



# Validation Report

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Reference Number: PCV: IND 2007-27  
Project Number: 31328  
Loan Number: 1974  
February 2008

## India: Modernizing Government and Fiscal Reform in Kerala Program

Operations Evaluation Department

**Asian Development Bank**

## ABBREVIATIONS

ADB	–	Asian Development Bank
DMF	–	design and monitoring framework
LSG	–	local self-government
MGP	–	modernizing government program
PCR	–	program completion report
RRP	–	report and recommendation of the President
SLPE	–	state-level public enterprise
TA	–	technical assistance

### Key Words

adb, asian development bank, expenditure, fiscal reforms, indian fiscal reform, kerala government, local government, public enterprises, performance evaluation, program completion report, resource management, revenue, validation

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## Operations Evaluation Department Program Completion Report (PCR) Review

<b>1. Project Data</b>		<b>PCR Review Date Posted</b>		
<b>Project Number</b>	31328		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name</b>	Modernizing Government and Fiscal Reform in Kerala Program	<b>Total Project Cost (\$ million)</b>	200.00	200.00
<b>Country</b>	India	<b>Loan/Credit (\$ million)</b>	200.00	200.00
<b>Sector</b>	Law, Economic Management, and Public Policy	<b>Cofinancing (\$ million)</b>		
<b>Financing (\$ million)</b>	<b>ADF</b>	<b>Borrower Contribution (\$ million)</b>		
	<b>OCR: 200.00</b>	<b>Board Approval</b>	16 December 2002	
<b>Cofinanciers</b>		<b>Closing Date</b>	20 September 2005	
<b>Project Officers</b> (Appraisal/ Implementation PCR)	<b>Name</b>	<b>Designation</b>	<b>From</b> (month/yr)	<b>From</b> (month/yr)
	W. McCarten Xiaoqin (Emma) Fan	Senior Public Sector Management Specialist	31 March 2005	31 December 2005
<b>Evaluator</b>	<b>Peter Robertson</b>	<b>Director</b>	<b>R. Keith Leonard</b>	
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ADF = Asian Development Fund, OCR = ordinary capital resources, PCR = program completion report.

### 2. Project Description (in the report and recommendation of the President [RRP])

- a. **Rationale.** The government of Kerala had a long-established development program with impressive achievements in human development but, along with other Indian states, was faced with a worsening fiscal condition that threatened its economic growth potential, and with a decline in social services.
- b. **Impact.** Poverty reduction and achievement of the development targets set in the tenth 5-year state plan within a sustainable framework.
- c. **Expected Outcomes.** (i) Fiscal sustainability, including initial policy actions for reform in the power sector; (ii) improved quality, equity, and value-for-money of services provided by the government of Kerala and local self-governments (LSGs); (iii) improved targeting and quality of poverty reduction programs and social services; and (iv) strengthened functions and structures of state and local governments.
- d. **Outputs**
  - (i) Fiscal reforms to achieve fiscal sustainability
    - (a) Rules-based and forward-looking fiscal management framework

- (b) Revenue mobilization
- (c) Expenditure restructuring
- (d) Prior actions for power sector reform
- (e) Reform of state-level public enterprises (SLPEs)
- (ii) Modernizing government program (MGP)
  - (a) Improved public service delivery by the government of Kerala and LSGs
  - (b) Strengthened functions of state government and LSGs
  - (c) Improved targeting and quality of poverty reduction programs

### 3. Evaluation of Design and Implementation (envisioned versus actual, as assessed by the evaluator)

- a. Relevance of design and formulation.** The Program was relevant. It was also consistent with the fiscal reform and governance strategies of both the governments of Kerala and India, and with ADB's India country program and institutional policies and strategies, both at appraisal and at completion. Strong government ownership of MGP reforms was evident. However, the program design was overly ambitious in addressing key obstacles to development through fiscal and governance reforms (para. 71), particularly given the effect of external factors such as policy decisions of the Government of India on the pay of civil servants.
- b. Key conditions** (outputs and costs, by component, as envisioned during appraisal, as compared with actual costs and achievement of outputs; reasons for deviations). The adjustment costs of reform were the detailed project implementation costs given in Appendix 7 of the RRP. The PCR does not analyze the extent to which these costs were accurately determined nor say whether counterpart loan funds were used to cover the costs.
- c. Program cost, disbursements, contribution of the Borrower, and conformance with schedule** (as relevant to the success of the Program). The adjustment costs of reforms were estimated at \$592 million over 4 years, with the Program conceived as a cluster of two subprograms totaling \$300 million. The first \$200 million allocated for subprogram 1 was disbursed in two equal tranches. The first tranche was released when the loan took effect, and the balance in March 2005, 9 months after the planned release, because of delay in the formation of the procurement service provider.

The second subprogram was later scrapped even before its start, as the Government of India deemed the government of Kerala to be "fiscally stressed" and unable to apply for further multilateral borrowing.

The Government of the Netherlands agreed to provide a \$50 million grant to support MGP reforms. Half was released at the same time as the first tranche of the loan, for subprogram 1; the amount intended for the canceled subprogram 2 was not released.

- d. Implementation arrangements, conditions and covenants, and related technical assistance.** The Program had two Executing Agencies, the Office of the Chief Secretary and the Finance Department, with an MGP steering committee chaired by the chief secretary and made up of secretaries and principal secretaries

of the departments participating in the Program. A cabinet subcommittee on MGP under the chief minister provided strategic direction on the MGP initiatives. The General Administration MGP Department was set up to coordinate and monitor the MGP component including the technical assistance (TA) funded by the Government of the Netherlands. After the Program and the TA the MGP Department staff returned to their original departments, putting in question the sustainability of a department set up as a secretariat for such reforms. ADB provided a preparatory TA to support the design of the loan, and two small-scale TA projects totaling \$300,000 during implementation. The Government of the Netherlands similarly provided TA amounting to \$6.5 million.

- e. Performance of the Borrower and Executing Agency.** The performance of the Borrower was less than satisfactory. Ownership of the MGP initiatives was strong only while the loan and TA funding lasted; after that, the MGP institutional arrangements collapsed (PCR, para. 48). The Borrower's commitment to fiscal reforms was halfhearted, and the proposed communication strategy referred to as a key aspect of the Program in the RRP and the Management Review Meetings could not avert, or respond adequately to, the negative media coverage of the reforms (PCR, paras. 49–50).

The Office of the Chief Secretary and the Finance Department were adequate Executing Agencies, according to the PCR. But the setting up of a new government department to coordinate MGP reforms was a questionable decision, given the department's demise along with the Program.

- f. Performance of the Asian Development Bank.** ADB performed satisfactorily. Its monitoring missions were frequent during implementation, and the India Resident Mission was given responsibility for responding to issues raised in the media.

#### 4. Evaluation of Performance (assessment by the evaluator)

- a. Relevance.** Relevant (section 3a).
- b. Effectiveness in achieving outcome.** Less effective. The conditions and covenants were met, but not the outcome and some outputs. The risks identified in the design and monitoring framework (DMF) ended up being major constraints: the possible lack of political ownership and apparent lack of political will to make difficult decisions such as disallowing pay increases with their obvious negative fiscal implications; deep structural impediments such as devolution without fiscal decentralization; extremely limited bureaucratic commitment to and ownership of reforms, as evidenced by the reaction to moves to reform the secretariat and to create a special-purpose department, which may have marginalized the MGP process; and a service culture unfamiliar with change.
- c. Efficiency in achieving outcome and outputs.** Efficient. According to the PCR, there were no cost overruns or major delays in implementing policy initiatives (PCR, para. 60).
- d. Preliminary assessment of sustainability.** Unlikely. A key constraint on sustainability identified in the PCR is the Kerala government's continued weakness in current expenditure control and revenue growth. The second subprogram did not get going because, in the Government of India's estimation, the fiscal condition

of the government of Kerala's was too straitened to support further loans from ADB.

- e. **Impact** (both intended and unintended). Overall impact was modest at best. The PCR states, however, that some positive social impact may have been generated (PCR, para. 63).

## 5. Overall Assessment, Lessons, and Recommendations (assessment by the evaluator)

- a. **Overall Assessment.** From the ratings presented in section 4, the Program was partly successful.
- b. **Lessons**
  - (i) Such reform programs need an effective communication strategy to outline the benefits of reform and mitigation measures for those affected.
  - (ii) It may be necessary to separate fiscal and governance reforms in design; however, continued separation during implementation is problematic, as the Program showed.
  - (iii) Maintaining political commitment to fiscal reform requires significant investment in policy dialogue and flexibility to adapt to external factors.
- c. **Recommendations.** In policy-based lending, ADB needs to invest considerable resources in maintaining policy dialogue with political leaders as well as senior bureaucrats, and to support targeted development of capabilities.

## 6. M&E Design, Implementation, and Use (assessment by the evaluator)

The monitoring and evaluation system—its design, implementation, and use—was poor. The DMF was not consistent with the description of the Program in the text of the RRP. For example, against the DMF statement of “purpose” (equivalent to “outcome”), “support implementation of the MGP,” para. 30 of the RRP named four objectives: (i) to achieve fiscal sustainability, including the initial policy actions for power sector reform; (ii) to improve the quality, equity, and value-for-money of services provided by the Kerala government and LSGs; (iii) to improve the targeting and quality of the poverty reduction programs and social services; and (iv) to strengthen the functions and structures of state and local governments in Kerala to increase accountability, responsiveness, transparency, and efficiency. These objectives became thematic areas with “outputs” under each. The DMF, on the other hand, had six main output areas—power, fiscal, core functions, LSGs, poverty reduction, and SLPEs. Each of these had from one to four output statements. This apparent design flaw carried over into the outcome or output level, depending on the desired degree of detail. It seems that (i) the DMF was constructed after the policy matrix and text as a mandatory requirement of the RRP and not as a program design tool; and (ii) those who designed the Program were not very familiar with DMF construction.

## 7. Other (safeguards, fiduciary, unintended impact—positive and negative)

There were no safeguard violations or major unintended consequences.

8. Ratings	PCR	OED Review	Reason for Disagreement/Comments
Relevance	Relevant	Relevant	
Effectiveness in Achieving Outcome	Less effective	Less effective	
Efficiency in Achieving Outcome and Outputs	Efficient	Efficient	
Preliminary Assessment of Sustainability	Less likely to be sustainable	Less likely to be sustainable	
Borrower and EA	Satisfactory	Less than satisfactory	Commitment not sustained; institutional arrangements and communication strategy not effective
Performance of ADB	Satisfactory	Satisfactory	
Impact	Not rated	Modest	
Overall Assessment	Partly successful	Partly successful	
Quality of PCR		Satisfactory	

### 9. Comments on PCR Quality

These comments are based on the following:

- (i) Quality and completeness of evidence and analysis to substantiate the ratings given.
- (ii) Consistency with PCR guidelines (PAI 6.07).
- (iii) PCR candor and internal consistency; consistency of narrative and ratings with monitoring indicators and other data.
- (iv) Candid, accurate consideration of external factors (positive and negative) and attribution of results.
- (v) Extent to which lessons and recommendations are based on evidence and analysis

The PCR is satisfactory for the following reasons:

- (i) Except for its failure to include an analysis of adjustment costs, the PCR contained sufficient evidence to substantiate its ratings.
- (ii) The overall evaluation in the PCR assigns a 10% weighting to an added criterion—“other.” This criterion is used in assessing the effort and capacity of the government of Kerala in implementing the program conditions, carrying out a large number of service delivery projects, undertaking numerous initiatives in 17 government departments, and introducing innovative consulting approaches. All these should already have been assessed under effectiveness.
- (iii) The PCR is internally consistent, with additional information in appendixes consistent with the narrative.
- (iv) The PCR lessons and recommendations are consistent with the narrative.

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## **REGIONAL DEPARTMENT'S RESPONSE TO THE PROJECT COMPLETION REPORT VALIDATION REPORT**

On 2 October 2007, Director, OED1, Operations Evaluation Department (OED), received the following comments from the South Asia Department (SARD).

The draft Program Completion Report Validation Report for Loan 1974-IND: Modernizing Government and Fiscal Reform in Kerala Program, has been well prepared. Therefore, we do not have any comments to make on the final draft.