

**MANAGEMENT RESPONSE TO THE PROGRAM PERFORMANCE EVALUATION  
REPORT FOR THE GUJARAT PUBLIC SECTOR RESOURCE MANAGEMENT  
PROGRAM IN INDIA (Loan 1506-IND)**

On 13 August 2007, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

**I. General Comments**

1. We appreciate OED's evaluation of the Gujarat Public Sector Resource Management Program and its overall satisfactory rating of the project. We note that the findings of the PPER are useful and the issues and lessons identified in the PPER will provide a better approach in preparing similar programs in the future.

2. Public resource management programs constitute an important area of ADB's operations in developing member countries. The Gujarat Public Sector Resource Management Program (the Program) was the first of ADB's comprehensive state reform programs in the public resource management area and it has since been replicated by other such programs in six other states of India as well as in other countries. We note that the PPER findings are indeed consistent with our lessons learned from the Program and adopted in subsequent programs in the sector. We are also encouraged to note the PPER findings that (i) the Program strengthened state finances and their prudent management; (ii) it largely succeeded in implementing state-owned enterprise (SOE) reform and successfully encouraged private sector participation in the state's infrastructure development by creating an enabling environment through the enactment of the Gujarat Infrastructure Act, and (iii) the state government continued to implement reforms supported by the Program after the completion of the Program.

**II. Comments on Issues, Lessons and Follow-Up Action.**

3. We agree with the PPER suggestions that (i) public sector reforms require a long-term commitment and ideally an indicative allocation of required resources should be programmed at the design stage and (ii) nominal fiscal targets provide a focus for reforms but may be inappropriate as loan conditions because the fiscal targets can be influenced by a variety of factors that may be beyond the control of the states. We note that to focus loan conditions at a broader level of balanced budget over the cycle, the concerned operating department had subsequently adopted the Medium Term Fiscal Policy Framework (MTFPF) and used the same in subsequent programs.

4. The PPER further suggested that (i) mechanisms to review conditions and covenants that may be negatively impacted by exogenous factors be clearly specified in the design; and (ii) naming SOEs for privatization or partial divestment in tranche release conditions may negatively affect the state government's negotiation position.

5. On (i) in para. 4 above, we note, however, that it may be impractical to assess the effect of exogenous factors on policy actions, tranche conditions, and

covenants, and to provide mitigation measures at the outset of the Program due to the uncertainties surrounding the occurrence and the scope and degree of impact of such factors. Rather, it might be more practical to have governments address the issue by exploring provisions for catastrophe insurance or by providing appropriate reserves to meet such contingencies, particularly those that may occur with some regularity, such as flooding or even earthquakes in earthquake prone areas.

6. On (ii) in para. 4 above, we note that names of actual SOEs for divestment had not been identified in subsequent programs and only amounts for divestment had been specified to give the governments flexibility in divesting enterprises. Nonetheless, difficulties were still encountered due to market vagaries.

7. We support the proposed follow up action that, in formulating the India 2007-2010 Country Partnership Strategy, ADB's state level interventions should be reviewed to assess opportunities and financing modalities to support priority aspects of public resource management reforms.