | 8.3 | 5.5 |
| Implicit GDP deflator | 50.1 | 1.4 | 19.6 | 5.1 |
| ***Government finance*** | | | | |
| *(% of GDP, includes current grants)* | | | | |
| Current revenue | .. | 20.0 | 34.1 | 29.2 |
| Current budget balance | .. | 11.6 | 13.5 | 8.4 |
| Overall surplus/deficit | .. | 1.0 | 7.7 | 1.4 |



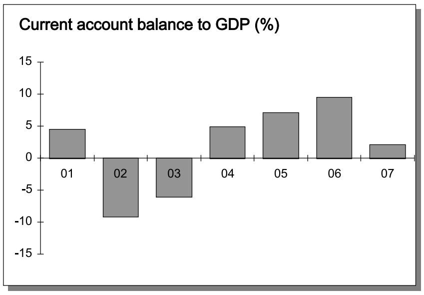

## TRADE

| | 1987 | 1997 | 2006 | 2007 |
|---|---|---|---|---|
| *(US$ millions)* | | | | |
| Total exports (fob) | 7,532 | 15,539 | 59,113 | 64,047 |
| Fuel | 6,994 | 14,850 | 53,464 | 56,577 |
| Liquified natural gas | .. | .. | 4,602 | 6,110 |
| Manufactures | .. | 40 | .. | .. |
| Total imports (cif) | 6,392 | 10,246 | 30,911 | 38,944 |
| Food | 671 | 1,219 | .. | .. |
| Fuel and energy | 27 | 143 | .. | .. |
| Capital goods | .. | .. | .. | .. |
| Export price index *(2000=100)* | 64 | 71 | 229 | 261 |
| Import price index *(2000=100)* | 89 | 109 | 125 | 126 |
| Terms of trade *(2000=100)* | 71 | 65 | 182 | 207 |



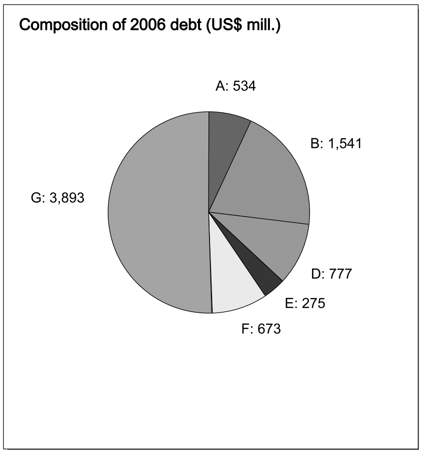

## BALANCE of PAYMENTS

| | 1987 | 1997 | 2006 | 2007 |
|---|---|---|---|---|
| *(US$ millions)* | | | | |
| Exports of goods and services | 7,757 | 15,661 | 62,613 | 67,225 |
| Imports of goods and services | 6,689 | 12,448 | 40,766 | 49,641 |
| Resource balance | 1,068 | 3,213 | 21,847 | 17,584 |
| Net income | -2,770 | -2,215 | -11,254 | -17,531 |
| Net current transfers | .. | 1,841 | 3,400 | 3,414 |
| Current account balance | -1,727 | 2,840 | 13,994 | 3,467 |
| Financing items (net) | 1,649 | 221 | -97 | 6,037 |
| Changes in net reserves | 78 | -3,061 | -13,897 | -9,503 |
| ***Memo:*** | | | | |
| Reserves including gold *(US$ millions)* | .. | .. | 41,830 | 51,333 |
| Conversion rate *(DEC, local/US$)* | 4.6 | 81.1 | 127.4 | 125.8 |




## EXTERNAL DEBT and RESOURCE FLOWS

| | 1987 | 1997 | 2006 | 2007 |
|---|---|---|---|---|
| *(US$ millions)* | | | | |
| Total debt outstanding and disbursed | 29,021 | 28,455 | 7,693 | .. |
| IBRD | 2,939 | 2,373 | 534 | 381 |
| IDA | 32 | 410 | 1,541 | 1,929 |
| Total debt service | 1,106 | 1,416 | 6,805 | .. |
| IBRD | 332 | 519 | 244 | 201 |
| IDA | 1 | 4 | 33 | 35 |
| Composition of net resource flows | | | | |
| Official grants | 14 | 27 | 11,383 | .. |
| Official creditors | 378 | -267 | -4,276 | .. |
| Private creditors | 425 | -258 | -1,502 | .. |
| Foreign direct investment (net inflows) | 611 | 1,539 | 5,445 | .. |
| Portfolio equity (net inflows) | 0 | 0 | 0 | .. |
| World Bank program | | | | |
| Commitments | 71 | 0 | 255 | 685 |
| Disbursements | 385 | 260 | 362 | 335 |
| Principal repayments | 125 | 339 | 230 | 196 |
| Net flows | 260 | -79 | 132 | 139 |
| Interest payments | 209 | 183 | 47 | 41 |
| Net transfers | 52 | -262 | 85 | 99 |



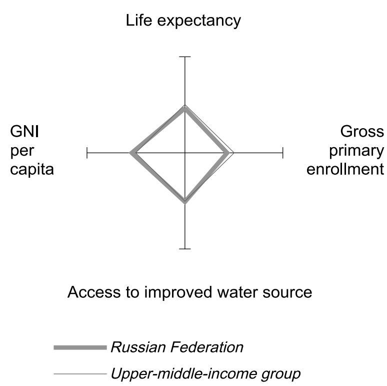

Note: This table was produced from the Development Economics LDB database. 9/24/08

# Russian Federation at a glance

9/24/08

| POVERTY and SOCIAL | Russian Federation | Europe & Central Asia | Upper-middle-income |
|---|---|---|---|
| **2007** | | | |
| Population, mid-year *(millions)* | 141.6 | 445 | 823 |
| GNI per capita *(Atlas method, US$)* | 7,560 | 6,052 | 6,987 |
| GNI *(Atlas method, US$ billions)* | 1,071.0 | 2,694 | 5,750 |
| **Average annual growth, 2001-07** | | | |
| Population *(%)* | -0.5 | 0.0 | 0.7 |
| Labor force *(%)* | 0.3 | 0.5 | 1.3 |
| **Most recent estimate (latest year available, 2001-07)** | | | |
| Poverty *(% of population below national poverty line)* | 20 | .. | .. |
| Urban population *(% of total population)* | 73 | 64 | 75 |
| Life expectancy at birth *(years)* | 66 | 69 | 71 |
| Infant mortality *(per 1,000 live births)* | 14 | 23 | 22 |
| Child malnutrition *(% of children under 5)* | .. | .. | .. |
| Access to an improved water source *(% of population)* | 97 | 95 | 95 |
| Literacy *(% of population age 15+)* | 99 | 97 | 93 |
| Gross primary enrollment *(% of school-age population)* | 96 | 97 | 111 |
| Male | 96 | 98 | 112 |
| Female | 96 | 96 | 109 |

Development diamond*

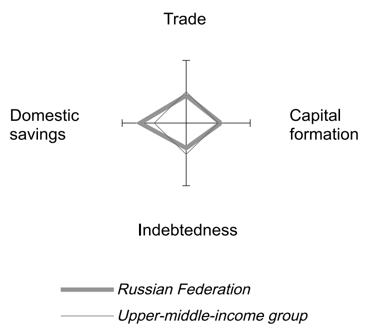



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

| | 1987 | 1997 | 2006 | 2007 |
|---|---|---|---|---|
| GDP *(US$ billions)* | .. | 404.9 | 990.6 | 1,291.0 |
| Gross capital formation/GDP | .. | 22.0 | 21.3 | 24.5 |
| Exports of goods and services/GDP | .. | 24.7 | 33.8 | 30.3 |
| Gross domestic savings/GDP | .. | 24.2 | 34.0 | 33.0 |
| Gross national savings/GDP | .. | 21.9 | 30.9 | 29.8 |
| Current account balance/GDP | .. | 0.0 | 9.5 | 6.1 |
| Interest payments/GDP | .. | 1.1 | 1.2 | .. |
| Total debt/GDP | .. | 31.5 | 25.3 | .. |
| Total debt service/exports | .. | 6.7 | 13.8 | .. |
| Present value of debt/GDP | .. | .. | 25.7 | .. |
| Present value of debt/exports | .. | .. | 69.9 | .. |

| | 1987-97 | 1997-07 | 2006 | 2007 | 2007-11 |
|---|---|---|---|---|---|
| *(average annual growth)* | | | | | |
| GDP | -7.6 | 6.2 | 7.4 | 8.1 | 6.0 |
| GDP per capita | -7.5 | 6.6 | 7.9 | 8.8 | 6.7 |
| Exports of goods and services | -2.7 | 8.8 | 7.3 | 7.4 | 5.8 |

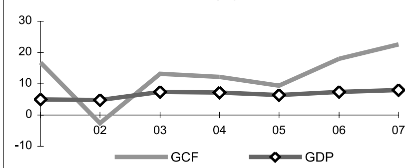
Economic ratios*




STRUCTURE of the ECONOMY

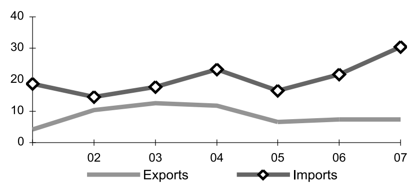
| | 1987 | 1997 | 2006 | 2007 |
|---|---|---|---|---|
| *(% of GDP)* | | | | |
| Agriculture | .. | 6.4 | 5.1 | 4.8 |
| Industry | .. | 38.1 | 38.0 | 38.6 |
| Manufacturing | .. | .. | 18.2 | 19.1 |
| Services | .. | 55.5 | 57.0 | 56.7 |
| Household final consumption expenditure | .. | 54.7 | 49.0 | 49.7 |
| General gov't final consumption expenditure | .. | 21.1 | 17.0 | 17.3 |
| Imports of goods and services | .. | 22.5 | 21.1 | 21.9 |

Growth of capital and GDP (%)




| | 1987-97 | 1997-07 | 2006 | 2007 |
|---|---|---|---|---|
| *(average annual growth)* | | | | |
| Agriculture | -6.7 | 5.2 | 3.6 | 3.1 |
| Industry | -11.7 | 6.2 | 3.9 | 6.5 |
| Manufacturing | .. | .. | .. | .. |
| Services | -3.1 | 6.0 | 9.8 | 9.1 |
| Household final consumption expenditure | -1.2 | 7.8 | 11.2 | 13.0 |
| General gov't final consumption expenditure | -4.4 | 1.8 | 2.3 | 4.9 |
| Gross capital formation | -21.9 | 11.5 | 18.1 | 22.6 |
| Imports of goods and services | -8.1 | 15.1 | 21.6 | 30.4 |

Growth of exports and imports (%)



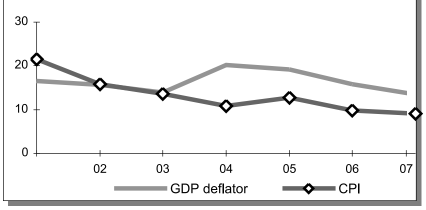

Note: 2007 data are preliminary estimates.
This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

# *Russian Federation*

## PRICES and GOVERNMENT FINANCE

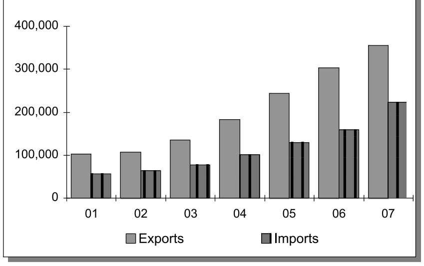
| | 1987 | 1997 | 2006 | 2007 |
|---|---|---|---|---|
| ***Domestic prices*** | | | | |
| *(% change)* | | | | |
| Consumer prices | .. | 14.7 | 9.8 | 9.1 |
| Implicit GDP deflator | .. | 15.1 | 15.7 | 13.5 |
| ***Government finance*** | | | | |
| *(% of GDP, includes current grants)* | | | | |
| Current revenue | .. | 37.6 | 39.2 | 39.8 |
| Current budget balance | .. | -0.6 | 10.8 | 9.0 |
| Overall surplus/deficit | .. | -8.5 | 8.4 | 6.1 |



Inflation (%)

## TRADE

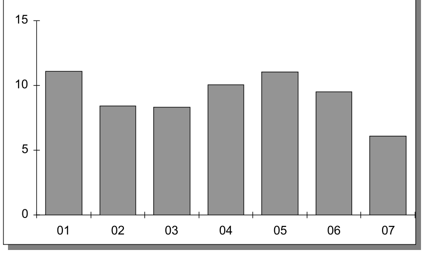
| | 1987 | 1997 | 2006 | 2007 |
|---|---|---|---|---|
| *(US$ millions)* | | | | |
| Total exports (fob) | .. | 86,895 | 303,926 | 355,465 |
| Crude oil | .. | 14,343 | 102,283 | .. |
| Natural gas | .. | 16,120 | 43,806 | .. |
| Manufactures | .. | 10,092 | 18,412 | .. |
| Total imports (cif) | .. | 74,974 | 159,838 | 223,421 |
| Food | .. | 13,278 | 21,600 | .. |
| Fuel and energy | .. | 2,064 | 1,900 | .. |
| Capital goods | .. | 18,709 | 65,600 | .. |
| Export price index *(2000=100)* | .. | 86 | 228 | 229 |
| Import price index *(2000=100)* | .. | 107 | 112 | 115 |
| Terms of trade *(2000=100)* | .. | 81 | 204 | 199 |



Export and import levels (US$ mill.)

## BALANCE of PAYMENTS

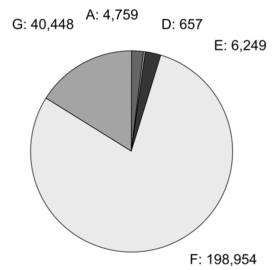
| | 1987 | 1997 | 2006 | 2007 |
|---|---|---|---|---|
| *(US$ millions)* | | | | |
| Exports of goods and services | .. | 100,975 | 334,853 | 394,812 |
| Imports of goods and services | .. | 92,008 | 209,431 | 282,603 |
| Resource balance | .. | 8,967 | 125,422 | 112,209 |
| Net income | .. | -8,691 | -29,629 | -22,509 |
| Net current transfers | .. | -356 | -1,538 | -11,390 |
| Current account balance | .. | -80 | 94,255 | 78,310 |
| Financing items (net) | .. | 882 | 27,237 | 94,349 |
| Changes in net reserves | .. | -802 | -121,492 | -172,659 |
| ***Memo:*** | | | | |
| Reserves including gold *(US$ millions)* | .. | 17,660 | 303,732 | 476,391 |
| Conversion rate *(DEC, local/US$)* | 1.07E-3 | 5.8 | 27.1 | 25.6 |



Current account balance to GDP (%)

## EXTERNAL DEBT and RESOURCE FLOWS

| | 1987 | 1997 | 2006 | 2007 |
|---|---|---|---|---|
| *(US$ millions)* | | | | |
| Total debt outstanding and disbursed | .. | 127,579 | 251,067 | .. |
| IBRD | .. | 5,053 | 4,759 | 4,292 |
| IDA | .. | 0 | 0 | 0 |
| Total debt service | .. | 7,033 | 50,223 | .. |
| IBRD | .. | 178 | 936 | 986 |
| IDA | .. | 0 | 0 | 0 |
| Composition of net resource flows | | | | |
| Official grants | .. | 353 | 0 | .. |
| Official creditors | .. | 2,645 | -25,454 | .. |
| Private creditors | .. | 4,786 | 26,766 | .. |
| Foreign direct investment (net inflows) | .. | 4,865 | 30,827 | .. |
| Portfolio equity (net inflows) | .. | 1,265 | 6,149 | .. |
| World Bank program | | | | |
| Commitments | .. | 3,344 | 0 | 110 |
| Disbursements | .. | 2,691 | 324 | 214 |
| Principal repayments | .. | 0 | 693 | 724 |
| Net flows | .. | 2,691 | -370 | -510 |
| Interest payments | .. | 178 | 243 | 262 |
| Net transfers | .. | 2,513 | -612 | -772 |



Composition of 2006 debt (US$ mill.)

Note: This table was produced from the Development Economics LDB database. 9/24/08

# APPENDIX E: KEY STATE SOCIAL AND ECONOMIC INDICATORS

**Table E.1: Brazil: Key State Social and Economic Indicators**

| State | Area (in million km$^2$) | Population (2005, millions) | Human Development Index (2005) | Literacy rate (2003) | Infant mortality rate (2007, out of '000) | Anticipated life expectancy (2007) | GDP per capita (2005, PPP, in US$) |
|---|---|---|---|---|---|---|---|
| Acre | 0.15 | 0.66 | 0.75 | 0.84 | 30.70 | 71.40 | 2,928 |
| Alagoas | 0.03 | 3.02 | 0.68 | 0.70 | 50.00 | 66.80 | 2,051 |
| Amapá | 0.14 | 0.59 | 0.78 | 0.91 | 23.90 | 70.40 | 3,214 |
| Amazonas | 1.57 | 3.23 | 0.78 | 0.94 | 25.90 | 71.60 | 4,516 |
| Bahia | 0.56 | 1.82 | 0.74 | 0.79 | 33.40 | 72.00 | 2,880 |
| Ceará | 0.15 | 8.10 | 0.72 | 0.78 | 29.70 | 70.30 | 2,211 |
| Distrito Federal | 0.01 | 2.33 | 0.87 | 0.96 | 16.80 | 75.30 | 16,502 |
| Espírito Santo | 0.05 | 3.41 | 0.80 | 0.90 | 18.90 | 73.70 | 6,059 |
| Goiás | 0.34 | 5.62 | 0.80 | 0.90 | 19.40 | 73.40 | 3,935 |
| Maranhão | 0.33 | 6.10 | 0.68 | 0.77 | 39.20 | 67.60 | 1,816 |
| Mato Grosso | 0.90 | 2.80 | 0.80 | 0.90 | 20.40 | 73.10 | 5,849 |
| Mato Grosso do Sul | 0.36 | 2.26 | 0.80 | 0.91 | 18.50 | 73.80 | 4,182 |
| Minas Gerais | 0.59 | 19.24 | 0.80 | 0.89 | 20.40 | 74.60 | 4,381 |
| Pará | 1.25 | 6.97 | 0.76 | 0.90 | 24.40 | 72.00 | 2,458 |
| Paraíba | 0.06 | 3.60 | 0.72 | 0.75 | 38.00 | 69.00 | 2,052 |
| Paraná | 0.20 | 1.26 | 0.82 | 0.93 | 18.60 | 74.10 | 5,400 |
| Pernambuco | 0.10 | 8.41 | 0.72 | 0.79 | 38.40 | 68.30 | 2,595 |
| Piauí | 0.25 | 3.01 | 0.70 | 0.72 | 28.20 | 68.90 | 1,619 |
| Rio de Janeiro | 0.04 | 15.38 | 0.83 | 0.96 | 19.60 | 73.10 | 7,024 |
| Rio Grande do Norte | 0.05 | 3.00 | 0.74 | 0.77 | 34.80 | 70.40 | 2,603 |
| Rio Grande do Sul | 0.28 | 10.85 | 0.83 | 0.95 | 13.50 | 75.00 | 5,824 |
| Rondônia | 0.24 | 1.53 | 0.78 | 0.92 | 23.70 | 71.20 | 3,679 |
| Roraima | 0.22 | 0.39 | 0.75 | 0.91 | 19.10 | 69.90 | 3,554 |
| Santa Catarina | 0.10 | 5.87 | 0.84 | 0.95 | 16.10 | 75.30 | 6,362 |
| São Paulo | 0.25 | 40.44 | 0.83 | 0.95 | 15.50 | 74.20 | 7,867 |
| Sergipe | 0.02 | 1.97 | 0.74 | 0.90 | 33.80 | 70.90 | 2,985 |
| Tocantins | 0.28 | 1.31 | 0.76 | 0.83 | 27.30 | | 3,044 |

*Sources:* The Brazilian Institute for Geography and Statistics (IBGE), Ministry of Planning; World Bank data.
*Note:* PPP = purchasing power parity.

**Table E.2: India: Key State Social and Economic Indicators**

| State | Area ('00 sq. km.) | Population ('000) | Density (per sq. km.) | Literacy rate (2001 census) | Literacy rate (2004–05 census) | Per capita net state domestic product (2004–05, current price, in rupees) | Per capita net state domestic product (2004–05, current price, in US$) |
|---|---|---|---|---|---|---|---|
| Andhra Pradesh | 275 | 76,210 | 277 | 61 | 53 | 23,153 | 526.2 |
| Arunachal Pradesh | 84 | 1,098 | 13 | 54 | 60 | 19,724 | 448.3 |
| Assam | 78 | 26,656 | 340 | 63 | 71 | 13,633 | 309.8 |
| Bihar | 94 | 82,999 | 881 | 47 | 46 | 5,772 | 131.2 |
| Chhattisgarh | 135 | 20,834 | 154 | 65 | 57 | 13,013 | 295.8 |
| Goa | 4 | 1,348 | 364 | 82 | 75 | 58,184 | 1,322.4 |
| Gujarat | 196 | 50,671 | 258 | 69 | 66 | 28,355 | 644.4 |
| Haryana | 44 | 21,145 | 478 | 68 | 62 | 32,712 | 743.5 |
| Himachal Pradesh | 56 | 6,078 | 109 | 77 | 72 | 27,486 | 624.7 |
| Jammu and Kashmir | 222 | 10,144 | 100 | 56 | 61 | 16,190 | 368.0 |
| Jharkhand | 80 | 26,946 | 338 | 54 | 52 | 23,945 | 544.2 |
| Karnataka | 192 | 52,851 | 276 | 67 | 61 | 27,048 | 614.7 |
| Kerala | 39 | 31,841 | 819 | 91 | 83 | 14,069 | 319.8 |
| Madhya Pradesh | 308 | 60,348 | 196 | 64 | 54 | 15,073 | 342.6 |
| Maharashtra | 308 | 96,879 | 315 | 77 | 70 | 32,170 | 731.1 |
| Manipur | 22 | 2,294 | 103 | 71 | 76 | 14,901 | 338.7 |
| Meghalaya | 22 | 2,319 | 103 | 63 | 78 | 19,572 | 444.8 |
| Mizoram | 21 | 888 | 42 | 89 | 90 | | |
| Nagaland | 17 | 1,990 | 120 | 67 | 78 | | |
| Orissa | 156 | 36,804 | 236 | 63 | 57 | 13,601 | 309.1 |
| Punjab | 50 | 24,359 | 484 | 70 | 68 | 30,701 | 697.8 |
| Rajasthan | 342 | 56,507 | 165 | 60 | 50 | 16,212 | 368.5 |
| Sikkim | 7 | 541 | 76 | 69 | 75 | 24,115 | 548.1 |
| Tamil Nadu | 130 | 62,406 | 480 | 74 | 70 | 25,965 | 590.1 |
| Tripura | 10 | 3,199 | 305 | 73 | 74 | | |
| Uttar Pradesh | 241 | 166,198 | 690 | 72 | 64 | 11,477 | 260.8 |
| Uttaranchal Pradesh | 53 | 8,489 | 159 | 56 | 51 | | |
| West Bengal | 89 | 80,176 | 903 | 69 | 66 | 22,497 | 511.3 |
| ***Union Territory*** | | | | | | | |
| A.& N. Islands | 8 | 356 | 43 | 81 | 77 | | |
| Chandigarh | 0.1 | 901 | 7,900 | 82 | 84 | 67,370 | 1,531.1 |
| D. & Nagar Haveli | 0.5 | 220 | 449 | 58 | 58 | | |
| Daman & Diu | 0.1 | 158 | 1,413 | 78 | 76 | | |
| Delhi | 1.5 | 13,851 | 9,340 | 82 | 80 | 53,976 | 1,226.7 |
| Lakshadweep | 0.03 | 61 | 1,895 | 87 | 78 | | |
| Pondicherry | 0.5 | 974 | 2,030 | 81 | 74 | 56,034 | 1,273.5 |
| **All India** | **3,287** | **1,028,737** | **325** | **65** | **60** | **22,946** | **521.5** |

*Source:* Economic Survey, 2007–08, Office of the Registrar General; State Statistical Bureaus and Central Statistical Organization, government of India.

**Table E.3: Nigeria: Key State Economic and Social Indicators**

| | State | Zone | Access to primary school | Net primary enrolment | Adult literacy | Youth literacy | Population (millions) | GDP (2005) billions of naira | GDP per capita (US$) |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Abita | South East | 78.9 | 82.6 | 79.2 | 94.2 | 2.83 | 234.6 | 627.0 |
| 2 | Adamawa | North East | 76.1 | 64.0 | 56.1 | 71.3 | 3.17 | 40.2 | 96.0 |
| 3 | Akwa Ibom | South South | 56.8 | 78.5 | 81.6 | 92.7 | 3.93 | 1,129.4 | 2,178.2 |
| 4 | Anambra | South East | 65.1 | 85.1 | 77.8 | 94.0 | 4.18 | 171.9 | 3,11.4 |
| 5 | Bauchi | North East | 68.7 | 40.1 | 39.5 | 49.0 | 4.68 | 204.3 | 3,31.0 |
| 6 | Bayelsa | South South | 88.0 | 72.2 | 64.3 | 73.3 | 1.70 | 1,419.9 | 6,315.2 |
| 7 | Benue | North Central | 63.2 | 77.4 | 67.0 | 83.7 | 4.22 | 438.0 | 786.5 |
| 8 | Borno | North East | 72.6 | 34.3 | 27.4 | 36.0 | 4.15 | 176.7 | 322.5 |
| 9 | Cross River | South South | 72.4 | 77.0 | 75.5 | 90.7 | 2.89 | 228.7 | 599.6 |
| 10 | Delta | South South | 71.9 | 78.1 | 72.9 | 86.4 | 4.10 | 1,453.9 | 2,687.4 |
| 11 | Ebonyi | South East | 32.7 | 75.0 | 57.7 | 85.9 | 2.17 | 126.8 | 442.0 |
| 12 | Edo | South South | 79.7 | 76.8 | 77.0 | 91.6 | 3.22 | 226.4 | 532.8 |
| 13 | Ekiti | South West | 89.0 | 89.1 | 75.0 | 98.6 | 2.38 | 142.0 | 451.2 |
| 14 | Enugu | South East | 62.7 | 79.9 | 75.6 | 96.2 | 3.26 | 129.9 | 302.0 |
| 15 | Gombe | North East | 82.6 | 33.4 | 54.3 | 53.1 | 2.35 | 114.1 | 367.2 |
| 16 | Imo | South East | 52.3 | 84.4 | 75.4 | 92.7 | 2.93 | 280.8 | 724.7 |
| 17 | Jigawa | North West | 72.9 | 29.6 | 38.7 | 40.9 | 4.35 | 103.6 | 180.5 |
| 18 | Kaduna | North West | 84.2 | 66.1 | 66.4 | 76.8 | 6.07 | 364.2 | 454.7 |
| 19 | Kano | North West | 76.5 | 47.8 | 57.5 | 62.6 | | | 388.9 |
| 20 | Katsina | North West | 74.0 | 45.1 | 36.5 | 45.0 | 5.79 | 167.4 | 218.9 |
| 21 | Kebbi | North West | 72.2 | 32.9 | 51.1 | 61.1 | 3.24 | 100.1 | 234.0 |
| 22 | Kogi | North Central | 88.1 | 80.5 | 64.5 | 89.7 | 3.28 | 297.1 | 686.5 |
| 23 | Kwara | North Central | 83.8 | 79.8 | 55.6 | 78.0 | 2.37 | 163.6 | 522.8 |
| 24 | Lagos | South West | 93.9 | 81.8 | 89.9 | 97.5 | 9.01 | 1,701.0 | 1,429.6 |
| 25 | Nassarawa | North Central | 79.6 | 66.5 | 53.7 | 68.0 | 1.86 | 90.4 | 367.6 |
| 26 | Niger | North Central | 88.6 | 57.5 | 36.5 | 53.8 | 3.95 | 204.6 | 392.4 |
| 27 | Ogun | South West | 85.3 | 83.6 | 69.6 | 93.2 | 3.73 | 131.6 | 267.4 |
| 28 | Ondo | South West | 86.2 | 84.5 | 76.6 | 97.4 | 3.44 | 604.1 | 1,330.0 |
| 29 | Osun | South West | 86.7 | 84.1 | 74.8 | 97.5 | 3.42 | 178.0 | 393.9 |
| 30 | Oyo | South West | 84.5 | 77.1 | 73.3 | 94.7 | 5.59 | 467.2 | 632.9 |
| 31 | Plateau | North Central | 74.9 | 79.3 | 61.6 | 77.0 | 3.18 | 145.5 | 346.7 |
| 32 | Rivers | South South | 70.1 | 75.9 | 82.6 | 93.9 | 5.19 | 2,125.8 | 3,105.8 |
| 33 | Sokoto | North West | 80.5 | 32.1 | 70.3 | 76.7 | 3.70 | 95.7 | 196.0 |
| 34 | Taraba | North East | 70.2 | 59.0 | 55.7 | 65.2 | 2.30 | 35.8 | 117.7 |
| 35 | Yobe | North East | 62.2 | 35.5 | 25.3 | 37.6 | 2.32 | 60.6 | 197.7 |
| 36 | Zamfara | North West | 64.7 | 26.1 | 53.4 | 59.5 | 3.26 | 109.6 | 2,54.7 |
| | FCT | North Central | 94.9 | 83.4 | 79.0 | 82.8 | 1.41 | 395.4 | 2,131.9 |
| | North East | | 71.9 | 43.7 | 42.2 | 52.5 | | | |
| | North Central | | 79.7 | 72.5 | 58.3 | 77.3 | | | |
| | North West | | 76.4 | 42.2 | 54.5 | 63.3 | | | |
| | South East | | 60.6 | 81.6 | 75.7 | 94.1 | | | |
| | South South | | 71.7 | 76.8 | 78.0 | 91.3 | | | |
| | South West | | 88.0 | 82.3 | 79.2 | 96.5 | | | |
| | National | | 75.9 | 61.5 | 65.7 | 80.2 | | | |

*Source:* National Bureau of Statistics, 2006 Core Welfare Indicator Questionnaire (CWIQ) Survey and Economic Associates (an economic consulting firm) for state GDP data.

**Table E.4: Russian Federation: Key State Economic and Social Indicators**

| | Constituent regions | Area, 1,000 sq. km | GDP, US $/per capita, 2006 | Population (1,000) 2006 | Infant deaths under 1 year old per 1,000 live births | Life expectancy at birth (number of years) | Number of physicians per 10,000 population | Population with money incomes below subsistence minimum as percentage of the total population |
|---|---|---|---|---|---|---|---|---|
| **Central Federal Okrug** | | | | | | | | |
| 1 | Belgorod Oblast | 27.1 | 4,545 | 1,512 | 8.6 | 69.27 | 40.7 | 15.8 |
| 2 | Bryansk Oblast | 34.9 | 2,350 | 1,346 | 7.8 | 65.3 | 36.7 | 19.2 |
| 3 | Vladimir Oblast | 29.0 | 2,899 | 1,487 | 7.8 | 64.44 | 34.4 | 29.6 |
| 4 | Voronezh Oblast | 52.4 | 2,691 | 2,334 | 8.2 | 67.11 | 54.3 | 19.6 |
| 5 | Ivanovo Oblast | 23.9 | 1,821 | 1,115 | 9.1 | 64.49 | 52 | 35.2 |
| 6 | Kaluga Oblast | 29.9 | 3,183 | 1,022 | 10.8 | 66.03 | 39.4 | 17.2 |
| 7 | Kostroma Oblast | 60.1 | 2,854 | 717 | 14.5 | 64.62 | 36.8 | 20.0 |
| 8 | Kursk Oblast | 29.8 | 3,241 | 1,199 | 9.9 | 66.06 | 50.4 | 15.7 |
| 9 | Lipetsk Oblast | 24.1 | 6,056 | 1.19 | 8.1 | 66.73 | 41.9 | 11.3 |
| 10 | Moscow Oblast | 46.0 | 5,370 | 6.63 | 8.6 | 66.4 | 37.4 | 12.6 |
| 11 | Oryol Oblast | 24.7 | 2,857 | 842 | 10.1 | 66.39 | 39 | 21.6 |
| 12 | Ryazan Oblast | 39.6 | 3,329 | 1,195 | 11.3 | 65.23 | 54.6 | 19.4 |
| 13 | Smolensk Oblast | 49.8 | 3,010 | 1,019 | 10.3 | 63.01 | 60.8 | 19.7 |
| 14 | Tambov Oblast | 34.3 | 2,652 | 1,145 | 9.7 | 66.84 | 35 | 15.1 |
| 15 | Tver Oblast | 84.1 | 3,410 | 1,425 | 10.5 | 62.85 | 53 | 14 |
| 16 | Tula Oblast | 25.7 | 3,423 | 1,622 | 8.9 | 64.23 | 35 | 15.1 |
| 17 | Yaroslavl Oblast | 36.4 | 4,488 | 1,339 | 8.2 | 66.11 | 58.8 | 13.8 |
| 18 | City of Moscow | 1.0 | 18,73 | 10,407 | 7.9 | 71.81 | 78.6 | 13.5 |
| **North-West Federal Okrug** | | | | | | | | |
| 19 | Republic of Karelia | 172.4 | 4,719 | 703 | 7.6 | 63.79 | 49.3 | 15.7 |
| 20 | Republic of Komi | 415.9 | 8,214 | 996 | 7 | 64.21 | 46.1 | 15.4 |
| 21 | Arkhangelsk Oblast | 410.7 | 6,097 | 1,263 | 10.2 | 64.84 | 53.2 | 17.6 |
| 22 | Nenets AO | 176.7 | — | 42 | 15.2 | 62.24 | 39.3 | 8.83 |
| 23 | Vologda Oblast | 145.7 | 6,410 | 1,245 | 8.6 | 65.36 | 35.5 | 17.5 |
| 24 | Kaliningrad Oblast | 15.1 | 4,042 | 945 | 7.1 | 64.13 | 36.9 | 14.6 |
| 25 | Leningrad Oblast | 85.3 | 6,143 | 1,653 | 7.9 | 63.06 | 31.2 | 14.7 |
| 26 | Murmansk Oblast | 144.9 | 6,893 | 873 | 10.3 | 65.17 | 48.3 | 18.7 |
| 27 | Novgorod Oblast | 55.3 | 4,203 | 674 | 11.4 | 62.66 | 40.4 | 17.8 |
| 28 | Pskov Oblast | 55.3 | 2,610 | 737 | 13.2 | 61.22 | 34.4 | 18.5 |
| 29 | City of St. Petersburg | 0.6 | 6,737 | 4.6 | 4.7 | 68.9 | 83.5 | 9.7 |
| **South Federal Okrug** | | | | | | | | |
| 30 | Republic of Adygeya | 7.6 | 1,799 | 445 | 8 | 68.27 | 38.4 | 34.3 |
| 31 | Republic of Dagestan | 50.3 | 1,695 | 2,622 | 14.8 | 73.35 | 40 | 11.9 |
| 32 | Ingush Republic | 4.3 | 0.664 | 482 | 31.4 | 76.02 | 23.4 | 57.4 |
| 33 | Kabarda-Balkar Republic | 12.5 | 1,778 | 897 | 16.1 | 70.14 | 44.2 | 19.8 |

**Table E.4: Russian Federation: Key State Economic and Social Indicators *(continued)***

| | Constituent regions | Area, 1,000 sq. km | GDP, US $/per capita, 2006 | Population (1,000) 2006 | Infant deaths under 1 year old per 1,000 live births | Life expectancy at birth (number of years) | Number of physicians per 10,000 population | Population with money incomes below subsistence minimum as percentage of the total population |
|---|---|---|---|---|---|---|---|---|
| 34 | Republic of Kalmykia | 76.1 | 1,623 | 290 | 14.2 | 67.52 | 50.1 | 48.7 |
| 35 | Karachai-Circassian Republic | 14.1 | 2,002 | 435 | 10.7 | 70.19 | 36.4 | 19.7 |
| 36 | Republic of North Ossetia | 8.0 | 2,316 | 704 | 9.8 | 70.74 | 67.4 | 16.3 |
| 37 | Republic of Chechnya | 15.0 | 0.946 | 1,141 | 16.7 | 73.08 | 20.8 | . . . |
| 38 | Krasnodar Krai | 76.0 | 3,470 | 5.1 | 8.2 | 68.74 | 43.1 | 22.9 |
| 39 | Stavropol Krai | 66.5 | 2,509 | 2,718 | 10.1 | 68.25 | 45.2 | 21.6 |
| 40 | Astrakhan Oblast | 44.1 | 3,235 | 998 | 10.7 | 66.14 | 67.1 | 17 |
| 41 | Volgograd Oblast | 113.9 | 3,601 | 2,655 | 11.2 | 67.84 | 49.4 | 11.2 |
| 42 | Rostov Oblast | 100.8 | 2,975 | 4,334 | 13.2 | 67.61 | 38.7 | 18.1 |
| **Privolgskiy Federal Okrug** | | | | | | | | |
| 43 | Republic of Bashkortostan | 143.6 | 4,734 | 4,079 | 10.9 | 67.47 | 42.7 | 14.7 |
| 44 | Republic of Mari El | 23.2 | 2,277 | 717 | 11.1 | 64.82 | 34.5 | 30.7 |
| 45 | Republic of Mordovia | 26.2 | 2,528 | 866 | 6.8 | 67.75 | 51.7 | 29.0 |
| 46 | Republic of Tatarstan | 68.0 | 6,115 | 3.769 | 8.2 | 69.04 | 45.3 | 10 |
| 47 | Republic of Udmurtia | 42.1 | 4,017 | 1,553 | 10.8 | 66.01 | 58.3 | 19.7 |
| 48 | Chuvash Republic | 18.3 | 2,706 | 1,299 | 9.1 | 66.98 | 48.1 | 22.0 |
| 49 | Kirov Oblast | 120.8 | 2,552 | 1,461 | 9.9 | 65.8 | 45.7 | 23.9 |
| 50 | Nizhny Novgorod Oblast | 74.8 | 4,260 | 3,445 | 11.5 | 64.6 | 47 | 16.4 |
| 51 | Orenburg Oblast | 124.0 | 5,339 | 2.15 | 9.9 | 66.17 | 49.1 | 19.4 |
| 52 | Penza Oblast | 43.2 | 2,467 | 1,423 | 10.6 | 67.25 | 38.7 | 23.8 |
| 53 | Perm krai | 160.6 | 5,452 | 2.77 | 11.6 | 63.99 | 53.7 | 14.7 |
| 54 | Samara Oblast | 53.6 | 5,847 | 3,201 | 7.3 | 66.57 | 49.9 | 17.2 |
| 55 | Saratov Oblast | 100.2 | 2,930 | 2,626 | 9.1 | 67.37 | 52 | 22.3 |
| 56 | Ulianovsk Oblast | 37.3 | 2,896 | 1,351 | 10.1 | 66.33 | 36.4 | 24.9 |
| **Ural Federal Okrug** | | | | | | | | |
| 57 | Kurgan Oblast | 71.0 | 2,590 | 992 | 14.2 | 65.52 | 27.7 | 24.3 |
| 58 | Sverdlovsk Oblast | 194.8 | 5,648 | 4,428 | 8.7 | 66.47 | 42.5 | 12.2 |
| 59 | Tyumen Oblast | 161.8 | 9,441 | 1,316 | 8.4 | 67.95 | 49.7 | 11.5 |
| 60 | Khanty-Mansi AO | 523.1 | 33,408 | 1,469 | 7.5 | 68.84 | 50.7 | 7.93 |
| 61 | Yamal-Nenets AO | 750.3 | 29,183 | 523 | 13 | 68.86 | 49 | 7.03 |
| 62 | Chelyabinsk Oblast | 87.9 | 4,768 | 3,551 | 9.1 | 66.17 | 41.1 | 12.4 |
| **Sibir Federal Okrug** | | | | | | | | |
| 63 | Republic of Altai | 92.6 | 2,066 | 204 | 15.3 | 62.49 | 39.7 | 37.8 |
| 64 | Republic of Buryatia | 351.3 | 3,576 | 969 | 12.5 | 62.43 | 39.3 | 29,7 |

*(Table continues on next page)*

**Table E.4: Russian Federation: Key State Economic and Social Indicators *(continued)***

| | Constituent regions | Area, 1,000 sq. km | GDP, US $/per capita, 2006 | Population (1,000) 2006 | Infant deaths under 1 year old per 1,000 live births | Life expectancy at birth (number of years) | Number of physicians per 10,000 population | Population with money incomes below subsistence minimum as percentage of the total population |
|---|---|---|---|---|---|---|---|---|
| 65 | Republic of Tyva | 170.5 | 1,822 | 308 | 15.1 | 58.43 | 42.9 | 38.7 |
| 66 | Republic of Khakassia | 61.9 | 3,606 | 541 | 15.6 | 64.51 | 38.8 | 25.1 |
| 67 | Altai Krai | 169.1 | 2,517 | 2,565 | 11.2 | 66.64 | 46.8 | 20.1 |
| 68 | Krasnoyarsk Krai | 2,339.7 | 7,673 | 2,925 | 12.9 | 65.58 | 49.6 | 19.3 |
| 69 | Irkutsk Oblast | 767.9 | 4,872 | 2,545 | 11.8 | 63.06 | 46.2 | 19.6 |
| 70 | Kemerovo Oblast | 95.5 | 4,524 | 2,855 | 10.3 | 63.04 | 47 | 11.7 |
| 71 | Novosibirsk Oblast | 178.2 | 4,119 | 2,662 | 9.6 | 66.38 | 58.8 | 21.9 |
| 72 | Omsk Oblast | 139.7 | 4,631 | 2,047 | 8.8 | 66.17 | 55.9 | 16 |
| 73 | Tomsk Oblast | 316.9 | 6,853 | 1,037 | 13.8 | 66.5 | 67.6 | 14.5 |
| 74 | Zabajkalsk Krai | 431.5 | 2,958 | 1,136 | 10.2 | 61.43 | 54.9 | 24.5 |
| **Far-East Federal Okrug** | | | | | | | | |
| 75 | Republic of Sakha (Yakutia) | 3,103.2 | 8,229 | 951 | 10.6 | 65.55 | 54 | 20.3 |
| 76 | Primorski Krai | 165.9 | 3,941 | 2,036 | 10.7 | 64.4 | 52.9 | 23.8 |
| 77 | Khabarovsk Krai | 788.6 | 5,289 | 1.42 | 12.3 | 63.67 | 59 | 18.2 |
| 75 | Amur Oblast | 363.7 | 3,949 | 887 | 17.4 | 62.23 | 60.2 | 31.1 |
| 79 | Kamchatka Krai | 472.3 | | 352 | 12.2 | 65.19 | 52.5 | 27.1 |
| 80 | Magadan Oblast | 461.4 | 6,670 | 175 | 14.2 | 63.4 | 56.2 | 19.0 |
| 81 | Sakhalin Oblast | 87.1 | 11,794 | 532 | 12.9 | 62.79 | 45.8 | 16.2 |
| 82 | Jewish AO | 36.0 | 3,647 | 189 | 14.3 | 61.27 | 36.4 | 25.4 |
| 83 | Chukotka AO | 737.7 | 11,008 | 51 | 23.2 | 58.93 | 81.6 | 13.1 |

*Sources:* Federal State Statistics Service of Russian Federation; World Bank data.

# APPENDIX F: DISTRIBUTION OF PROJECTS BY STATES

**Table F.1: Brazil: Distribution of Projects by States**

| State | Sector | | | | | | | | Summary |
|---|---|---|---|---|---|---|---|---|---|
| | Agriculture and rural development | Economic policy governance, and finance | Education | Health | Environment | Transportation | Urban development | Water | |
| **Acre** | | | | | | | | | Total projects = 0 |
| **Alagoas** | | | | | | | | | Total projects = 0 |
| **Amapa** | | | | | Amapa Sustainable Communities (fiscal 2005) | | | | Total projects = 1<br>Environment = 1 |
| **Amazonas** | | | | Alto Solimoes Basic Services and Sustainable Devel-opment Project I (fiscal 2008) | | | | | Total projects = 1<br>Health = 1 |
| **Bahia** | Rural Poverty Alleviation Project, Bahia (approved fiscal 1995; exited fiscal 2001)<br><br>Bahia, Rural Poverty Reduction Project (fiscal 2001)<br><br>Bahia, State Integrated Project: Rural Poverty (fiscal 2006) | | Bahia, Basic Education Project Phase I (fiscal 2001)<br><br>Bahia Education Project (APL), Second Phase (fiscal 2001) | Bahia, State Health System Reform (fiscal 2003) | | Bahia Integrated State Highway Management (fiscal 2007) | Bahia Poor Urban Areas Integrated Development (fiscal 2006) | Bahia Water Resources Management (fiscal 1998) | Total projects = 9<br>Agriculture = 3;<br>Education = 2;<br>Health = 1;<br>Transport = 1;<br>Urban development = 1;<br>Water = 1 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Ceará** | Ceará, Rural Poverty Reduction Project (fiscal 2001)<br><br>Ceará Water Pilot Project (approved fiscal 1997; exited fiscal 2002)<br><br>Rural Poverty Alleviation Project, Ceará (approved fiscal 1995; exited fiscal 2001)<br><br>Ceará, Rural Poverty Reduction—additional financing (fiscal 2006) | Ceará Multisector Social Inclusion Development APL (fiscal 2006) | CEARÁ Basic Education Quality Project (fiscal 2001) | | | | Ceará Urban Development & Water Resource (approved fiscal 1995, exited fiscal 2004) | Ceará Integrated Water Resources Management Project (fiscal 2000) | Total projects = 8<br>Agriculture = 3 +1 (additional financing);<br>Economic policy & governance = 1;<br>Education = 1 ; Urban development = 1;<br>Water = 1 |
| **Distrito Federal** | | | | | | | | | Total projects = 0 |
| **Espírito Santo** | | | | | | | | Espírito Santo Water and Coastal Pollution (approved fiscal 1994, exited fiscal 2003)<br><br>Espirito Santo Water and Coastal Pollution Management (fiscal 2005) | Total projects = 2<br>Water = 2 |
| **Goiás** | | | | | | Goias State Highway Management (fiscal 2002) | | | Total projects = 1<br>Transport = 1 |

*(Table continues on next page)*

**Table F.1: Brazil: Distribution of Projects by States** *(continued)*

| State | Sector | | | | | | | | Summary |
|---|---|---|---|---|---|---|---|---|---|
| | Agriculture and rural development | Economic policy governance, and finance | Education | Health | Environment | Transportation | Urban development | Water | |
| **Maranhão** | Maranhão, Rural Poverty Alleviation Project<br>Maranhão—Integrated Program: Rural Poverty Reduction (fiscal 2004) | | | | | Second State Highway Management Project—States of Maranhao, Piaui, and Tocantins (approved fiscal 1994, exited fiscal 2000) | | | Total projects = 3<br>Agriculture = 2;<br>Transport = 1 |
| **Mato Grosso** | | | | | | | | | Total projects = 0 |
| **Mato Grosso do Sul** | | Mato Grosso State Privatization Project (approved fiscal 1997, exited fiscal 2002) | | | | | | | Total projects = 1<br>Finance = 1 |
| **Minas Gerais** | Minas Gerais Rural Poverty Reduction (fiscal 2006) | Minas Gerais State Privatization (fiscal 1998, cancelled after Board approval)<br><br>Minas Gerais Partnership for Development (fiscal 2006, DPL)<br><br>Minas Gerais Development Partnership II—SWAp (fiscal 2008) | Minas Gerais Basic Education (approved fiscal 1994, exited fiscal 2002) | | | | Minas Gerais Municipal Management and Environmental Infrastructure (approved fiscal 1994, exited fiscal 2002) | Minas Gerais Water Quality and Pollution Control Project (approved fiscal 1993, exited fiscal 2000) | Total projects = 7<br>Agriculture = 1;<br>Economic policy & governance = 3;<br>Education = 1;<br>Urban development = 1;<br>Water = 1 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Pará** | | | Pará Integrated Rural Development—APL (fiscal 2007) | | | Total projects = 1<br>Environment = 1 |
| **Paraíba** | Paraíba—Rural Poverty Alleviation Project | | | | | Total projects = 1<br>Agriculture = 1 |
| **Paraná** | PARANÁ—Rural Poverty Alleviation and Natural Resources Management Project (approved fiscal 1996, exited fiscal 2006) | Parana Basic Education (approved fiscal 1994, exited fiscal 2002) | | | | Total projects = 2<br>Agriculture = 1;<br>Education = 1 |
| **Pernambuco** | Rural Poverty Alleviation Project, Pernambuco (approved fiscal 1997, exited fiscal 2002)<br><br>Pernambuco—Rural Poverty Reduction Project (fiscal 2001)<br><br>Pernambuco Rural Poverty Reduction—additional financing (fiscal 2007) | Pernambuco Integrated Development: Education Quality Improvement Project (fiscal 2008) | | | Recife Urban Upgrading Project (fiscal 2003) | Total projects = 5<br>Agriculture = 2 +1 (additional financing);<br>Education = 1;<br>Urban development = 1 |
| **Piauí** | Rural Poverty Alleviation Project, Piauí (approved fiscal 1997, exited fiscal 2002) | | | Second State Highway Management Project, States of Maranhao, Piaui, and Tocantins (approved fiscal 1994, exited fiscal 2000) | | Total projects = 4<br>Agriculture = 2 +1 (additional financing);<br>Transport = 1 |

*(Table continues on next page)*

**Table F.1: Brazil: Distribution of Projects by States** ***(continued)***

| | Sector | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **State** | **Agriculture and rural development** | **Economic policy governance, and finance** | **Education** | **Health** | **Environment** | **Transportation** | **Urban development** | **Water** | **Summary** |
| **Paiui** ***(continued)*** | Piauí, Rural Poverty Reduction Project (fiscal 2001)<br><br>Piauí Rural Poverty Reduction—additional financing (fiscal 2006) | | | | | | | | |
| **Rio de Janeiro** | | Rio de Janeiro State Reform–Privatization (fiscal 1998) | | | | Rio de Janeiro Mass Transport (fiscal 1998)<br><br>Rio de Janeiro Mass Transport—additional financing (fiscal 2008) | | | Total projects = 3 Finance = 1; Transport = 2 |
| **Rio Grande do Norte** | Rural Poverty Alleviation Project, Rio Grande do Norte (approved fiscal 1997, exited fiscal 2002)<br><br>Rio Grande do Norte Rural Poverty Reduction—Additional Financing (fiscal 2002) | | | | | | | Rio Grande do Norte— Integrated Water Resources Management (fiscal 2008) | Total projects = 3 Agriculture = 1 +1 (additional financing); Water = 1 |

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|---|---|---|---|---|---|---|
| **Rio Grande do Sul** | Natural Resources Management and Rural Poverty Alleviation Project, Rio Grande do Sul (approved fiscal 1997, exited fiscal 2006) | Rio Grande do Sul State Reform Project (approved fiscal 1997, exited fiscal 1999) | | | Rio Grande do Sul State Highway Management Project (approved 1997, exited fiscal 2006) | Total projects = 3<br>Agriculture = 1;<br>Finance = 1;<br>Transport = 1 |
| **Rondônia** | | | | | | Total projects = 0 |
| **Roraima** | | | | | | Total projects = 0 |
| **Santa Catarina** | Santa Catarina—Natural Resources Management and Rural Poverty Reduction (fiscal 2002) | | | 2nd Land Management Project—Santa Catarina (approved fiscal 1990, exited fiscal 1999) | Santa Catarina State Highway Management Project (approved fiscal 1993, exited fiscal 2000) | Total projects = 3<br>Agriculture = 1;<br>Environment = 1;<br>Transport. = 1 |
| **São Paulo** | | | Innovations in Basic Education Project, Sao Paulo (approved fiscal 1991, exited fiscal 1999) | | Sao Paulo Integrated Urban Transport Project (fiscal 1998)<br><br>Sao Paulo Metro Line 4 (fiscal 1998)<br><br>Sao Paulo Metro Line 4—additional financing (fiscal 2008)<br><br>Sao Paulo Trains and Signaling (fiscal 2008) | Total projects = 5<br>Education = 1;<br>Transport = 3+1 (additional financing) |
| **Sergipe** | Rural Poverty Alleviation Project, Sergipe (approved fiscal 1995, exited fiscal 2001) | | | | | Total projects = 2<br>Agriculture = 2 |

*(Table continues on next page)*

**Table F.1: Brazil: Distribution of Projects by States** *(continued)*

| | Sector | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **State** | **Agriculture and rural development** | **Economic policy governance, and finance** | **Education** | **Health** | **Environment** | **Transportation** | **Urban development** | **Water** | **Summary** |
| **Sergipe** *(continued)* | Sergipe, Rural Poverty Reduction (fiscal 2002) | | | | | | | | |
| **Tocantins** | | | | | | Second State Highway Management Project, States of Maranhao, Piaui, and Tocantins (approved fiscal 1994, exited fiscal 2000)<br><br>Tocantins Sustainable Regional Development (fiscal 2004) | | | Total projects = 2<br>Transport = 2 |

**Table F.2: India: Distribution of Projects by States**

| State | Sector | | | | | | | | Summary |
|---|---|---|---|---|---|---|---|---|---|
| | Agriculture and rural development | Economic policy governance, and finance | Education | Health | Energy and mining | Transportation | Urban development | Water | |
| **Andaman & Nicobar** | | | | | | | | | Total projects =0 |
| **Andhra Pradesh** | Andhra Pradesh District Poverty Initiatives Project (fiscal 2000)<br><br>Andhra Pradesh Rural Poverty Reduction Project (fiscal 2003)<br><br>Andhra Pradesh Rural Poverty Reduction additional financing (fiscal 2008)<br><br>Andhra Pradesh Community Forest Management (fiscal 2003)<br><br>Chhattisgarh District Rural Poverty Project (fiscal 2003, DRPP)<br><br>Andhra Pradesh Community Tank Management Project (fiscal 2007) | Andhra Pradesh Economic Reform Loan/Credit (fiscal 2002)<br><br>Second Andhra Pradesh Economic Reform Loan (fiscal 2004, SAL II)<br>Andhra Pradesh Economic Reform Project (fiscal 2007, DPL III) | | Andhra Pradesh Economic Restructuring (fiscal 1998) | Andhra Pradesh Power Sector Restructuring Project (fiscal 1999, APL I) | | | | Total projects =11<br>Agriculture & rural = 5 +1 (additional financing);<br>Economic policy = 3;<br>Health = 1;<br>Energy & mining = 1 |

*(Table continues on next page)*

**Table F.2: India: Distribution of Projects by States *(continued)***

| State | Sector | | | | | | | | Summary |
|---|---|---|---|---|---|---|---|---|---|
| | Agriculture and rural development | Economic policy governance, and finance | Education | Health | Energy and mining | Transportation | Urban development | Water | |
| **Arunchal Pradesh** | | | | | | | | | Total projects = 0 |
| **Assam** | | | | | | | | | Total projects = 1<br>Agriculture & rural = 1 |
| **Bihar** | Bihar Rural Livelihoods Project (fiscal 2007) | Bihar DPL (fiscal 2008) | District Primary Education Project III (fiscal 1998, Bihar and Jharkhand) | | | | | | Total projects = 3<br>Agriculture & rural = 1;<br>Economic policy = 1;<br>Education = 1 |
| **Chandigarh (Union Territory)** | | | | | | | | | Total projects = 0 |
| **Chhattisgarh** | | | | | | | | | Total projects = 0 |
| **Dadra and Nagar Haveli (Union Territory)** | | | | | | | | | Total projects = 0 |
| **Daman and Diu (Union Territory)** | | | | | | | | | Total projects = 0 |
| **Delhi (Union Territory)** | | | | | | | | | Total projects = 0 |
| **Goa** | | | | | | | | | Total projects = 0 |
| **Gujarat** | | | | | | Gujarat Highways (fiscal 2001) | Gujarat Emergency Earthquake Reconstruct (fiscal 2002) | | Total projects = 2<br>Transport = 1;<br>Urban development = 1 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Haryana** | Haryana Power Sector Restructuring APL-I | | | Haryana Power Sector Restructuring APL-I | | | Total projects = 2<br>Agriculture = 1;<br>Energy & mining = 1 |
| **Himachal Pradesh** | Mid-Himalayan (HP) Watersheds (fiscal 2006) | Himachal Pradesh DPL I (fiscal 2008) | | | Himachal Pradesh State Roads Project (fiscal 07) | | Total projects = 3<br>Agriculture & rural = 1;<br>Economic policy = 1;<br>Transport = 1 |
| **Jammu and Kashmir** | | | | | | | Total projects = 0 |
| **Jharkhand** | | | | | | | Total projects = 0 |
| **Karnataka** | Karnataka Watershed Development (fiscal 2001)<br><br>Karnataka Community Based Tank Management (fiscal 2002)<br><br>Karnataka Panchayats Strengthening Project (fiscal 2005)<br><br>Karnataka Tanks (fiscal 2008, supplement) | Technical assistance for Economic Reform Project (fiscal 2000)<br><br>First Karnataka Economic Restructuring (fiscal 2001, SAL I)<br><br>Second Karnataka Economic Restructuring Project (fiscal 2002, SAL II) | Karnataka Health Systems (fiscal 2007) | | Karnataka Highways (fiscal 2001) | Karnataka UWS Improvement Project (fiscal 2004) | Total projects = 10<br>Agriculture & rural = 4;<br>Economic policy = 3;<br>Health = 1;<br>Transport = 1;<br>Water = 1 |
| **Kerala** | Kerala Forestry (fiscal 1998–2004) | | | | Kerala State Transport (fiscal 2002) | Kerala Rural Water Supply and Environmental Sanitation (fiscal 2001) | Total projects = 4<br>Agriculture & rural = 1;<br>Transport = 1;<br>Water = 2 |

*(Table continues on next page)*

**Table F.2: India: Distribution of Projects by States *(continued)***

| State | Sector | | | | | | | | Summary |
|---|---|---|---|---|---|---|---|---|---|
| | Agriculture and rural development | Economic policy governance, and finance | Education | Health | Energy and mining | Transportation | Urban development | Water | |
| | | | | | | | | Second Karnataka Rural Water Supply and Sanitation Project (fiscal 2002) | |
| **Lakshad-weep (Union Territory)** | | | | | | | | | Total projects = 0 |
| **Madhya Pradesh** | Madhya Pradesh District Poverty Initiatives Project (fiscal 2001, DPIP I)<br><br>Madhya Pradesh Water Sector Restructuring (fiscal 2005) | | | | | | | | Total projects = 2; Agriculture & rural = 2 |
| **Maharashtra** | Maharashtra Water Sector Improvement (fiscal 2005) | | | Maharashtra Health Systems Development (fiscal 1999) | | | | Maharashtra Rural Water Supply and Sanitation "Jalswarajya" Project (fiscal 2004) | Total projects = 3 Agriculture & rural = 1; Health = 1; Water = 1 |
| **Meghalaya** | | | | | | | | | Total projects = 0 |
| **Mizoram** | | | | | | Mizoram State oads Project (fiscal 2002)<br><br>Mizoram Roads—Additional Financing (fiscal 2007) | | | Total projects = 2 Transport = 1+1 (additional financing) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Nagaland** | | | | | | | | | Total projects = 0 |
| **Orissa** | | Orissa Socio-Economic Development Loan (fiscal 2005, SAL I)<br><br>Orissa Socio-Economic Development Loan II (fiscal 2007) | | Orissa Health Systems (fiscal 1998) | | | | | Total projects = 3<br>Economic policy = 2;<br>Health = 1 |
| **Puducherry (Union Territory)** | | | | | | | | | Total projects = 0 |
| **Punjab** | | | | | | Punjab State Roads Project (fiscal 2007) | | Punjab Rural Water Supply & Sanitation (fiscal 2007) | Total projects = 2<br>Transport = 1;<br>Water = 1 |
| **Rajasthan** | Rajasthan District Poverty Initiatives Project (fiscal 2000)<br><br>Rajasthan Water Sector Restructuring Project (fiscal 2002, RWSRP) | | Rajasthan District Primary Education Project (fiscal 1999, DPEP)<br><br>Rajasthan Second District Primary Education (fiscal 2001, DPEP II) | Rajasthan Health Systems Development Project (fiscal 2004) | Rajasthan Power I (fiscal 2001) | | | | Total projects = 6<br>Agriculture & rural = 2;<br>Education = 2;<br>Health = 1;<br>Energy & mining = 1 |
| **Sikkim** | | | | | | | | | Total projects = 0 |
| **Tamil Nadu** | Tamil Nadu Empowerment and Poverty Reduction (fiscal 2006)<br><br>Tamil Nadu Irrigated Agriculture Mod. and Water-Bodies Rest and Management (fiscal 2007) | | | Tamil Nadu Health Systems Project (fiscal 2005) | | Tamil Nadu Road Sector Project (fiscal 2003) | Tamil Nadu Urban Development II (fiscal 1999)<br><br>Tamil Nadu Urban Development III (fiscal 2006) | | Total projects = 6<br>Agriculture & rural = 2;<br>Health = 1;<br>Transport = 1;<br>Urban development = 2 |

*(Table continues on next page)*

**Table F.2: India: Distribution of Projects by States** ***(continued)***

| | Sector | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **State** | **Agriculture and rural development** | **Economic policy governance, and finance** | **Education** | **Health** | **Energy and mining** | **Transportation** | **Urban development** | **Water** | **Summary** |
| **Tripura** | | | | | | | | | Total projects = 0 |
| **Uttaranchal** | Uttaranchal Decentralized Watershed Development (fiscal 2004) | | | | | | | | Total projects = 1<br>Agriculture & rural = 1 |
| **Uttar Pradesh** | Uttar Pradesh Forestry (fiscal 1998–2004)<br><br>Uttar Pradesh Sodic Lands Reclamation II (fiscal 1999–2008)<br><br>Uttar Pradesh Water Sector Restructuring Project (fiscal 2002)<br><br>Uttar Pradesh Diversified Agricultural Support Project (fiscal 1998–2004) | Technical assistance for Economic Reform Project (fiscal 2000)<br><br>Uttar Pradesh Fiscal Reform and Public Sector Restructuring Program (fiscal 2008) | Uttar Pradesh Basic Education Project II (fiscal 1998)<br><br>Uttar Pradesh Third District Primary Education (fiscal 2000, DPEP III) | UP Health Systems Development Project (fiscal 2000) | Uttar Pradesh Power Sector Restructuring Project (fiscal 2000) | Uttar Pradesh State Roads Project (fiscal 2003) | | Uttaranchal Rural Water Supply and Sanitation (fiscal 2007) | Total projects = 12<br>Agriculture & rural = 4;<br>Economic policy = 2;<br>Education = 2;<br>Health = 1;<br>Energy & mining = 1,<br>Transport = 1;<br>Water = 1 |
| **West Bengal** | | | | | | | | | Total projects = 0 |

**Table F.3: Nigeria: Distribution of Projects by States**

| State | Number of projects | Health | Education | HIV/AIDS | Community-driven development | Water | Agriculture | Transport, power | Urban development | Governance |
|---|---|---|---|---|---|---|---|---|---|---|
| **Abia** | **5** | Health System Development 2 | | HIV/AIDS | Community-Based Poverty Reduction, Community Social Development | | Fadama 3 | | | |
| **Adamawa** | **5** | Health System Development 2 | | HIV/AIDS | Local Empowerment and Environment Management | | Fadama 2, Fadama 3 | | | |
| **Akwa Ibom** | **5** | Health System Development 2, Malaria | | HIV/AIDS | | | Fadama 3 | | Community- Based Urban Development | |
| **Anambra** | **3** | Health System Development 2, Malaria | | HIV/AIDS | | | | | | |
| **Bauchi** | **8** | Health System Development 2, Malaria | | HIV/AIDS | Local Empowerment and Environment Management | | Fadama 2, Fadama 3 (WB) | | Community- Based Urban Development | State Governance and Capacity Building |
| **Bayelsa** | **4** | Health System Development 2 | | HIV/AIDS | Local Empowerment and Environment Management | | Fadama 3 | | | |
| **Benue** | **4** | Health System Development 2 | | HIV/AIDS | Local Empowerment and Environment Management | | Fadama **3** | | | |
| **Borno** | **4** | Health System Development. 2 | | HIV/AIDS | | | Fadama 2, Fadama 3 | | | |
| **Cross River** | **6** | Health System Development. 2 | | HIV/AIDS | Community-Based Poverty Reduction | Urban Water 2 | Fadama 3 | | | State Governance and Capacity Building |
| **Delta** | **3** | Health System Development 2 | | HIV/AIDS | | | Fadama 3 | | | |

*(Table continues on next page)*

**Table F.3: Nigeria: Distribution of Projects by States *(continued)***

| State | Number of projects | Health | Education | HIV/AIDS | Community-driven development | Water | Agriculture | Transport, power | Urban development | Governance |
|---|---|---|---|---|---|---|---|---|---|---|
| **Ebonyi** | **6** | Health System Development 2 | | HIV/AIDS | Community- Based Poverty Reduction, Community Social Development | | Fadama 3 | | Community- Based Urban Development | |
| **Edo** | | Health System Development 2 | | HIV/AIDS | | | Fadama 3 | | Community-Based Urban Development | |
| **Ekiti** | **5** | Health System Development 2 | | HIV/AIDS | Community-Based Poverty Reduction, Community Social Development | | Fadama 3 | | | |
| **Enugu** | **5** | Health System Development 2 | | HIV/AIDS | Local Empowerment and Environment Management | Urban Water 1 | Fadama 3 | | | |
| **Gombe** | **5** | Health System Development 2, Malaria | | HIV/AIDS | | | Fadama 2, Fadama 3 | | | |
| **Imo** | **5** | Health System Development 2 | | HIV/AIDS | Local Empowerment and Environment Management | | Fadama 2, Fadama 3 | | | |
| **Jigawa** | **4** | Health System Development 2, Malaria | | HIV/AIDS | | | | | Community Based Urban Development | |
| **Kaduna** | **8** | Health System Development 2 | State Education Sector Project | HIV/AIDS | | Urban Water 1 | Fadama 2, Fadama 3 | Rural Access and Mobility Project 1 | | State Governance and Capacity Building |
| **Kano** | **4** | Malaria | State Education Sector Project | HIV/AIDS | | | Fadama 3 | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Katsina** | **3** | Health System Development 2 | | HIV/AIDS | Local Empowerment and Environment Management | | | | | |
| **Kebbi** | **6** | Health System Development 2 | | HIV/AIDS | Community-Based Poverty Reduction, Community Social Development | | Fadama 2, Fadama 3 | | | |
| **Kogi** | **4** | Health System Development 2 | | HIV/AIDS | Community-Based Poverty Reduction, Community Social Development | | | | | |
| **Kwara** | **4** | Health System Development 2 | State Education Sector Project | HIV/AIDS | Community -Based Poverty Reduction, Community Social Development | | | | | |
| **Lagos** | **8** | Health System Development 2 | | HIV/AIDS | | Urban Water 2 | Fadama 2, Fadama 3 | Lagos Urban Transportation Project | Lagos Metropolitan Development and Governance | Lagos Metropolitan Development and Governance |
| **Nasarawa** | **4** | Health System Development 2 | | HIV/AIDS | | | Fadama 3 | | Community-Based Urban Development | |
| **Niger** | **5** | Health System Development 2 | | HIV/AIDS | Local Empowerment and Environment Management | | Fadama 2, Fadama 3 | | | |
| **Ogun** | **6** | Health System Development 2 | | HIV/AIDS | | Urban Water 1 | Fadama 2, Fadama 3 | | Community-Based Urban Development | |
| **Ondo** | **4** | Health System Development 2 | | HIV/AIDS | | | Fadama 3 | | Community-Based Urban Development | |
| **Osun** | **3** | Health System Development 2 | | HIV/AIDS | | | Fadama 3 | | | |
| **Oyo** | **5** | Health System Development 2 | | HIV/AIDS | Local Empowerment and Environment Management | | Fadama 2, Fadama 3 | | | |

*(Table continues on next page)*

**Table F.3: Nigeria: Distribution of Projects by States** ***(continued)***

| State | Number of projects | Health | Education | HIV/AIDS | Community-driven development | Water | Agriculture | Transport, power | Urban development | Governance |
|---|---|---|---|---|---|---|---|---|---|---|
| **Plateau** | **2** | Health System Development 2 | | HIV/AIDS | | | | | | |
| **Rivers** | **4** | Health System Development 2, Malaria | | HIV/AIDS | | | Fadama 3 | | | |
| **Sokoto** | **3** | Health System Development 2 | | HIV/AIDS | | | Fadama 3 | | | |
| **Taraba** | **4** | Health System Development 2 | | HIV/AIDS | | | Fadama 2, Fadama 3 | | | |
| **Yobe** | **5** | Health System Development 2 | | HIV/AIDS | Community-Based Poverty Reduction, Community Social Development | | Fadama 3 | | | |
| **Zamfara** | **3** | Health System Development 2 | | HIV/AIDS | | | Fadama 3 | | | |
| **FCT** | **4** | Health System Development 2 | | HIV/AIDS | | | Fadama 2, Fadama 3 | | | |

**Table F.4: The World Bank Fee-for-Service Activities at the Subnational Level in Russia**

| Region/Area | Description |
|---|---|
| **Development of Public-Private Partnership System** | |
| City of St. Petersburg | Advising the government on establishing a regional public-private partnership unit (expansion of Pulkovo Airport, and building of the Western High Speed Diameter, Orlovsky Tunnel, and Nadzemny Express Projects), as well as managing the public-private partnership projects |
| City of Kazan | Advising on development of a mid-term public-private partnership–based management strategy for the Kazan Airport |
| *Volgograd Oblast* | *Advisory services to the government a public-private partnership unit* |
| **Education** | |
| Khanty-Mansi Autonomous | A comprehensive assessment of the regional education system and provision of analytical services Okrug-Yugra to help upgrade the Okrug's preschool education system |
| City of Kazan | A diagnostic study of the higher education system to further design of a balanced education development strategy for the city |
| City of Moscow | Developing a strategy to improve the international status and to strengthen the research capacity of the Higher School of Economics |
| *Tver Oblast* | *Cooperation on designing a package of measures for vocational education system development* |
| **Health** | |
| Khanty-Mansi Autonomous | Assistance in restructuring the health care delivery system and strengthening the institutional Okrug-Yugra capacity for medical education and clinical research |
| *City of Kazan* | *Designing measures to strengthen the healthcare system* |
| **Social policy/assistance** | |
| Republic of Tatarstan | Monitoring and evaluation of living standards and poverty indicators |
| *Tver Oblast* | *Cooperation in improving targeted social assistance* |
| *Kalmyk Republic* | *Advisory services to improve social assistance efficiency* |
| **Infrastructure development** | |
| City of Nizhnevartovsk | Supporting the development of a Housing and Communal Services Strategy and Action Plan (2008–12) |
| *Perm Krai* | *Designing a regional infrastructure development program* |
| **Strengthening of regional administration capacity** | |
| Khanty-Mansi Autonomous Okrug-Yugra | Assistance on improving the government's institutional structure and performance, including a horizontal function review in executive authorities of the Okrug |
| Tomsk Oblast | A study of administrative barriers to investment and advice on improvement of the investment climate |
| Republic of Tatarstan | A study of administrative barriers to investment and advice on investment climate improvement |

*Source:* World Bank Russia Country Office, as of April 6, 2009.

# APPENDIX G: FISCAL RESPONSIBILITY LAW—BRAZIL

Enacted in May 2000, the Fiscal Responsibility Law (FRL) is at the core of efforts to strengthen fiscal institutions in Brazil. The main issues addressed by the LRF are in six areas:

- **Debt:** The FRL contains strict provisions on indebtedness and issuance of public debt by the central bank, prohibiting creditor debt-restructuring operations among the various levels of government. In accordance with Article 30 of the law, a Senate resolution established limits of indebtedness for each level of government. When in breach of the debt ceilings, new financing and discretionary transfers to subnational governments are banned.
- **Expenditures:** The creation of permanent spending mandates without a corresponding increase in permanent revenue or a reduction in other permanent spending commitments is prohibited, as are new spending commitments that cannot be executed before the end of the incumbent's term in office.
- **Personnel expenditures:** FRL sets separate ceilings for personnel spending, including pensions and payment of subcontractors. Spending is limited at 50 percent of net current revenues at the federal level, and 60 percent for states and municipalities. In case of noncompliance, the jurisdiction is not allowed to engage in new credit line operations, and subnational governments will not be allowed to receive transfers or credit guarantees from the federal government.
- **Transparency:** Budget outturns and compliance with the FRL—including a statement of corrective measures if the relevant provisions are breached—are reported on a regular basis. Municipalities and states are also required to report the fiscal outturns of the previous year to the Ministry of Finance. The legislative branch of each level of government, aided by their respective Court of Accounts, monitors observance with the fiscal targets and ceilings.
- **Legal framework:** The FRL introduced more stringent requirements on fiscal targets in the preparation of the Budget Guidelines Law (*Lei de Dotações Orcamentárias*—LDO), strengthening its role in budget preparation and fiscal management in general. The LRF also calls for a detailed assessment of the government's contingent liabilities and strengthens the link between the Annual Budget Law (*Lei de Orçamento Annual*—LOA) and the LDO. A complementary Fiscal Crime Law is applied to all levels of the public administration, with the possibility of detention for public officials who fail to comply with the FRL.
- **Golden rule:** To prevent financing of current spending by borrowing, the amount of new loans contracted is limited to the amount of the capital expense. In practice, it means that any loans contracted will only be used for expenses related to investments.

## Brazil

### *Overview of Other Donor Agency Activities*

Along with the World Bank, the major external financing agencies operating in Brazil are the Inter-American Development Bank (IDB) and the Andean Development Corporation (CAF). The IDB and the Development Corporation both work to contribute to the process of economic and social development in Latin America and actively carry out projects in Brazil. The Development Corporation has concentrated its efforts on: (i) supporting municipal governments; (ii) regional integration; (iii) socioeconomic development; (iv) infrastructure; and (v) the private sector. At the subnational level, IDB works mainly with municipal governments. Its operational strategy has rested on three major components, including: (i) promoting sustained, stable, and environmentally sustainable growth; (ii) reducing poverty, promoting social inclusion, and enhancing social and regional equity; and (iii) supporting institutional strengthening and promoting democracy and citizen participation.

### *Donor Coordination/Collaboration*

The Bank program in Brazil is based on an informal structure with IDB that determines which agency will do what. There are:

- Areas where the two banks have worked together effectively (for example, in financing the Bolsa Familia program and, in the future, helping with restructuring state debts)
- Areas where each bank "leaves it to the other." For example, the World Bank (IBRD) specializes in rural development and the IDB in tourism.
- Areas where demand is so large that both banks engage independently (in areas such as public sector management and infrastructure).

The Bank also works closely with several bilateral agencies—for example, the European Union and Germany in conservation in the Amazon, and the United Kingdom on climate change and public sector management.

## India

### *Overview of Other Donor Agency Activities*

There were a large number of donor agencies in India, and the Bank had close collaboration with them in most sectors, including energy (ADB, Japan Bank for International Cooperation [JBIC], U.K. Department for International Development [DFID], U.S. Agency for International Development [USAID], Kreditanstalt für Wiederaufbau [KfW], Canadian International Development Agency [CIDA]), health and nutrition (USAID, World Health Organization [WHO], European Commission [EC], DFID, concerned UN agencies, Australian Agency for International Development [AusAid], International Labor Organization [ILO], and other institutions, including the Gates Foundation), and small and medium-size enterprise financing (DFID, KfW, German Agency for Technical Cooperation [GTZ], and International Finance Corporation [IFC]). However, in September 2003, the government of India announced new guidelines for development cooperation with bilateral partners. In keeping with the new guidelines, India will receive direct bilateral assistance only from Japan, the United Kingdom, Germany, the United States, the European Commission, and the Russian Federation. All other bilateral assistance would be routed either through multilateral organizations or, for projects of economic and social importance, directly to universities, NGOs, or autonomous bodies registered under the Foreign Contribution (Regulation) Act. With this shift, the Bank has lost some valuable partners in India, and now has fewer donor partners to work with. Because of the changed donor landscape, particular focus has been placed on coordination with the largest external financing sources (ADB, EC, DFID, Japan, and Germany).

#### *Donor Coordination/Collaboration*

A good example of exploiting synergies with partners is the World Bank's work with DFID. At the suggestion o f DFID, the Bank and DFID-India entered into a strategic partnership agreement in April 2004. DFID has provided trust fund resources to the World Bank to work on common priorities. DFID and the Bank have worked together on direct budgetary support and power sector reform in Andhra Pradesh and Orissa, and also cofinanced (with other agencies) the federal government's centrally sponsored education programs. World Bank and DFID staff worked particularly closely in Bihar and Orissa, building on a shared vision of the development process and the primacy of client ownership.

There are considerable overlaps in the areas of activity between the Bank and ADB in India. Both institutions have a substantial and growing involvement in infrastructure and in energy, and both are also engaged in adjustment lending to states. To avoid overlap, ADB, the Bank, and the Indian government completed a Coordinated Assistance Strategy for roads in June 2001, focusing on state and national highways. The ADB and World Bank have continued to exploit complementarities in several other sectors, including finance, power, and railways. ADB has also been proactive in lending to lagging states, with commitments to fund the six most poorly connected states.

### Nigeria

#### *Overview of Other Donor Agency Activities*

Along with the World Bank, DFID and USAID have taken the lead in state-level work in Nigeria. DFID, USAID, and the World Bank signed the *Principles of Partnership* agreements with the lead states. DFID has supported lead state governments to develop a plan to build the capacity of local governments. USAID is implementing its economic growth and governance program in Cross River, Kano, and Kaduna, and is also increasingly focusing resources on Kano and Kaduna in particular. Both of these agencies have also worked in the nonlead states: DFID has worked on girls' education, immunization, malaria reduction, and HIV/AIDS. USAID has worked within its strategic framework on governance and democracy, growth, and human development.

#### *Donor Coordination/Collaboration*

The Bank-DFID partnership dominates the donor scene in Nigeria. Over the period of fiscal 1998–2008, the Bank and DFID cofinanced two state projects (Universal Basic Education, fiscal 2003, and the State Education Project, fiscal 2007), both in the education sector. The World Bank has a joint CPS (fiscal 2005) with DFID. Joint diagnostics and analysis included Country Economic Memorandum, the Education Public Expenditure Review, and the Investment Climate Program, which assisted in designing DFID and World Bank interventions to support growth and private sector development at the state level. In addition to a main office in Abuja, DFID also has three regional offices (Lagos, Kano, and Enugu) that coordinate programs in several of Nigeria's 36 states. Though the Bank does not have regional offices, it was able to work in cooperation with DFID's significant presence on the ground in Kano (the relationship with Kaduna is also managed from this office) and more limited presence in Enugu (also covering Cross River) and Lagos.

Other agencies, such as USAID, the UNDP, and the African Development Bank (AfDB), have varying degrees of partnership, but most have limited engagement. Nigeria's main development partners (USAID, EC, African Development Bank, and the UN system) have been working closely and plan to sign a joint 2009 CPS.

### Russia

#### *Overview of Other Donor Agency Activities*

International donors have been actively involved in Russia, but the scope of international donor assistance is becoming more limited and selective as Russia's economic performance improves. Russian itself is emerging as an international donor and active member of multilateral organizations. Even so, there are a few external financing agencies operating in Russia; the European Bank for Reconstruction and Development (EBRD) is a prominent donor in this group. Since 2002, the EBRD has maintained annual investment levels in Russia of over EUR 1 billion, 80 percent of which has gone to the private sector. It has an active program focused on nonsovereign lending, including lending to Russia's regions. The EBRD has been particularly active in the financial sector; energy; infrastructure; manufacturing; and, through the Russia Small Business Fund, the small and medium-size enterprise sector. Like IFC, the EBRD has been introducing new financial instruments in Russia, including ruble-denominated bond issues and loans in 2005, and working increasingly with regional administrations.

### *Donor Coordination/Collaboration*

The EBRD remains a vital working partner for the World Bank Group, particularly for IFC. To date, IFC and the EBRD have jointly supported more than 20 projects in Russia. Most of these projects are in financial markets, general manufacturing, and private equity funds. The World Bank and the EBRD have collaborated on selected analytical work, such as work on the business climate. Examples of World Bank partnership with other development agencies include the program on public administration and budget reform supported by DFID, CIDA, the Swedish International Development Agency [SIDA], and the European Union. The Bank has collaborated closely with the Organization for Economic Cooperation and Development (OECD) on issues of tertiary education. The Bank and WHO jointly coordinated a partnership for work on improving governance in the Southern Federal Okrug, which included the active participation of USAID, the European Union, and DFID. A multisector Finnish trust fund has supported a diverse set of regional development activities in the regions of the Northwest. DFID has also supported the Bank's poverty work in Russia. IFC's Private Enterprise Partnership in Russia has been funded by the governments of Austria, Canada, Denmark, Finland, Switzerland, and Saxony (of Germany), as well as by the Global Environment Facility.

# APPENDIX I: PEOPLE MET

## People Interviewed/Consulted

### *Brazil*

| | |
|---|---|
| Idilvan Alencar | Executive Secretary, State Secretariat of Education, Ceará |
| Rodrigo Apgaua | Secretariat of Education (SEE), Minas Gerais |
| Luiz Antonio Athayde | Under Secretary, Head of Public-Private Partnership Unit, State Secretariat for Economic Development, Minas Gerais |
| Andre Barrence | Director of Superintendancy for Central Coordination, Secretariat of Planning and Management (SEPLAG) |
| Marcus Augusto Vasconcelos Coelho | Coordinator, State Secretariat of Finance, Ceará |
| Carlos Eduardo Lampert Costa | Deputy Secretary, Federal Ministry of Planning and Management, Secretariat of International Affairs |
| Edoardo Coutinho | Deputy Secretary, National Treasury |
| Juliana Damasceno | Secretariat of Planning and Management (SEPLAG) |
| Accacio Ferreira | Coordinator of EXPORTMINAS, State Economic Development Secretariat (SEDE), Minas Gerais |
| Marcela Ferreira | Projects Coordinator, State Economic Development Secretariat (SEDE), Minas Gerais |
| Jurandir Gurgel Gondim Filho | Coordinator, State Secretariat of Finance, Ceará |
| Joao Filocre | Secretariat of Education (SEE), Minas Gerais |
| Francisco Gaetani | Deputy Executive Secretary, Federal Ministry of Planning, Budget and Management Executive Secretariat |
| Marcos Costa Holanda | Director General, Economic Research and Strategy Institute (IPECE), State Secretariat of Planning and Management, Ceará |
| Henri Kistler | Adviser, Federal Ministry of Finance, SAIN |
| Monica Salles Lanna | Legal Adviser, State Economic Development Secretariat, Minas Gerais |
| Leonardo Mauricio Colombini Lima | Deputy Secretary of Finance, State Secretariat of Finance, Minas Gerais |
| Thais Amaral Lucena | State Secretariat of Planning and Management, Ceará |
| Joao Marcos Maia | Deputy Secretary, State Secretariat of Finance, Ceará |
| Tiago Moraes | Institute for Governance Studies (IGS) |

| | |
|---|---|
| Bernardo Moretzsohn | Secretariat of Planning and Management (SEPLAG), Minas Gerais |
| Jorge Duarte de Oliveira | Director, EXPORTMINAS, State Economic Development Secretariat (SEDE), Minas Gerais |
| Silvana Parente | Secretary of Planning, State Secretariat of Planning and Management, Ceará |
| Cesar Augusto Pinheiro | Secretary, State Secretariat of Hydro Resources, Ceará |
| Gilberto Resende | Secretariat of Education (SEE), Minas Gerais |
| Fernanda Cimini Salles | Assistant in International Projects and Operations, State Economic Development Secretariat (SEDE), Minas Gerais |
| Accacio F. Santos Jr. | Superintendent of Foreign Trade Affairs, State Secretariat for Economic Development, Minas Gerais |
| Aline Dieguez B. de Meneses Silva | Program Director, Federal Ministry of Planning, Budget and Management Executive Secretariat |
| Frederico Amaral E Silva | Public Policy and Management Specialist, Government of State of Minas Gerais |
| Rafael Siqueira | Secretariat of Planning and Management (SEPLAG) |
| Bernardo Tavares | Deputy Secretary of Planning, Secretariat of Planning and Management (SEPLAG) |
| Thiago Toscano | Under Secretary of Planning, Secretariat of Planning and Management (SEPLAG) |
| Alvaro Vereda | Federal Ministry of Finance, SAIN |
| Renata Vilhena | Secretary of Planning, State Secretariat of Planning and Management, Minas Gerais |

### *India*

| | |
|---|---|
| K. C. Badu | Team Member, Orissa Economic Recovery Credit |
| M. Brahmaiah | Resource Group Director, Financial Management, Center for Good Governance, Andhra Pradesh |
| Ch. Channareddy | BE Director (Transmission), Andhra Pradesh Transco |
| Soumya Chattopadhyay | Under Secretary to the Government of India, Department of Economic Affairs, Ministry of Finance |
| K. Damayanthi | Secretary, Andhra Pradesh Social Welfare Residential Educational Institutions Society |
| S. Galeb | Professor, Center for Economic and Social Studies (CESS), Andhra Pradesh |
| Sri Azhar Hussain | Deputy Executive Engineer, Roads Department, Andhra Pradesh |
| K. Kamayanthi | Secretary, Andhra Pradesh Social Welfare Residential Educational Institutions Society |
| A. Srinivas Kumar | Deputy Executive Director (Finance & Projects), Centre for Good Governance, Andhra Pradesh |
| T. Vijay Kumar | Chief Executive Officer, Society for Elimination of Rural Poverty, Andhra Pradesh |

| | |
|---|---|
| Vasudha Mishra | Secretary, Finance (PMU) Department Government of Andhra Pradesh |
| G.K. Mitra | Faculty, Center for Economic and Social Studies (CESS), Andhra Pradesh |
| B.C. Mohapatra | Additional Secretary, Finance Dept., Government of Orissa |
| Partha Mukhapadhay | Centre for Policy Research, New Delhi |
| C.S. Murthy | Professor, Center for Economic and Social Studies (CESS), Andhra Pradesh |
| Er. Jayamangal Nayak | Chief Engineer, World Bank Projects, Orissa State Roads Project (fiscal 09), Project Management Unit Works Department, Govt. of Orissa |
| K. Nijayanand | Joint Managing Director, Transmission Corporation of Andhra Pradesh Ltd. |
| Manoj Panda | Director, Center for Economic and Social Studies (CESS), Andhra Pradesh |
| Naresh Penumaka | Additional Secretary, Finance Department, Government of Andhra Pradesh |
| R. Radhakrisna | Professor, Center for Economic and Social Studies (CESS), Andhra Pradesh |
| M.S. Srenivasa Rao | Joint Director, Medical, Health, Andhra Pradesh |
| S. Bhale Rao | Principal Secretary—Public Enterprise Department, Andhra Pradesh |
| P. Padmanabhe Rao | Register, Center for Economic and Social Studies (CESS), Andhra Pradesh |
| I.Y.R. Krishna Rao | Principal Secretary to Government, Finance Department, Andhra Pradesh |
| Sri M. Venkateroara Ras | Roads Department, Andhra Pradesh |
| Satyapriya Rath | O.S.D., Finance Dept, Government of Orissa |
| C. Ravi | Faculty and Joint Director, Center for Economic and Social Studies (CESS), Andhra Pradesh |
| G.B. Redd | Director Watershed Mission and Ex-Officio Special Secretary to Govt., Government of Orissa |
| P. Prudvikas Reddy | Faculty, Center for Economic and Social Studies (CESS), Andhra Pradesh |
| G. B. Reddy | Director, Watershed Mission & Ex-Officio Special Secretary to Government, Orissa |
| I. Rama Chandra Reddy | Deputy General Manager, State Bank of India, Andhra Pradesh |
| M. Gopinath Reddy | Professor, Center for Economic and Social Studies (CESS), Andhra Pradesh |
| R. Venkat Reddy | M Venkatarangaiya Foundation, Andhra Pradesh |
| Sri M.K. Rehman | Engineer in Chief, Irrigation Department, Andhra Pradesh |
| Alok Sheel | Joint Secretary, Department of Economic Affairs, Ministry of Finance, Andhra Pradesh |

| | |
|---|---|
| Dipak Kumar Singh | Director, Department of Economic Affairs, Ministry of Finance |
| R.V. Singh | Special Secretary to Government, P&C Department, Orissa |
| Prasann Thatte | Program Manager, Centre for Good Governance, Andhra Pradesh |
| K. Vijayanand | Joint Managing Director, Transmission Corporation of Andhra Pradesh Ltd. |

### *Nigeria*

| | |
|---|---|
| Ben Akabueze | Commissioner for Economic Planning and Budget, Lagos State |
| John Bezard | Commissioner for Economic Planning and Budget, Kaduna State |
| Olaoye Abdulkareem | Deputy Director, Federal Ministry of Finance |
| Abiodun Alao | Director, Federal Ministry of Finance |
| Bayamin Bagaiya | DAF, Ministry of Planning and Budget, Kaduna State |
| Peter K. Bakam | DPRS, Ministry of Planning and Budget, Kaduna State |
| Shehu Moh'd Bambale | DIA, Ministry of Finance, Kaduna State |
| Dawuda Danbaki | Director, Treasury Operation, Ministry of Finance, Kaduna State |
| S. Eloho | Assistant Director, National Planning Commission |
| Bulus D. Emishe | Permanent Secretary, Ministry of Finance, Kaduna State |
| Funso Esan | Deputy Director, National Planning Commission |
| Yusuf Moh'd Hayatuddeen | PFMU, Ministry of Finance, Kaduna State |
| Nuruddeen Ibrahim | Director, Budget, Ministry of Planning and Budget, Kaduna State |
| Balarabe Shehu Kudan | D/MOFI, Ministry of Finance, Kaduna State |
| Tunde Lawal | Deputy Director, National Planning Commission |
| Sylvester O. Monye | Secretary to the Council |
| Esther J. Myahwegi | Project Coordinator, SESP, Ministry of Education, Kaduna State |
| Ayodele Omotosho | Director, National Planning Commission |
| Stephen Oronsaye | Permanent Secretary, Federal Ministry of Finance |
| Zahari Aminu Salihu | Accountant-General, Ministry of Finance, Kaduna State |
| Danladi D. Sanda | Permanent Secretary, Ministry of Planning and Budget, Kaduna State |
| Daniel K. Sankey | DPME, Ministry of Planning and Budget, Kaduna State |
| Abbas Yahaya Sanusi | Director, Final Accounts, Ministry of Finance, Kaduna State |
| D.B. Sule | Assistant Director, Federal Ministry of Finance |
| Joel Usman | M&E Officer, SESP, Ministry of Education, Kaduna State |
| Shamsuddeen Usman | Minister, National Planning Commission |
| Sani Zorro | SA (Communications), National Planning Commission |

### *Russia*

| | |
|---|---|
| Eduard Batanov | Chairman, St. Petersburg Finance Committee |
| Murat Gadelshin | Adviser to the Prime Minister, Tatarstan Republic (former Vice-Mayor of Kazan) |

| | |
|---|---|
| Vladimir Gritskikh | Director General, Directorate of Extra Budgetary Programs for Municipal Development, Municipality of Kazan, Tatarstan Republic |
| Leonid Limonov | Director General, Leontief Center |
| Nina Oding | Head, Research Department, Leontief Center |
| Vladislav Onishchenko | Deputy Director, Foundation for Enterprise Restructuring and Financial Institutions Development |
| Alexander Puzanov | Director General, The Institute for Urban Economics |
| Larisa Yeroshkina | Acting Director, Intergovernmental Relations Department, Federal Ministry of Finance |

## World Bank

### *Abuja*

| | |
|---|---|
| Onno Rŭhl | Country Director, Nigeria |
| Bayo Awosemusi | Lead Procurement Specialist, AFTPC |
| Steven R. Dimitriyev | Sr. Private Sector Development Specialist, AFTFP |
| Simeon K. Ehui | Sector Leader, AFTAR |
| Foluso Okunmadewa | Lead Social Protection Specialist, AFTH3 |
| Volker Treichel | Lead Economist, AFTP3 |

### *Brasilia*

| | |
|---|---|
| John Briscoe | Country Director, Brazil (ret.) |
| Alexandre Abrantes | Manager, Portfolio & Operations |
| Antonio Rocha Magalhaes | Former Bank staff |
| Madalena do Santos | Consultant, World Bank (former World Bank staff) |
| Jennifer Sara | Sector Leader, Infrastructure and Urban |
| Deborah Wetzel | Lead Economist and Sector Leader |

### *Dhaka*

| | |
|---|---|
| Vinaya Swaroop | Adviser, MDW |

### *New Delhi*

| | |
|---|---|
| Rachid Benmessaoud | Operations Adviser, SACIN |
| Roger Grawe | Consultant, SACIN |
| Mandakini Kaul | Country Officer, SACIN |
| Rajna Khanna | Senior Economist, SASGP |
| Gerard M. La Forgia | Lead Health Economist, SASHD |
| Vikram Menon | Senior Public Sector Specialist, SASGP |
| Giovanna Prennushi | Economic Adviser, SASEP |
| V.J. Ravishankar | Lead Economist, SASGP |

### Moscow

| | |
|---|---|
| Klaus Roland | Country Director, Russia |
| Andrei Darusenkov | Former Bank staff |
| Lev Freinkman | Lead Economist |
| Andrei Markov | Sr. Human Development Specialist, ECSHD |
| Tatyana Shadrunova | Urban Specialist, ECSSD |
| Samir Suleymanov | Senior Operations Officer, ECSSD |
| Stepan Titov | Senior Economist, ESCPE |

### Washington, DC

| | |
|---|---|
| Mauricio Carrizosa | Adviser, IEGCR |
| Shahrokh Fardoust | Senior Adviser, IEGDG |
| Roy Gilbert | Lead Evaluation Officer, IEGSE |
| Mohinder Gulati | Country Sector Coordinator, ECSSD |
| Poonam Gupta | Country Program Coordinator, AFCNG |
| Nalini Kumar | Senior Evaluation Officer, IEGSE |
| Larisa Leshchenko | Senior Country Officer, AFCZA |
| Jorge Munoz | Lead Rural Development Specialist, LCSAR |
| Tawhid Nawaz | Operations Adviser, HDNOP |
| Marsha Olive | Country Program Coordinator, ECCU1 |
| Chris Parel | Consultant, LCSPS |
| Jose Guillerme Reis | Lead Private Sector Development Specialist, LCSPF |
| Mark Sundberg | Manager, IEGCG |
| Vinod Thomas | Director General, IEGDG |
| Fahrettin Yagci | Consultant, AFTPM |

### Donors

| | |
|---|---|
| Julian Barr | Director, ITAD (DFID contractor) |
| Shamit Chakravarti | Programs Officer, ADB, New Delhi |
| Emma Donnelly | Deputy Head, DFID Nigeria |
| Tetsu Ito | Social Economist (Financial Sector), ADB, New Delhi |
| Jaime Mano, Jr. | Sector Specialist, IDB, Brasilia |
| Susanna Moorehead | Former Director, DFID-India |
| Shigehiko Muramoto | Head, Project Administration Unit, ADB, New Delhi |
| Sujatha Viswanathan | Social Economist, ADB, New Delhi |
| Joseph Umoabasi | Regional Coordinator, South-West Nigeria, DFID |

## Chapter 1

1. In some countries, federal governments are called "central" or "national." This study uses the term "federal government" for both.

2. The largest subnational units in three of the four countries included in this review (Brazil, India, and Nigeria) are called "states." In Russia, the "subjects of federation," as they are known, can include republics, *okrugs, oblasts*, and others. The more common term used to describe all of them is "region." This study uses both terms, "state" and "region," to describe the subnational units in Russia.

3. The evaluation commissioned background material for each country, prepared by Joao Oliveira (Brazil), Tapas Sen (India), Olufemi Taiwo (Nigeria), and Galina Kurlyandskaya (Russia). The report draws extensively on this material.

## Chapter 2

1. During most of the period reviewed, foreign exchange risks appeared negligible.

2. Detailed information on state-level lending for each country can be found in Appendix F.

3. Over 1,000 municipalities were created after 1988.

4. The main reasons were poor management of public resources by state (and local) governments, lack of fiscal discipline, and no clear division of responsibilities among different government levels, often leading to overlap in spending across different levels of government.

5. State debt in bonds, as percentage of GDP, more than doubled between 1990 and 1996.

6. According to many sources, the Real Plan had no less significant impact on the Brazilian political economy than the Constitution of 1988. While the constitution simply codified the power of subnational forces, the reforms of 1993–95 dramatically reconfigured fiscal power. The Real Plan succeeded first and foremost in taming inflation, which had numerous collateral effects. It made spending at all levels of government more transparent, which prevented governors from engaging in unsustainable spending patterns (Dillinger and Webb 2001).

7. The Bank proposed a three-pronged strategy of state lending: investment loans in social sectors and infrastructure in creditworthy states; reform loans in states where fiscal and sector policy reforms were being implemented; and, for states with low creditworthiness, the Bank would lend through federal loans (requiring federally funded counterpart financing).

8. These loans were Minas Gerais State Privatization (fiscal 1998, later dropped because of the state government's moratorium on state debt); Rio de Janeiro State Reform Privatization (fiscal 1998); Rio de Grande do Sul State Reform Project (fiscal 1997); and Mato Grosso State Privatization Project (fiscal 1997).

9. See Chapter 3 for details.

10. State selectivity was based on a more systematic approach using such criteria as the total number of poor, average income levels, fiscal performance, social performance and innovation, structural reform performance, policy continuity, and implementation capacity. Based on these benchmarks, Bank lending for all northeastern states was expected to be approximately 55 percent of total Bank lending, assistance for the north and center-west was expected to be about 10 percent of total Bank assistance, and assistance for selected states of the southeast and south with about 15 percent and 10 percent of Bank assistance, respectively. Remaining Bank assistance was to be allocated case-by-case to support innovations or special opportunities.

11. Foreign reserves had fallen from $74 billion in April 1998 to $30 billion in January 1999.

12. These loans included Programmatic Financial Sector Adjustment Loan I and II (fiscal 2001 and fiscal 2002); Programmatic Fiscal Reform I and II (fiscal 2001

and fiscal 2003); and Programmatic Human Development Sector Reform Loan I (fiscal 2003).

13. Projects would include a component to address cross-cutting public sector management issues, such as capacity building for better policy analysis and expenditure review, and focused support for specific policy reforms: Maranhao Rural Poverty Reduction (fiscal 2004); Pernambuco Education Quality Improvement Project (fiscal 2005); Bahia Rural Poverty (fiscal 2006); and others.

14. The state and municipal projects would eventually have to be approved by Brazil's inter-ministerial commission (COFIEX).

15. One often-cited example is the Minas Gerais Rural Poverty Reduction Project (fiscal 2006). Although there are significant numbers of poor living in its northern region, Minas Gerais is one of Brazil's wealthiest and best-performing states. The Bank believed that successful engagement in Minas Gerais would produce a demonstration effect throughout Brazil.

16. See Chapter 3 for details on Brazil's multisector SWAp.

17. Because of a change in the Bank's policy in 1998, DPLs could be used as a lending instrument in subnational governments.

18. A subnational DPL supporting an ambitious public sector modernization program was implemented in Minas Gerais—a well-performing high-income state. A subnational SWAp supporting a comprehensive sectoral program was implemented in Ceará—a relatively poor but well-managed state.

19. Almost half of the projects were at the state level.

20. The Brazilian experience showed three things. First, there is little chance for new lending in the first year of the four-year term, because it usually takes months to formulate a program. Second, in the next two-to-three years, there is high demand for fast response from the Bank, to show results before the term expires. Third, demand declines in the last year, because the law prohibits the state government from borrowing in the last nine months of the term. For the Bank, this means that commitments are going to be uneven, with more lending in the first and second years of the Country Partnership Strategy (corresponding to the second and third years of terms of state administrations), and less in the third and fourth years. In addition, the long (on average, 30 months) lag between approval of the project concept by the federal government and signing of the loan needs to be shortened drastically.

21. Several states were created after 1950.

22. Selection of state projects was done on project and sector grounds, without much concern for the overall policy of the state. Sometimes there was political pressure to spread Bank operations over as many states as possible, without a strategic rationale at the level of individual states.

23. Bank engagement was not universally welcomed because the political costs of such reforms were feared to be large (reduction of subsidies on irrigation water, power, and the like, reducing the wage bill and public enterprise reforms), and there were genuine concerns about their impact on the poor (user charges for health services). There was resistance to reforms from the leftist states almost as a matter of principle as well, because the Bank-supported reforms involved privatization.

24. The central government sought the Bank's help in disciplining the states, specifically in inducing them to accept and abide by a hard budget constraint, in exchange for quick disbursement and relatively cheap financing.

25. Formally, this was an investment project, but it had the kind of macro-conditionality normally associated with a policy-based loan.

26. Adjustment lending never took off to the extent envisaged in the 2001 CAS, but there was a steady flow of about one adjustment loan a year, or around $150 million a year.

27. The DPL for Tamil Nadu was later dropped.

28. CAS objectives had been achieved in the reforming focus states.

29. Two to Orissa (fiscal 2005, 2007), one to Andhra Pradesh (fiscal 2007), one to Bihar (fiscal 2007), and one to Himachal Pradesh (fiscal 2008), for a total of $1.1 billion.

30. This was driven largely by a decline in the Uttar Pradesh portfolio, reflecting the hiatus in dialogue until 2007. Among the four states, the Bank's portfolio increased only in Bihar. Outstanding loans to Orissa and Jharkhand remained roughly the same.

31. Centrally sponsored schemes are programs designed and financed by the central government but implemented by state and local governments. Bank support has taken various forms: support at the national level (for example, the Sawa Shiksha Abhiyan Education for All scheme); support to individual states participating in a national scheme (for example, on rural roads); and

support to states in parallel to the national scheme (for example, on rural water supply and sanitation).

32. Country strategy documentation for 2000 and 2001 (World Bank Group 2000, 2001, 2004b).

33. For example, three of the Bank's projects—the HIV/AIDS Program Development Project, the Second Health System Development Project, and the Partnership for Polio Eradication Project—covered all 36 states of the federation. Several other projects, such as the Universal Basic Education Project, covered more than 10 states. Where it was obvious that the Bank could not cover many states, consideration was given to the achievement of a balance among the six geopolitical zones.

34. The Bank helped to produce the Lagos State Economic Development Strategy as well as fiduciary work on procurement and financial management in Lagos.

35. The fiscal 2005 Country Partnership Strategy was a joint strategy document with DFID.

36. The 2004 Country Partnership Strategy was a joint CAS with DFID, which signaled close coordination of the DFID and Bank programs. DFID was particularly concerned that the lead states approach might divert donor interventions away from the poorest parts of the country. (IEG forthcoming.)

37. During IEG mission interviews, some Nigerian counterparts suggested keeping the principle of the lead state approach to enforce competition, but packaging it in a modified way to avoid the controversy associated with the lead state title. Among the ideas being considered by the Bank is the possibility of dropping the lead states approach for investment lending, but using DPLs as a way to support states that pass Laws of Fiscal Responsibility and show evidence of commitment to higher standards of public sector management and improved service delivery.

38. Those are 21 *republics* (native territories), 46 *oblasts*, 9 *krais*, 4 autonomous *okrugs*, 1 autonomous *oblast*, and the 2 federal cities of Moscow and St. Petersburg.

39. The problem of unfunded mandates was not fully resolved until 2005, the year of expenditure assignment reform.

40. Federal *okrugs* are best described as deconcentrated federal government units that are supposed to provide some oversight and control over subjects of the federation. Their actual legal status remains elusive.

41. This is not precisely representative, as most of the highest-income regions in Russia are the sparsely populated northern territories rich in natural resources.

42. Only the St. Petersburg Rehabilitation Project (fiscal 1997) was approved during this period. The other three dropped infrastructure projects were Siberia and Far East Highways Rehabilitation (planned for fiscal 1998), Moscow Urban Transport (planned for fiscal 1998), and Krasnodar Power (planned for fiscal 1998).

43. The Regional Fiscal Federalism Project (fiscal 2000) and Fiscal Federal and Regional Fiscal Reform Project fiscal (2002) are discussed in more detail in Chapter 3.

44. Regions that met the Bank's criteria were fairly diverse in terms of geographic location and income. For example, three out of six regions selected for one of them were relatively rich regions, while the others were well below the Russian average per capita budget revenue level.

45. The term "subnational" instead of "regional" was specifically introduced to underline the possibility of Bank involvement not only with the subjects of federation (regions), but also with other subnational levels of government, such as municipalities.

46. Analytical and advisory activities, IBRD loans in support of federal programs, World Bank Institute capacity building activities, carbon financing, and grants.

47. Fourteen fee-for-service agreements have been signed, one has been completed.

48. The World Bank Group (IFC and IBRD) has committed $85 million in three subnational projects: two in the Chuvash Republic for improvements in rural road networks and water utility infrastructure and a local currency loan to the Municipality of Petropavlovsk-Kamchatsky to finance rehabilitation of about 23 percent of its road network.

49. For example, in Brazil the stock of foreign reserves grew from $37 billion in 2002 to $205 billion in 2008.

## Chapter 3

1. The topic of fiscal decentralization is part of the broad area of fiscal federalism, but is not treated here. In practice the Bank has not systematically advocated fiscal decentralization, but it has supported fiscal decentralization when federal governments have determined that this is the direction in which they want to proceed. Among the four countries, Brazil has moved most clearly to decentralize fiscal decision making to the state level during the period under review; the situation in Nigeria and Russia has been somewhat ambiguous; and in India, arguably the growth of Centrally

Sponsored Schemes moves in the direction of greater centralization.

2. The relationship of the state governments to local governments is an important issue in federations. In most cases there are mandatory requirements for sharing revenues of the allocated transfers from the center to the states. In Brazil the municipalities have a direct relationship with the central government, and transfers to them bypass the state government. This is an important subtopic that merits a separate examination.

3. Appendix B compares the fiscal framework in each of these areas among the four countries studied.

4. Nigeria is a special case here. About a third of all transfers go to the four oil-producing states, reflecting the oil derivation payments. Fifty-four percent of transfers are distributed equally across states, which obviously works to the disadvantage of the more populous states, and a small share—2.5 percent—is distributed according to the revenue-generation efforts of the states, which tends to be regressive. The consequence is that per capita income plays little role in the eventual distribution.

5. This has caused some problems for the Bank, which normally requires a sovereign guarantee. In recent years the Bank has developed a program with IFC for a special Subnational Facility to lend directly to states or municipalities. Two Russian entities, the Chuvash Republic (Rural Roads Project, $50 million) and the Municipality of Petropavlovsk-K ($28 million) have thus far received two loans from this Facility.

6. State deficits in India rose from a total of 2.28 percent of GDP in 1993/94 to 4.17 percent in 1998/99, while in Brazil the state primary deficit rose from 0.63 percent of GDP in 1995 to 2.12 percent in 1998.

7. In Brazil this lending was provided on IBRD terms, which meant substantially lower interest rates than would be applied to domestic borrowing. In India, loans were provided on IDA terms, but at that point the Indian government treated all external and internal loans equally and passed them on to the states at the domestic interest rate of 9.5 percent, with the federal government taking the foreign exchange risk. In 2004 a new policy was adopted of passing on external loans on a "back-to-back" basis—that is, at the actual interest rate, but with the state government taking the foreign exchange risk of the loan.

8. Proposed project activities included (i) diagnostic reviews and development of reform plans in budgeting and fiscal management; (ii) financial planning, treasury, and cash management; (iii) budgetary accounting, reporting, and audit; (iv) expenditure and public sector restructuring; (v) debt management systems; (vi) regional budget procurement system; (vii) regional fiscal management guidelines, best practice standards, and regional and local public finance manual; (viii) computer equipment and design of software programs; and (ix) training of local staff needed for a successful installation and subsequent application of integrated financial management systems in the selected regions. In addition, the project was to assist participating regions with the design of expenditure reform plans by financing a number of Public Expenditure Reviews, which would primarily focus on the sectors that had been the largest recipients of subsidies from consolidated regional budgets, such as housing and utilities, agriculture, public transportation, education, and health. This long list of components has resulted in very slow implementation: separate terms of reference are required for each component and the procurement arrangements must be made for numerous small consultant contracts.

9. The participating regions were: Vologda Oblast, Samara Oblast, Belgorod Oblast, Chelyabinsk Oblast, Khabarovsky Krai, and the Republic of Chuvashia. A seventh region, St. Petersburg City, was subsequently added to the FFRFRP's first cohort of competitors, but was not eligible for technical assistance under the RFTAP.

10. However, in some specific areas (such as food subsidy, pricing agricultural supply of power in Andhra Pradesh) political economy factors proved to be too strong to overcome.

11. Most high-level state officials interviewed by IEG in the four countries welcomed the idea of brief, separate, state-specific assistance strategies.

## Chapter 4

1. The state of Ceará has confronted serious poverty and development challenges, including tough climatic conditions, frequent droughts, low levels of education, high infant mortality, and scarce social and physical infrastructure and basic services. At the same time, in the past 30 years, Ceará has been one of the better managed and more progressive states in Brazil, with a long and successful history of cooperation with the Bank.

2. Minas Gerais is considered a microcosm of Brazil. The per capita income is close to Brazil's national average and personal and regional income disparities reflect those of the country. It is also one of Brazil's largest and wealthiest states, though with significant poverty pockets in the north. It has substantial managerial capacity within the state government and is often compared favorably with the federal government in this regard. After the fiscal and financial disarray of the late 1990s, the new state government (since 2003) showed a strong commitment to reaching fiscal sustainability, public sector reforms, poverty reduction, and creating an enabling environment for private sector development. The Bank now has a sizeable program in the state, including a Multisector SWAp, and the state officials have been very professional and skillful in developing the results indicators and managing the program in general. However, it is difficult to point to obvious value added derived from the Multisector SWAp. Perhaps the part of the program that is most appreciated by the local authorities is the Bank-financed technical assistance, which provides flexible resources to individual ministries and agencies to use to deepen and fine-tune their programs.

3. St. Petersburg has the status of a "Subject of the Federation"—equal to the status of a "state" in other countries included in this review. The St. Petersburg project was a hybrid: a combination of a regional DPL (city component) and a standard investment loan (federal component). The rationale was not clear, because the two components had very little in common. We are not discussing here the investment, or so-called "federal" component of the project in St. Petersburg, aimed at rehabilitation of city's cultural assets.

4. Kazan is the capital of the Republic of Tatarstan. At the time of the project was prepared, Kazan did not have the status of a municipality, which was granted later in the life of the project.

5. Tatarstan is a region of special significance for the federal center. It is one of the largest and most powerful national republics, and a stronghold of Islam in Russia. In the 1990s Tatarstan enjoyed a high degree of autonomy, including fiscal autonomy (with almost all taxes retained in the republic). To ensure the smooth return of Tatarstan into the system of intergovernmental fiscal relations, the federal center introduced an ambitious program of economic development of Tatarstan. The Bank effectively became a part of that program.

6. Federal and regional authorities were eager to use the loan financing before the celebration of the 1000th anniversary of the city of Kazan.

7. IEG rated the outcomes of the project satisfactory.

8. The 2002–06 assessment of Bank AAA in India rated it satisfactory overall, but moderately unsatisfactory with respect to coherence and internal integration. It also noted the wide variation in quality and the supply-driven nature of the program, with little client participation and client-level dissemination, which made follow-up activities rather uncertain. It also recommended greater usage of available local research capacity as well as capacity-building activities in this area.

9. The Bank has a competitive edge over potential private sector competitors in Russia: the 2005 Federal Law on Public and Municipal Procurement does not apply to the World Bank or to a number of other international institutions, making Bank's technical assistance more attractive to the client.

10. See Appendix H for a more detailed account of partnership with other donor agencies.

11. The joint strategic approach in Bihar is a relatively recent development and is not covered by this review.

12. In June 2001, ADB and the Bank completed a Coordinated Assistance Strategy for roads, focusing on state and national highways. The Bank also coordinated in other sectors, including inland and coastal waterways.

13. Lagos is a megacity faced with the challenges of sprawling urban growth and infrastructural decay. It is also the commercial and industrial capital of Nigeria. Slum areas account for about 70 percent of the state's population, with population growing at 4.8 percent per annum, and density of 260 people per hectare. Slum areas are generally under-serviced and have limited access to basic social services, including roads and water. Flooding is a major phenomenon, which has a strong association with poor solid waste management. The objective of the LMDGP was to increase sustainable access to basic services through investments in critical urban infrastructure. This project is not progressing satisfactorily due largely to management and procurement challenges.

## Chapter 5

1. Although the Institute of Economy in Transition, Institute for Urban Economics, and Center for Fiscal Policy are physically located in Moscow, they are closely

involved in regional development issues in Russia. Leontief Center is based in St. Petersburg.

## Appendix A

1. At the state level, only two projects closed with an unsatisfactory rating. One was the Minas Gerais State Privatization Project, which was cancelled 18 months after Board approval (and after three years of project preparation) because the loan was never signed with the counterparts. At this time, the governor of Minas Gerais declared a moratorium of the state debt to the federal government. As a consequence, the Bank suspended the right of the state to make withdrawals from the existing loan accounts and stopped preparing new operations. The other unsatisfactory project targeted the education sector (in Bahia, a lagging state).

2. There were only two other projects in the energy sector that closed during this period with a satisfactory rating, one at the federal level (power grid system development) and one at the state level (Andhra Pradesh Power APL).

3. The St. Petersburg Loan (SPDP) discussed in this review, is still formally active, because its "federal component" is still being implemented.

## Appendix C

1. In 2004, in response to long-standing requests from states, the Indian government decided to change the terms on which Bank and IDA financing is on-lent to them. Instead of providing these funds to states on uniform terms (70 percent grant, 30 percent loan at a benchmarked interest rate for most states), funds are now passed through on the same terms on which they are received from the Bank and IDA—in rupees, but including the foreign exchange risk. This arrangement, known as the back-to-back lending system, has raised some new issues: it transfers the management of foreign exchange fluctuations to the states, and it increases the complexity of loan administration and of managing states' access to IDA. Initially, the new system did not diminish the states' interest in borrowing from the Bank. The present Global Financial Crisis, however, raised concern on how the state would be able to finance the additional cost of borrowing due to the exchange rate depreciations India has been experiencing.

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