

ADB and Public Resource Management in India

- After independence in 1947, the Government of **India** promoted **public enterprises** as the engine of economic growth. It applied controls on private sector participation, and on foreign trade and investment. Later, in the mid-1980s, **economic liberalization**, an expansionist fiscal stance, and a hike in public sector wages boosted growth from 3.5% to 5% per year.
- In India, **state** finances depend heavily on transfers from the center. By the early 1990s, fiscal expansion and higher oil prices from the **Gulf War** had made state finances unsustainable.
- In 1991, the Government initiated stabilization and **structural adjustment** to contain **fiscal imbalance**. Thereafter, it encouraged **multilateral development banks** to partner with states. Beginning in 1996, ADB approved **program lending** in **Gujarat, Madhya Pradesh, Kerala, and Assam**. How did ADB's support perform?

Background

The Asian Development Bank (ADB) began supporting public resource management through technical assistance to **Singapore** in 1971. In 1995, ADB's **Governance Policy** formalized the link between the quality of governance and **sound development management** within the framework of accountability, participation, predictability, and transparency. Thereafter, ADB's support for governance policy and institutional reform increased significantly.

Over an 8-year period, ADB approved policy-based loans supporting implementation of fiscal reforms in four states. The **Gujarat** and **Madhya Pradesh** programs were designed as three-tranche, policy-based loans of \$250 million each for 2 and 3 years, respectively. The **Kerala** and **Assam** programs were also policy-based loans but followed a cluster loan modality of two subprograms totaling \$300 million for Kerala over 3 years, and \$225 million for Assam over 5 years.

Public resource management addresses structural and institutional constraints to sustained fiscal stability, a precondition to economic growth and poverty reduction. Fiscal consolidation is achieved vis-à-vis three dimensions—revenue, expenditure, and service delivery—interventions against which become outputs in a **results chain**. (Actions on revenue commonly relate

to value-added tax, own-source fees, local government revenue, user fees, and tax administration. Those on expenditure typically impact budget preparation, debt management, salaries and pensions, public enterprises, and expenditure management. Lastly, actions on service delivery mostly pertain to public-private partnerships and social service delivery.) The scope and emphasis of actions in **Gujarat, Madhya Pradesh, Kerala, and Assam** reflected state-specific priorities.

In 2007, the Operations Evaluation Department conducted a **Special Evaluation Study on ADB Support to Public Resource Management in India** to assess the effectiveness of the programs and 11 associated technical assistance operations over the period 1995–2005.¹ The study aimed also to contribute to the country assistance program evaluation and feed a study of ADB's support for public financial management and public sector reform, due in 2008. The study drew on three program completion reports and four evaluation reports. It followed the **Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations** and examined relevance, effectiveness, efficiency, sustainability, and impact.

Summary of Findings

Overall, one of the programs was rated "successful", two "partly successful", and the ongoing program in

Assam "potentially successful". The 11 completed advisory technical assistance operations were deemed "successful" overall.

Evaluation Ratings for the Public Resource Management Programs

Item	Gujarat	Madhya Pradesh	Kerala	Assam
Relevance	Relevant	Relevant	Relevant	Relevant
Effectiveness	Effective	Less effective	Less effective	Potentially effective
Efficiency	Efficient	Less efficient	Less efficient	Potentially efficient
Sustainability	Most likely sustainable	Less likely sustainable	Less likely sustainable	Potentially likely sustainable
Impact	Substantial	Modest	Modest	Potentially substantial
Overall Rating	Successful	Partly successful	Partly successful	Potentially successful

Note: Ratings for Assam are those of the program completion report.

As a whole, ADB's support was judged "relevant", "effective", "efficient", and "likely sustainable". Its impact was rated "substantial".

For instance, ADB's assistance enabled the Government to assist state fiscal reforms. This provided recognition and support for more politically difficult reform measures. ADB also saw the need to build capacity to manage complex reform processes, and addressed it with technical assistance. Thereby, it developed a comparative advantage in state-level fiscal reforms, with lessons influencing other public resource management programs in India and the region.

Also, the programs improved revenue legislative and regulatory frameworks as well as administration systems and procedures, including automating tax administration and preparing for the introduction of value-added tax. Multi-year expenditure planning was introduced. Treasury payment systems were automated. Power sector subsidies were reduced in two states. Public enterprise reforms had varied success, but a number of poorly performing enterprises merged, divested, or closed. Far-reaching measures included critical reforms establishing power and port sector regulatory authorities and attracting significant private sector and ADB investment in power and transport.

Provision of adequate public expenditure to meet the government's portion of adjustment costs varied across the programs. But, the efficiency of the programs was high: an independent study found that actual adjustment cost expenditure in Gujarat was close to the estimates. In Madhya Pradesh, it was revised down.

By giving state governments the opportunity to chart direction and by developing capacity to implement complex fiscal reforms, the programs changed attitudes, increasing the likelihood that the broader reform agenda will be sustained.

The study identified seven lessons: (i) effective political economy analysis will improve reform design; (ii) there is no blueprint, but there is a sequence to reforms; (iii) coherent application of design tools is needed to achieve development results; (iv) developing "soft" capacities is necessary to sustain reforms; (v) reform actions supporting anticorruption efforts should be explicitly identified; (vi) clarity in the respective roles of ADB staff in resident mission and headquarters in sustaining policy dialogue during implementation will improve effectiveness; and (vii) mechanisms are required to monitor the concerns of ADB's Board of Directors.

ADB's support to public sector reforms can be informed by good practice standards. For example:

- Sufficient time and resources are required for policy dialogue and communications campaigns involving all stakeholders in formulating and implementing long-term fiscal reforms.
- Program design should be internally coherent, focusing on key elements of the government's fiscal reform agenda, avoiding broader governance reforms until fiscal consolidation measures are in place.
- Sufficient technical assistance resources should be made available over the long term to respond to the changing nature of reform processes.
- Implementation arrangements should be based on existing institutional structures and provided with adequate resources, including technical advice.

Feedback

At the time of preparation of these *Learning Curves*, **ADB Management's Response** and the **Chair's Summary of the Development Effectiveness Committee Discussions** were not available for disclosure to the public. The study was completed in September 2007.

¹ ADB. 2007. *Special Evaluation Study on ADB Support to Public Resource Management in India*. Manila. Available: <http://www.adb.org/Documents/SES/REG/SST-REG-2007-22/SST-REG-2007-22.pdf>