

# APPENDIX

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# 4

## ADJUSTMENT COSTS IN ADB POLICY OPERATIONS— AN INVENTORY OF APPROACHES USED

Loan	Main Policy Measures	Adjustment Costs Identified	Analysis Used for Cost Estimation
KAZ: Pension Reform Program (\$100 million)	<ul style="list-style-type: none"> <li>• Creation of an enabling, regulatory, and institutional framework for a modern pension system</li> <li>• Increase public awareness of the pension reform</li> <li>• Enhance administration and management capacity of the pension system</li> <li>• Ensure financial sustainability</li> <li>• Ensure social sustainability</li> </ul>	<ul style="list-style-type: none"> <li>• Costs of transition to the new pension system including payment of arrears from existing system (to establish a sound financial basis for the new system)—specifically the fiscal costs/funding of deficits in the residual of the old system for existing and future retirees</li> </ul>	<ul style="list-style-type: none"> <li>• Estimation of the fiscal costs of transition (funding of the deficit) over the medium term (1997–2002), discounted by 12% to estimate the total and annual adjustment costs</li> <li>• Estimation of the fiscal costs of establishing regulatory agencies, establishment of a system for pension contributions information, payment and clearing functions</li> </ul> <p>Supporting studies:</p> <ul style="list-style-type: none"> <li>• ESW and policy options paper (Health Sector Development ADTA)</li> <li>• Health Sector Resources Development TA</li> <li>• Strengthening Health Insurance ADTA</li> <li>• World Bank Study Mongolia Poverty Assessment in a Transition Economy</li> </ul>
MON: Health Sector Development Program (Policy \$4 million, Investment Loan \$11.9 million)	<ul style="list-style-type: none"> <li>• Promote family group practice (FGP)-based primary health care (PHC) as opposed to hospital-based curative care.</li> <li>• Encourage private sector participation</li> <li>• Rationalize health facilities and personnel</li> <li>• Improve finance and management</li> <li>• Protect poor and vulnerable groups</li> </ul>	<ul style="list-style-type: none"> <li>• Costs of transition to the FGP-based system including the capitation payment for the family doctors and salaries for nurses, rent, heating, electricity, water, essential drugs, basic laboratory equipment, and supplies</li> <li>• Rationalization of hospital facilities in Ulaanbaatar</li> <li>• Relocation/training costs for nonmedical personnel</li> <li>• Primary health care services upgrading</li> <li>• Reform of hospital services</li> <li>• Development of rural health services and referral system</li> <li>• Management strengthening</li> <li>• Institutional strengthening</li> </ul>	<ul style="list-style-type: none"> <li>• The cost of FGP is estimated at about \$5 per capita per year</li> </ul> <p>Supporting studies:</p> <ul style="list-style-type: none"> <li>• ESW and policy options paper (Health Sector Development ADTA)</li> <li>• Health Sector Resources Development TA</li> <li>• Strengthening Health Insurance ADTA</li> <li>• World Bank Study Mongolia Poverty Assessment in a Transition Economy</li> </ul>

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## ADJUSTMENT COSTS IN ADB POLICY OPERATIONS—AN INVENTORY OF APPROACHES USED

Appendix 4 (cont'd.)

Loan	Main Policy Measures	Adjustment Costs Identified	Analysis Used for Cost Estimation
<p>UZB: Education Sector Development Program (\$38.5 million)</p>	<ul style="list-style-type: none"> <li>• Modernize structure, contents, and processes of education services</li> <li>• Improve sector sustainability and efficiency</li> <li>• Reform sector governance</li> <li>• Protect poor and vulnerable groups</li> </ul>	<p>See Case 3 in Appendix 3.</p>	<ul style="list-style-type: none"> <li>• Aggregations are based on a few basic data such as average salary per staff category, estimated training and relocation costs, level of stipends, operating costs per student. Details are presented in Supplementary Appendix: Budget Impact of the Principal Policy Measures.</li> </ul>
<p>SRI: Private Sector Development (Cluster) Program (Subprogram I \$100 million and Subprogram II \$50 million)</p>	<ul style="list-style-type: none"> <li>• Privatization, divestment or restructuring of identified public enterprises engaged in commercial activity</li> <li>• Commercialization of public enterprises under government control through a corporate governance framework</li> <li>• Private sector participation in infrastructure</li> <li>• Improvement of competition policy and consumer protection through Consumer Protection Authority (CPA) legislation and establishment of an operational authority</li> <li>• Remove labor-market rigidities through strengthening of processes of dispute resolution and arbitration</li> <li>• Improved private sector access to finance through further fiscal consolidation and reduction of the crowding out effects of government borrowing in the market, improved efficiency of financial mediation, and capital market development</li> </ul>	<ul style="list-style-type: none"> <li>• Public Enterprise Reform Commission restructuring-related operating costs (\$5 million)</li> <li>• Cost of enterprise restructuring (\$271 million)</li> <li>• Costs of retiring workers for public enterprises for divestment (\$395 million)</li> <li>• CPA establishment and operating costs (\$1.4 million)</li> <li>• Insurance Board and Private Superannuation Benefits Funds Regulatory Commission establishment and operating costs (\$3 million)</li> <li>• Support for Social Safety Net Fund (Skills Development Fund) (\$17 million)</li> <li>• Costs of formulating restructuring plans for state banks (\$6 million)</li> <li>• Costs of establishing deposit insurance scheme (zero)</li> <li>• Cost of government shift from direct borrowing to market-based instruments (\$202 million)</li> </ul>	<ul style="list-style-type: none"> <li>• PPTA/Mission financial analysis of public enterprises</li> <li>• PPTA/Mission financial analysis of proposed institutions</li> <li>• PPTA/Mission demand assessment for skills training and financial cost estimation</li> <li>• Institutional and financial analysis of bank restructuring</li> <li>• Financial analysis of deposit insurance scheme introduction</li> <li>• Financial analysis of shift from direct borrowing to market-based instruments</li> </ul> <p>Supporting studies:</p> <ul style="list-style-type: none"> <li>• ESW updates carried out by the mission and supported by findings of a USAID study on private sector competitiveness</li> </ul>

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Appendix 4 (cont'd.)

Loan	Main Policy Measures	Adjustment Costs Identified	Analysis Used for Cost Estimation
IND: Gujarat Public Sector Resource Management Program (\$250 million)	<ul style="list-style-type: none"> <li>• Strengthening of state finances and their management, including revenue augmentation</li> <li>• Expenditure, prioritization, monitoring and control in the Core Investment Program, raising cost recovery, subsidy reduction, privatizing selected services</li> <li>• Development of fiscal policy and management capabilities and strengthening of tax administration</li> <li>• Privatization or divestment and restructuring of 23 of 54 SOEs, and provision of a social safety net for retrenched workers</li> <li>• Development of the enabling environment for private sector involvement in infrastructure projects (power, ports, roads sectors)</li> <li>• Institutional strengthening of the State Finance Department</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue implications of tax restructuring including revenue losses associated with tax reforms and loss offsetting through improved tax compliance resulting from reduction and rationalization of tax rates, widening of tax base, and strengthening of tax administration</li> <li>• Cost offsetting factors and overall budget implications of restructuring, including:               <ul style="list-style-type: none"> <li>• SOE debt settlement (\$283 million)</li> <li>• cost of SOE labor rationalization (\$129 million)</li> <li>• divestment proceeds</li> <li>• improved cost recovery (e.g., arising from power tariff increase) (\$198 million)</li> <li>• SOE subsidy savings (\$71 million)</li> </ul> </li> <li>• Revenue losses associated with tax reforms (\$302 million)</li> <li>• Revenue gains from enhanced tax compliance and tax-base broadening</li> <li>• Project development and feasibility studies for power, ports, and roads (\$25 million)</li> </ul>	<ul style="list-style-type: none"> <li>• A Medium-Term Fiscal Policy Framework was developed by the mission in collaboration with Gujarat Finance Department to analyze and project the fiscal situation (e.g., revenue receipts, tax transfers, current and capital outlays, loans and advances, etc.)</li> <li>• Public finance analysis (including detailed tax analysis) through TA support</li> <li>• Detailed case analyses of SOEs through supporting TA</li> <li>• Institutional analysis of Gujarat Infrastructure Development Board</li> </ul> <p>Supporting studies:</p> <ul style="list-style-type: none"> <li>• Support for Gujarat's Public Finance ADTA</li> <li>• Restructuring of State-Owned Enterprises of Gujarat ADTA</li> </ul>
VIE: State-Owned Enterprise Reform and Corporate Governance Program (\$100 million)	<ul style="list-style-type: none"> <li>• Promotion of an enabling environment for foreign direct investment</li> <li>• Supporting development of private enterprises by allowing non-state enterprises to use their land-use rights as equity contribution in joint ventures, unifying tax</li> </ul>	<ul style="list-style-type: none"> <li>• SOE labor retrenchment costs (\$112 million)</li> <li>• Costs of financial restructuring for medium and large industrial SOEs, including debt write-offs (\$126 million)</li> <li>• Establishment and operating costs associated with</li> </ul>	<ul style="list-style-type: none"> <li>• Mission financial estimates of retrenchment pay and pension contribution</li> <li>• Based on IMF estimates and mission financial estimates</li> <li>• Financial estimates for costs of institutional development</li> </ul> <p>(No underpinning ESW)</p>

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**ADJUSTMENT COSTS IN ADB POLICY OPERATIONS—AN INVENTORY OF APPROACHES USED**

Appendix 4 (cont'd.)

<b>Loan</b>	<b>Main Policy Measures</b>	<b>Adjustment Costs Identified</b>	<b>Analysis Used for Cost Estimation</b>
	<p>treatment, strengthening bankruptcy procedures, introduction of summary judgment procedures for noncompliance with contractual obligations</p> <ul style="list-style-type: none"> <li>• Industrial SOE restructuring by improving the institutional and regulatory framework for SOE reform, accelerating industrial SOE reform, improving corporate governance and financial discipline</li> <li>• Enhanced labor mobility through greater flexibility in the social security system</li> </ul>	<p>institutional development, including one-stop shops for foreign investment approvals/licensing, and securities trading centers, accounting and auditing standards office, costs of adoption of international accounting standards by SOEs (\$50 million)</p>	
<p>PAK: Trade, Export Promotion and Industry Program (\$300 million)</p>	<ul style="list-style-type: none"> <li>• Augmentation of trade liberalization process, including reduction, rationalization and simplification of the tariff structure, rationalization and reduction of the Statutory Rules and Orders, phasing out of nontariff barriers for imports and exports</li> <li>• Modernization of the free trade status policies and administration for exporters</li> <li>• Broadening the coverage and access to financing for exporters</li> <li>• Restructuring of the Export Promotion Bureau, development of private sector trading companies, abolition of state trading bodies, capacity development to deal with international trade environment</li> <li>• Development of investment policy and its effective implementation</li> <li>• Acceleration of restructuring and privatization of public manufacturing enterprises</li> </ul>	<ul style="list-style-type: none"> <li>• Estimation of the revenue losses from tariff rationalization and export duties (\$310 million)</li> <li>• Loss of revenue from removal of export duties</li> <li>• Contribution to the Preshipment Export Finance Guarantee Fund, National Accreditation Council, export marketing and product upgrading fund, Foreign Currency Import Finance (\$200 million)</li> <li>• Settlement of debt liabilities and severance payments for privatized Public Manufacturing Enterprises (in part to be offset from sale proceeds) (\$200 million)</li> <li>• Costs of redundancy payments for workers from restructured or liquidated trade bodies (\$200 million)</li> <li>• Cost of restructuring the Export Promotion Bureau (\$10 million)</li> </ul>	<ul style="list-style-type: none"> <li>• Analysis of public manufacturing enterprises and trade bodies including costs of debt settlement and retrenchment (undertaken by mission)</li> <li>• Institutional restructuring analysis (by mission)</li> </ul> <p>Supporting studies: ESW including:</p> <ul style="list-style-type: none"> <li>• In-depth update of sector profile (Industry and Trade Sector Study)</li> <li>• Development of a medium-term export strategy (Export Development Strategy)</li> <li>• Analysis of the effects of changing tariff regimes on industrial protection (Analysis of Tariff Reform in Pakistan) and Mission updates</li> </ul>

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Appendix 4 (cont'd.)

Loan	Main Policy Measures	Adjustment Costs Identified	Analysis Used for Cost Estimation
INO: Financial Governance Reforms Sector Development Program (\$1.4 billion)	<ul style="list-style-type: none"> <li>• Adoption of best practices in banking, capital markets, and public financial management</li> <li>• Increasing disclosure and transparency in banking, capital markets, and public financial management</li> <li>• Strengthening legal framework in banking and financial management</li> </ul>	<ul style="list-style-type: none"> <li>• Basis of cost estimates not provided</li> </ul>	<ul style="list-style-type: none"> <li>• The program aimed to support efforts to improve resource allocation efficiency within the sector by improving governance of financial and public sector resource allocation. While measures were described for restructuring and liquidations, improved market orientation, bank supervision, increased disclosure, anti-corruption etc., the RRP contains no quantitative details.</li> </ul>
THA: Social Sector Program (\$500 million)	<ul style="list-style-type: none"> <li>• Labor market and social welfare program to address (crisis-related) unemployment, poverty program effectiveness, private sector training, and labor force competitiveness</li> <li>• Education sector reforms to address dropout rates (crisis-related), education quality, staff rationalization, decentralization, and private sector education</li> <li>• Health sector reforms to ensure access by the poor and rural health care delivery improvement</li> </ul>	<ul style="list-style-type: none"> <li>• Support for laid-off workers and various initiatives to address growing unemployment (\$200 million)</li> <li>• Support for students to prevent dropout (\$550 million)</li> <li>• Expansion of health coverage for low-income families (\$150 million)</li> </ul>	<ul style="list-style-type: none"> <li>• The loan amount was based on estimated financial costs, in terms of budget implications, for implementing both crisis (e.g., rising unemployment) and institutional reforms.</li> </ul> <p>Supporting study:</p> <ul style="list-style-type: none"> <li>• Social Impact Analysis of the Economic Crisis ADTA</li> </ul>
KAZ: Agriculture Sector Program (\$100 million)	<ul style="list-style-type: none"> <li>• Creation of an agricultural land market</li> <li>• Transfer of ownership of state farms to private entities</li> <li>• Liberalization of external trade</li> <li>• Dismantling of state monopoly companies and restructuring of Agroprom bank</li> <li>• Promotion of a market-based rural credit and savings system</li> <li>• Strengthening social protection for adversely affected vulnerable groups</li> <li>• Strengthening environmental management</li> </ul>	<ul style="list-style-type: none"> <li>• Issuance of land share certificates to individual farm workers (\$90 million)</li> <li>• Revenue losses as a result of removal of export tax (\$40 million/year over the medium term)</li> <li>• Shift to a competitive public grain procurement system will result in a net additional expenditure due to higher grain prices (\$40 million/year over the medium term)</li> <li>• Fiscal measures to strengthen social protection (\$8 million/year over the medium term)</li> </ul>	<ul style="list-style-type: none"> <li>• The total financial adjustment cost was estimated to be \$400 million in present value terms in 1996 (a medium-term horizon of 5 years and a discount rate of 20% were used in estimating the discounted present value).</li> </ul> <p>Supporting study:</p> <ul style="list-style-type: none"> <li>• Strengthening the Implementation of Agriculture Sector Reforms ADTA</li> </ul>

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Appendix 4 (cont'd.)

Loan	Main Policy Measures	Adjustment Costs Identified	Analysis Used for Cost Estimation
COO: Economic Restructuring Program (\$5 million)	<ul style="list-style-type: none"> <li>• Public sector reform</li> <li>• Promote private sector growth</li> <li>• Social equity and sustainability</li> </ul>	<ul style="list-style-type: none"> <li>• Retirement of a part of government's short-term liabilities to domestic private sector creditors</li> <li>• Establishment of Business Ventures Development Corporation under Cook Islands Development Bank (CIDB)</li> <li>• Equity injection in CIDB</li> <li>• Given the outstanding government arrears and other external debt totaling NZ\$200 million, the loan size of NZ\$7.2 million would not have bridged the gap (Knapman and Saldanha, 1999, p. 34).</li> </ul>	<ul style="list-style-type: none"> <li>• No detailed aggregation documented. The loan size was on the basis of "the significance of the policy changes and economic restructuring being pursued and the historical levels of Bank lending to the Cook Islands." (RRP, para. 75)</li> </ul> <p>Supporting study:</p> <ul style="list-style-type: none"> <li>• 1995 Economic Report served as ESW</li> </ul>
RMI: Public Sector Reform Program (\$12 million)	<ul style="list-style-type: none"> <li>• Stabilize government finances in the short run.</li> <li>• Ensure long-term structural stability of government finances.</li> <li>• Create an improved environment for the private sector</li> </ul>	<ul style="list-style-type: none"> <li>• Retirement-in-force (RIF) program (\$5.5 million)</li> <li>• Pay off Air Marshall Islands' (AMI) commercial debt (\$4 million)</li> <li>• Seed injection to Financial Reserves Trust Fund (\$2.5 million) (Knapman and Saldanha 1999, pp. 89–90)</li> </ul>	<ul style="list-style-type: none"> <li>• Based on salaries paid in the civil service and average length of service, and expected number of retrenchments (RRP, para. 69)</li> <li>• Two thirds of AMI's outstanding commercial debt.</li> </ul> <p>Supporting study:</p> <ul style="list-style-type: none"> <li>• 1996 Economic Report served as ESW</li> </ul>
FSM: Public Sector Reform Program (\$18 million)	<ul style="list-style-type: none"> <li>• Reduce size and operating costs of civil service</li> <li>• Increase domestic revenue generation</li> <li>• Restructure government operations and public enterprises</li> <li>• Mitigate social and economic impact</li> <li>• Foster development of private sector</li> </ul>	<ul style="list-style-type: none"> <li>• Direct costs of early retirement schemes for the national and 4 state governments (\$3 million for the national, \$5.3 million for Chuuk, \$4.2 million for Pohnpei, \$3.5 million for Yap, \$2 million for Kosrae)</li> </ul>	<ul style="list-style-type: none"> <li>• No detailed documentation in the RRP but the EMPAT team (ADTA consultants) provided detailed estimates and also developed monitoring schemes for the retirement program</li> </ul> <p>Supporting study:</p> <ul style="list-style-type: none"> <li>• 1996 Economic Report served as ESW.</li> </ul>
SAM: Financial Sector Program (\$7.5 million)	<ul style="list-style-type: none"> <li>• Deepen financial markets</li> <li>• Strengthen Central Bank of Samoa (CBS) and enhance its operational autonomy</li> <li>• Strengthen prudential and regulatory framework</li> </ul>	<ul style="list-style-type: none"> <li>• Incremental budgetary cost of issuing CBS bills (\$1.9 million over a 3-year period)</li> <li>• Temporary compensation for the</li> </ul>	<ul style="list-style-type: none"> <li>• A loan of \$7.5 million is aimed at covering a major share of these costs to the government, with the remaining part coming from other sources, including</li> </ul>

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Appendix 4 (cont'd.)

Loan	Main Policy Measures	Adjustment Costs Identified	Analysis Used for Cost Estimation
	<ul style="list-style-type: none"> <li>Strengthen National Provident Fund (NPF) and Development Bank of Samoa (DBS)</li> <li>Privatize and corporatize public enterprises and utilities</li> </ul>	<p>loss of revenue from elimination of the foreign exchange levies (\$1.3 million annually)</p> <ul style="list-style-type: none"> <li>Temporary compensation for the loss of revenue from the planned corporatization of the Posts and Telecommunications Department (\$5.72 million annually)</li> </ul>	<p>revenue from privatization of state-owned enterprises (SOEs). (RRP, paras. 101–104)</p> <ul style="list-style-type: none"> <li>Short- to medium-term costs of the reform program were estimated in fiscal and balance-of-payment terms</li> <li>Incremental cost of issuing CBS bills was calculated as the total incremental interest rate costs associated with interest rate differential</li> </ul>
<p>VAN: Comprehensive Reform Program (\$20 million)</p>	<ul style="list-style-type: none"> <li>Redefine the role of government, and enhance the quality and delivery of its policy, regulatory, and development services</li> <li>Increase the productivity and growth of the private sector in both urban and rural areas</li> <li>Support social development of the disadvantaged and rural population</li> </ul>	<ul style="list-style-type: none"> <li>Restructure and right-size the public sector</li> <li>Restructure and rehabilitate government-owned financial institutions</li> <li>Fiscal stabilization (reduce the need for an inflationary domestic financing of budget deficit)</li> <li>The loan amount (\$20 million) was to cover 35%, 40%, and 25% of the above three adjustment costs. (Knapman and Saldanha 1999, p. 152)</li> </ul>	<ul style="list-style-type: none"> <li>Fiscal outlook covering 1997–2000 and Government funding plan 1998–2000 formed the basis of external financing need for the reform program (RRP, paras. 73–83)</li> </ul> <p>Supporting study:</p> <ul style="list-style-type: none"> <li>1997 Economic Report served as ESW.</li> </ul>
<p>SOL: Public Sector Reform Program (\$25 million)</p>	<ul style="list-style-type: none"> <li>Macroeconomic stabilization and fiscal reforms</li> <li>Public sector management reforms</li> <li>Public enterprise reforms</li> <li>Strengthen governance institutions</li> </ul>	<ul style="list-style-type: none"> <li>No specification documented in the RRP. Ex-post, the loan amount (\$25 million) permitted clearance of approximately 63% of government arrears (\$23.8 million); the financing of public service retrenchments (\$1 million); and incremental costs of hiring staff to implement reforms (\$0.2 million). (Knapman and Saldanha 1999, p.131)</li> </ul>	<ul style="list-style-type: none"> <li>The loan amount is based on the “scope and the costs of the policy reforms, the importance and urgency of the reforms and the state of the public finances of the Borrower.” (RRP, para. 69)</li> </ul> <p>Supporting study:</p> <ul style="list-style-type: none"> <li>1997 Economic Report served as ESW.</li> </ul>

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Appendix 4 (cont'd.)

Loan	Main Policy Measures	Adjustment Costs Identified	Analysis Used for Cost Estimation
NAU: Fiscal and Financial Reform Program (\$5 million)	<ul style="list-style-type: none"> <li>• Fiscal management reform</li> <li>• Improve asset management and enhance returns to the economy</li> <li>• Establish a viable banking system</li> <li>• Improve efficiency and effectiveness of the public sector</li> </ul>	<ul style="list-style-type: none"> <li>• Separation payments (450 public service employees and 250 Nauru Phosphate corporation staff, totaling \$2.7 million)</li> <li>• Direct budget support to pay arrears, deferred obligations, and restructured debt payments (\$1 million)</li> <li>• Finance specialist inputs to improve public sector and SOE performance (\$0.8 million)</li> <li>• Payment of nonwage-related health and education expenditures to improve service delivery (\$0.5 million)</li> </ul>	<p>Supporting study:</p> <ul style="list-style-type: none"> <li>• National Reform Program ADTA</li> </ul>
TUV: Island Development Program (\$4 million)	<ul style="list-style-type: none"> <li>• Decentralize and enhance regional autonomy</li> <li>• Foster an enabling environment for regional development</li> </ul>	<ul style="list-style-type: none"> <li>• Budgetary provisions to cover annual capital assistance grants to the islands at about the same level as expected from the trust fund when it becomes operational, plus the cost of administrative reorganization and upgrading on the islands</li> <li>• Reorganization of the financial institutions (Development Bank of Tuvalu merging with the National Bank of Tuvalu).</li> </ul>	<ul style="list-style-type: none"> <li>• The size of the ADB loan (\$4 million) is based on the assumption that the government and the island communities will match their contribution by \$4 million and \$0.5 million, respectively, so that the initial capital can generate reasonable returns. (RRP, para. 103-104)</li> </ul>
IND: Madhya Pradesh Public Resource Management Program (\$250 million)	<ul style="list-style-type: none"> <li>• Enhance resource allocation to social sectors through focused interventions</li> <li>• Implement public sector reforms including capacity building and institutional strengthening</li> <li>• Promote an enabling environment for private sector participation</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue losses from tax measures (\$185 million)</li> <li>• Cost of public enterprise reform including non-personnel outlays public sector undertaking (PSU) reform (\$296 million)</li> <li>• Cost of voluntary retirement scheme and social safety net (\$120.4 million)</li> </ul>	<ul style="list-style-type: none"> <li>• Estimated financial implications of the reform Program: \$601.2 million</li> <li>• Estimations done by Mission based on information provided by the Government of Madhya Pradesh and individual PSUs</li> <li>• Excluded outlays on account of voluntary retirement scheme</li> </ul>

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Appendix 4 (cont'd.)

Loan	Main Policy Measures	Adjustment Costs Identified	Analysis Used for Cost Estimation
PAK: Energy Sector Restructuring Program (\$350 million)	<ul style="list-style-type: none"> <li>• Enhancement of governance in the energy sector</li> <li>• Enhancement of the legal and regulatory framework and strengthening of the capacity of the sector regulator</li> <li>• Financial restructuring and privatization of utilities and corporatized entities</li> <li>• Creation of an enabling environment for a competitive electricity market</li> <li>• Enhancement of reform in the natural gas and petroleum subsectors</li> </ul>	<ul style="list-style-type: none"> <li>• Restructuring cost of the energy sector, including the cost to help address the circular debt problem in the power sector and the adjustment cost of the natural gas and petroleum subsectors (\$1.6 billion)</li> <li>• Operating costs and other related costs of reform (e.g., labor restructuring cost, cost of restructuring plans) (\$105 million)</li> </ul>	<ul style="list-style-type: none"> <li>• Broad estimate of adjustment cost is about \$1.71 billion</li> <li>• Restructuring cost estimated by the Government of Pakistan</li> </ul>
INO: Industrial Competitiveness and Small and Medium Enterprise (SME) Development Program (\$200 million)	<ul style="list-style-type: none"> <li>• Strengthening competition by establishing an appropriate legal environment for commercial activity, simplifying the regulatory framework, removing barriers to domestic competition and trade, and liberalizing international trade</li> <li>• Facilitating investment and trade by strengthening the policy framework governing domestic investment and foreign direct investment, and improving duty drawback and customs procedures</li> <li>• Rationalizing assistance to SMEs by improving policy coordination and implementation, improving financial intermediation, and strengthening technical and business service support</li> </ul>	<ul style="list-style-type: none"> <li>• Lost revenues from tariff reform (\$150 million)</li> <li>• Cost of administrative reforms linked to the computerization and reorganization of customs (\$25 million)</li> <li>• Establishment of Commission for Competition Supervision and other administrative reforms (\$5 million)</li> <li>• Lost revenues resulting from the simplification of the licensing and approval regime (\$470 million)</li> <li>• Elimination of protection in a number of subsectors, including fertilizer distribution, petrochemicals, and other domestic trade subsectors is expected to impose upfront costs to enterprises in terms of restructuring and retooling needs (These costs are expected to be considerable but are deemed difficult to quantify)</li> </ul>	<ul style="list-style-type: none"> <li>• Total adjustment cost related to the Program was estimated at about \$650 million during the Program period</li> <li>• The elimination of protection in a number of sectors is expected to impose costs to enterprises in terms of restructuring and retooling needs. These costs are expected to be considerable but are difficult to quantify.</li> </ul> <p>Supporting study:</p> <ul style="list-style-type: none"> <li>• Trade and Industry Planning and Strategy Formulation for Repelita VII ADTA</li> </ul>

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Appendix 4 (cont'd.)

Loan	Main Policy Measures	Adjustment Costs Identified	Analysis Used for Cost Estimation
<p>VIE: Agriculture Sector Program (\$80 million)</p>	<ul style="list-style-type: none"> <li>• Stimulate competition in the domestic and export marketing of rice and in the importation of fertilizer to reduce marketing margins, improve producers' prices, and reduce the cost of fertilizer</li> <li>• Support equal participation by the private sector and trade liberalization</li> <li>• Establish the legal framework for voluntary cooperatives, and farmers' and traders' associations</li> <li>• Improve the efficiency and profitability of formal rural financial intermediation</li> <li>• Accelerate land tenure reforms, including the allocation of land-use rights to rural households</li> </ul>	<ul style="list-style-type: none"> <li>• Cost of establishing a modern cadastral service and issuance of certificates of land transfer for parcels of land (\$90 million during the program period or a total of \$360 million over a 12-year period)</li> <li>• Cost of upgrading/replacing facilities for the storage and processing of agricultural outputs</li> <li>• Cost of restructuring and modernizing the agricultural extension research (\$100 million)</li> </ul>	<ul style="list-style-type: none"> <li>• Partial estimate of adjustment costs is about \$190 million</li> </ul> <p>Supporting studies:</p> <ul style="list-style-type: none"> <li>• The Program evolved from discussions with the government over a period of 2 years.</li> </ul>
<p>VIE: Financial Sector Program (\$90 million)</p>	<ul style="list-style-type: none"> <li>• Establish the essential market infrastructure to facilitate private sector participation in relation to the legal and regulatory framework, the accounting and audit system for banks, information disclosure, and investor protection</li> <li>• Commercialize and modernize domestic banking operations by providing greater autonomy to the state-owned commercial banks, improve risk management practices, and raise capacity for deposit mobilization</li> <li>• Promote competition by leveling the playing field and diversifying the range of financial institutions</li> <li>• Initiate the development of a capital market by promulgating basic securities legislation and establishing a securities agency to regulate and develop the market for securities</li> </ul>	<ul style="list-style-type: none"> <li>• Adoption of new accounting and audit standards that are in close conformity with international standards</li> <li>• Setting up a deposit insurance fund to maintain and build the corpus of the fund to eventually match actuarial estimates of possible claims or losses from insurable risks (\$10 million)</li> <li>• Organize a securities agency, a stock exchange and an automated central depository system (\$20 million)</li> <li>• Other program components that will cover collateral registration system, credit information system, centralized system, and translation facilities for various legislation, upgrade of accounting and audit systems, including computerization requirements,</li> </ul>	<ul style="list-style-type: none"> <li>• Adjustment costs estimated to be in the range of \$265 million</li> </ul> <p>Supporting studies:</p> <ul style="list-style-type: none"> <li>• Development of Small-Scale Rural Credit TA</li> <li>• Commercial Banks Review and Training TA</li> <li>• Financial Markets Development TA</li> <li>• Financial Sector Review TA</li> </ul>

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Appendix 4 (cont'd.)

Loan	Main Policy Measures	Adjustment Costs Identified	Analysis Used for Cost Estimation
IND: Power Sector Restructuring Program (\$380 million)	<ul style="list-style-type: none"> <li>• Restructuring of the power sector and creating an enabling environment for a competitive electricity industry market</li> <li>• Establishing competition in the supply of bulk electricity in Java-Bali</li> <li>• Adjusting tariffs to ensure financial viability of the state-owned utility and the newly created subsidiaries during the transition period</li> <li>• Increasing private sector participation</li> <li>• Strengthening the regulatory environment, including protecting the interest of the end-consumers</li> </ul>	<p>training costs, and engagement of consultants (\$10 million)</p> <ul style="list-style-type: none"> <li>• Obligations for power purchase</li> <li>• Budgetary support to compensate for the phased tariff increases</li> <li>• Cost of debt restructuring and expenditure related to staff reduction associated with organizational restructuring</li> </ul>	<ul style="list-style-type: none"> <li>• Adjustment costs were based on reasonable macro-economic assumptions and were expected to be between \$1 billion–\$1.5 billion annually in 1999 and 2000, and about \$4 billion in 2001</li> <li>• These costs were expected to be met by direct budgetary outlays, loans from multilateral and bilateral sources, and part of the proceeds from the sale of the assets of the state power utility in Java-Bali</li> </ul>
IND: Gujarat Power Sector Development Program (\$150 million)	<ul style="list-style-type: none"> <li>• Establish independent tariff setting and regulation</li> <li>• Rationalize the imposition of tariffs and duties in the sector to maintain equity among consumer categories</li> <li>• Introduce competition and commercialization</li> <li>• Improve conservation of water and electricity</li> </ul>	<ul style="list-style-type: none"> <li>• Rationalization of electricity duty is expected to cause a revenue loss of about \$33 million each year in the next 5 years for a total of \$165 million</li> <li>• Long-term loans to Gujarat Electricity Board (GEB) to retire expensive commercial debt and adjustment of independent power producer prices will be about \$43 million</li> <li>• Payment of arrears of dues of municipalities and other local bodies until FY2000 was estimated to cost about \$15 million. It was expected that in FY2001, an additional \$5 million may be required</li> <li>• About 700,000 consumer meters will be procured and installed over the next 3 years which will cost around \$7 million</li> </ul>	<ul style="list-style-type: none"> <li>• The total cost of adjustment to be incurred by the state government over the reform period is estimated at \$235 million</li> <li>• It is felt that the program loan of \$150 million is adequate and justified by the state government on account of the reforms and the political costs it will incur during implementation</li> </ul> <p>Supporting studies:</p> <ul style="list-style-type: none"> <li>• Preparation of a power system master plan</li> <li>• Preparation of a framework for electricity tariffs</li> <li>• Review of electricity legislation and regulations</li> <li>• Financial support to GEB for the formation of two independent distribution profit centers</li> <li>• Solicitation for private sector implementation of the Chhara Project</li> </ul>

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Appendix 4 (cont'd.)

<b>Loan</b>	<b>Main Policy Measures</b>	<b>Adjustment Costs Identified</b>	<b>Analysis Used for Cost Estimation</b>
MON: Agriculture Sector Development Program (\$7 million)	<ul style="list-style-type: none"> <li>• Reduce price and other distortions to improve resource allocation and efficiency</li> <li>• Promote competitive markets for agricultural inputs, outputs, and processed goods</li> <li>• Ensure delivery of financial services and provide improved access to credit for the rural population</li> <li>• Rationalize tax incentives to promote investment in rural areas</li> <li>• Improve productivity and sustainability in extensive livestock production</li> <li>• Strengthen agricultural research and extension to support private sector agriculture</li> <li>• Mitigate risks in agriculture and ensure food security, income, and employment for vulnerable groups</li> </ul>	<ul style="list-style-type: none"> <li>• Preparation and implementation of the plan to achieve operational and financial autonomy for Biokombinat (\$0.4 million)</li> <li>• Implementation of the Cooperative Law and Cooperative Development Program (\$0.3 million annually)</li> <li>• Implementation of an action plan to promote investment in disadvantaged rural areas (\$0.4 million annually)</li> <li>• Control of animal diseases that are public health hazards (\$0.3 million annually)</li> <li>• Establishment and operation of a licensing system for veterinarians supervising meat hygiene and production (\$0.1 million annually)</li> <li>• Operations of the secretariat to maintain the register for veterinarians and paraveterinarians (\$5,000 annually)</li> <li>• Implementation of pilot programs for improved pasture management (\$0.4 million annually)</li> <li>• Operation of the Science and Technology Council (\$0.4 million annually)</li> <li>• Implementation of a medium-term plan for extension (\$0.4 million annually)</li> <li>• Implementation of the policy on risk management is also deemed to involve significant costs although these were not indicated in the RRP</li> </ul>	<ul style="list-style-type: none"> <li>• Adjustment costs are estimated at \$8.0 million over the next 4 years</li> <li>• Increased costs of the structural reforms will be partly offset by reduced costs, or increased revenues, induced by the reforms from: (i) the more effective use of financial resources resulting from the sale of commodity aid; (ii) use of competitive bidding procedures for procurement and sales by government agencies; and (iii) proceeds from the privatization of the remaining crop farms</li> </ul> <p>Supporting study:</p> <ul style="list-style-type: none"> <li>• Agriculture Sector Development Program ADTA</li> </ul>

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Appendix 4 (cont'd.)

Loan	Main Policy Measures	Adjustment Costs Identified	Analysis Used for Cost Estimation
MON: Financial Sector Program (\$35 million)	<ul style="list-style-type: none"> <li>• Strengthen the legal and regulatory framework for banking operations by improving supervision and the regulation of nonbank financial institutions; improving the financial information on banks, improving the legal basis for debt recovery; and facilitating the enforcement of financial sector-related laws</li> <li>• Strengthen financial intermediaries by facilitating the operational and financial restructuring of banks</li> <li>• Improve the efficiency of the financial intermediation process by reducing government involvement in banking operations, and by establishing market-determined interest rates</li> </ul>	<ul style="list-style-type: none"> <li>• There will be costs to enterprises, which will lose up to 10% of their deposits.</li> </ul>	<p>Supporting studies:</p> <ul style="list-style-type: none"> <li>• Institutional Strengthening of the Financial Sector TA</li> <li>• Institutional Strengthening of Agricultural Banking Services</li> <li>• Strengthening of the Commercial Banking System</li> <li>• Strengthening of Financial Intermediaries</li> <li>• Development of Procedures for the Reconstruction and Liquidation of Insolvent Banks</li> <li>• Development of Bank Restructuring Strategies</li> </ul>
PHI: Grains Sector Development Program (\$100 million)	<ul style="list-style-type: none"> <li>• Liberalize and promote more cost-effective grains pricing and import policies</li> <li>• Improve administration of grain buffer stocks</li> <li>• Restructure National Food Authority from a grains marketing monopoly into a public regulatory agency and separate private sector marketing corporations</li> <li>• Promote a more targeted and effective food subsidy program for the poor</li> <li>• Improve the coordination, organizational structure, research and development, grains and seed production, and marketing</li> </ul>	<ul style="list-style-type: none"> <li>• Government revenue losses from the elimination of tariffs on agricultural and agriculture-related inputs, have been officially estimated at about \$25 million annually.</li> <li>• Revenue losses from the lowering of tariffs on grains, primarily corn and corn substitutes, are estimated at \$10 million–\$20 million annually, depending on the level of imports</li> <li>• Targeted food subsidy and/or food-for-work program will incur a minimum annual cost of \$50 million starting in the third year, but may double or triple in cost, depending on the percentage of poor families targeted.</li> </ul>	<p>Supporting study:</p> <ul style="list-style-type: none"> <li>• Study on Food Crop Policies ADTA</li> </ul>

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Appendix 4 (cont'd.)

<b>Loan</b>	<b>Main Policy Measures</b>	<b>Adjustment Costs Identified</b>	<b>Analysis Used for Cost Estimation</b>
CAM: Financial Sector Program Loan (\$30 million - program loan cluster of about \$10 million per program loan)	<ul style="list-style-type: none"> <li>• Enhancing banking intermediation and public confidence by establishing and strengthening banking supervision, developing key information infrastructure and safety net, and building capacity in both public and private sectors by reinforcing capacity building institutions</li> <li>• Establishing legal and regulatory framework for insurance development by institutionalizing a supervisory system and prudential regulations; fostering private sector development in the insurance business; and developing compulsory insurance</li> <li>• Laying the foundation for the development of inter-bank and money markets through public-private sector partnership and establishing a basic legal framework</li> <li>• Developing financial market infrastructure by establishing common accounting standards and enforcement mechanisms and promulgating relevant laws</li> </ul>	<ul style="list-style-type: none"> <li>• Compensation packages for affected staff range from \$20 million–\$60 million.</li> <li>• Increased annual budgetary allocations for agricultural infrastructure, research, extension, and other services supported by the Grains Sector Development Program will require \$125 million–\$250 million annually for the next 4 years.</li> <li>• Adoption and enforcement of international accounting and audit standards (\$37 million)</li> <li>• Establishment of banking sector infrastructure and safety net including public registry of secured transactions, credit information exchange arrangement, and deposit insurance system (\$18 million)</li> <li>• Strengthening bank prudential regulations and bank restructuring (\$16 million)</li> <li>• Development of inter-bank and money markets and laying the foundation for the capital market development (\$7 million)</li> <li>• Development of legal and regulatory framework for the financial sector (\$6 million)</li> </ul>	<ul style="list-style-type: none"> <li>• The costs of structural reforms are estimated at \$80 million–\$90 million.</li> </ul> <p>Supporting study:</p> <ul style="list-style-type: none"> <li>• Preparing for the Financial Sector Development Program ADTA</li> </ul>