

ASIAN DEVELOPMENT BANK

**COUNTRY ASSISTANCE PLAN
(2001-2003)**

INDIA

August 2000

CURRENCY EQUIVALENTS

(as of 31 July 2000)

Currency Unit	-	Rupees
Rs1.00	=	\$0.022237
\$1.00	=	Rs44.97

ABBREVIATIONS

ADB	-	Asian Development Bank
ADF	-	Asian Development Fund
ADTA	-	advisory technical assistance
BOT	-	Build-Operate-Transfer
COS	-	Country Operational Strategy
DEA	-	Department of Economic Affairs
DMCs	-	Developing Member Countries
GDP	-	gross domestic product
IBRD	-	International Bank for Reconstruction and Development
IDA	-	International Development Agency
INRM	-	India Resident Mission
IR	-	Indian Railways
LNG	-	liquefied natural gas
NHAI	-	National Highways Authority of India
NSDP	-	net state domestic product
OCR	-	Ordinary Capital Resources
ODA	-	Official Development Assistance
PPP	-	Public-private partnership
PSUs	-	public sector undertakings
RETA	-	Regional technical assistance
SAARC	-	South Asian Association for Regional Cooperation
SAGQ	-	South Asian Growth Quadrangle
SEB	-	State Electricity Board
SERC	-	State Electricity Regulatory Commission
UNDP	-	United Nations Development Programme

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 March.
- (ii) In this report, "\$" refers to US dollars.

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INDIA

I. Country Performance Assessment ¹

A. Economic Performance Assessment

1. In the early 1990s, the Government launched a decisive break from the formerly closed and regulated policy regime by liberalizing economic policies and adopting an outward-oriented approach. Substantial progress was initially made in liberalizing industry, trade, investment, and the exchange rate regime, as well as reforming the financial sector and strengthening capital markets. This opened up almost all areas of the economy to domestic and foreign private investment, bringing about the integration of the Indian economy into the global economy. In parallel, sound macroeconomic management reduced the severe internal and external imbalances, and provided a basis for sustained higher economic growth. Real gross domestic product (GDP) growth recovered rapidly from less than one percent in fiscal year 1992 (FY1992) to almost 8 percent in FY1997, without fueling inflationary pressures (see Appendix 1). Unlike in the past, economic expansion was driven by private investment rather than public sector expenditure, reflecting inter alia the efforts at reducing the government fiscal deficit, as well as improving the incentive structure for private sector resource allocation.

2. India's strong economic performance through FY1997 and its trend-like improvement in economic growth, however, could not be sustained. Cyclical factors, both on the demand and supply sides, have played an increasing role in the growth pattern in recent years. Real GDP growth slowed to 5 percent in FY1998, accelerated to 6.8 percent in FY1999, and is estimated at 6.4 percent in FY2000, mainly reflecting large fluctuations in agricultural production as well as changes in consumption and investment demand of the private and public sectors. The return of political stability after the general elections in late 1999 has again boosted private sector investor confidence.

3. The fiscal situation of the central and state governments has substantially worsened. The Central Government fiscal deficit (excluding small savings), which was reduced to 4.1 percent of GDP in FY1997, surged to average 5 percent of GDP in FY1998-FY1999, and is estimated to have reached 5.6 percent of GDP in FY2000, substantially above the budgeted 4 percent level. Shortfalls in revenues, reflecting inter alia lower disinvestment proceeds, were exacerbated by a surge in current expenditures, particularly due to wage adjustments associated with the implementation of the Fifth Pay Commission recommendations, relief expenditures due to natural calamity (e.g. supercyclone in Orissa), outlays for elections, and unanticipated increase in defense expenditures. Despite a windfall of almost 0.5 percent of GDP on account of proceeds from a government tax amnesty program shared with the states, and further fiscal assistance from the Central Government, the states' consolidated budgetary deficit increased from 2.8 percent of GDP to 4.3 percent of GDP during FY1998-FY1999. The deficit is expected to have remained at about 4 percent in FY2000. The states' rising fiscal imbalances and the deteriorating expenditure composition towards wage/salary expenditure, interest payments, and subsidies—notably in the power and irrigation sectors—are increasingly constraining capital expenditures and impinging on the resource availability for social development. Unless decisively addressed, the Central and state governments' increasing share of financing for revenue deficit will heighten the risk of a domestic debt trap. As a first step towards renewed effort at fiscal consolidation, the Central Government's FY2001 budget envisages a reduction in the fiscal deficit by 0.5 percent of GDP, mainly by curbing built-in

¹ Appendix 1 provides information on key economic, social, and environmental indicators.

expenditure growth through zero base budgeting, and by reducing outlays on food and fertilizer subsidies (about 0.3 percent of GDP). Although military expenditure increased, total nonproductive expenditure has been contained through reductions in subsidies.² Structural measures in the Budget include rationalization of the excise duty system, lowering of the maximum customs duty rate and elimination of quantitative import restriction, as well as strengthening fiscal incentives for investment in urban infrastructure. The Budget also stipulates Government's intention to reduce its stake in non-strategic public sector undertakings to 26 percent, and raises the limit on equity holdings by foreign institutional investors, in an effort to further improve the environment for domestic and foreign investment.

4. The balance of payments has remained in a comfortable position during FY2000, with a manageable current account deficit and increasing foreign exchange reserves. Higher export growth was largely offset by a sharp increase in oil imports. However, capital flows led by portfolio inflows and non-resident deposits continued to remain strong, enabling the build-up of reserves, as foreign investment inflows at \$4.4 billion (April 1999-February 2000) were significantly higher than previous year's level of \$1.6 billion, although foreign direct investment were 15 percent below the FY1999 level of \$2.2 billion. Despite the surge in international reserves and the pressure on the public finances, prudent monetary management succeeded in containing monetary expansion. Lower inflation and a relatively stable value of the rupee have enabled a gradual easing of monetary conditions through lowering of cash reserve requirements and reduction in key interest rates.

5. While India's overall economic performance, particularly seen in the context of volatile external environment and prolonged political uncertainties, has fared quite well, several critical reforms need to be addressed. A key outstanding issue is the need to reduce central and state fiscal imbalances and to reverse the deterioration in the expenditure composition.³ Slow progress in the reform of public enterprises, as well as delay in adjustment of administered prices, continues to adversely affect domestic saving. Another key constraint facing the economy is the country's seriously inadequate infrastructure. Uncertainties over the policy, legal, and regulatory frameworks in key infrastructure sectors continue to act as a constraint to increasing private sector involvement. A further deepening of the capital market and financial sector reforms are also a prerequisite to strengthening financial intermediation, fostering availability of long-term infrastructure financing, facilitating public-private partnership in infrastructure development, and enhancing the effectiveness and efficiency of fiscal debt management. Finally, while the agriculture sector has benefited from trade and exchange rate reforms, the sector has remained heavily regulated with controls on movement, storage, and trade on most major food and industrial crops.

6. Although this is a demanding reform agenda, the constraints outlined above will need to be addressed if the country is to move to a higher, and more sustainable, rate of economic growth. To this end, the Ninth Five-Year Plan (1997-2002) acknowledges the need for sound macroeconomic policies and calls for an acceleration of structural reforms. Recognizing that

² Budgetary subsidies, which amounted to 2.2 percent of GDP in FY1991, were reduced to about 1.2 percent of GDP by FY1995, remained about constant as a share of GDP through FY1998, and increased to 1.3 percent of GDP by FY2000. Meanwhile, defense expenditure, which averaged 3.4 percent of GDP during the second half of the 1980s, declined to average 2.4 percent of GDP during FY1991-FY1999. Defense expenditures increased to 2.5 percent of GDP in FY2000, and are budgeted at 2.7 percent of GDP in FY2001.

³ In a historic decision, all states have recently agreed to implement domestic trade tax reforms through introduction of uniform floor rates of sales tax effective January 1, 2000 and value-added tax by April 1, 2000. In view of their critical fiscal situation, several states have signed Memorandum of Understandings requiring states to undertake certain fiscal measures in return for advance tax devolution.

sustained economic growth is a prerequisite for poverty reduction, the Plan envisages annual GDP growth of average 7.4 percent for the perspective period 1997-2012⁴ to eliminate widespread poverty. However, this growth target appears optimistic given the severe resource constraints, and the existing bottlenecks in infrastructure.

B. Poverty Assessment

7. Huge challenges are posed by India's low per capita income (\$453 in FY2000) and a population of about one billion. Despite some progress, income and capability poverty—including access to basic social services such as education and health—remain widespread. While the proportion of the population living below the poverty line declined from 50 percent in the 1970s to about 39 percent in 1987/88, and further to 35 percent by 1997,⁵ poverty alleviation has not been sufficient to reduce the absolute number of poor—which doubled from 164 million in 1951 to 320 million by 1993-94—mainly due to the increase in population from 600 million in the early 1970s to more than 950 million in the mid-1990s. Moreover, poverty incidence in India is characterized by substantial inter-state variations, intra-state differences, and urban-rural disparities and the imbalances and disparities are widening over time. For example, according to the United Nations Development Programme (UNDP), the ratio of average per capita net state domestic product (NSDP) of the highest-income state in India (Punjab) to that of the lowest-income state (Bihar) rose from 3.30 times to 3.76 during the last decade. Apart from the incidence of income poverty, limited access of the poor to social services and continued high levels of illiteracy—with a literacy rate of only 54 percent in 1997—have perpetuated the population's capability poverty. The geographic concentration of poverty, its distribution in rural areas, and the high prevalence in the larger metropolitan areas, highlights the need for a multi-dimensional approach.

8. Geographically, the poor are mainly concentrated in the eastern and central parts of the country, with the highest incidence in Bihar, Orissa, Uttar Pradesh, and Madhya Pradesh. In rural areas, which account for 75 percent of the population, almost 40 percent live below the poverty line compared to about 31 percent in urban areas. Moreover, poverty in rural Bihar and Assam was three-to-four times as widespread (66 percent and 58 percent, respectively) as in rural Punjab (17 percent), and between twice and five times as widespread as urban poverty in the respective states. While urban poverty is highly concentrated in a few states including Andhra Pradesh, Madhya Pradesh, and Rajasthan, the incidence of urban poverty is also high in the larger metropolitan areas, especially Calcutta and Mumbai. Economic groups most prone to poverty are rural households (mainly agricultural laborers), urban casual labor households, and the self-employed.

9. Over the decades, the Government has made notable efforts to reduce income and capability poverty, mainly through self-employment initiatives, rural public works, and food subsidies/nutrition programs, as well as increased spending for basic education and primary health. Programs addressing income poverty aim at creating individual assets through financing fixed or working capital and training and generating wage employment for the poor.

⁴ Annual GDP growth rates of 6.5 percent, 7.7 percent and 8.1 percent for the periods 1997-2002 (Ninth Plan), 2002-2007 (Tenth Plan), and 2007-2012 (Eleventh Plan), respectively.

⁵ Poverty incidence in India is measured as the percentage of the population living below a well-defined poverty line (based on a consumption level equivalent to a daily food intake of 2,100-2,400 calories in urban and rural areas). It is estimated using data on household expenditure from National Sample Surveys (NSS), which have been conducted for more than four decades. Full NSS rounds, covering about 100,000 households, are conducted every 4-6 years, most recently in 1993/94. "Thin sample" surveys, with substantially smaller sample size and reduced scope, are conducted annually.

However, these programs have received critical review in light of their lack of efficiency and effectiveness, resulting from poor targeting and large leakage of resources to the non-poor. The Government has started taking corrective measures including decentralization of program administration, involving the private sector and nongovernment organizations in their implementation, and empowering people. Enhanced efficiency and greater transparency will support Government's efforts for improved governance.

10. Increasingly, the notion of poverty is being expanded to cover the wider dimension of powerlessness, vulnerability, and exclusion, reflecting the increasing awareness that the concern is not only about access, but also about the ability of the poor to fully participate in decision-making processes and exercise their power on an equal footing with the non-poor. Cognizant of this additional dimension as evidenced by the 73rd and 74th Constitutional Amendments, the Government is supporting increasing devolution of authority and responsibility from the states to the rural and urban local bodies and the mainstreaming of the poor and disadvantaged into the development process. Building a fair and equitable structure and processes has thus become a crucial issue of poverty reduction, rather than the mere provision of physical facilities or social services to the poor.

C. Assessment of Socio-Environmental Performance

1. Gender Issues

11. While declining over the past several decades, wide gender disparities still exist in India with regard to economic, health, and educational attainment. Wide disparities also exist in terms of gender empowerment. Sixty percent of India's illiterates are girls or women, a rate almost twice as high as for males. The incidence of infant mortality and child malnutrition is more pervasive among females; however, female life expectancy at birth has improved somewhat during the last decade and now exceeds male life expectancy (see Appendix 1). Notwithstanding the increased female life expectancy, the sex ratio has declined from 946 females per 1,000 males in 1951 to 927 in 1991, indicating serious gender bias and reflecting neglect of women's health and gender-based discrimination. The generally poorer health of women is caused by dual work burdens in production and household tasks, poor reproductive health, and skewed patterns of intra-household food allocation favoring males. Moreover, there are differences in health treatment whereby women have less access than men. These gender inequalities in human development in India compared to other countries are reflected in low ranks in UNDP's gender-related development index and gender empowerment measure.

12. In addition to the low attainment of gender-related development in India, there are significant gender disparities across states and between urban and rural areas.⁶ For example, the ratio of female to male literacy rate in urban areas varied between 65 percent (Bihar, Rajasthan) to 95 percent (Kerala), while the corresponding female/male ratio in rural areas varied between 27 percent (Rajasthan) and 36 percent (Bihar, Uttar Pradesh) to 91 percent (Kerala).⁷ The gender disparities are especially significant in the states with the lowest social indicators, in regions of north and northwestern India where female labor-force participation rates are low, and in states with widespread income poverty. A further dimension of

⁶ Madhya Pradesh was the first subnational entity in the world to prepare a Human Development Report in 1995; its second report was released in January 1999. This has inspired other states in India, including Karnataka and Rajasthan, to prepare similar reports providing detailed analysis of their socio-economic status.

⁷ Moreover, the level of female literacy rate in rural areas was about one-half of the rate in urban areas. All data refer to 1995/96.

disparities, even within states, is among certain social groups such as Scheduled Tribes (ST) and Scheduled Castes (SC). These socially disadvantaged groups face a higher risk of being in poverty than non-SC and non-ST population irrespective of their principal means of livelihood. Inequalities and gender bias are not limited to social indicators, but are also present in the political systems, the legislative framework (for example non-enforcement of equal rights of inheritance in property rights laws), and the credit market (lack of collateral). As a result, gender disparities contribute to income inequality and poverty.

13. Government policies are giving increasing attention to gender equality as a development issue. The National Perspective Plan for Women has the dual goal of integrating women into the mainstream of the economy and providing equity and justice for all women. The Government is now finalizing a National Policy for the Empowerment of Women, which would define strategies and action points to bridge the gap between the actual position and the constitutional and legal equality granted to women. Empowerment of women is also one of the nine primary objectives of the Ninth Plan. The Ninth Plan stipulates that every effort will be made to create an enabling environment where women can freely exercise their rights both within and outside the home. This is a clear break away from earlier phases of development planning, wherein the concept of women's development was mainly oriented towards welfare. Mainstreaming strategies under the Ninth Plan include ensuring adequate representation of women in decision making through reserved seats, elimination of gender bias in all educational programs, and organizing women into self-help groups. Specific policy initiatives undertaken include: integrated child development services scheme, to provide integrated health, nutrition and education services to children, particularly girls, and to pregnant women and nursing mothers; setting up of National Commission for Women, to safeguard the rights and interest of women by reviewing of laws, and to intervene in complaints of atrocities and harassment of women at the work place; and implementing the Rural Women's Development and Empowerment Project, to create an environment for empowerment of women in six of the western and northern states.

2. Human Development

14. While deteriorating public finances and infrastructure bottlenecks are the immediate constraints on higher economic growth, low investment in human development is the major long-term constraint. As such, progress in the social sectors will be a yardstick of and a key element in the reduction of poverty. India has shown substantial improvements during the past decade in social indicators, reflecting a reduction in total fertility rate and infant mortality, increases in life expectancy at birth, primary, and secondary school enrollment rates, and in adult literacy. Nonetheless, the indicators suggest continued low levels compared to other low-income countries, as well as large inter- and intra-state disparities.

15. Government human development policies recognize education as a catalytic factor which will lead to alleviating capability poverty, better health and nutrition, improved socio-economic opportunities, and a more beneficial natural environment for all. Therefore, not surprisingly, an important goal of the Ninth Plan is the provision of universal primary education, although full literacy is targeted only for the next decade. Appropriate population policies will need to support these efforts. The Plan also targets comprehensive coverage of safe drinking water and primary health facilities in all urban and rural areas. Under the Ninth Plan, about 21 percent of public sector expenditure are earmarked for the social sectors, up from about 17 percent under the Eighth Plan and second only to the allocation to the energy sector. Notwithstanding, the increased allocation is in large part a reflection of the surge in wage cost resulting from the recommendations of the centrally-constituted Fifth Pay Commission, rather

than an increase in real resource transfer. Further, despite the increase from 2.7 percent of GDP in FY1997 to about 3.5 percent of GDP in FY2000, public education expenditure is still inadequate in comparison with other countries at a similar stage of development and are also substantially below the Government's target of 6 percent of GDP by the end of the Ninth Plan period. Public health expenditure, at one percent of GDP (FY2000), is also below developing country average. Despite the stronger emphasis given to primary health care, public health expenditure is biased to curative services while primary health care and preventative services receive limited allocations. There is thus a clear need to both raise resource allocation to social sector and reorient these expenditures. Moreover, the prevailing gender disparity in human development also suggests the need to make access to social services more equitable and to have such improved access translate into effective utilization.

16. An important issue relating to poverty and human development is child labor, which is prevalent in carpet making factories, and the brassware, glassware, clothing, footwear, and silk industries, where the work environment is often hazardous and polluted. Reducing child labor is an area where labor legislation must be complemented by effective economic measures. India has well-framed child labor laws, having enacted the 1986 Child Labor (Prohibition and Regulation) Act and formulated a National Policy on Child Labor to address the major socio-economic factors influencing child labor and to develop a program of action. Moreover, in 1992, India signed the Memorandum of Understanding on the International Program for the Elimination of Child Labor with the International Labour Organisation (ILO), is signatory to the 1989 Convention of the Rights of the Child, and supported ILO's convention to ban the "worst forms" of child labor. However, while income poverty reduction provides the most sustainable solution to eliminate child labor, effective policies to improve the health status of working children and broaden educational opportunities are also needed to reduce their capability poverty. Moreover, increased integration of the Indian economy and expansion of labor-intensive production will raise the demand for labor endowed with basic education and increase the opportunity cost of child labor. Concomitantly, tighter enforcement of child labor laws will be essential to reducing the demand for child labor.

3. Environment

17. India's environmental deterioration, in terms of degradation of the natural resource base and industrial pollution, continues unabated, reflecting inter alia the pressures of economic development and rapid population growth. Soil erosion, land degradation, deforestation, agricultural land productivity decline, fisheries stock depletion, biodiversity losses, and water resource mismanagement are critical problems that are aggravated by the prevailing high incidence of poverty. At the same time, rapid industrialization and urbanization have generated severe air and water pollution, as well as problems of solid and liquid waste management.

18. The gravity of India's environmental problems has prompted the Government to adopt comprehensive policy, legislative, and regulatory frameworks. These cover, inter alia, environmental planning, guidelines for environmental impact assessment of major projects, pollution control standards, and waste management. The Supreme Court is also enforcing more strict compliance with pertinent environmental norms and has issued several landmark judgments under public interest litigation. Against this, many economic policies, not least the continued provision of input subsidies through inadequate user charges such as those on energy and irrigation, encourage resource misallocation with adverse environmental effects. Moreover, the legal and regulatory frameworks, especially with respect to pollution control, may not be fully conducive to encouraging environmentally friendly technological innovation, and

use of market-based instruments for environmental control needs to be given greater emphasis. Also, promulgating a law to promote energy efficiency could give added impetus to controlling greenhouse gas emissions. Clearly, inadequate environmental policies and poor enforcement impedes India from capturing the full economic benefits resulting from environmentally friendly efficiency gains and policy reforms. In addition, there are gaps in the institutional capacities for environmental monitoring and management, particularly at the state and local levels. Although efforts at strengthening state and local governments are being undertaken to enable decentralization of public administration, additional efforts will need to be directed towards enhancing the environmental management capacity of these subnational units as well.

D. Governance: Sound Development Management

19. The Government's implementation of comprehensive reforms for liberalizing economic policies and adopting an outward-oriented approach has provided the opportunity to improve development management. Along with the emphasis on macroeconomic stability and sustainability of policy reforms, an important component has been the recognition that the role of government and the public sector needed to be both reduced and made more efficient. As an essential step, a consensus on the process of economic reforms has evolved, with common support for key elements of the program and progress being maintained despite changes in government. Discretionary interventions are being reduced in favor of market forces for resource allocation, and efforts to enhance competition and encourage private investment are bearing fruit, albeit at a slower pace than earlier envisioned. As part of the enabling environment, independent regulatory commissions in telecommunications, insurance, gas, ports, and power sectors have so far been set up to ensure consistency, predictability, and transparency of policy application in these key areas. The recent Government initiatives to open the insurance sector, repeal the ceiling on urban landholdings, and delegate approval of all but the largest power sector investment proposals to state governments are further positive developments. Moreover, the earlier established Disinvestment Commission, mainly an advisory entity, was replaced in 1999 by a separate department for disinvestment, with executive powers for the restructuring and disinvestment of central public sector undertakings (PSUs). Nonetheless, a substantial unfinished reform agenda remains. This includes: further streamlining of administrative practices and procedures to enhance transparency, expedite transactions, and reduce opportunities for rent seeking, including through better targeting of benefits to reduce leakage; continuing liberalization of domestic industry and foreign trade; expediting public enterprise restructuring and corporate governance reform; strengthening financial institutions and their prudential framework, including legal reform; and progressing in tariff setting (particularly in the power, transport, and water/irrigation sectors). Emphasis will also need to be given to ensuring that the direction and pace of reforms continue to avail of broad-based support and are not detrimentally affected by political uncertainty.

20. The Indian Constitution gives the states considerable financial and economic autonomy to define their development priorities, and has entrusted them with the provision of economic and social services and the regulation of key infrastructure sectors. Yet, in line with the pre-reform closed and regulated policy regime at the national level, the states' development strategy was also mainly directed toward strong public sector involvement in social and economic activity, investment, and pricing, and needed to be reoriented. For the states to adjust to the new development focus and ensure sustainable economic and social development, reforms therefore needed to address (i) improving the fiscal performance including changing expenditure composition to foster human development; (ii) evolving the policy, regulatory, and institutional regime to establish a conducive environment for private

sector participation; and (iii) restructuring and divesting of public enterprises. State and local governments also needed to raise their efficiency, enhance transparency, and delegate responsibility with commensurate accountability. While the Central Government has the capability of designing and sequencing reforms and can mobilize financial resources to absorb the associated costs, the states are not able to respond as actively. State governments generally lack the capacity and resources to formulate and implement comprehensive reforms, and these technical and financial constraints are even more pronounced in low-income and less-developed states. As a result, the states are requiring assistance to initiate structural adjustment. Several states, including Andhra Pradesh, Gujarat, Madhya Pradesh, and Uttar Pradesh, are now implementing comprehensive reforms, supported through ADB and World Bank public resource management programs and sector development assistance. Nonetheless, a major policy challenge facing India is to accelerate states' reforms to enhance economic efficiency and provide a sound basis for economic growth, social development, and poverty reduction. This will also need to be supported by further progress in enhancing transparency and accountability at the more decentralized levels.

E. Implementation Assessment

1. The Portfolio

21. Asian Development Bank's (ADB's) lending operations to India, which began in 1986, totaled \$7.7 billion (9.5 percent of total ADB lending and 13 percent of ADB's cumulative OCR lending) for 47 public sector loans (40 projects) by end-1999. ADB's ongoing portfolio in India as of that date consisted of 27 loans for a total net loan amount of \$3.9 billion. While energy and transport and communication sectors account for 36 percent and 26 percent of the approved amount, the social infrastructure sector and state-level operations account for about 27 percent and 13 percent, respectively, of the portfolio under implementation. This reflects a noticeable change in the sectoral distribution of the loan portfolio for India over the recent years.

22. Most of the loans approved since 1986 have supported policy reforms and investments in the energy, transport and communications, and finance sectors. In the energy sector, the main thrust has been on providing assistance for new investment in power generation and transmission; development of oil and gas, including hydrocarbon sector deregulation and tariff setting; and improving energy efficiency. Lending operations in the transport and communications sector have included development of national and state highways; investment support for rehabilitation and extension of selected ports, as well as assistance for corporatization of Ports Trusts and establishment of Tariff Authority; expansion of the rail network, technology transfer, and procurement of equipment; and extension of the telecommunications network. Assistance for financial and capital markets reform included support for financial deregulation, development of prudential and supervisory framework, and establishment of capital markets infrastructure. In the last five years, ADB has been increasingly active in the urban sector in support of urban infrastructure development, including institutional and policy reforms and, more recently, has also initiated support for housing finance. Since 1996, ADB has supported comprehensive state-level reforms, focusing inter alia on improved public resource mobilization, restructuring of state public sector enterprises, and creating an enabling environment for private sector involvement in infrastructure development.

23. In terms of ADB's private sector operations, India has the largest portfolio of unguaranteed loans and equity investments, amounting to \$271 million for 21 investments. Together, these loan and equity investments account for 15 percent of ADB's approved private

sector investments. ADB's private sector operations have so far mainly focused on support for financial and capital market institutions and infrastructure investment funds.

24. ADB has also provided \$56.8 million for 114 technical assistance (TA) projects, of which 85 were advisory and 29 for project preparation. Advisory TAs have focused on policy, institutional, and regulatory issues in the port, hydrocarbon, and financial sectors; the regulatory framework for the gas and electricity subsectors; capacity building for improved infrastructure development for local governments; strengthening capacity for infrastructure finance; institutional strengthening of public administration and financial institutions; industrial restructuring including social safety net; and environmental monitoring, pollution control, and environmental legislation. In response to natural calamities, assistance has been provided for capacity building for disaster mitigation and management. ADB has so far also approved 14 TAs (amounting to \$7.8 million) in support of its state-level operations in Gujarat and Madhya Pradesh.

2. Issues in Project Implementation

25. Of the current portfolio of 27 ongoing loans at end-1999, 23 loans were rated as satisfactory or highly satisfactory in terms of development objective, and 19 loans in terms of implementation progress (see Appendix 2). However, a number of projects do experience slow start-up and delays in disbursements. Moreover, all ADB's state-level projects in Gujarat and Madhya Pradesh were rated satisfactory for both implementation progress and development objective. Key general causes of implementation delays in the public sector project portfolio have included complex and prolonged government internal procedures, lengthy procurement approvals, ineffective contract supervision, and weak project supervisory personnel. Some projects continue to suffer from delays due to weak management and supervision by the executing agencies and inexperience of domestic contractors, thereby adversely impinging on the projects' developmental impact. In the case of the private sector portfolio, four fifths of the portfolio is rated as satisfactory or better, with the balance rated as marginal or worse. The poorest performing elements of the private sector portfolio relate to ADB's early investments in the manufacturing sector, which are in difficulty for various reasons, including weak management, implementation delays, and adverse market trends. Such investments are no longer part of ADB's private sector strategy in India. Moreover, most public sector projects and all private sector investments have now been delegated for implementation to the ADB's India Resident Mission (INRM) (see Section VII.B). This has enabled closer monitoring, and more expeditious follow-up including on-site inspection of executing agencies' project management and supervision.

26. The disbursement performance in 1998 and 1999 continued to be strong, with disbursements for public sector operations at \$620 million and \$607 million, respectively, compared with average \$593 million during 1995-97 and \$215 million in 1993. The disbursement ratio (including program loans) rose to 35.2 percent in 1999, compared with an ADB-wide average of 23.5 percent. (Excluding program loans, the disbursement ratio for India was 34.5 percent in 1999, compared to ADB-wide average of 17.7 percent.) The improvement in disbursements reflects inter alia better quality at entry (in terms of project design and readiness for initiating disbursement); simplification of internal procedures and the use of standardized bidding documents for tendering on aid-funded projects by ministries and agencies concerned; the creation of a central project monitoring unit in the Finance Ministry; and increasing disintermediation by the Central Government of new loans to public sector entities. The semiannual tripartite review meetings held between the Government's

Department of Economic Affairs (DEA), executing agencies, and INRM have also contributed to the improvement in disbursement performance.

27. Commitments have increased again in 1999, totaling \$625 million, compared to \$250 million in 1998 and \$563 million in 1997, but were still below the level in 1996 of \$763 million and average \$840 million in the early 1990s.⁸ The lower than programmed lending levels in 1998 and 1999 primarily reflect the disruption in the implementation of ADB's operational program in India, noticeably infrastructure projects which needed to be carried over to subsequent years. Meanwhile, contract awards amounted to \$557 million in 1999, compared with \$654 million in 1998 and \$473 million in 1997. Improved implementation, together with portfolio consolidation (mainly cancellations of loan proceeds no longer required), have reduced the undisbursed balance of approved loans significantly from a high of \$3.4 billion at the beginning of 1994 to \$1.3 billion as of end-1999. The Government expressed concern at the low undisbursed balance, especially when set against the relatively low level of commitments during 1997-1999. Moreover, the Government stressed that even with the proposed approval of a number of new loans in 2000 and beyond, it may be difficult to maintain the recent disbursement performance since in the early years of a project's life, disbursements generally tend to be lower. The situation would clearly worsen further, and undisbursed balance decline even more, if the disruption in the implementation of the operational program were to lead to prolonged postponement in the approval of fully processed loans. Moreover, postponement of infrastructure projects would further delay the removal of bottlenecks and thereby constrain their developmental impact on pro-poor economic growth.

II. Country Operational Strategy (COS)

A. The COS

28. India faces several critical, but interrelated, development challenges: the need to achieve higher sustainable economic growth, the need to reduce population growth, the need to preserve its natural resources, and the need to reduce poverty. The key to higher growth lies in the continuation and deepening of economic reforms, with the aim of maintaining macroeconomic stability, improving public sector efficiency, and encouraging greater private sector investment, particularly as a complement to public sector investment in easing critical infrastructure constraints. While India has implemented the first stage of reforms and succeeded in establishing a policy framework enabling higher economic growth, important policy gaps as well as capacity gaps still remain. There is also an urgent need to extend the reform process to the state level, and to strengthen capacity at the local level for effective devolution of authority and increased participation in development management. Although higher growth and the resulting increase in employment is a necessary condition for poverty reduction, an effective strategy for alleviating poverty will also require strengthening and improved targeting in social sector expenditures and anti-poverty programs, as well as expanded investment in social sector infrastructure with emphasis on provision of basic services. Increase in per capita income will also be fostered by a decline in population growth. Moreover, prudent natural resource management is needed to ensure social and environmental sustainability of the development process.

29. To assist in meeting these challenges, ADB's COS for India, prepared in 1996, is designed to support efforts to achieve higher growth and employment generation by improving

⁸ Lending by the World Bank for 1997-1999 was \$2.09 billion, \$1.54 billion, and \$0.8 billion, respectively.

the supply-side efficiency of the economy. This is done mainly through support for efforts that reduce bottlenecks in key infrastructure sectors, including measures to improve the policy, institutional, and regulatory frameworks and through support for financial sector reform and capital market development. Apart from support for higher growth, in view of India's current inaccessibility to Asian Development Fund (ADF) resources and its preference not to use ordinary capital resources (OCR) financing for stand-alone social sector projects, ADB's contribution to social development comes through its state-level operations (in the form of support for measures to enhance resource mobilization, improved efficiency of resource use, and enhanced resource allocation for social sector expenditures) and urban development including environmental improvement and housing finance projects. On the basis of criteria for state selection indicated in the COS, viz., strong commitment to reforms; sizeable needs for infrastructure and social development; satisfactory record of project implementation; capacity and willingness to take OCR terms and adequate repayment capability; and absence of major assistance from other donors, ADB has chosen three states—Gujarat, Kerala, and Madhya Pradesh—for state-level support.

B. Progress in Implementation

30. ADB's strategy translates to an operational program which is selective both sectorally and geographically, and which supports enhancing the incentive framework, through public sector operations, for greater private participation. Sectorally, assistance is concentrated on energy, finance, transport, and urban development. While social and environmental concerns are addressed as a matter of policy in all ADB operations, the environment is emerging as an increasingly important component of the lending program to India, both as an integral component in energy and urban development activities, and in its own right, and this trend is expected to be strengthened over the next three years. State-level operations are a key feature of the ADB's current COS. The ADB is currently working in Gujarat and Madhya Pradesh. The Government has now confirmed Kerala as the ADB's third focal state, and loans and TAs to support ADB operations in this state have been included in the pipeline for the program period (2001-2003).

31. Consistent with India's developmental needs as well as ADB's new strategic emphasis on poverty reduction, the current COS will be reviewed and revised, as appropriate, during 2000-2001. To this extent, ADB's sector strategies in infrastructure sectors, particularly energy and transport, will be reviewed as part of country economic and sector work so as to identify future priorities for ADB support. ADB will also continue to focus on support for financial sector reform and capital market development, to foster sound development management through stable institutional framework, efficient financial intermediation, and prudential financial policies. ADB's expanding activities in the environment sector will be guided by the results of the environment profile study that was completed in 1999. Strong efforts will also be made to support the expansion of social opportunities for the poor, at present mainly provided through ADB's state-level operations and urban development and housing initiatives, through more direct poverty interventions. Collaboration with other multilateral and bilateral funding agencies will enable enhanced developmental impact of these interventions through a comprehensive and multi-faceted approach of policy, financial, and technical support.

C. Poverty Partnership Agreement

32. In support of the ADB's strategy of poverty reduction as its overarching goal, steps are being evolved to strengthen the poverty focus of the overall India program. As a first step, a detailed poverty analysis is being undertaken on the basis of available (national and state-

wise) information, to assess country performance in achieving poverty reduction in the past and review poverty impacts of past ADB assistance. The study will recommend options to improve the design of traditional infrastructure projects for stronger impact on poverty, and assess the suitability of indicators to monitor poverty reduction both at the macro and project level. This will be complemented by proposed advisory assistance on strengthening the poverty impact of urban sector interventions and on Strengthening Poverty Analysis at the State Level. The latter TA will institutionalize participatory poverty analysis at state level and strengthen feedback mechanism to provide the poor with a better voice in policy making. Both TAs are being processed as part of the 2000 TA program. Subsequent economic and sector work will examine the possibility of expanding ADB assistance in non-traditional sectors such as rural development, agro-processing, and environment/natural resource management, to provide guidance for evolving a growth- and poverty-focused lending program over the medium to longer term.

33. In view of states' considerable financial and economic autonomy, including provision of economic and social services and regulation of key infrastructure sectors, and the above-mentioned spatial distribution of poverty, discussion on Poverty Reduction Strategy will also focus on ADB's focal states. In the context of the evolving development partnership between the ADB and the respective state governments, the findings of the poverty analysis will be discussed by stakeholders both in Public Forums at the national and state levels. This will then form the basis for subsequent signing of Partnership Agreements in 2001.

III. Sector Strategies

A. Infrastructure

34. The availability of adequate infrastructure facilities is critical to stimulate economic growth, improve competitiveness and internationalization of the economy, and reduce poverty. However, infrastructure projects generally require large financial outlays and long gestation periods. Moreover, as India relied almost completely on public sector provision of infrastructure, the continued pressure on the public finances has underscored the need to review and redefine the role of the public sector and to evolve appropriate policy, legal, and regulatory frameworks for private sector participation in infrastructure development. For activities that are to remain in the public sector, service delivery will need to be improved and increasingly oriented towards commercial principles. The Government recognizes that removal of infrastructure constraints and increased investment will play a critical role in enabling the country to achieve higher and sustainable growth, improvement in income levels, and reduction of poverty. To this end, an Expert Group on the Commercialization of Infrastructure Projects reviewed the sectoral issues and provided guidance on the policy initiatives and the required regulatory and institutional set-up. As a reflection, the Ninth Plan strongly emphasizes the need for a more commercial approach to the provision of infrastructure by PSUs and the importance of significantly boosting private sector participation.

35. Consistent with its overall country strategy, ADB will focus its operations on alleviating infrastructure bottlenecks and improving supply side efficiency by supporting priority public investments and catalyzing private investments in the energy, transport and communications, and urban and housing sectors. In its catalytic role, particular emphasis will be given to the creation of a conducive private sector environment, including the regulatory framework, competitive mechanisms, and appropriate tariff setting mechanisms, as well as risk sharing and risk mitigating measures. At the same time, ADB will foster further development of the financial sector and capital markets to widen and deepen the financial intermediation so that it

can become an effective source of funding for infrastructure projects. These initiatives will be complemented by support for comprehensive public finance reform at the state level to enhance resource mobilization, increase allocation for maintenance of existing infrastructure, and reverse compression of expenditure for new investment.

1. Energy

36. India's **power sector**, which is dominated by public utilities, suffers from inadequate investment and resulting shortage of power supply. Electricity demand is projected to increase by a further 54 percent during the Ninth Plan period, necessitating an increase in generating capacity by about 65 percent to meet this additional requirement. While feasible capacity addition is likely to be below requirement, special emphasis will need to be given to reducing losses in electricity transmission and distribution, improving energy efficiency, and implementing other demand side management measures. Further attention will also need to be directed towards early completion of ongoing projects, improvement in investment prioritization through development of power system master plans and, as a crucial step for financial sustainability, the rationalization of electricity tariff structure. In addition, the possibility of regional energy exchange could be pursued further (see para. 81).

37. A key problem facing the power sector is the deteriorating financial performance of the state electricity boards (SEBs) due primarily to the failure of state governments to pay the cost of subsidies on power sold to farmers at well below production cost. In December 1996, the Central Government and state governments reached consensus on sector reforms under the Common Minimum National Action Plan for Power (CMNAPP), recognizing the need for restructuring of the SEBs; the delegation of powers from central authorities to the states; establishment of independent regulatory commissions; rationalization of tariffs; and encouragement of private investment in all functional areas. However, progress to date in implementation of the CMNAPP has been very slow.

38. Following approval in July 1998 of the Electricity Regulatory Commissions Act, a Central Electricity Regulatory Commission (essentially for tariff rationalization of central utilities and inter-state power projects) and several State Electricity Regulatory Commissions (SERCs) have been established. However, since the Act does not contain provisions for power sector restructuring, states that are undertaking comprehensive sector reforms needed to introduce their own electricity reform acts (Andhra Pradesh, Haryana, Karnataka, Orissa, Uttar Pradesh) or are in the process of introducing such legislation (Gujarat, Madhya Pradesh). As a result, only few of the SEBs have been unbundled/corporatized. Efforts have also been made to encourage increased private sector involvement in both power generation and distribution through modification of the regulatory framework, establishment of a Private Investment Cell in the Ministry of Power, and the setting up of a High Powered Board to monitor clearances. Moreover, in March 1998, the Government also delegated authority to states to clear investments in fully foreign-owned power plants up to a maximum value of Rs15 billion (\$340 million) without referral to the Foreign Investment Promotion Board. Nonetheless, the main impediment in fostering private sector participation in the power sector remains the SEBs' severe financial difficulties, which prevents them from assuring payments for power contracted from the independent power producers.

39. ADB's strategy in the power sector is to leverage its assistance to support comprehensive reform of the institutional and regulatory frameworks at the state level, within an appropriate national power policy, by emphasizing restructuring and commercialization of the SEBs; rationalization of power tariffs; establishment of independent regulatory

commissions; and improvement in demand management and efficiency. Further assistance will be provided for capacity building, focusing particularly on improving the capacity for undertaking power system least cost development planning and tariff studies; improving the public-private sector interface, including preparation of power purchase agreements between state agencies and independent power producers; and the commercialization of distribution operations. These reform efforts, particularly at the state level, will assist in improving public resource management and lowering subsidies, thereby freeing resources for enhanced social sector allocation and poverty reduction. Consistent with its focused lending strategy, ADB will concentrate its efforts on policy reforms and development at the state level through loan and TA operations in Gujarat, Madhya Pradesh, and Kerala. Sectoral development program loans have been included in 2000, 2002, and 2003, respectively. Recent experience has shown that the process of reform and restructuring will take time and require support over a longer period.

To this end, the program also includes project preparatory technical assistance (PPTA) for follow-up loans in Gujarat and Madhya Pradesh. In addition to continued support for policy reforms, these projects are expected to support the upgrading and privatization of distribution including in rural areas, and, in the case of Madhya Pradesh, an extension of rural electrification. At the national level, ADB will also support power sector reforms in other selected states through its proposed loan to the Power Finance Corporation. Given the ability of companies such as National Thermal Power Corporation to raise funds, and the significant potential interest of the private sector in investment in power generation, ADB support for thermal power generation is expected to come primarily through the ADB's private sector window.

40. The **hydrocarbon (oil and gas) sector** is critical to India's economic growth as it meets direct energy needs, fuels power generation, and provides the raw material for downstream industries. India now depends on petroleum products and natural gas for over 50 percent of total final energy demand, compared with about 35 percent in the 1980s. The country is increasingly dependent on imported crude oil and petroleum products, accounting for 20-25 percent of total imports in the last few years. In keeping with the thrust of Government's overall deregulation and liberalization efforts, significant reforms were introduced in the hydrocarbon sector including deregulation of imports and marketing of certain petroleum products; greater marketing autonomy for gas distribution companies; private investment in development of oil and gas fields as well as in refining; development of a more transparent pricing structure for oil and gas producers; and creation of the Directorate General of Hydrocarbons (DGH), which has regulatory and supervisory responsibility over public and private sector exploration and production. Another significant development was the reform of the pricing of petroleum products and natural gas. In 1997, the Government decided to dismantle the administered price mechanism for petroleum products in a phased manner by FY2002. The Government also revised the gas pricing by linking the consumer price for natural gas to a percentage of the prevailing prices of a basket of fuel oils, and further review of the pricing formula will be undertaken to bring the price of gas on full parity with fuel oil. However, further structural reforms in the hydrocarbon sector, particularly within the natural gas subsector, are needed. These include the operationalization of the Gas Regulatory Authority; move to a market-based structure for gas pricing; development of an adequate domestic gas infrastructure such as a natural gas grid and LNG facilities to ease transport and delivery bottlenecks; the opening of gas transmission to competition; and the adoption and enforcement of environmental regulations.

41. ADB has played a lead role in supporting policy and institutional reforms within the hydrocarbon sector, particularly through the Hydrocarbon Sector Program Loan, and in the institutional strengthening of the Directorate General of Hydrocarbons through TA on

Hydrocarbon Exploration and Production Database and Archive System. The program loan aimed at developing an efficient and competitive hydrocarbon sector in India through policy reforms and structural changes focusing on increased private sector participation; enhancement of the regulatory framework; removal of price distortions; and divestment of government equity in public sector enterprises. Most of the elements of the reform agenda were achieved, except the partial divestment of the Government's holding in the Oil and Natural Gas Corporation. Given the progress in policy and regulatory reforms, the private sector is expected to increasingly take the lead role in meeting investment requirements in the hydrocarbon sector. To this end, ADB support will focus on the catalytic role for private sector investment through its private sector window, and has identified a number of projects in the liquefied natural gas (LNG) sector. Nonetheless, particularly within the gas subsector, some public sector investment in selected areas may still be needed over the medium term in accordance with the ADB-funded National Gas Development Master Plan. ADB assistance could also be provided to support cross-border construction initiatives for hydrocarbons within the subregional context (see para.81).

42. The ADB regards support for improved **energy efficiency** as an important component of its support for energy sector reform and development. While most ADB-supported interventions for policy and regulatory reforms and power sector restructuring, including subsidy removal and tariff rationalization, will contribute to increased energy efficiency, the ADB has also been supporting improvements in energy efficiency more directly through two loans: the Industrial Energy Efficiency Project (approved in 1994), and the Renewable Energy Development Project (approved in 1996). The former, which provided a line of credit through the Industrial Development Bank of India to support investment contributing to energy efficiency, has progressed well and will be completed in 2000. Building on the experience gained in this project and in line with importance attached by the Government to the further improvement in energy efficiency, a follow-up sector development project is proposed for the year 2002. Under its Renewable Energy Development Project, the ADB is providing assistance to the Indian Renewable Energy Development Agency for developing renewable energy projects. Although disbursement was initially slow, it has since picked up, and a review of the loan is envisaged in late 2000 to assess whether similar projects could again be included in the pipeline. Other energy efficiency and environment related projects in the pipeline include pollution control for the Taj Trapezium Project proposed in 2001, as well as individual environment support related components in the Gujarat, Madhya Pradesh, and Kerala Power Sector Development Programs. An ADB-supported TA on coal beneficiation was completed in 1998. The TA clearly indicated the potentially important energy efficiency and environmental benefits and the likely commercial viability of such operations, enabling the private sector to play a key role in its development. The TA, however, also notes the need for the Government to rationalize coal pricing as part of the evolving framework. ADB will address this issue through policy dialogue, support for the envisaged sector development project, and its catalytic role in private sector investment.

2. Transport and Communications

a. Transport

43. The availability of efficient and integrated transport systems provides important impetus for sustainable economic growth and more balanced regional development. However, resource constraints for network expansion and maintenance of existing infrastructure, and the lack of transport sector planning in an integrated manner, have increasingly posed bottlenecks to further development in India. The Government is directing special attention to this issue, and

has initiated the process of formulating an integrated national transport policy, focusing on the inter-modality of the various transport modes (viz., road, rail, airways, and waterways) and their institutional and regulatory frameworks for enhanced private participation and effective public-private partnerships. ADB will support the transport sector development objectives through assistance for high priority national highways development; commercialization of operation through public-private interface; and restructuring and increased commercial orientation of Indian Railways. As catalyst for enhanced regional cooperation, ADB will also support improved transport interconnectivity between the countries in the South Asian Growth Quadrangle (i.e., Bangladesh, Bhutan, India, and Nepal; see also para. 80), particularly improved road and rail links, as well as the development of inland water transport systems.

44. **Road transport** has emerged as the dominant mode of transport in India, accounting for about 85 percent of passenger traffic and a substantial share of freight movement, particularly for transport of non-bulk items over short distances. Responsibility for the development and maintenance of **national highways** rests with the Central Government, while state highways, and district and village roads are the responsibility of the state governments concerned. The growing traffic volume has put mounting pressure on the transport infrastructure and led to inadequacy of the existing road network, which is increasingly reflected in severe traffic congestion, poor maintenance, slow speed, high air and noise pollution, and a large number of accidents. This has been compounded by limitations on the absorptive and implementation capacity of public sector agencies.

45. To alleviate some of the constraints, the National Highways Authority of India (NHAI), established in 1988, became fully operational in 1995 with overall responsibility for the implementation of improvements to the national road network and increasing private participation in the roads sector. Moreover, a National Highways Policy was announced in 1997, inter alia addressing critical issues on private investment in this sector, and outlining the public-private sector focus in roads sector development. Under the policy, the Government will carry out all preparatory works for projects identified for private participation, including preparation of detailed feasibility studies, acquisition of rights-of-way, environmental clearances and resettlement. Private concessions will be determined by competitive bidding, with a concession period of 30 years and transfer to the Government thereafter. Government-acquired land will be made available on a long-term lease basis. The Government has already prepared a National Highway Development Program (NHDP) to interconnect the four largest metropolitan cities of Calcutta, Chennai, Delhi, and Mumbai. In addition to establishing an enabling framework and improving transparency, resource mobilization has been improved through imposing a levy on motor spirit in the FY1999 budget and a one rupee per liter diesel tax in the FY2000 budget, yielding about Rs50 billion (\$1.1 billion) of revenues annually. Fifty percent of the proceeds of the diesel tax will be used to support rural connectivity; the balance of the diesel tax, and the proceeds from the levy on motor spirits will be transferred to a central road fund, to be used for development of state roads (30 percent) and for the development and maintenance of national highways including the above-mentioned NHDP (70 percent). To encourage private sector participation, model concession agreements have been prepared, and private road ventures enabled to raise up to 35 percent of the cost of highway projects in the form of external commercial borrowings. So far, about 20 projects ?mostly bridges, bypasses, and rail/road over bridges?involving an investment of Rs10 billion (\$230 million) have been taken up under build-operate-transfer (BOT) scheme.

46. ADB has played an important role in the development of policy and institutional frameworks of the road sector through its TA support and related policy dialogue. ADB assisted in establishing and capacity building of NHAI, and its 1997 agreement with the

Government on a new Road Sector Assistance Plan reflects essential features of the evolved National Highways Policy. In accordance with the COS, ADB assistance will focus on the removal of bottlenecks and rehabilitation of the existing road network within the high-density corridor, particularly Delhi-Mumbai-Chennai transport corridor, and support for improvement in road safety. Additionally, it will emphasize policy reform to promote private sector participation and initiatives to attract private sector funds such as through BOT and public-private partnership (PPP) arrangements. To this end, three projects that seek to promote PPP in highway development have been included in the program. As part of its efforts for greater regional cooperation (see paras. 80-82), ADB will also support the upgrading of the North-South Corridor in West Bengal; a pre-feasibility study has already been undertaken.

47. Most major state highways and district roads are in urgent need of widening and upgrading. There is also a need to develop sustainable maintenance systems. Since policy reforms to support infrastructure development are an important component of ADB assistance for public resource management in its focal states, support for improvements in **state roads** would provide an effective complement to other state-level initiatives. Support for state road development would also foster rural development through enhanced market access, improve economic activity, and thereby reduce poverty. As part of its state-level operations, ADB will support the development of the secondary (state) highways network in Madhya Pradesh, to foster further policy and institutional strengthening within the enabling framework established under ADB's public resource management program, and to catalyze their impact on poverty alleviation.

48. Although being the primary and most economical mode for hauling bulk commodities such as coal, ores, and foodgrains, particularly over long distances, **railways** is facing stiff competition from road transportation. In effect, its share in the total movement of passengers and goods has declined over the years mainly due to Indian Railways' (IR) inability to expand capacity. Inadequacy of the existing institutional and regulatory setup of the railway sector, outdated technology and equipment, and a tariff policy of substantial cross-subsidization of passenger traffic by freight movement have also led to diversion of traffic to roads. As a result, IR is unable to meet the increasing transport demand generated by higher economic growth and to mobilize sufficient funding for its expansion and modernization. Unless addressed, these factors will impose a high cost on India's transport sector, prevent full utilization of the comparative advantage of railways within a multi-modal system, and thereby affect regional development and constrain growth.

49. ADB's policy dialogue with the Government and IR has therefore focused on the restructuring of IR and commercialization of its operations. Initial assistance under ADB TA was completed in December 1997, recommending implementation of a sector development reform program comprising institutional and policy reforms together with priority investments. Further policy discussions are being undertaken as part of the proposed Railway Sector Improvement Project, addressing inter alia organizational reform including hiving off of non-core activities through privatization and/or public-private partnerships; rationalization of the tariff structure; and technology upgrading and modernization. This Project will take into account the recommendations of the Expert Group on Railways, constituted by the Government in December 1998. The long-term plan for comprehensive restructuring of the railways sector may require further ADB support. The need for such assistance in the context of satisfactory progress on reform implementation will be assessed through subsequent TA.

50. Prolonged and excessive government control, low performance in cargo operations, low labor productivity, and poor reliability of services have adversely affected the competitiveness of the **ports sector**. Related problems include insufficient replacement

investment, lack of modernization of cargo handling facilities, and an inadequate institutional and regulatory framework. Responding to these weaknesses, the Government has taken steps to reform the sector. In 1996-1997, guidelines for private sector participation were issued, increased financial and administrative power for capital expenditure and staffing were delegated to Port Trusts, and a Tariff Authority was constituted through amendment of the Major Ports Act of 1963. The Government also introduced a corporatization policy as an intermediate step towards privatization of ports. ADB has supported these initiatives through policy dialogue as well as financial and technical assistance. Ongoing support focuses on the commercialization of Mumbai and Chennai Port Trust operations, corporatization of selected major ports, strengthening of private sector participation in development of the port sector, and promulgation of guidelines on port tariffs for application by major port trusts for both common user port facilities and private sector operations. Complementing these initiatives, ADB is increasingly focusing on intermediate and small ports that are under state government responsibility. Such support would be linked to ADB's state-level operations. ADB may also participate in the development of private sector ports through its private sector window. Assessment of possible future ADB loan interventions will be based on trade-transport links within a multi-modal transport structure. In this context, TA is also planned for the year 2002 to assess the potential of **inland waterways** as an energy efficient, environmentally clean, and economical mode of transportation, both for India and the subregion, and to identify the scope for possible private sector involvement.

b. Communications

51. Although India has a large **telecommunications** network, under-investment coupled with the sector's rapid growth has resulted in a large unmet demand, limited coverage, and heavy concentration in the urban regions. The Government's National Telecommunications Policy of 1994 enabled the granting of licenses to private operators for basic telephone services in direct competition with the Government's Department of Telecommunications (DOT), and private companies were allowed to provide services with value added, such as mobile phone and paging services. A new telecommunications policy was announced in early 1999, opening national long distance services to competition, allowing multiple operators for basic services, and switching from the fixed license fee system to an entry fee plus revenue-sharing arrangement for new entrants to basic, cellular, and paging services. The new policy has also reiterated the regulatory role of the Telecommunications Regulatory Authority of India (TRAI), which was established in 1997. In order to effect separation of service providing functions from policy and licensing functions, a separate Department of Telecom Services (DTS) has been set up in October 1999. To supplement the efforts of DTS in telephone, fax, and other services, and to enhance competition in providing the basic telephone services, companies registered in India are being licensed to operate and maintain the basic services. Six companies have so far signed licensing agreements. Although the new policy enhances competition in the sector, several structural issues remain to be addressed. In particular, licenses will continue to be granted only for compartmentalized services (e.g. cellular, cable, internet), rather than allowing multiple services. Moreover, structural reforms such as the corporatization of DOT and the dismantling of the state monopoly on international long-distance services were postponed and have now been targeted for the years 2001 and 2004, respectively.

52. ADB has so far provided support for the extension of the telecommunications network through two telecommunications loans. Efforts by ADB to directly support the expansion in rural telecommunications, however, were unsuccessful, as the Government requested withdrawal of the Rural Telecommunications loan in view of DOT's preference for indigenous technology. ADB has also provided a TA for capacity building of TRAI. In view of the rapid technological change and the resulting commercial opportunities for private sector investment, ADB's future involvement in the telecommunications sector will likely be limited to support through its private sector window. Moreover, opportunities for ADB private sector lending could also arise in India's emerging information technology sector.

3. Finance and Industry

53. The **industrial sector** has performed well under the more liberal economic policies adopted in the early 1990s. Deregulating industry and trade, and liberalizing the investment and exchange rate regimes have raised allocative efficiency, lowered production cost, and increased competitiveness. Sustaining this performance will depend in large part on tackling India's serious infrastructure constraints and continued progress in fiscal and financial sector reforms, so as to ensure that adequate resources are available to service the demands of the corporate sector. Continued strengthening and further development of the financial and capital markets, complemented by reform of public finances, is therefore important for maintaining macroeconomic stability and for raising the efficiency of domestic resource mobilization to meet the investment requirements of the corporate sector and the vast demands for infrastructure financing.

54. Although significant progress has already been made in reforming the **financial sector** and in developing the domestic capital market, there is a need to further deepen existing reforms, notably in respect to the long-term debt market encompassing institutional sources of long-term funds such as insurance companies, pension and provident funds, mutual funds, and housing finance. In view of the Government's objective of gradually liberalizing the external capital account, progress in strengthening the domestic financial system and the Reserve Bank of India's oversight capabilities will also be essential. To this end, the Second Financial Sector Committee, chaired by M. Narasimham, has prepared a blueprint for future reforms. The Government has already started to implement its recommendations, including increasing the capital adequacy ratio above the international norm proposed by the Bank for International Settlements, tightening prudential asset classification and income recognition norms, and reforming rural credit by strengthening regional rural banks and reforming cooperative institutions. Other important recommendations of the Committee include a complete review of banking laws, the integration of the lending activities of non-bank finance companies with commercial banks, and a clearer separation of ownership and management as well as reexamination of the issue of public ownership of the banking system.

55. ADB has played a lead role in supporting the Government's financial sector and **capital market** reforms through two loans, the Financial Sector and the Capital Market Development Program Loans, both of which were deemed to have been successful. Reform efforts included deregulation of interest rates, relaxation of credit controls, and adoption of international accounting and prudential regulations, as well as entry of private sector financial institutions and restructuring including recapitalization of public banks. Reforms of capital market included strengthening of the Securities and Exchange Board of India as the principal market regulator, improving market access by private investors and institutions, liberalization of investments of insurance companies and provident and pension funds, and establishment of an automated national securities depository. The Government has taken further measures to boost capital

market development through passing of the Securities Law (Amendment) Bill to facilitate the introduction of derivatives trading based on stock index futures, and by the passing of the Insurance Regulatory and Development Authority (IRDA) Bill in 1999 to strengthen the regulatory framework and to promote private sector participation in the insurance sector.

56. Given the importance of a well-functioning financial sector and capital market to India's economy, both in terms of its contribution to the growth of private sector activities and the development of infrastructure, ADB will continue to take a lead role in supporting policy, regulatory, and institutional reforms. Building on the success of ADB's earlier interventions, ADB advisory support will focus mainly on the further development of the domestic primary and secondary securities market. To this end, several TAs will be implemented during 2000-2001, inter alia addressing (i) regulatory and institutional reforms and capacity building of pension funds, the insurance sector, and the mutual funds industry; (ii) the development of a secondary debt market; and (iii) debt recovery. This will assist development of new sources of long-term finance for both industry and infrastructure, and will complement other ADB interventions such as Housing Finance II and Private Sector Infrastructure Facility at National and State Level.

B. Social Infrastructure and Environment

1. Urban Development

57. The rapid urbanization in India and under-investment in urban infrastructure and municipal services have resulted in serious environmental and health problems in India's cities. Urban households, particularly the poor, have limited access to potable water and adequate sewerage, drainage, sanitation, and waste disposal facilities. To ameliorate the incidence of urban poverty and to prevent further environmental degradation, the Government is giving increasing priority to the urban infrastructure development and to strengthening of local governments. The 74th Constitutional Amendment, passed in 1992, embodies a commitment to devolve greater authority and responsibility for urban management from the states to municipalities. To effect this devolution, municipal finances and management need to be strengthened to build adequate local capacity. Through two national assistance programs, the Mega City Project covering the five cities of Bangalore, Calcutta, Chennai, Hyderabad, and Mumbai, and the Integrated Development of Small and Medium Towns Scheme, the Government is evolving intergovernmental partnerships and is attempting to use its budgetary resources to leverage institutional finance and market funds. Moreover, under the Mega City Project, revolving funds linked to cost recovery from infrastructure investments have been established. In March 1999, the Parliament approved the repeal of the Urban Land (Ceiling and Regulation) Act of 1976. This will remove a major constraint on urban development and housing.

58. Consistent with the Government's strategy, ADB's involvement in urban development through its lending (i.e. Karnataka Urban Infrastructure Development Project, Rajasthan Urban Infrastructure Development Project, and Karnataka Urban Development and Coastal Environmental Management Project) and TA (i.e., Urban Sector Profile and Capacity Building for Improved Infrastructure Development in Selected Municipalities in Karnataka) has been aimed at encouraging more balanced urban regional development through growth centers near already over-stretched metropolitan areas and addressing urban poverty and environmental concerns. Additional ADB support in the urban sector, through the Urban and Environmental Infrastructure Facility Project, has been geared to enhancing private sector participation in urban development and highlighting the demonstration effect of public-private partnerships for

improvement of water supply, urban transport facilities, and solid waste management. Preventing further environmental degradation and alleviating pressure from rapid urbanization are becoming increasingly important parts of ADB's urban sector program. As indicated in ADB's Urban Sector Strategy for India, effective implementation of urban development projects requires appropriate policy and institutional reform measures to ensure sustainability. In this regard, support needs to be directed to implementing changes in land acquisition, strengthening municipal finances, and improving the technical and administrative capacity of urban sector agencies and state and local governments. Sustainability also requires that urban infrastructure development projects focus greater attention on the need to adequately operate and maintain existing assets and to mobilize financial resources through user charges and the capital market. ADB TAs on Resource Mobilization for Local Governments in Karnataka and on Strengthening Local Government in Madhya Pradesh have promoted a number of policy reform measures and initiatives aimed at improving the financial condition and autonomy of municipal bodies. ADB has also taken a lead role in developing innovative forms of financing for urban infrastructure by both the public and private sectors.

59. Building on the experience gained in designing the projects in Karnataka and Rajasthan, and as effective means for alleviating urban poverty, support for integrated urban development and environmental improvement projects will become a key component of ADB's strategy in the urban sector. The Calcutta Environmental Improvement Project, standby for 2000 and firm 2001, will focus on addressing the drainage, wastewater, and solid waste problems facing the Calcutta area. The program also includes the Urban Poverty Reduction Project in Madhya Pradesh as standby in 2003. TA for the preparation of urban development projects in two of ADB's focal states are included in the medium-term TA program. Further advisory support is provided through TA on Community Empowerment in Local Government to strengthen participation at municipal level, and through a multi-year cluster TA on Institutional and Regulatory Frameworks for Urban Services to assist in tariff reform for urban water/sewerage system, strengthening municipal resource generation and improving financial governance of local bodies, and promoting public-private partnerships for municipal service delivery.

2. Housing

60. Rapid population growth, increased urbanization, relatively low investment in housing, and widespread poverty have created a serious shelter problem in India, contributing to the proliferation of slums, increased demands for urban infrastructure and services, and a declining quality of life particularly for low-income households. Moreover, the majority of the population, especially the urban poor living in slums, lack access to housing finance from the formal sector. Additional key factors that have aggravated the housing situation include institutional deficiencies, especially among state and local housing agencies, and regulatory constraints to new housing development and investment such as the Urban Land Ceiling Act and the Rent Control Act. There is thus an urgent need to address the institutional and regulatory aspects, as well as strengthen and expand the capacity of financing institutions, including community-based organizations, to respond to the need for housing finance particularly for poor families.

61. Although India had traditionally assigned a relatively low priority to housing finance in policy formulation compared to other sectors, the passage of the National Housing Policy (NHP) in 1994 marked a significant transition in the Government's position on housing policy by stressing the importance of housing as an integral part of the national strategy for poverty reduction and employment in the context of overall economic development. The NHP

advocated increased participation by the private sector and emphasized that the role of government agencies was to create conditions for the expansion of housing supply through the removal of legal and regulatory constraints and to support appropriate infrastructure investments. It also aimed at increasing access of poorer households to housing and other basic services (water supply and sanitation), and mobilizing additional financial resources by establishing linkages between the formal sector, non-government organizations, and community-based financing institutions. In accordance with the increased priority on housing, the Government formulated the National Housing and Habitat Policy (1998) to further promote the creation of an enabling environment and to encourage the non-government sector to take up housing development and infrastructure investment, including through public-private partnerships. To facilitate mobilization of funding for housing development, the Government has recently declared the housing sector as an infrastructure sector, thereby enabling access to tax benefits on investments. The Government is also supporting the implementation of mortgage securitization as well as the trading and investment in securitized papers. Moreover, several measures have been implemented to further policy reforms, including the repeal of the Urban Land Ceiling Act and the preparation of model legislation to enable states to amend their rent control acts.

62. The ADB is integrating social development concerns into its overall strategic focus, with particular emphasis on poverty reduction, inter alia by supporting the development of sustainable mechanisms for the financing and delivery of social services including housing, and the provision of housing finance. Particular emphasis is directed towards removing legal and regulatory impediments to developing a sustainable housing sector; promoting cost recovery and community-participation for slum improvement and low-income housing subprojects; strengthening financial management capacity of housing finance institutions; supporting market-based lending to low-income households; and expanding the national housing finance system. Although ADB's involvement in India's housing sector has been relatively recent, it is playing a leading role in supporting the Government's policy and institutional reform agenda. Support has so far been provided through the Karnataka Urban Infrastructure Development Project (low-income housing finance component), approved in 1995 for targeted lending for low-income housing and slum improvement schemes, and the Housing Finance Project, approved in 1997 for lending through formal and informal housing finance institutions and for expanding the national housing finance system through leveraging injections of equity and debt capital and the development of instruments for asset securitization. Additional support for capacity building and the institutional strengthening requirements of India's rapidly changing housing sector were provided through TAs on Strengthening Housing Finance Institutions and for Restructuring State-Level Housing Finance Institutions. Implementation of the Housing Finance Project was progressing well and, in view of the large absorptive capacity, the loan was disbursed substantially ahead of schedule. Given the large demand for housing finance, the strong poverty impact particularly of project components such as home-workplace scheme and link to community-based organizations, and the continuing reforms within the sector, a Housing Finance II Project is being processed for approval in 2000. Further support is envisaged over the medium term.

3. Environment

63. Recognizing the adverse impact of environmental degradation on sustainable economic development, the Government has formulated an Environment Action Plan outlining its environmental priorities and adopted measures to arrest further natural resource degradation. However, weak enforcement of environmental legislation, almost exclusive reliance on a command and control regime, and resource constraints has prevented effective

implementation of the policy. While there is a need to further strengthen the capacity of the Ministry of Environment and Forests and the Central Pollution Control Board at the national level as well as the capabilities of various line agencies to deal effectively with environmental issues, the capacity to implement environmental policies is particularly weak at the state and local levels.

64. Initially, ADB's support to environmental management and improvement focused on capacity building within line ministries and executing agencies to identify, prevent, and mitigate environmental impacts of infrastructure projects. More recently, ADB has also provided TA to strengthen environmental legislation and enforcement including environmental impact assessment and pollution control. Increasingly, direct support for the environment is becoming an important component of ADB's overall lending operations in India. While this is most obvious in ADB's urban development projects, most of the projects in the energy sector, as well as ADB's support for improvement in energy efficiency, also have significant environmental dimensions. To further strengthen environmental management, policies are now being addressed more directly through ADB's operations at the state level. For example, the Madhya Pradesh Public Resource Management Program Loan, approved in 1999, stipulates specific measures to support environmentally sustainable economic growth and industrial development. The state's environment policy will actively promote market-based instruments for natural resource and environmental management.

65. Given the Government's commitment to addressing the environmental concerns, and its willingness to selectively utilize OCR financing, ADB lending for environment is expected to increase over the medium term. ADB's expanded operations in this field will be guided by the Environmental Profile that was completed in 1999. In addition to energy efficiency projects (para. 42) and projects within the urban development sector that address environmental issues (paras. 58-59), ADB is taking a lead role in the project for Environmental Improvement and Sustainable Development of the Agra-Mathura-Ferozabad Trapezium, being prepared under ADB TA and expected to be approved in 2001. While efforts to strengthen the capacity of national institutions in the area of environmental management will continue, ADB support will also be directed to improve state level capacity, particularly in Gujarat and Madhya Pradesh, two of ADB's focal states, as well as Karnataka and Rajasthan, where ADB is already involved in comprehensive urban development projects. To this end, the TA program includes a cluster advisory technical assistance (ADTA) for Capacity Building for Environment Management at State Level (already approved in March 2000 for implementation during 2000-2002), and comprising various capacity building components including (i) institutional strengthening for environmental impact assessment capacity at state level; (ii) strengthening environmental management planning, regulation, and investment in Gujarat and Madhya Pradesh; and (iii) capacity building for cleaner production and utilization of the clean development mechanisms.

66. ADB is continuing its efforts towards evolving possibilities for support of biodiversity conservation in the Indian Sundarbans as part of natural resource management, and addressing environmental degradation in its focal state of Madhya Pradesh. These initiatives, however, may require more concessional funding than is presently available from ADB's lending window alone, and would benefit from suitable co-financing. This would provide opportunities to broaden the poverty reduction impact of ADB's interventions over the longer term. As a first step, the Program includes a TA on Conservation of Indian Sundarbans and Poverty Reduction to assist in developing a conservation and strategic development framework for Sundarbans, identifying livelihood improvement of the poorer segments, and assessing funding requirements.

C. ADB's State-level Operations

67. States in India have considerable autonomy and play a crucial role in the delivery of social services (particularly public health, family welfare, social security, education, housing, and urban development) and the provision of infrastructure (particularly power, irrigation, flood control, and transport). The states are also responsible for executing Central Government policies and programs, including those for alleviating poverty. While economic reforms introduced since 1991 have contributed substantively to enhanced efficiency, competition, and the potential for higher economic growth, the initiatives have been concentrated almost exclusively at the national level, with the pace and depth of reform generally lagging at the state level. The states' public finances have come under severe pressure, resulted in increasing deficit in the current account, compression of capital outlays, and contributed to the worsening of the consolidated fiscal deficit. Moreover, states are increasingly facing the potential of a domestic debt trap, with new borrowings needed for debt-service payment on outstanding obligations. Without concurrent and strong measures at the state level, especially with regard to improved fiscal performance and sectoral policy reforms, the effectiveness of Central Government reforms and their impact for sustainable development will be limited. The states therefore need to adjust to policy changes and the modified incentive structure at the center to facilitate center-state coordination and to fully benefit from the outward- and market-based orientation of the development process. The Government is encouraging states to undertake comprehensive reform programs, and to seek external assistance as "additionality" to normal transfers.⁹

68. To support this policy, a key feature of COS is a shift in ADB activities towards support for comprehensive economic and structural reforms in selected states. The primary criteria for state selection are: an evident commitment to policy reforms; an urgent need for assistance as reflected inter alia in social and infrastructure indicators; a satisfactory record of project implementation; capacity to service the loan; and, in view of the holistic approach to reform, the absence of major assistance from other funding agencies. The focus of ADB assistance is on support for macroeconomic reform and fiscal consolidation to improve public saving and enhance resource mobilization; increased efficiency in resource use through rationalization of unproductive expenditure and restructuring and divestment of state-owned enterprises; strengthening local government and improving good governance; and policy reforms in key physical infrastructure sectors, especially power, the major cause of fiscal hemorrhage in most states. The state-level operations also focus on fostering human development through support for reallocation of budgetary resources to social sectors, particularly health and education, and thereby enable addressing vital cross-cutting concerns on a sustainable basis. Moreover, the subnational focus of ADB's operations will enable it to maximize the developmental impact of its assistance, not only in terms of the direct impact on the participating states, but also in terms of the positive demonstrational effect on other states as well as on private investors. Notwithstanding, the current inaccessibility of India to concessional lending also constraints ADB's operations at the state level.

69. In accordance with ADB's current strategy, it is expected that over the medium term up to one half of the annual lending to India will be made available for state-level operations. The balance of ADB's lending to India will be made to national agencies with countrywide operations. However, to strengthen ADB's catalytic role, only those states with commitment to reform, particularly in the areas of fiscal consolidation and policy reform in infrastructure

⁹ The Government has also signed Memorandum of Understandings with several states extending financial assistance including advance tax devolution linked to fiscal reform measures (see paras. 3 and 5).

sectors, will be eligible for subprojects financed through the national agencies. In this way, ADB's assistance will be available to reforming states not included for state-level operations. Gujarat was the first state chosen for ADB's state-level operations and a loan and TA program was approved in 1996. ADB assistance so far has focused on improved public resource management, preparation of the Power Sector Reforms Law and revision of electricity tariff regime, and establishment of the Gujarat Infrastructure Development Board as the first infrastructure project development facility of its kind in India. In 1997, Madhya Pradesh was selected as the second state on the basis of the selection criteria mentioned earlier. TA has been provided to the state in support of public finance reform, including taxation and expenditure management, for strengthening the financial and administrative capacity of local governments, and for Madhya Pradesh power sector development. The Madhya Pradesh Public Resource Management Program Loan was approved in December 1999. ADB's future lending program includes further loans for both states including Madhya Pradesh Power Sector Development, and Private Sector Infrastructure Facility at National and State Level. Support is also envisaged for Madhya Pradesh in the area of improved maintenance and extension of the state highway network, as well as an Urban Poverty Reduction project in the state.

70. Following initiation of state-level operations in Gujarat and Madhya Pradesh, discussions with the state government of Kerala were held to assess suitability of Kerala as a third focal state. In accordance with the selection criteria indicated above, and in view of the strong political consensus on the need and urgency of reform as well as the state government's commitment to reform implementation and progress already made, Kerala has been selected as ADB's third focal state, and Government concurrence to the selection was given in early 2000. Appropriate interventions following ADB's approach adopted in Gujarat and Madhya Pradesh have been included in the loan and TA programs. These comprise the Public Resource Management Program and a Power Sector Development Program for Kerala, programmed for the years 2002 and 2003, with advisory and preparatory technical assistance being processed in 2000 and 2001, respectively.

D. Governance Dimensions of ADB Operations

71. While India has implemented the first stage of reforms and has succeeded in establishing a policy framework enabling higher economic growth, policy gaps together with capacity gaps in the regulatory and other institutions need to be addressed as part of a second stage of reforms. ADB's efforts involving governance issues in India have initially been focused on project-related interventions in key infrastructure sectors, particularly energy (power and hydrocarbon), transport (roads and ports), and telecommunications, as well as in establishing the policy and institutional frameworks of the financial and capital market sectors. The major thrusts of ADB's governance-related interventions in these sectors include the strengthening of the policy, regulatory, and institutional frameworks to promote greater transparency, competition, and efficiency; creating an enabling environment for private sector participation in infrastructure projects; and capacity building of key agencies.

72. In accordance with the widening focus of ADB, on the basis of its operational strategy in India to address social concerns and poverty reduction more directly, governance aspects have been incorporated in social infrastructure projects involving mainly urban infrastructure and housing, and in ADB's state-level operations to improve public resource management such as in Gujarat and Madhya Pradesh. Support includes improvement in budgeting and tax administration, public enterprise reform, promotion of private sector participation through establishing a level playing field between public and private entities, and capacity building of key local government bodies. In addition to improving public sector management and the

public finances, and establishing an enabling environment including depolitization of tariff setting and regulatory framework, subnational program lending such as the Madhya Pradesh loan (approved in December 1999) also supports measures for improving corporate governance, comprising institutional and management aspects such as appropriate procedures for selection of management, enhanced accountability, and performance-based incentives; and financial aspects such as enhanced autonomy of PSUs from government for investment decisions, and objective criteria for return on investment and dividend payment.

73. ADB assistance will continue to incorporate governance dimensions as an important building block of its operational program in India. Loan assistance, TA, economic and sector work, and policy dialogue will be used in combination to pursue governance objectives at both the national and state levels, with support at the central level being integrated with ADB's assistance to specific sectors and subsectors. Assistance will be provided inter alia through: (i) project-related interventions in the key infrastructure sectors, particularly power and transport, to promote greater transparency, competition, and efficiency, and create an enabling environment for private sector participation; (ii) promoting orderly financial and capital markets that will provide more efficient and transparent decision-making for the allocation of resources to long-term investments; (iii) capacity building of key national and state level agencies; and (iv) state-level operations to improve public resource management and ensure sustainability of states' economic and social development. The latter will also comprise support for the devolution of responsibilities and resources to local bodies through effective decentralization, an important feature in the reform agenda of the state government of Kerala. Empowerment at the local level could provide further impetus for the reduction in poverty. ADB will also assist in capacity building of the Department of Administrative Reforms and Public Grievances, which has a lead oversight role on governance in India. The operational program of ADB will further address portfolio management and financial transparency and accountability issues through TAs on Capacity Building for Project Implementation and on Institutional Strengthening of Controller of Aid Accounts and Audit. Moreover, ADB is also supporting enhanced participatory development processes through ongoing assistance for Strengthening Participation in Urban Environment Development and Capacity Building for Social Development.

74. An important element of ADB's objective of supporting good governance for sound development management relates to the need for the existence of adequate legal framework. On the basis of a regional technical assistance (RETA), work is ongoing on evolving best practices to maximize the efficiency and quality of government legal services and improve the functioning of government in areas where legal inputs are critical. A further priority area, associated with ADB's support for debt market development (see para. 56) and financial sector reform, is the change to secured transactions laws, to provide a comprehensive, timely, and effective framework for protecting the rights of liability holders. Secured transactions law reform will also be of importance for the process of economic restructuring, including restructuring and commercialization of public sector institutions. The Government has participated in ADB-supported studies on secured transactions law reform during 1999 and has established a Government committee in this area. A TA on Support for Registration System for Secured Transactions is included in the 2001 TA Program to support these efforts.

E. Gender Dimensions of ADB Operations

75. ADB's Gender and Development (GAD) Policy approved in 1998 calls for gender mainstreaming, with emphasis on economic and sector work and policy dialogue on gender issues. Through policy dialogue, ADB can ascertain the policies and programs of the

developing member countries (DMCs) on GAD and assess the respective areas of concern. The Government of India accords increasing importance to gender dimension, and has made the empowerment of women as one of the nine primary objectives of its Ninth Plan. The 73rd and 74th Constitutional Amendments have also created a third tier of governance comprising elected bodies in rural and urban areas as a starting point for effective decentralization of development, and contain specific provisions to ensure increased participation of women in decision making.

76. There are several venues through which ADB is directing its efforts to support the Government's policies and to assist in mainstreaming gender issues. First, as part of the Madhya Pradesh Public Resource Management Program Loan (approved in 1999) a detailed socio-economic analysis of public sector employees was undertaken as a basis for the design of the social safety net. The analysis covered gender, age distribution, educational background, professional experience, and profile of dependents, enabling suitably targeted intervention particularly on education and training support. This loan also fosters expenditure reallocation to social services, particularly health and education, which will mainly benefit women in rural areas, through enhanced access to rural health facilities, and primary school children (particularly girls and ethnic groups which are disadvantaged by severe gender disparity in literacy) due to improved sustainability of the primary education program. ADB is also providing support through the TA on Capacity Building for Social Development (approved in December 1999) which inter alia strengthens the Government's capacity to undertake gender analysis during the crucial project preparatory stage. To further strengthen ADB's support for social sector development, in the context of the review of ADB's COS a social sector profile and gender study will be undertaken. Although, as earlier noted (see para.12), Kerala has relatively low gender disparity, ADB's policy dialogue with the state government in the context of the proposed public resource management program will stress the need for equality of access to economic and social opportunities and sustainability of effective utilization. TA support for decentralization and improvement in local governance (as part of the proposed cluster TA for Kerala in 2000) will also assist state government efforts for greater empowerment of women.

F. Private Sector Development

77. Support for private sector development is an integral part of ADB's operational strategy in India. The main emphasis has been on establishing the policy, institutional, and regulatory frameworks for private sector participation in economic development, particularly in the roads and ports, hydrocarbon, and communications sectors and, at the state level, in the power sector. This strategy also includes facilitating private sector investment in physical infrastructure; improving the commercial framework through support for developing alternate dispute settlement mechanisms; and providing direct financial assistance for strategic private sector initiatives. Given the need for well functioning financial and capital markets, ADB's focus has been on making selective investments to help create and build institutions that mobilize resources for infrastructure, reduce the Government's shareholding in state-owned banks, and enhance financial sector competition, and strengthen financial supervision.

78. India's next round of economic reforms presents the ADB with new opportunities and challenges with respect to its effort to support private sector development through its public and private sector operations. ADB's poverty reduction strategy recognizes the importance of a dynamic private sector as the driver for accelerated economic growth and hence poverty reduction. This is being reinforced by ADB's Private Sector Development Strategy. To this end, the ADB will continue to support Government's initiatives to develop the enabling

framework conducive to enhanced and sustained private sector activities, focusing inter alia on effective governance in the public and private sectors; sound macroeconomic management; effective and transparent financial intermediation; expanded public-private partnerships; and regional and subregional cooperation. Private sector operations will also seek to leverage ADB assistance by cofinancing through the complementary financing scheme and guarantee facilities. Moreover, ADB could assist in catalyzing private sector projects through direct financing and risk mitigation, particularly in infrastructure financing in the oil and gas, power, railways, telecommunications, water supply/waste management, and port sectors. ADB has already supported state governments' (Gujarat and Madhya Pradesh) efforts at restructuring and privatizing state-owned enterprises creating enabling environment for private sector participation. The expansion of state-level operations to a third focal state will provide further opportunities to provide assistance to state governments in this regard.

79. In meeting this developmental challenge, ADB will provide catalytic support for private sector projects to those sectors where appropriate policy, institutional, and regulatory frameworks are being evolved, and is fostering the establishment of such frameworks through policy dialogue as part of public sector interventions. The private sector pipeline, while continuously evolving, includes at present a LNG import terminal project in Gujarat (\$50 million loan and/or equity), and a combined power and LNG terminal project in Tamil Nadu (\$50 million loan and/or equity). Oil transmission, telecommunications/optical fiber network, and environment-related initiatives are also under consideration. Some of these projects, for example the LNG import terminal initiative in Gujarat and coal beneficiation projects, were formerly identified for public sector financing, but have been removed from the pipeline due to their potential for private sector financing. Moreover, some of the projects are complementing ADB's public sector operations, for example support for oil transmission in one of ADB's focal states, and spin off of telecommunications ventures using railways' right-of-way as part of railways sector development.

IV. Regional Cooperation

80. The increasing globalization of world economies has greatly intensified international competition and has, at the same time, given rise to a new wave of regionalism. Geographical proximity, economic complementarity, political commitment, policy coordination, and infrastructure development are factors conducive to formation of such groupings. Regional economic cooperation, as one form of coordination, could offer the South Asian countries significant potential benefits. In 1997, Bangladesh, Bhutan, India, and Nepal agreed to establish the South Asian Growth Quadrangle (SAGQ), which will operate within the South Asian Association for Regional Cooperation (SAARC) framework. Given their development potential, focus was to be given to six sectors, including energy, multi-modal transport and communication, trade and investment facilitation and promotion, tourism, and natural resource utilization and environment. It was further agreed to proceed on a project-by-project building-block approach, covering bilateral as well as multilateral cooperation. Supplementing this Government level initiative, Chambers of Commerce and other representatives of private sector of the four SAGQ-member countries have formed a Private Sector Forum for economic cooperation. Following preparatory meetings of the Steering Committee, the first meeting of the Private Sector Forum is scheduled for July 2000. India also has a free trade agreement with Sri Lanka, which envisages the gradual phasing out of customs duties on a wide range of goods traded bilaterally.

81. Reflecting ADB's key catalytic role in promoting cooperation in the subregion, a regional technical assistance (RETA) for the First Meeting of the Private Sector Forum is being

provided. The RETA will facilitate focused discussion on possible areas of cooperation including energy and power, transportation, tourism, and investment facilitation and trade promotion. Another example of regional cooperation is the ongoing RETA for power exchange between Bangladesh and India. Initiatives in the gas sector can build on an earlier RETA for the Regional Gas Conference on Natural Gas Supplies to South Asia and on TA for gas sector masterplans (including imports) for Bangladesh and India. Further initiatives, such as electricity exchange between India and Pakistan, are being evolved within SAARC but outside SAGQ.

82. ADB is working with the Indian Government, as well as the governments in the other three SAGQ countries, to identify high priority projects that lie within national boundaries but which offer potential subregional benefits. As an example, ADB financed a TA providing support for the upgrading of the north-south transport corridor in West Bengal, as well as a small-scale TA on Establishing a Public Private Joint Venture for the West Bengal North-South Economic Corridor Development. Further support is being envisaged through a TA for inland waterway in West Bengal to strengthen the alternative transport system. An ADTA on Conservation of Indian Sundarbans and Poverty Reduction is being envisaged to assess the needs and opportunities for enhancing conservation in the Sundarbans, developing a strategic conservation and management framework, identifying investment requirements for poverty reduction and livelihood improvement through conservation activities, and recommending suitable approaches for financial resource mobilization. Support for biodiversity conservation in the Indian Sundarbans would offer further potential for enhanced cooperation between India and Bangladesh in the protection and sustainable development of this globally important but fragile ecosystem.

V. Donor Activities and Aid Coordination

83. ADB maintains close coordination with major multilateral and bilateral donors through its India Resident Mission (INRM), through its programming and processing missions, and through the annual India Development Forum (IDF). During the most recent IDF meeting, held in May 2000, both the ADB and the World Bank made presentations on their respective state-level operations.¹⁰ These initiatives facilitate coordination and agreement on technical and policy issues, avoid unnecessary duplication of effort, and enable donor agencies to learn from each other's experience. Although ADB, in line with its operational strategy, does not provide direct assistance to all sectors, through this shared approach ADB keeps informed about key constraints and problems that other donors are addressing. As part of its increasing state level focus, ADB organized an aid coordination meeting in Madhya Pradesh in 1998—the first such coordination meeting held at state level in India—to assist in initiating and coordinating funding agency efforts in parallel with ADB's development assistance. This has provided impetus for bilateral donors' efforts to reorient their developmental strategy and for strengthening their geographical and sectoral focus of assistance. In support of ADB's long term development partnership with its focal states, ADB is now preparing to organize aid meetings in these states to facilitate donor coordination within the states' holistic reform agenda. In addition to ADB, the World Bank, Germany, Japan, Netherlands, United Kingdom, and United States, as well as the European Union are India's major sources of aid. ADB, the World Bank, and the Japan Bank for International Cooperation (JBIC) provide the bulk of India's official loans.

¹⁰ The 1998 and 1999 IDFs were cancelled due to prevailing economic sanctions in the wake of India's nuclear test. Reflecting a general shift in consultative group meetings, the 2000 IDF has focused on policy and reform issues rather than on pledging of financial assistance.

84. The World Bank, which lends from both International Bank for Reconstruction and Development (IBRD) and International Development Agency (IDA) resources, provides support mainly to agriculture, social sectors (family welfare, health, nutrition and primary education), and infrastructure (power, and transport) and financial sectors. World Bank has also provided support for forestry and water supply projects, including in Madhya Pradesh and Kerala. In response to a decision by the World Bank's management to increase IBRD lending to India to about \$3 billion per year and to harden the terms of its overall assistance by achieving an IBRD:IDA ratio of 2:1 (from 1:1 earlier), the World Bank is substantially increasing its lending to the power and road sectors and also envisages possible support for urban development as well as for the railway sector. While there is complementarity between ADB and World Bank in several key sectors (especially power and transport), ADB has taken the lead in holistic state level support. To increase the developmental impact of its assistance, the World Bank has also begun channeling a portion of its lending operations to more focused state-level operations and, in April 2000, approved its first loan for subnational adjustment program.¹¹ In discussion with the Government, ADB and the World Bank are coordinating on an appropriate geographical focus for each institution's state-level operations. ADB has commenced state-level operations in both Gujarat and Madhya Pradesh, and has received Government concurrence for initiating work on Kerala as the third focal state. The World Bank has so far concentrated its subnational operations on the power sector in Haryana, Orissa, and Rajasthan, and on more comprehensive support including public finance reform in Andhra Pradesh and Uttar Pradesh. In other sectors too, activities are coordinated to ensure an appropriate division of labor and geographic spread. As a result of such efforts, in recent years ADB has taken the lead in capital market development, policy reform in the hydrocarbon sector, support for investment in gas infrastructure, and in state-level reforms of resource management. Over the current programming cycle, ADB is expected to play a lead role in policy development for railways, urban development, housing finance, as well as debt market development. Regular consultations between ADB and the World Bank at the headquarters level have also been institutionalized.

85. JBIC, successor to the merged Japan's Overseas Economic Cooperation Fund (OECF) and Export-Import Bank of Japan (JEXIM), has focused its support in the past mainly on economic infrastructure (power, transport and communications, urban sector), as well as the environment, agriculture, and small-scale industries. It also has been an important source of official cofinancing for ADB projects. Following the merger, and in the context of the current international environment, the focus of Japan's development assistance to India is shifting. In future, JBIC's focus will be directed more towards basic human need projects and selected, high visibility infrastructure projects. This could also limit the future scope for JBIC cofinancing from the official financing window, at least of hard infrastructure projects. In contrast, ADB may evolve modalities for possible cofinancing opportunities for social sector interventions, or for facilitation of donor financing of investment on basis of ADB technical assistance. ADB may also play a more pronounced role in administering JBIC loans which are co-financing ADB interventions, as is being done in the ongoing Private Sector Infrastructure Facility project.

86. The United Kingdom, through its Department for International Development (DFID), has a large aid program to India, focusing primarily on poverty reduction through support for social sector initiatives. The program also seeks to support sustainable economic growth through

¹¹ This loan (in an amount of \$251 million) for the state of Uttar Pradesh, is similar to earlier ADB interventions in Gujarat (approved in December 1996; \$250 million) and Madhya Pradesh (approved in December 1999; \$250 million), focusing on public finance reform, public enterprise restructuring, and infrastructure policies, and in addition supports measures for civil service reform. In contrast to ADB lending at OCR terms, the World Bank loan is financed equally with non-concessional and concessional funds.

support for economic reforms, particularly in fiscal policy and the power sector. DFID is concentrating its assistance to selected states, including Madhya Pradesh, Andhra Pradesh, and West Bengal, and is collaborating and coordinating activities with ADB in the areas of mutual interest such as support for power sector reforms, urban water supply and sanitation and slum improvement. ADB's efforts to strengthen the poverty focus of its portfolio and the supporting TA program provide further cooperation opportunities. The United States Agency for International Development (USAID) has focused its program inter alia on population stabilization; provision of health care, including HIV/AIDS control; environmental protection and pollution control, particularly in urban areas; and support for energy conservation and demand side management. USAID also provides extensive food aid. The Canadian International Development Agency (CIDA) has been active in support for state power sector reforms. In its preparatory work for power sector reforms in Kerala, the ADB is already drawing upon work being prepared by CIDA-financed consultants. The ADB and CIDA are also closely collaborating on power sector reforms in Madhya Pradesh. The priorities of Germany's assistance are the infrastructure (power and transport) and social sectors, including water supply, urban waste management, housing, and health. The Netherlands is providing assistance mainly for social sector interventions, as well as in support of local governance and effective decentralization. One of its focal states is Kerala. The European Union (EU) provides assistance under two broad categories: development assistance and economic cooperation. The former is directed towards improving the quality of life of the poorest and is providing grants for rural development, as well as primary education and health. EU's economic cooperation program mainly comprises technical assistance and training support.

87. External assistance to India substantially increased from the low levels in the early 1980s, and averaged about \$4 billion annually during FY1991-FY1998 (Appendix 3), or almost \$5 in per capita terms. The terms of the ODA to India have considerably hardened over time, with the grant element declining from 19 percent during 1975-1980 to 8 percent during 1990-1995; the grant element is further declining with the World Bank modifying its funding mix of IBRD and concessional (IDA) resources from an IBRD:IDA ratio of 2:1 to a ratio of 1:1. This will imply an increase in the cost of long-term funds as the portion of concessional lending in total lending is diminishing over time. Following India's nuclear test in May 1998, and the subsequent imposition of economic sanctions, most bilateral donors put a freeze on new aid to India and in addition indicated their unwillingness to support new lending from multilateral agencies for other than humanitarian purposes. As a result, Board consideration for several World Bank loans was postponed in May/June 1998, the end of its fiscal year. Similarly, ADB lending to India was substantially affected and only one basic human needs loan approved by the Board in late 1998. Together with the freeze on bilateral assistance, the drastic decline in multilateral lending to India lowered foreign aid to \$1.8 billion in FY1999 compared to \$3.7 billion in FY1998 and about \$4 billion on average since the early 1990s. As the international environment and the G-7 stance on lending continued in FY2000, foreign aid to India remained severely constrained, and new ADB and World Bank commitments amounted to \$625 million and about \$800 million, respectively. Moreover, the non-approval of infrastructure projects by multilateral institutions and the freeze on bilateral lending is increasingly hampering the medium to long term growth potential of the Indian economy by preventing removal of infrastructure bottlenecks.

VI. Cofinancing and Catalyzing External Resources

88. India has been a major recipient of cofinancing among ADB's DMCs, receiving about \$3.6 billion from multilateral and bilateral sources, export credit, and commercial cofinancing

since the inception in 1986 of ADB's lending program for India, thereby mobilizing additional resources of about \$0.5 for each dollar from ADB. Reflecting the importance of official cofinancing in the past, the country has received about 9 percent of all ADB official loan cofinancing, and about 8 percent of commercial cofinancing. However, catalyzing external resources to India, particularly from G-7 countries, was severely hampered in the past two years in the wake of nuclear tests. More recently, there are indications of a resumption of larger scale bilateral and commercial resource flows to the country.

89. Efforts are being strengthened to raise the level of commercial cofinancing, including from export credit agencies. ADB is also putting greater emphasis on cofinancing and credit enhancement through its guarantee facility, and there appears to be scope particularly for partial credit guarantees in view of the still limited availability of long-term financing in the Indian financial and capital markets. The Government has expressed interest and willingness to source more commercial cofinancing through ADB, provided the terms and conditions of such cofinancing are attractive, and the cofinancing mobilizes additionality to IPF resources. In these events, the Government would be willing to provide counter-guarantees for public sector projects supported by an ADB Guarantee.

90. ADB's lending pipeline offers considerable opportunity for cofinancing. The Railways Sector Improvement Project, scheduled for 2000, has attracted interest from a large number of cofinanciers, including commercial sources. There is also considerable interest among PSUs, especially those at the national level in the energy sector, in making use of ADB's Guarantee Facility and this is being actively discussed in the context of the Power Transmission Improvement (Sector) Project (proposed for 2000) and the Power Finance Corporation Loan (2001). Another potential cofinancing opportunity is the proposed support for the Government's National Highways Development Program (NHDP), which is being implemented by the National Highways Authority of India (NHAI). ADB's proposed public sector lending for the NHDP in the years 2001-2003 could be complemented by means of ADB partial credit guarantees. To strengthen NHA's capacity for financial management, a TA on Institutional Strengthening of National Highways Authority is included in 2001 to cover inter alia aspects of project finance, foreign exchange risk management, and guarantee operations. However, despite the significant potential that use of the Guarantee Facility will provide for further leveraging ADB assistance to India, issues still being addressed include the need for government counterguarantee and the pricing of such counterguarantees. Moreover, efforts to mobilize cofinancing are also constrained by the economic sanctions. These affect both the availability of commercial cofinancing as well as official cofinancing for non-basic human need loans.

VII. ADB's Operational Program

A. The Proposed Program

91. The loan and TA program for 1999 and the proposed program for the period 2000-2003, summarized in the table below, reflects ADB's prevailing operational strategy, reflects the ADB's overarching emphasis on poverty reduction, and is consistent with the Government's development objectives. In view of the disruption in the implementation of the operational program, particularly the slippage of infrastructure projects from 1999 to 2000 and its knock-on effects, the 2001-2003 Program is similar to the 2000-2002 Program. Notwithstanding, the overall scope of the program and the phasing of these projects are reflecting increasing importance of poverty interventions in the India lending pipeline.

92. A detailed breakdown of the program, including distribution by poverty classification, by crosscutting concerns, and by sector, is given in Appendixes 4 and 5. ADB's firm lending program over this period averages \$1.2 billion per year, in line with the country's indicative planning figure. To mitigate the possible effect of unexpected delays in loan processing in view of the increasing emphasis of policy reform at national and subnational levels, as well as the large average size of projects in India, the program also includes annually stand-by projects. The TA program is expected to play a critical role in determining ADB's policy and capacity building agenda, facilitate the implementation of projects and programs at the national and state levels, and contribute to mobilizing funding agency support and cofinancing possibilities. For 2001-2002, the TA program comprises 30 projects (including 3 multi-year cluster TAs) for a total amount of \$21.5 million in support of the project pipeline, to address capacity building issues including at the state level, and to strengthen the poverty focus of the India pipeline.

Table 1: Lending and Technical Assistance Program, 1999-2003

A. Public Sector Lending Program

	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)
Lending Program ^a										
ADF	0	0.0	0	0	0	0.0	0	0.0	0	0.0
OCR	3	625.0	5	1,330.0	5	1,100.0	5	1,250.0	5	1,200.0
Lending Pipeline ^b										
ADF			0	0.0	0	0.0	0	0.0	0	0.0
OCR			6	1,580.0	6	1,400.0	6	1,500.0	6	1,450.0

B. Technical Assistance Program

	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)
TA Program ^a	11	7,155.0	15 ^c	11,160.0	17 ^c	12,150.0	13 ^c	9,350.0	6	4,050.0
TA Pipeline ^b			15 ^c	11,160.0	17 ^c	12,150.0	13 ^c	9,350.0	6	4,050.0

^a The Program is comprised of the firm projects.

^b The Pipeline consists of both firm and standby projects.

^c Including multi-year cluster TAs.

B. Strengthened Role of ADB's Resident Mission

93. The India Resident Mission (INRM), established in 1992, has played an increasingly important role in the effective implementation of ADB's lending and non-lending assistance to the country, and further strengthening of INRM is envisaged in line with ADB's Resident Mission Policy.¹² The number of loans delegated for administration and disbursement has increased from 11 in 1999 to 20 in 2000, with 5 more loans expected to be transferred during 2001. In addition, INRM is administering 17 of the 19 private sector loans. INRM is taking the lead in the annual Country Portfolio Performance Review, closely coordinating with the concerned departments at headquarters, and is undertaking semi-annual tripartite portfolio review meetings with the Government's Department of Economic Affairs (DEA) and the executing agencies (see para. 26). These initiatives have enabled closer monitoring, and more expeditious follow-up including on-site inspection of executing agencies' project management and supervision, and have contributed to the substantial improvement in disbursement performance.

¹² The increasing role of INRM is accompanied by greater staff resource availability. This has necessitated an expansion of office space through construction of a new INRM office building. Approved in April 1999, construction is expected to be completed by late-2001.

94. INRM has been actively involved in country programming, loan and TA processing, and associated policy dialogue and donor coordination. It is proposed that INRM will take on further responsibility and accountability in the future. This will inter alia include processing responsibility for the West Bengal Transport Development Project (proposed for 2001), as well as processing of TA including Capacity Building for Project Implementation and Institutional Strengthening of Controller of Aid Accounts and Audit. ADB's expansion of state-level operations is providing further opportunity for the Resident Mission to take on responsibility both in loan and TA processing as well as in administration and regular monitoring. These initiatives will be supported by enhanced economic analysis capacity of INRM, both for assessing the soundness of macroeconomic management at the national and state levels, but also—and of fundamental importance—the monitoring of social development as basis for strengthening the poverty impact of ADB assistance.

VIII. Economic and Sector Work Program

95. ADB is undertaking comprehensive and detailed economic and sector work, which forms the basis for its support for policy reform, capacity building, and institutional strengthening in India. The economic and sector work also provides assessment of the overall consistency of economic and structural policies and their developmental impact on efficiency and sustainability of economic growth, a prerequisite for progress in reducing widespread poverty.

96. Economic and sector work will include updating of ADB's in-house macroeconomic model of the Indian economy that will be used, inter alia, for the annual Country Economic Review and the Asian Development Outlook. The model will also enable the analysis of policy consistency and country risk, thereby providing important feedback on the absorptive capacity of external assistance and guidance on the scope of ADB's future lending operations. The macroeconomic analysis will be complemented by detailed sector studies, linked to ADB's proposed lending operations over the next few years. These will include: financial sector strategy with focus on the development of the long-term debt market; the design and implementation of further policy reforms in the power sector, focusing inter alia on the restructuring and privatization of transmission and distribution while also addressing the vexed issue of power subsidies; and capacity building for efficient public sector management at the national and state levels and for local government resource mobilization. Further, work on water resource sector could also provide background for strengthening ADB assistance on environment including natural resource management. A state economic profile for Kerala, ADB's third focal state, will also be prepared in 2000 to provide a comprehensive economic and sector review.

97. To guide ADB's expanding operations in urban development and the environment sector, an environment profile was completed in 1999. To further strengthen ADB's support for social sector development, a social sector profile and gender study will be prepared which will form the basis for monitoring and reviewing India's progress in these areas, as well as to ascertain if ADB's proposed lending and TA activities can be designed and targeted in such a way as to enhance ADB's contribution and thus more effectively complement the activities of other donors. Work will also be intensified in support of ADB's evolving possibilities for natural resource management as part of ADB's state-level operation (see para. 66).

98. An important component of the economic and sector work in 2000-2001 is the assessment of poverty, the development of a conceptual framework for poverty reduction at the national and state levels, and improvement in the design of ADB projects for stronger

poverty impact. Further sector work is also being undertaken on reducing poverty in urban India. To strengthen the analytical basis on locational aspects of poverty distribution in India, work on poverty mapping is being initiated in 2000. These studies as well as the above work on sector strategies will feed into a review of the Country Operational Strategy, expected to be completed in 2001, and will assist in reassessing ADB's medium- to long term operational focus at the national and state levels.

IX. Local Cost Financing

99. The investment requirements to redress existing bottlenecks and to meet prospective future demand in support of sustainable economic and social development in India are enormous. Although the Government's reform program has improved domestic resource mobilization, strengthened fiscal consolidation notwithstanding recent renewed pressure and lowered budget reliance on the financial system, and improved India's access to foreign financing, the competing demands on resources and the ongoing adjustment costs continue to strain the availability of local funds.

100. Consistent with ADB's operational strategy to support infrastructure needs and promote the Government's reform process, Bank support of local cost financing was provided in 1999 in the amount of \$81 million for the Karnataka Urban Development and Coastal Environmental Improvement Project (loan size \$175 million). This was considered justified in view of the high demonstration and catalytic value in decentralizing urban services and improving local urban governance in the context of constrained resource availability for urban infrastructure. Moreover, the Project will result in substantial environmental and social benefits, which in the present context of ADB lending could not be achieved by foreign currency lending alone. Sizable local cost financing has also been provided under the Rajasthan Urban Infrastructure Development Project (approved in 1998), supporting similar reforms as those under the Karnataka project, as well as for the Housing Finance Project (approved in 1997), for reforming the housing finance sector and its resource allocation to low income households. In addition, under the ongoing Private Sector Infrastructure Facility Project, loan funds can be used to finance local cost of up to 20 percent of ADB financing of subprojects in power and telecommunications and up to 70 percent of ADB financing of subprojects in roads and ports. With the exception of ADB's urban development and housing projects, the provision of local cost financing for ADB-supported projects has been low and, in the case of energy sector projects, has been non-existent. ADB will continue to determine the actual sharing of project costs and the level of local cost financing on a case-by-case basis in accordance with applicable ADB policy.

INDIA
COUNTRY PERFORMANCE INDICATORS

Item	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000 ^a
ECONOMIC INDICATORS						
A. Income and Growth						
1. GDP per Capita (dollars,current)	336	357	384	400	430	453
2. GDP Growth (% , in constant prices of 1993/94)	7.8	7.6	7.8	5.0	6.8	6.4
Agriculture and Allied Sectors	5.0	-0.9	9.6	-1.9	7.2	1.3
Industry	9.2	11.8	6.0	5.9	4.0	7.8
Services	7.0	10.3	7.1	9.0	8.3	8.6
B. Saving and Investment (current market prices)						
	(percent of GDP)					
1. Gross Domestic Investment	26.1	27.2	24.6	26.2	23.4	n.a.
2. Gross Domestic Savings	25.0	25.5	23.3	24.7	22.3	n.a.
C. Money and Inflation						
	(annual percent change)					
1. Consumer Prices (annual average)	10.1	10.2	9.3	7.0	13.1	3.5
2. Wholesale Price Index (annual average)	12.6	8.6	4.7	5.0	6.0	2.7
3. Money Supply (M3)	22.3	13.7	15.2	18.0	19.2	13.6
D. Government Finance						
	(percent of GDP)					
1. Total Revenue	18.0	17.9	17.5	17.3	17.6	17.8
2. Total Expenditure	26.3	24.9	24.4	25.1	27.2	26.2
3. Fiscal Surplus (+)/Deficit (-) ^b	-6.9	-6.4	-6.2	-7.1	-8.5	-7.7
Central government (incl. small savings)	-5.7	-5.1	-4.9	-5.8	-6.4	-7.0
Central government (excl. small savings)	-4.8	-4.3	-4.1	-4.8	-5.1	-5.6
State government	-2.7	-2.6	-2.6	-2.8	-4.3	-4.0
E. Balance of Payments						
1. Merchandise Trade Balance (% of GDP)	-2.8	-3.2	-3.9	-3.8	-3.2	-3.8
2. Current Account Balance (% of GDP) ^f	-1.0	-1.7	-1.2	-1.3	-1.0	-0.9
3. Export (\$) growth (annual percentage change, f.c)	0.0	20.3	5.6	4.5	-3.9	11.6
4. Import (\$) growth (annual percentage change, c.	0.0	0.0	12.1	4.6	-7.1	16.5
F. External Payments Indicators						
1. International Reserves (million dollars, end-of-pe	20,809	17,044	22,367	25,975	29,522	35,058
- months of imports(excluding gold and SDR)	7.0	4.7	5.5	6.1	7.5	7.6
2. External Debt Service (% of goods and services)	25.9	26.2	22.9	19.8	20.0	18.2 ^d
3. External Debt (% of GDP)	30.9	27.1	24.7	24.4	23.5	22.3 ^d
Memorandum Items:						
GDP (current prices, billion, Rs)	10,099	11,820	13,620	15,156	17,626	19,437
GNP (current prices, billion, Rs)	10,248	12,045	13,968	15,501	18,058	n.a.
Exchange Rate (Rs per US\$, annual average)	31.39	33.40	35.47	37.12	42.08	43.28
Population (million; as of 1 Oct)	908	927	943	959	975	991

n.a.=not available

a/ Provisional.

b/ Consolidated.

c/ Includes official transfers.

d/ As of December 1999.

Note: India's fiscal year is from 01 April to 31 March, e.g. FY 1999 figures cover the period 01 April 98 to 31 March 99.

Sources: Ministry of Finance, *Economic Survey 1999-2000*.Reserve Bank of India, *Annual Report 1998-99; Monthly Bulletin*, June 2000.

International Monetary Fund.

INDIA
COUNTRY PERFORMANCE INDICATORS

	1985	1990	Latest Year
POPULATION INDICATORS			
Total Population (millions)	755 (1985)	839 (1990)	966 (1997)
Annual Population Growth Rate (% change)	2.18 (1985)	2.11 (1990)	2.00 (1997)
SOCIAL INDICATORS			
Total Fertility Rate (births per woman)	4.5 (1985)	3.6 (1991)	3.1 (1997)
Maternal Mortality Rate (per hundred thousand live births)	460 (1980-85)	437 (1989-94)	437(1990-96)
Infant Mortality Rate (below 1 year; per '000 live births)	110 (1981)	80 (1991)	71 (1997)
Life Expectancy at Birth (years)	55.4 (1988)	58.7 (1990)	62.6 (1997)
Female	56 (1980-85)	59 (1990)	63 (1997)
Male	57 (1980-85)	59 (1990)	62 (1997)
Adult Literacy (%)	41 (1981)	48 (1990)	54 (1997)
Primary School Enrollment (% of school age population)	96 (1985)	98 (1990)	90 (1997)
Female	80 (1995)	84 (1990)	81 (1997)
Secondary School Enrollment (% of school age population)	37 (1985)	44 (1990)	59 (1997)
Female	26 (1985)	33 (1990)	50 (1997)
Child Malnutrition (% of under age 5)	n.a.	n.a.	66 (1990-96)
Population Below Poverty Line (%)	44.5 (1983)	38.9 (1987-88)	36.8 (1993-94)
Income Ratio of Highest 20% to Lowest 20%	5.1 (1980-85)	5.4 (1989-94)	5.0 (1994)
Population with Access to Safe Water (%)			
Rural	56.3 (1985)	73.9 (1990)	86.74 (1997)
Urban	72.9 (1985)	83.8 (1990)	90.6 (1997)
Population with Access to Sanitation (%)			
Rural	0.7 (1985)	2.4 (1990)	6.37 (1997)
Urban	28.4 (1985)	45.9 (1990)	49.3 (1997)
Public Education Expenditure as % of GNP	3.4 (1985)	4.0 (1990)	3.4 (1996)
Public Health Expenditure as % of GDP	n.a.	1.3 (1990)	0.7 (1995)
Human Development Index	n.a.	0.309 (1990)	0.545 (1997)
Human Development Ranking	n.a.	134 (1990)	132 (1997)

Sources:

- UNESCO, *World Education Report 1998* .
 WB, *World Development Indicators*, various issues.
 WB, *World Development Report 1998/99*.
 WB, *Social Indicators of Development 1996* .
 UNDP, *Human Development Report 1999*.
 Central Statistical Organization, Official Communication.
 Ministry of Health and Department of Family Welfare, *1995-96 Yearbook* .

INDIA
COUNTRY PERFORMANCE INDICATORS

Environmental Indicators	1980	Latest
Energy Efficiency of Emissions		
GDP per unit of energy use (ppp \$ per kg oil equivalent)	1.8	4.2 (1997)
Traditional fuel use (percent of total energy use)	31.5	21.2 (1996)
Carbon dioxide emissions (million metric tons)	347.3	997.4 (1996)
" (per capita metric tons)	0.5	1.1 (1996)
Water Pollution		
Emissions of organic water pollutants (kg/day)	1,457,474.0	1,694,090 (1996)
Industry share of emissions of organic water pollutants		
Wood (percent)		0.3 (1997)
Primary Metals (")		15.5 (1997)
Pulp and Paper (")		7.5 (1997)
Chemical (")		8.2 (1997)
Food and Beverages (")		51.5 (1997)
Textiles (")		11.6 (1997)
Land Use and Deforestation		
Forest area (thousand sq. km.))	642 (1985)	650 (1995)
Average annual deforestation (sq. km)		-72 (1990-95)
" (percent change)		0.0 (1990-95)
Rural population density (people per sq. km of arable land)		424 (1996)
Arable land (percent of land area)	54.8	54.4 (1997)
Permanent cropland (")	1.8	2.7 (1997)
Biodiversity and Protected Areas		
Nationally protected areas (sq. km '000)		151.3 (1997)
Percent of total land area		4.6 9(1997)
Mammals (number of threatened species)		75 (1996)
Birds (")		73 (1996)
Higher plants (")		1,236 (1997)
Reptiles (")		16 (1996)
Amphibians (")		3 (1996)
Urban		
Urban population (millions)	158.8	272.0 (1998)
Percentage urban	23.0	28 (1998)
Per capita water use (l/day) - Delhi		133.0
Wastewater treated (percent) - Delhi		69.0
Per capita solid waste generation (kg/day) - Delhi		1.2
Air Pollution - Delhi		
City population ('000)	5,768.0	9,948 (1995)
Total suspended particulates (micrograms per cubic meter)	539.3 (1987)	410.5 (1995)
Lead		
Sulfur dioxide (")	16.5 (1987)	24 (1995)
Nitrogen oxide (")	20.4 (1987)	47.2 (1995)

Sources:

State of India's Environment: The Citizens' Fifth Report, New Delhi, 1999.

Compendium of Environment Statistics 1998, New Delhi, 1999.

World Bank, *2000 World Development Indicators*

1998-1999 World Resources: A Guide to the Global Environment.

RETA 5555: Data on Environmental Indicators for Participating DMCs.

INDIA
PORTFOLIO PERFORMANCE
Table 1 : Implementation, Disbursement Performance and Postevaluation Results
Public Sector Projects only
(as of 31 December 1999)

A. Project Portfolio	Net Loan Amount \$ million %		Rating (No.) ^a											
			Total		Implementation Progress				Development Objectives					
			No.	%	HS	S	PS	U	HS	S	PS	U		
Agriculture and Natural Resources	0	0.0	0	0.0	0	0	0	0	0	0	0	0	0	0
Energy	822	21.2	5	17.2	0	2	2	1	1	3	0	1		
Finance and Industry	450	11.6	4	13.8	2	1	0	1	0	3	0	1		
Social Infrastructure	1,030	26.6	10	34.5	3	6	0	1	3	6	1	0		
Transport and Communications	1,074	27.7	8	27.6	0	7	1	0	1	7	0	0		
Others/Multisector	500	12.9	2	6.9	0	2	0	0	0	2	0	0		
Total	3,876	100.0	29	100.0	5	18	3	3	5	21	1	2		

B. Disbursements	OCR	ADF	Total
(1) Total funds available for withdrawal (\$ mn, active loans only)	3,039.91	0.00	3,039.91
(2) Disbursed amount (\$ mn, cumulative, active loans only)	2,084.02	0.00	2,084.02
(3) Percentage disbursed [(2)/(1)] (%)	68.56	0.00	68.56
(4) Disbursements (\$mn, active loans only, latest year)	607.31	0.00	607.31
(5) Disbursement ratio (%) ^b	35.20	0.00	35.20

C. Net Transfer of Resources ^c (\$ million)	OCR	ADF	Total
Net transfer in 1995	202.27	0.00	202.27
Net transfer in 1996	279.82	0.00	279.82
Net transfer in 1997	342.09	0.00	342.09
Net transfer in 1998	277.80	0.00	277.80
Net transfer in 1999	215.79	0.00	215.79

D. Post-Evaluated Projects (By year of approval)	1968 - 1977		1978 - 1987		1988 - 1999		1968 - 1999	
	No.	%	No.	%	No.	%	No.	%
1. Postevaluation Rating (as of 31 December 1999)								
Rated Generally Successful (GS)	0	0.0	1	50.0	0	0.0	1	50.0
Rated Partly Successful (PS)	0	0.0	1	50.0	0	0.0	1	50.0
Rated Unsuccessful (US)	0	0.0	0	0.0	0	0.0	0	0.0
No Rating	0	0.0	0	0.0	0	0.0	0	0.0
Total	0	0.0	2	100.0	0	0.0	2	100.0
2. Postevaluation Rating by Sector								
1968-99 (as of 31 December 1999)								
	GS	PS	US	NR	Total			
	No. %	No. %	No. %	No. %	No. %			
Agriculture and Natural Resources	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0		
Energy	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	
Finance and Industry	1 100.0	0 0.0	0 0.0	0 0.0	0 0.0	1 50.0	1 50.0	
Social Infrastructure	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	
Transport and Communications	0 0.0	1 100.0	0 0.0	0 0.0	0 0.0	1 50.0	1 50.0	
Others/Multisector	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0	
Total	1 100.0	1 100.0	0 0.0	0 0.0	0 0.0	2 100.0	2 100.0	

^a HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory; 'Unsatisfactory' classification also includes 'Inactive' loans.

^b Ratio of disbursement during the year over the undisbursed net loan balance less cancellations at the beginning of the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

^c Includes private sector projects for countries with private sector operations.

Source : Programs (A), CTD (B & C), OEO (D)

INDIA
PORTFOLIO PERFORMANCE

Status of Project Implementation
Public Sector Projects Only
(As of 31 December 1999)

Sector ^a	Project Title	Net Loan Amount		Approval Date (mm/yy)	Effectivity Date (mm/yy)	Closing Date		Physical Progress (% complete)	Cum Contract Awards (\$ million)	Cumulative Disbursement (\$ million)	Project Performance Rating ^b	
		OCR (\$ million)	ADF (\$ million)			Original (mm/yy)	Revised (mm/yy)				Implementation Progress	Development Objective
ENE	Unchahar Thermal Power Extension	140.0	0.0	Sep-88	Apr-89	Sep-95	Mar-00	98	138.5	119.9	PS	HS
ENE	Second North Madras Thermal Power	170.0	0.0	Aug-90	Feb-91	Dec-95	Jun-00	88	148.9	140.8	PS	S
ENE	Power Transmission Sector	275.0	0.0	Nov-95	Oct-96	Mar-01	-	80	177.6	172.7	S	S
ENE	Renewable Energy Development	100.0	0.0	Sep-96	Jul-97	Jul-02	-	-	56.3	25.7	U	U
ENE	LPG Pipeline	136.5	0.0	Dec-97	May-99	Nov-01	-	30	94.6	36.8	S	S
F&I	Industrial Energy Efficiency	150.0	0.0	Dec-94	Jul-95	Jul-00	-	-	145.2	143.2	S	S
F&I	Private Sector Infrastructure Facility:ICICI	150.0	0.0	Nov-96	Sep-97	Sep-02	-	-	118.2	95.5	HS	S
F&I	Private Sector Infrastructure Facility:IFCI	100.0	0.0	Nov-96	Sep-97	Sep-02	-	-	60.8	47.3	HS	S
F&I	Private Sector Infrastructure Facility:SCICI Ltd.	50.0	0.0	Nov-96	-	-	-	-	0.0	0.0	I	I
T&C	Railways	181.4	0.0	Nov-87	Mar-88	Jan-93	Mar-04	97	158.6	175.5	S	S
T&C	Second Road	250.0	0.0	Oct-90	Jul-91	Dec-96	Dec-99	98	204.3	239.8	S	S
T&C	Coal Ports	285.0	0.0	Oct-92	Jul-93	Jun-98	May-00	85	225.4	181.2	U	PS
T&C	National Highways	245.0	0.0	Nov-93	May-95	Dec-99	Dec-01	35	149.5	99.9	PS	S
T&C	Mumbai Port	97.8	0.0	Sep-97	Jan-99	Sep-03	-	29	44.3	8.5	S	S
T&C	Chennai Ports	15.2	0.0	Sep-97	Feb-99	Mar-03	-	0	6.8	0.7	S	S
SOC	Karnataka Urban Infrastructure Devt.	85.0	0.0	Dec-95	Jul-96	Jun-02	-	42	49.8	26.5	S	PS
SOC	Karnataka Urban Infrastructure Devt.	20.0	0.0	Dec-95	Dec-96	Jun-02	-	-	17.5	20.0	HS	HS
SOC	Housing Finance (NHB)	100.0	0.0	Sep-97	Dec-97	Jun-03	-	-	100.5	100.0	S	S
SOC	Housing Finance (HUDCO)	100.0	0.0	Sep-97	Dec-97	Jun-03	-	-	100.5	100.0	HS	HS
SOC	Housing Finance (HDFC)	100.0	0.0	Sep-97	Dec-97	Jun-03	-	-	60.0	100.0	HS	HS
SOC	Rajasthan Urban Infrastructure Devt.	250.0	0.0	Dec-98	-	Jun-05	-	2	0.0	0.0	U	S
SOC	Karnataka Urban Devt & Coastal Envl Mgmt.	175.0	0.0	Dec-99	-	Jun-05	-	2	0.0	0.0	S	S
SOC	Urban & Environmental Infra. Facility(HUDCO)	90.0	0.0	Dec-99	-	-	-	-	0.0	0.0	S	S
SOC	Urban & Environmental Infra. Facility(ICICI)	80.0	0.0	Dec-99	-	-	-	-	0.0	0.0	S	S
SOC	Urban & Environmental Infra. Facility(IDFC)	30.0	0.0	Dec-99	-	-	-	-	0.0	0.0	S	S
OTH	Gujarat Public Sector Resource Mgmt Program	250.0	0.0	Dec-96	Dec-96	Dec-98	Dec-99	-	150.0	150.0	PS	S
OTH	Madhya Pradesh Public Resource Mgmt.	250.0	0.0	Dec-99	Dec-99	Sep-02	-	-	100.0	100.0	S	S
Total		3,875.9	0.0						2,307.4	2,084.0		

^a Sector:

AGR: Agriculture & Natural Resources

ENE: Energy

SOC: Social Infrastructure

F&I: Finance & Industry

T&C: Transport and Communications

OTH: Others/Multisector

^b HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory; I: Inactive.

NOTE: Excludes loans closed during the year.

INDIA
OVERALL EXTERNAL ASSISTANCE
(in \$ million)

External Source	Past 5 Years (annual average)		1999 Approvals	
	Loan/Credit	TA	Loan/Credit	TA
A. Multilateral Assistance				
ADB	601		625	
World Bank	1,756		900	
Subtotal	2,357		1,525	
B. Bilateral Assistance				
Germany	223		40	
Japan	1,030		1	
Netherlands	82		0	
United Kingdom	87		472	
Others	148		158	
Subtotal	1,570		671	
Total	3,927		2,196	
Memo Items:				
External Assistance as % of Current Expenditures	8.7		3.8	
External Assistance as % of Capital Expenditures	30.5		18.7	

Source: Government of India, *Economic Survey*, various issues.

INDIA
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003

Sector/Project Name	Poverty Classification ^a	Crosscutting Operational Priority ^b	Responsible Division	Year of PPTA	PROJECT COST (in \$ million)					
					TOTAL	Bank			Gov't	Cofinancing (Others)
						OCR	ADF	Total		
2001 FIRM LOANS										
Energy										
1 Power Finance Corporation	ODI	GG	IWEN	1999 ^c	tbd	250.0	0	250.0	tbd	100.0
Subtotal					tbd	250.0	0	250.0	tbd	100.0
Social Infrastructure										
2 Calcutta Environmental Improvement	PI	ENV	AWWU	1998	tbd	250.0	0	250.0	tbd	tbd
Subtotal					tbd	250.0	0	250.0	tbd	tbd
Transport and Communications										
3 National Highway Public-Private Partnership I	ODI	PSD	IWTC	1998	tbd	200.0	0	200.0	tbd	offic./commerc.
4 West Bengal Transport Development	ODI	RC	INRM	1998	tbd	200.0	0	200.0	tbd	150.0
Subtotal					tbd	400.0	0	400.0	tbd	150.0
Others/Multisector										
5 Env'l Improvement and Sustainable Dev't for Agra-Mathura-Ferozabad Trapezium	PI	ENV	IWEN	1995	tbd	200.0	0	200.0	tbd	official
Subtotal					tbd	200.0	0	200.0	tbd	official
Total					tbd	1,100.0	0.0	1,100.0	tbd	tbd
2001 STANDBY LOANS										
Energy										
1 Madhya Pradesh Power Sector Dev't	PI	GG	IWEN	1998	tbd	300.0	0	300.0	tbd	official
Subtotal					tbd	300.0	0	300.0	tbd	official
Total					tbd	300.0	0.0	300.0	tbd	tbd
2002 FIRM LOANS										
Energy										
1 Madhya Pradesh Power Sector Dev't	PI	GG	IWEN	1998	tbd	300.0	0	300.0	tbd	official
2 Energy Efficiency Enhancement SDP	ODI	ENV	IWEN	2001	tbd	200.0	0	200.0	tbd	tbd
Subtotal					tbd	500.0	0	500.0	tbd	tbd
Finance and Industry										
3 Private Sector Infrastructure Facility at National and State Level	ODI	PSD	IWFI	2000/01 ^c	tbd	300.0	0	300.0	tbd	offic./commerc.
Subtotal					tbd	300.0	0	300.0	tbd	tbd
Transport and Communication										
4 National Highway Public-Private Partnership II	ODI	PSD	IWTC	2000	tbd	250.0	0	250.0	tbd	offic./commerc.
Subtotal					tbd	250.0	0	250.0	tbd	tbd
Others/Multisector										
5 Public Resource Mgmt. Program (Kerala)	PI	GG	IWFI/PW2	2000 ^c	tbd	200.0	0	200.0	tbd	official
Subtotal					tbd	200.0	0	200.0	tbd	official
Total					tbd	1,250.0	0.0	1,250.0	tbd	tbd
2002 STANDBY LOANS										
Transport and Communication										
1 Madhya Pradesh State Roads Project	PI	GG	IWTC	2001	tbd	250.0	0	250.0	tbd	official
Subtotal					tbd	250.0	0	250.0	tbd	official
Total					tbd	250.0	0.0	250.0	tbd	tbd

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development; and RC = Regional Cooperation

^c Advisory TA.

INDIA
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003

Sector/Project Name	Poverty Classification ^a	Crosscutting Operational Priority ^b	Responsible Division	Year of PPTA	PROJECT COST (in \$ million)						
					TOTAL	Bank			Gov't	Cofinancing (Others)	
						OCR	ADF	Total			
2003 FIRM LOANS											
Energy											
1 Power Sector Dev't Program (Kerala)	ODI	PSD	IWEN	2000	tbd	200.0	0	200.0	tbd	offic./commerc.	
Subtotal					tbd	200.0	0	200.0	tbd	tbd	
Social Infrastructure											
2 Housing Finance III	ODI	HD	AWWU	2002	tbd	300.0	0	300.0	tbd	tbd	
Subtotal					tbd	300.0	0	300.0	tbd	tbd	
Transport and Communication											
3 West Bengal Inland Waterways/Transport Development	ODI	RC	INRM	2002	tbd	200.0	0	200.0	tbd	tbd	
4 National Highway Public-Private Partnership III	ODI	PSD	IWTC	2001	tbd	250.0	0	250.0	tbd	offic./commerc.	
5 Madhya Pradesh State Roads Project	PI	GG	IWTC	2001	tbd	250.0	0	250.0	tbd	official	
Subtotal					tbd	700.0	0	700.0	tbd	official	
Total					tbd	1,200.0	0.0	1,200.0	tbd	tbd	
2003 STANDBY LOANS											
Social Infrastructure											
1 Urban Poverty Reduction (Madhya Pradesh)	CPI	ENV	AWWU	2001	tbd	250.0	0	250.0	tbd	tbd	
Subtotal					tbd	250.0	0	250.0	tbd	tbd	
Total					tbd	250.0	0.0	250.0	tbd	tbd	

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development; and RC = Regional Cooperation.

^c Advisory TA.

INDIA
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003

Sector/Project Name	Responsible Division	Type of TA	Amount (\$ '000)		
			ADB	Others	Total
2001 TECHNICAL ASSISTANCE PROGRAM					
Energy					
1 Energy Efficiency Enhancement	IWEN	PPTA	600.0	0.0	600.0
2 Power Sector Development Program (Kerala)	IWEN	PPTA	800.0	0.0	800.0
	Subtotal		<u>1,400.0</u>	<u>0.0</u>	<u>1,400.0</u>
Finance and Industry					
3 Private Sector Infrastructure Facility at National and State Level	IWFI	ADTA	800.0	0.0	800.0
4 Mutual Funds	IWFI	ADTA	1,000.0	0.0	1,000.0
	Subtotal		<u>1,800.0</u>	<u>0.0</u>	<u>1,800.0</u>
Social Infrastructure					
5 Urban Poverty Reduction (Madhya Pradesh)	AWWU	PPTA	950.0	0.0	950.0
6 Assessing the Role of Mortgage-Backed Securities in Housing Market	AWWU	ADTA	100.0	0.0	100.0
7 Institutional and Regulatory Frameworks for Urban Services (Cluster)	INRM; AWWU	ADTA	950.0 ^{1/}	0.0	950.0
8 Conservation of Indian Sundarbans and Poverty Reduction	AWFN	ADTA	450.0	0.0	450.0
	Subtotal		<u>2,450.0</u>	<u>0.0</u>	<u>2,450.0</u>
Transport and Communications					
9 National Highways Public-Private Partnership	IWTC	PPTA	800.0	0.0	800.0
10 Madhya Pradesh State Roads Sector	IWTC	PPTA	600.0	0.0	600.0
11 Institutional Strengthening of National Highways Authority	IWTC	ADTA	1,000.0	0.0	1,000.0
	Subtotal		<u>2,400.0</u>	<u>0.0</u>	<u>2,400.0</u>
Others/Multisector					
12 Capacity Building for Environment Management at State Level (Cluster)	ENVD	ADTA	900.0 ^{2/}	0.0	900.0
13 Study on Ways to Support Rural Poverty Reduction Projects	OESD/PWD	ADTA	600.0	0.0	600.0
14 Capacity Building in Poverty Reduction Strategy at the State Level	PW2/OESD	ADTA	600.0	0.0	600.0
15 Institutional Strengthening of GIDB (Cluster)	IWFI/PW2	ADTA	800.0	0.0	800.0
16 Capacity Building in Microfinance	PWOD	ADTA	700.0	0.0	700.0
17 Support for Registration System for Secured Transactions	OGC	ADTA	500.0	0.0	500.0
	Subtotal		<u>4,100.0</u>	<u>0.0</u>	<u>4,100.0</u>
Total			12,150.0	0.0	12,150.0
2002 TECHNICAL ASSISTANCE PROGRAM					
Energy					
1 Gujarat Power Sector Development II	IWEN	PPTA	800.0	0.0	800.0
2 Increasing Private Sector Participation in Electricity Distribution	IWEN	ADTA	1,000.0	0.0	1,000.0
	Subtotal		<u>1,800.0</u>	<u>0.0</u>	<u>1,800.0</u>
Social Infrastructure					
3 Urban Dev't., Env'l Improvement, and Poverty Reduction (Kerala)	AWWU	PPTA	1,000.0	0.0	1,000.0
4 Urban and Environmental Infrastructure Facility II	AWWU	PPTA	800.0	0.0	800.0
5 Community Empowerment in Local Government	AWWU	ADTA	250.0	0.0	250.0
6 Institutional and Regulatory Framework for Urban Services (Cluster)	INRM; AWWU	ADTA	1,150.0	0.0	1,150.0
7 Housing Finance III	AWWU	PPTA	600.0	0.0	600.0
	Subtotal		<u>3,800.0</u>	<u>0.0</u>	<u>3,800.0</u>
Transport and Communication					
8 West Bengal Inland Waterways/Transport Development	INRM	PPTA	800.0	0.0	800.0
9 National Highways Corridor I	IWTC	PPTA	800.0	0.0	800.0
	Subtotal		<u>1,600.0</u>	<u>0.0</u>	<u>1,600.0</u>
Others					
10 Capacity Building for Env'l Management at State Level (Cluster)	ENVD	ADTA	700.0 ^{2/}	0.0	700.0
11 Institutional Strengthening of GIDB (Cluster)	IWFI/PW2	ADTA	700.0	0.0	700.0
12 Assessment of ADB's State Level Operations	PW2	ADTA	300.0	0.0	300.0
13 Capacity Building in Economic and Poverty Monitoring at State Level	PW2	ADTA	450.0	0.0	450.0
	Subtotal		<u>2,150.0</u>	<u>0.0</u>	<u>2,150.0</u>
Total			9,350.0	0.0	9,350.0

^{1/} Multiyear cluster TA for \$2.6 million, providing advisory support inter alia for issues such as tariff reform for urban water/sewerage systems, strengthening municipal resource generation, promotion of public-private partnerships for municipal service delivery, and improved financial management of local bodies.

^{2/} Multiyear cluster TA (TA program 2000) in the amount of \$3.6 million, with subprojects in years 2001/2002 counted against the IPF of the respective years.

INDIA
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003

	Sector/Project Name	Responsible Division	Type of TA	Amount (\$ '000)		Total
				ADB	Others	
2003 TECHNICAL ASSISTANCE PROGRAM						
1	Madhya Pradesh Power Sector Development II	IWEN	PPTA	1,000.0	0.0	1,000.0
		Subtotal Energy		<u>1,000.0</u>	<u>0.0</u>	<u>1,000.0</u>
Social Infrastructure						
2	Institutional and Regulatory Frameworks for Urban Services (Cluster)	INRM; AWWU	ADTA	500.0 ^{1/}	0.0	500.0
3	Is Decentralization Working? - Assessing Municipal Performance	AWWU	ADTA	350.0	0.0	350.0
		Subtotal		<u>850.0</u>	<u>0.0</u>	<u>850.0</u>
Transport and Communication						
4	National Highways Corridor II	IWTC	PPTA	800.0	0.0	800.0
5	Railway Sector Improvement II	IWTC	PPTA	1,000.0	0.0	1,000.0
		Subtotal		<u>1,800.0</u>	<u>0.0</u>	<u>1,800.0</u>
Others						
6	Assessment of Poverty Impact of State-Level Operations	PW2	ADTA	400.0	0.0	400.0
		Subtotal		<u>400.0</u>	<u>0.0</u>	<u>400.0</u>
	Total			4,050.0	0.0	4,050.0

^{1/} Multiyear cluster TA for \$2.6 million, providing advisory support inter alia for issues such as tariff reform for urban water/sewerage systems, strengthening municipal resource generation, promotion of public-private partnerships for municipal service delivery, and improved financial management of local bodies.

^{2/} Multiyear cluster TA (TA program 2000) in the amount of \$3.6 million, with subprojects in years 2001/2002 counted against the IPF of the respective years.

INDIA
FIRM LENDING PROGRAM, 2001-2003
BY POVERTY CLASSIFICATION, CROSSCUTTING OPERATIONAL PRIORITY AND SECTOR

Classification	2001		2002-2003	
	No.	%	No.	%
I. By Poverty Classification				
A. Core Poverty Intervention	0	0.0	0	0.0
B. Poverty Intervention (Non-core)	2	40.0	3	30.0
C. Other Development Interventions	3	60.0	7	70.0
Total	5	100.0	10	100.0
II. By Crosscutting Operational Priority				
A. Environment	2	40.0	1	10.0
B. Gender and Development	0	0.0	0	0.0
C. Good Governance	1	20.0	3	30.0
D. Human Development	0	0.0	1	10.0
E. Private Sector Development	1	20.0	4	40.0
F. Regional Cooperation	1	20.0	1	10.0
Total	5	100.0	10	100.0
III. By Sector				
A. Agriculture and Natural Resources	0	0.0	0	0.0
B. Energy	1	20.0	3	30.0
C. Finance and Industry	0	0.0	1	10.0
D. Social Infrastructure	1	20.0	1	10.0
E. Transport and Communications	2	40.0	4	40.0
F. Others/Multisector	1	20.0	1	10.0
Total	5	100.0	10	100.0

INDIA

PROJECT PROFILE				
1. Project Name: Power Finance Corporation			2. Sector/Subsector: Energy/Electric Power	
3. Poverty Classification: ^a ODI			4. Crosscutting Operational Priority: ^b GG	
5. Rationale & Objectives: The Project will support restructuring and development of the power sectors in the states of Punjab, West Bengal and Assam.			6. Beneficiary Participation/Consultation Needs: Some beneficiary states have been consulted. Beneficiary participation consultation to continue.	
7. Scope: TBD				
8. Estimated Cost & Financing Plan:				Remarks:
Loan Project Cost (\$m)				
Financing (Source)	FC	LC	Total	
ADB			250.0	
Co-financing			100.0	
Borrower			tbd	
Sub-borrowers			tbd	
Total			tbd	
9. Estimated Benefits and Beneficiary Groups: Electricity consumers in selected states. Benefits include improved quality of supply.				
10. Executing Agency: Power Finance Corporation			11. Project Implementation Period: Start: 2001 End: 2004	
12. Environment Category: tbd			13. Processing Year: 2001	

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development; and RC = Regional Cooperation

INDIA

PROJECT PROFILE				
1. Project Name: Calcutta Environmental Improvement			2. Sector/Subsector: Social Infrastructure/Urban Development and Housing	
3. Poverty Classification: ^a PI			4. Crosscutting Operational Priority: ^b ENV	
5. Rationale & Objectives: The Project will assist the Government in providing for the highest priority environmental improvements in Calcutta.			6. Beneficiary Participation/Consultation Needs: Beneficiary consultations will be made through surveys, NGO coordination, and workshops.	
7. Scope: The scope will include improvements in drainage, wastewater management, and solid waste management as well as other investments such as air pollution and cleaner industrial production necessary for improving environmental quality over the next 20 years.				
8. Estimated Cost & Financing Plan:				Remarks:
Loan Project Cost (\$m)				
Financing (Source)	FC	LC	Total	
ADB			250.0	
Co-financing			tbd	
Borrower			tbd	
Sub-borrowers			tbd	
Total			tbd	
9. Estimated Benefits and Beneficiary Groups: An estimated current population of 4.5 million will be benefited by the improvements in wastewater, solid waste, and hospital waste management, and in drainage and flood control.				
10. Executing Agency: Calcutta Municipal Corporation			11. Project Implementation Period: Start: 2001 End: 2006	
12. Environment Category: B			13. Processing Year: 2001	

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development; and RC = Regional Cooperation

INDIA

PROJECT PROFILE				
1. Project Name: National Highways Public-Private Partnership I			2. Sector/Subsector: Transport/Roads	
3. Poverty Classification: ^a ODI			4. Crosscutting Operational Priority: ^b PSD	
5. Rationale & Objectives: Capacity constraints on the country's high density transport corridors is inflicting heavy economic and social costs. The objective of the Project is to increase capacity on the national highways through private financing.			6. Beneficiary Participation/Consultation Needs: Road users and persons affected by land acquisition for the highways/expressway will be consulted.	
7. Scope: The Project will improve capacity and increase safety through the four-laning of national highways and/or the construction of an inter-urban expressway along National Highway No. 8 (Delhi-Mumbai) and National Highway No. 4 (Mumbai-Chennai) corridors.				
8. Estimated Cost & Financing Plan:				Remarks: 1. The framework for private participation in highway/expressway financing is being developed under TA No. 2986-IND: Western Transport Corridor-Facilitating Private Participation. 2. Financing Plan may involve equity participation by ADB.
Loan Project Cost (\$m)				
Financing (Source)	FC	LC	Total	
ADB			200.0	
Co-financing			tbd	
Borrower			tbd	
Sub-borrowers			tbd	
Total			tbd	
9. Estimated Benefits and Beneficiary Groups: Mobilization of private financing for the development of highways/expressways along high density transport corridors. Reduction in transport costs. Beneficiaries will be transport operators and road users.				
10. Executing Agency: National Highways Authority of India			11. Project Implementation Period: Start: 2001 End: 2004	
12. Environment Category: tbd			13. Processing Year: 2001	

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development; and RC = Regional Cooperation

INDIA

PROJECT PROFILE					
1. Project Name: West Bengal Transport Development			2. Sector/Subsector: Transport/Roads		
3. Poverty Classification: ^a ODI			4. Crosscutting Operational Priority: ^b RC		
5. Rationale & Objectives: To promote greater subregional cooperation, and public-private partnerships in highway upgradation.			6. Beneficiary Participation/Consultation Needs:		
7. Scope: Upgrading the North-South corridor in West Bengal.					
8. Estimated Cost & Financing Plan:			Remarks:		
Loan Project Cost (\$m)					
Financing (Source)	FC	LC			Total
ADB					200.0
Co-financing					150.0
Borrower					tbd
Sub-borrowers					tbd
Total			tbd		
9. Estimated Benefits and Beneficiary Groups: Reduction in transportation cost will stimulate economic activity. Employment generation will contribute to alleviating poverty.					
10. Executing Agency: tbd			11. Project Implementation Period: Start: 2001 End: 2005		
12. Environment Category:			13. Processing Year: 2001		

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development; and RC = Regional Cooperation

INDIA

PROJECT PROFILE				
1. Project Name: Environmental Improvement and Sustainable Development for the Agra-Mathura-Ferozabad Trapezium			2. Sector/Subsector: Environment/Social Sector	
3. Poverty Classification: ^a PI			4. Crosscutting Operational Priority: ^b ENV	
5. Rationale & Objectives: The severe environmental problems in the Trapezium, as in other urban industrial areas of India, are caused primarily by resource-intensive, inefficient, and outdated industrial processes; reliance on coal for energy supply; low-quality coke for foundry use; inefficient energy use; inadequate measures to mitigate environmental impacts; weak institutional capabilities; and inappropriate economic policies. For the past quarter century or so, various national and international agencies have voiced their concerns about the deterioration in the quality of life and the degradation of monuments by air pollution, whose appearance and structure have been adversely affected. The Project will focus on sustainable development in the Trapezium and address three strategic issues: environmental protection, energy conservation, and economic and social impact. The main objective is to formulate a sustainable integrated Project to improve the quality of life in the Trapezium.			6. Beneficiary Participation/Consultation Needs: Close consultation will be required with residents at and near the project area.	
7. Scope: For the sustainable development and to achieve the objectives of the Project, the scope will include: (i) Government Policies, Objectives, and Plans (Federal, State, and Local), (ii) Environmental Aspects (Agra/Mathura/Ferozabad), (iii) Preservation of Monuments (Agra/Mathura/Fatehpur Sikri), (iv) Sociological Aspects, (v) Industrial Restructuring (Environmental friendly industrial processes for industries at Agra, Mathura, Ferozabad, and Fatehpur Sikri), (vi) Energy Aspects (fuel substitution provision for the supply of natural gas, establishment of Power Plant, (vii) Education/Training (Women/children, vocational training, etc.), (viii) Water Supply/Augmentation (Agra Barrage System), (ix) Water and Sewage Treatment (industrial/domestic), (x) Infrastructure (Roads, Highway Diversion, etc.), (xi) Mathura Refinery (Input/Output), (xii) Greenification (Green Belting around Agra/Mathura/Ferozabad), and (xiii) Tourism.				
8. Estimated Cost & Financing Plan:				Remarks: The sources of cofinancing will be assessed during loan processing.
Loan Project Cost (\$m)				
Financing (Source)	FC	LC	Total	
ADB			200.0	
Co-financing			tbd	
Borrower			tbd	
Sub-borrowers			tbd	
Total			tbd	
9. Estimated Benefits and Beneficiary Groups: The Project will help improve the environment situation in the trapezium, restore world renowned cultural and heritage monuments such as the Taj Mahal in Agra and temples at Mathura, the birthplace of Lord Krishna, generate employment opportunities and improve the quality of life.				
10. Executing Agency: tbd			11. Project Implementation Period: Start: 2001 End: 2006	
12. Environment Category: A/B			13. Processing Year: 2001	

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development; and RC = Regional Cooperation