

Report No 19471-IN

India

Policies to Reduce Poverty and Accelerate Sustainable Development

January 31, 2000

Poverty Reduction and Economic Management Unit
South Asia Region



CURRENCY

<u>Currency</u>	<u>Rs/ US\$</u>		
	<u>Official</u>	<u>Unified</u>	<u>Market ^a</u>
Prior to June 1966	4.76		
June 6, 1966 to mid-December 1971	7.50		
Mid-December 1971 to end-June 1972	7.28		
	1971-72	7.44	
	1972-73	7.71	
	1973-74	7.79	
	1974-75	7.98	
	1975-76	8.65	
	1976-77	8.94	
	1977-78	8.56	
	1978-79	8.21	
	1979-80	8.08	
	1980-81	7.89	
	1981-82	8.93	
	1982-83	9.63	
	1983-84	10.31	
	1984-85	11.89	
	1985-86	12.24	
	1986-87	12.79	
	1987-88	12.97	
	1988-89	14.48	
	1989-90	16.66	
	1990-91	17.95	
	1991-92	24.52	
	1992-93	26.41	30.65
	1993-94	31.36	
	1994-95	31.40	
	1995-96	33.46	
	1996-97	35.50	
	1997-98	37.16	
	1998-99	42.00	
September	1999	43.54	
October	1999	43.45	
November	1999	43.39	

Note: The Indian fiscal year runs from April 1 through March 31.

Source: IMF, International Finance Statistics (IFS), line "rf"; Reserve Bank of India.

^a A dual exchange rate system was created in March 1992, with a free market for about 60 percent of foreign exchange transactions. The exchange rate was reunified at the beginning of March 1993 at the free market rate.

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ABBREVIATIONS AND ACRONYMS

AD	Anti Dumping	NTB	Non-Tariff Barriers
BHEL	Bharat Heavy Electronics Limited	NTPC	National Thermal Power Corporation
BIFR	Board for Industrial and Financial Reconstruction	O&M	Overheads and Maintenance
BOP	Balance of Payments	OCC	Oil Coordination Committee
BOT	Build-Operate-Transfer	ONGC	Oil and Natural Gas Commission
BPCL	Bharat Petrochemicals Limited	PAC	Public Accounts Committee
CAG	Comptroller and Auditor General	PDS	Public Distribution System
CD	Certificate of Deposit	PSE	Public Sector Enterprise
CEO	Chief Executive Officer	QR	Quantitative Restrictions
CII	Confederation of Indian Industry	RBI	Reserve Bank of India
CIF	Cost, Insurance and Freight	REER	Real Effective Exchange Rate
CPE	Central Public Enterprise	RER	Real Exchange Rate
CPI	Consumer Price Index	RIB	Resurgent India Bond
CPIAL	Consumer Price Index for Agricultural Laborers	SAIL	Steel Authority of India Limited
CSO	Central Statistical Organization	SDR	Special Drawing Rights
CSS	Centrally Sponsored Scheme	SEB	State Electricity Board
CVC	Central Vigilance Commission	SEBI	Securities and Exchange Board of India
CVD	Countervailing Duty	SICA	Sick Industrial Companies Act
DOT	Department of Telecommunications	SSI	Small Scale Industry
FDI	Foreign Direct Investment	TPDS	Targeted Public Distribution System
FII	Foreign Institutional Investor	TRAI	Telecom Regulatory Authority of India
FIs	Finance Institutions	UNCTAD	United Nations Conference on Trade and Development
FOB	Free on Board	UNDP	United Nations Development Programme
FSU	Former Soviet Union	UPSEB	Uttar Pradesh State Electricity Board
GAIL	Gas Authority of India Limited	UTI	Unit Trust of India
GDP	Gross Domestic Product	VAT	Value Added Tax
GFCF	Gross Fixed Capital Formation	VDIS	Voluntary Disclosure Income Scheme
GNFS	Goods and Non-factor Services	VSNL	Videsh Sanchar Nigam Limited
GNP	Gross National Product	WMA	Ways and Means Advances
GOI	Government of India	WPI	Wholesale Price Index
HPCL	Hindustan Petrochemicals Limited	WTO	World Trade Organization
ICICI	Industrial Credit and Investment Corporation of India		
IDBI	Industrial Development Bank of India		
IFS	International Financial Statistics		
IMF	International Monetary Fund		
IOC	Indian Oil Corporation		
IPCL	Indian Petrochemicals Limited		
IPP	Independent Power Producers		
JNCP	Jawaharlal Nehru Container Port		
JNPT	Jawaharlal Nehru Port Trust		
KWh	Kilowatt Hour		
MOF	Ministry of Finance		
MTNL	Mahanagar Telephone Nigam Limited		
MW	Megawatt		
NAS	National Accounts Statistics		
NBFCs	Non Banking Financial Companies		
NCAER	National Council of Applied Economic Research		
NFHS	National Family Health Survey		
NGOs	Non Government Organizations		
NIPFP	National Institute of Public Finance and Policy		
NPA	Non-Performing Assets		
NR (NR)D	Non-Resident (Non Repatriable) Deposits		
NSSO	National Sample Survey Organization		

ECONOMIC DEVELOPMENT DATA

GNP Per Capita (US\$, 1998-99): 430^a

Gross Domestic Product

	US\$ Bln	% of GDP	Annual Growth Rate (% p.a., constant prices)						
			1998-99	70-71- 75-76	75-76- 80-81	80-81- 85-86	85-86- 90-91	91-92- 98-99	1997-98- 1998-99
			GDP at Factor Cost	392	91.6	3.0	3.1	5.0	6.3	6.5	6.0
GDP at Market Prices	428	100.0	2.9	3.1	5.4	6.3	6.4	5.0	
Gross Domestic Investment	102	23.8	4.6	3.1	7.0	7.4	8.5	7.7	
Gross Domestic Saving	92	21.5	7.3	-0.1	10.1	7.1	4.8	8.9	
Current Account Balance	-3	-0.7	--	--	--	--	--	--	

Output, Employment and Productivity (1990-91)

	Value Added		Labor Force ^b		V. A. per Worker	
	US\$ Bln	% of Tot	Mill. % of Tot		US\$	% of Avg.
	Agriculture	89	30.8	186	66.8	480	46.1
Industry	79	27.1	36	12.7	2215	212.8
Services	122	42.1	57	20.5	2139	205.5
Total/ Average	290	100.0	279	100.0	1041	100.0

Government Finance

	General Government ^c			Central Government		
	Rs. Bln.	% of GDP		Rs. Bln.	% of GDP	
	98-99	98-99	91-92-98-99	98-99	98-99	91-92-98-99
Revenue Receipts	3080	17.1	17.6	1577	8.7	9.0
Revenue Expenditures	3907	21.6	21.3	2181	12.1	11.9
Revenue Surplus/ Deficit (-)	-828	-4.6	-3.7	-605	-3.4	-2.8
Capital Expenditures	616	3.4	3.6	523	2.9	2.9
External Assistance (net) ^d	23	0.1	0.4	9	0.1	0.4

Money, Credit, and Prices

	92/93	93/94	94/95	95/96	96/97	97/98	98/99
	(Rs. billion outstanding, end of period)						
Money and Quasi Money	3668	4344	5314	6040	7018	8272	9743
Bank Credit to Government (net)	1762	2039	2224	2578	2886	3306	3867
Bank Credit to Commercial Sector	2201	2378	2927	3446	3763	4327	4869
	(percentage or index numbers)						
Money and Quasi Money as % of GDP	48.0	49.5	51.2	49.6	49.8	52.9	54.0
Wholesale Price Index (1981-82 = 100)	228.7	247.8	274.7	295.8	314.6	329.8	6.9
Annual Percentage Changes in:							
Wholesale Price Index	10.1	8.4	10.9	7.7	6.4	4.8	-97.9
Bank Credit to Government (net)	11.4	15.7	9.1	15.9	12.0	14.5	17.0
Bank Credit to Commercial Sector	17.1	8.0	23.1	17.7	9.2	15.0	12.5

a. The per capita GNP estimate is at market prices, using World Bank Atlas methodology. Other conversions to dollars in this table are at the prevailing average exchange rate for the period covered.

b. Total Labor Force from 1991 Census. Excludes data for Assam and Jammu & Kashmir.

c. Budget Estimates and Transfers between Centre and States have been netted out.

d. As recorded in the government budget.

Balance of Payments (US\$ Millions)**Merchandise Exports (Average 1991-92-1998-99)**

	1996-97	1997-98	1998-99		US\$ Mill	% of Tot.
Exports of Goods & NFS	41,607	45,109	47,484	Tea	397	1.5
Merchandise, fob	34,133	35,680	34,298	Iron Ore	459	1.7
Imports of Goods & NFS	55,696	59,297	58,565	Chemicals	2,174	8.0
Merchandise, cif	48,948	51,187	47,544	Leather & Leather products	1,506	5.6
of which Crude Petroleum	5,222	4,278	3,350	Textiles	3,455	12.8
of which Petroleum Products	4,814	3,939	3,084	Garments	3,278	12.1
Trade Balance	-14,815	-15,507	-13,246	Gems and Jewelry	4,450	16.5
Non Factor Service (net)	726	1,319	2,165	Engineering Goods	3,487	12.9
				Others	7,808	28.9
Resource Balance	-14,089	-14,188	-11,081	Total *	27,013	100.0
Net factor Income ^a	-3,307	-3,521	-3,544	External Debt, March 31, 1999		
Net Transfers ^b	12,367	11,830	10,280			
						US\$ Mill.
Balance on Current Account	-5,029	-5,879	-4,345	Public & Publicly Guaranteed		85,208
Foreign Investment	6,133	5,385	2,401	Private Non-Guaranteed		8,409
Official Grants and Aid	410	379	307	Total (Including IMF and Short Term)		98,231
Net Medium & Long Term Capital	3,230	4,139	4,380	Debt Service Ratio for 1998-99		
Gross Disbursements	10,627	10,256	9,952			% curr receipts
Principal Repayments	7,397	6,117	5,572	Public & Publicly Guaranteed		21.0
Other Capital Flows ^c	-1,892	-940	-159	Private Non-Guaranteed		1.8
Non-Resident Deposits	3,350	1,125	1,742	Total (Including IMF and Short Term)		24.0
Net Transactions with IMF	-975	-613	-393	IBRD/ IDA Lending, Mar 31, 1999 (US\$ M)		
Overall Balance	6,202	4,209	4,326			
Change in Net Reserves	-5,227	-3,596	-3,933		IBRD	IDA
Gross Reserves (end of year) ^d	22,664	26,260	30,193	Outstanding and Disbursed	8,114	18,562
				Undisbursed	3,512	4,463
				Outstanding incl. Undisb.	11,626	23,024
Rate of Exchange						
End-Oct 1999	US\$ 1.00 = Rs. 43.454					

- a. Figures given cover all investment income (net). Major payments are interest on foreign loans and charges paid to IMF, and major receipts is interest earned on foreign assets.
- b. Figures given include workers' remittances but exclude official grant assistance which is included within official loans and grants, and non-resident deposits which are shown separately.
- c. Includes short-term net capital inflow, changes in reserve valuation and other items.
- d. Excluding gold.
- f. Total exports (commerce); net of crude petroleum exports.

Sources: Union Budget Documents; RBI State Finances Reports; RBI Annual Reports; DGC&S; World Bank Estimates.

India Social Indicators

	Latest single year			Same region/income group (1992-97, latest single year)	
	1970-75	1980-85	1992-97	South Asia	Low- income
POPULATION					
Total population, mid-year (millions)	613.5	765.1	962.4	1,281.3	2,035.6
Growth rate (% annual average)	2.3	2.1	1.4	1.5	1.7
Urban population (% of population)	21.3	24.3	27.4	27.0	28.4
Total fertility rate (births per woman)	5.6	4.8	3.3	3.5	4.0
POVERTY (% of population)					
National headcount index	..	..	35.0	..	..
Urban headcount index	..	..	30.5	..	..
Rural headcount index	..	..	36.7	..	..
INCOME					
GNP per capita (US\$)	160	260	430	..	..
Consumer price index (1995=100)	21	41	117	117	122
Food price index (1995=100)	..	38	115	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	29.7	..	..
Lowest quintile (% of income or consumption)	5.9	..	9.2	..	..
Highest quintile (% of income or consumption)	49.4	..	39.3	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	0.7	0.8	1.0
Education (% of GNP)	2.7	3.5	3.4	3.0	..
Social security and welfare (% of GDP)	..	..	..	..	..
Gross primary school enrollment rate (% of age group)					
Total	79	96	101	..	..
Male	94	111	110	..	..
Female	62	80	90	..	..
Access to safe water (% of population)					
Total	31	54	85	81	69
Urban	80	80	87	84	80
Rural	18	47	85	80	66
Immunization rate (% under 12 months)					
Measles	..	1	81	81	74
DPT	..	41	90	87	76
Child malnutrition (% under 5 years)	..	..	53	53	..
Life expectancy at birth (years)					
Total	50	55	63	62	59
Male	51	56	62	62	58
Female	49	55	64	63	60
Mortality					
Infant (per thousand live births)	132	97	71	77	82
Under 5 (per thousand live births)	206	177	88	100	118
Adult (15-59)					
Male (per 1,000 population)	324	261	212	219	274
Female (per 1,000 population)	353	279	202	212	255
Maternal (per 100,000 live births)	..	460	440	..	..

EXECUTIVE SUMMARY

This Report is a pilot in the World Bank's **new approach to country economic reports, embodying the Bank's Comprehensive Development Framework**. Experience worldwide indicates that poverty reduction and sustainable development require sound macroeconomic policies, open trade relations, and increases in human and physical capital. But sustained development also requires a comprehensive framework that includes 1) good governance; 2) sound legal, incentive, and regulatory frameworks that protect property rights, enforce contracts and stimulate competitive markets, 3) a sound financial sector, adequately regulated and supervised with a basis in internationally accepted accounting and auditing standards; 4) health, education and social services that reach the poor, women and girls effectively; 5) quality infrastructure and public services to promote rural development and livable cities; and 6) policies to promote environmental and human sustainability (J. D. Wolfensohn, Address to the 1998 World Bank-IMF Annual Meetings).

The World Bank's new approach to economic reports provides a medium-term perspective on these elements and on the economy's potential vulnerabilities, including those in the short-run. Given the framework's breadth, this Report's coverage is limited to the most important issues. In other areas, it points out directions for further analysis. The Report begins with a chapter on reducing poverty – the yardstick against which development is measured and the World Bank's principal concern. It is followed by a chapter on human development, which is both an indicator of poverty reduction and a way out of poverty. Chapter 3 focuses on the Indian states, which are key actors in human development and infrastructure provision, as well as in regulation and governance. Chapter 4 deals with governance issues, a major concern of the World Bank because of its links to poverty reduction and development. The next three chapters deal with ways to increase growth and its poverty reducing content through improvements in a) infrastructure; b) the incentive and regulatory framework to encourage efficiency and labor demand – a key element in poverty reduction; and c) the financial system and corporate governance. Chapter 8 deals with recent developments, the sustainability of growth and ways to reduce vulnerability to macroeconomic crises that hurt the poor. Finally, Chapter 9 provides a brief forecast of India's prospects and summarizes policies that would accelerate poverty reduction and sustained development. The Report's discussion of agriculture (in Chapter 6) – a sector critical for poverty reduction that is still of major importance for the economy – summarizes the extensive analysis in the World Bank report *India: Towards Rural Development and Poverty Reduction*. The unifying theme for this Report is thus accelerating poverty reduction and sustained development.

Progress and Problems in Poverty Reduction

Steady Progress since Independence. India is an ancient civilization with a proud history. It is one of the world's largest and most heterogeneous countries. Prior to Independence, India suffered from frequent, devastating famines and secular stagnation. Hence, poverty reduction and agriculture were central themes of India's founding fathers. Uplifting the poor and integrating them into the mainstream is a recurrent theme of India's Five Year Plans. Universal access to education is enshrined in the Constitution. India has established a wide array of anti-poverty programs and much of India's thinking on poverty has been mainstreamed internationally. India has successfully eliminated famines and severe epidemics. It has made progress in reducing poverty and in its social indicators, which at the time of Independence in 1947 were among the world's worst. Its vibrant democracy and free press have been major factors in these achievements.

Poverty incidence began to decline steadily in the mid-1970s, which roughly coincided with a rise in growth in GDP and agriculture. Since 1980, India's 5.8% p.a. trend GDP growth is the highest among

large countries outside East Asia. Empirical analyses suggest that agricultural growth and human development were key factors in the decline in poverty across states (Chapter 1). However, the development strategy of the 1970s and 1980s, based on an extensive system of protection, regulation, and public sector presence in the economy, and on worsening fiscal deficits in the 1980s, proved unsustainable.

Quick Recovery from 1991 Crisis. The 1991 balance of payments and fiscal crisis was met by stabilization and reforms that opened-up the economy, reduced the public sector's role, and liberalized and strengthened the financial sector over the next few years. The policies generated a surprisingly quick recovery and then an unprecedented three consecutive years of 7.7% p.a. average growth, led by increases in productivity at the macroeconomic level and a booming private sector. The 3.3% p.a. agricultural growth during the 1990s has been about the same as in the 1980s and much higher than the declining rate of population growth, currently estimated at about 1.6% p.a. (Chapter 8).

Improvement in social indicators, including gender related indicators, has continued in the 1990s. For example, literacy rates continue to rise and infant mortality rates continue to fall. Life expectancy at birth has increased, as have school enrollments. Gaps between male and female access to social services are diminishing.

Sluggish Poverty Reduction in Recent Years. Despite the improvements in human development and the higher GDP growth in the mid-1990s, India's household sample surveys suggest that poverty reduction has been sluggish recently. In the early 1990s, poverty worsened following the stabilization (correction) of the unsustainable policies of the 1980s, a poor harvest and a decline in food availability (Tendulkar). Soon, poverty began to fall again and by 1993-94 was somewhat below the 1987 level. However, from 1993-94 until 1997 (the last available survey), improvement has been limited in the rural areas which contain over 70% of the poor. Moreover, analysis suggests that the large poor states in the north and east, containing 40% of India's population, have lagged in reducing poverty since the late 1970s (Chapters 1 and 3).

The estimated slowdown in the overall reduction of poverty may merely reflect one of India's many statistical inconsistencies – the estimates of consumption and foodgrains consumption in the national accounts suggest much faster consumption growth than the sample surveys, while the surveys suggest little worsening of distribution. The need to improve the consistency and quality of these and other statistics, in order to provide a firmer basis for policy-making, is a major recommendation of this Report.

Despite Achievements, Significant Challenges Ahead. More worrisome is the possibility that growth became less potent in reducing poverty in the 1990s. Further work is needed on this complex issue. Nonetheless, the characteristics of agricultural growth in the 1990s; the slowdown of growth in the poor states; and the problems of infrastructure, social services and poverty programs, especially in the poorer states which are linked to their increasing fiscal problems, poor incentive frameworks and weaknesses in governance and institutions, are all problems that may explain the lack of progress in reducing rural poverty (Chapters 1, 2, 3 and 8. Note that statements made regarding individual states or the states' GDP as a group refer to the old (1980-81 based) GDP accounts; once they are rebased, like national GDP, to the new (1993-94 based) accounts, the growth rates of states could be different from what the old accounts show, since the new GDP accounts include a much higher estimate of national agricultural output.). Agriculture's average growth has remained roughly constant since 1980 according to the new series of GDP. However, productivity growth in the sector seems to be slowing, even in the Punjab and Haryana, where some analysts suggest that environmental issues are a concern. Further, agricultural growth in some of the poorer states seems to have lagged. Public spending on agriculture has focused on subsidies, which lead to inefficiencies and environmental problems and at

best have limited impact on poverty. The implicit and explicit subsidies have crowded-out public investment and social spending in Governments' budgets and substantially worsened the fiscal problems of states. While private investment in agriculture has increased, to some extent this reflects inefficiencies and distortions that are partly related to the subsidies, such as the purchase of pumps to reach deep aquifers and generator sets to run them when free, low quality power fails. Moreover, the limited growth in agricultural productivity may also reflect the limited deregulation, which has left many distortions in the sector. For example, the restrictions on domestic and international agricultural trade contribute to occasional, sharp transitory increases in prices, which hurt the poor (Chapters 3, 6, and 8).

The poorer states have lower GDP growth, not just weak agricultural growth. Partly, of course, this reflects their structure – agriculture is a large percentage of their GDP. However, the poor states' lower growth also reflects differences in initial conditions and state-level policies. The poorer states' problems in infrastructure, human development, and, in some cases, governance, have limited their ability to take full advantage of the post-1991 reforms. Moreover, catching-up is a problem because of their increasingly severe fiscal problems – in the late 1980s the states began unsustainable increases in spending and large untargeted subsidies (explicit and implicit) that have never been adjusted, which has led to a large, costly debt build-up. Indian states are constitutionally prevented from external borrowing and limited in their domestic borrowing by the Central Government. Nonetheless, several states, including some of the poorest, now face unsustainable debt service obligations, mainly to the Central Government, which in turn had borrowed to fund these loans. Infrastructure and social spending have slowed in most states as a consequence of the high debt service particularly in the highly indebted and poorer states. The states' problems have worsened in the last two years, with the cascading down of the excessive central public sector wage settlement of 1997. (Chapters 2 and 3).

Institutional weaknesses and governance issues exacerbate the lack of funds (Chapters 2 and 4). For example, not only are teacher-pupil ratios very low, teachers' absenteeism is common. Numbers working in employment programs or attending school appear to be much less in surveys than in official statistics – for example, in 1995-96, the NSS showed gross attendance ratios of 85% versus the Department of Education's gross enrolment ratio of 104%. Large fractions of the poverty funds go to administrative costs or are diverted, leaving less for the poor. For example, a study in UP suggests that under the new, targeted public distribution system much of the grain that reached the public distribution centers went to the poor, but that there was a 40% shortfall between off-take and what reached the distribution centers. (Kriesel and Zaidi).

Thus despite its many achievements, India faces significant challenges and needs to take some difficult political decisions to realize its potential. Concerted policy action is needed to lift the more than 300 million poor, 34% of the population and increasingly concentrated in the poorer states, out of poverty. Better and more education and health spending is needed to provide better access for the poor, females, and other disadvantaged groups and improve basic services across the board. For example, major challenges in reducing poverty and getting India's population ready for the demands of the 21st century, are raising the literacy rate from the current 62% (50% for females); enrolling the over 30 million children, mostly poor, who are out of school; and increasing the overall average years of quality schooling. In addition, inequalities faced by women in participating fully in the political, legal and economic systems need to be addressed. The decline in infrastructure spending needs to be reversed, to increase the rate and spread of growth and to meet urban needs that will rise as the 73% of the population that still live in rural areas shift to the cities. Improvements at the state-level, particularly improved service delivery in the poorest states, will be critical in meeting these challenges. At the national level, implementation of the often discussed second phase of reforms, to complete the

external and internal deregulation of goods and factor markets, will speed the growth of better paying jobs.

The East Asian countries, despite the recent crisis, still have a much lower poverty incidence and better social indicators than India. For example, Indonesia, which in the mid-1960s had a similar per capita income to India and which was the hardest hit by the East Asian crisis, has a literacy rate of 80% and less than 20% of its population were below the poverty line in 1998 (World Bank 1999a). Moreover, except for Indonesia, the crisis countries are rebounding surprisingly rapidly, reflecting their strong underlying base of infrastructure and human development.

Potential Problems in Accelerating Poverty Reduction, Sustaining Growth.

The East Asian experience of the 1970s and 1980s, and the differential experience of India's states, suggest that India needs to get back to a higher growth path, which is also more effective at reducing poverty through improved public spending and a strengthening of incentives, institutions and governance, particularly in the poorer states. To make a significant dent in poverty, growth needs to be at least maintained in India's high growth states and increased significantly in the poorer states.

India's Future Growth and Poverty Reduction. India's growth of 6% in 1998-99 was one of world's best. However, it mainly reflected good harvests; all major non-agricultural sectors grew less than in 1997-98 when overall GDP growth was 5%. The reversion back to the average post-1980 growth trend during the last two years may partly reflect a sluggishness related to the shake-out of excess capacity and partly the slowing world economy. However, another important factor in slowing growth is probably the slowing of reforms, along with a worsening of the fiscal deficit and rises in tariffs – reforms that had earlier contributed to higher productivity, a higher share of world trade, and rapid growth (Chapters 6 and 8 and Annex 8.1). Also, the delivery of social services and anti-poverty programs, necessary to include India's poor in the growth process and largely a state function, would have benefited not only from higher funding but improved institutions and governance.

Indeed these and other issues raised above raise concerns about maintaining even the current pace of development. Current rates of investment have supported GDP growth 5-6% p.a. in the last two years, but can continue to do so provided the productivity of resources continues to increase in the macroeconomic sense. However, the deterioration of infrastructure (Chapter 5); the slower pace of reforms (Chapters 6, 8) and the resulting uncertainty for investors; the lack of agricultural deregulation (Chapter 6); the still-low indicators of human development; and the governance and institutional issues, particularly in the social sectors (Chapters 2, 4), all pose potential problems for the growth of productivity in an economy-wide sense.

Large Central and State Deficits, related to Large Explicit and Implicit Subsidies. Another major issue for sustained development is the large General Government (consolidated Central and State) deficit. India's fiscal deficit has been among the world's largest and in 1998-99 it deteriorated by roughly 2% of GDP. The consolidated public sector deficit of 9.6% of GDP in 1998-99 was not much lower than the peak of 10.9% registered in the crisis year of 1990-91. The Center's deficit deteriorated by 0.8% of GDP to 6.5% of GDP in 1998-99 (including net loans to the states) and was far higher than the 5.3% budgeted figure (all figures exclude disinvestment revenues). The current (revenue) deficit increased to 4% of GDP, the highest in the decade, meaning India is increasingly borrowing to finance current expenditure. Meanwhile, the states' combined deficit rose to 4.2% of GDP, the worst deficit ever of the states. (Chapter 8). Reflecting the recent fiscal deterioration, the ratio of Central Government debt to GDP, which fell in the mid-1990s, has now risen to about 60% of GDP, and has led to comment from the RBI (Report on Currency and Finance 1998-99, pp. V-12 to V-17). The large and rising fiscal deficit and the large public sector debt (mostly internal) raises investors' concerns

about macroeconomic instability and inflation (which would hurt the poor), and crowds-out private credit in the banking system.

The 1999-2000 Union Budget projected a cut in the central deficit of 0.9% of GDP. Achieving this target depends on a substantial rise in tax revenue, and containing revenue expenditure growth to only 9%. Preliminary data from the first seven months of 1999-2000 suggest taxes are growing slower than projected and expenditure faster, partly because of support for and lending to the states to finance their high deficits. The Union Budget also changed the accounting treatment of the growing small saving funding of the states deficit from a Central Government loan to an item in the "National Small Savings Fund" in the Center's Public Accounts. This accounting change reduces the Center's deficit figures by about 1.3% of GDP but leaves the (consolidated) General Government fiscal deficit unchanged. It will be important to pay close attention to the policy on small savings, as the Center sets the rates and implicitly guarantees the deposits. A positive fiscal development was the sharp upward adjustment of domestic diesel prices in October 1999, an attempt to correct for the potential deficit in the oil pool; it also maintained the liberalization of the sector. The states' and the Public Enterprises' deficits are likely to suffer continued pressure from the cascading effect of the excessive central wage settlement of 1997 on wages and pensions. As noted, the interest costs of the debt have increasingly crowded-out infrastructure, maintenance, and social spending in central and state budgets.

Implicit and explicit subsidies at the Center and, especially, the state levels are a major factor in the deficit. The Ministry of Finance estimated these subsidies at over 14% of GDP in 1994-95. In addition to increasing the deficit, they are distortionary, non-transparent, and at best have uncertain equity consequences, at worst they are anti-equity. While the states are directly responsible for many of the subsidies, the Center's funding of the states supports them indirectly. Another structural factor in the deficit is the tax system, with central taxes declining by over 1.5% of GDP over 1991-98. The growing services sector is inadequately taxed and agriculture, part of the state tax base, remains outside the system. The tax base has been widened recently, but nonetheless remains fairly narrow, with under 15 million tax payers. As various experts have noted, the approach to sharing of taxation revenues, the lack of a full fledged VAT (including services), and the failure of the states to tax agriculture have complicated fiscal decentralization and generated tax-based inefficiencies (Chapters 3 and 4). Expenditure management and efficiency could be improved, as recognized in the last two finance ministers' calls for an Expenditure Reforms Commission. The civil service is large. Many public enterprises continue to operate at low efficiency in areas where the private sector could function more effectively and generate more taxable revenues.

Comfortable BOP but Domestic Policies Continue to Constrain Competitiveness. In contrast to the fiscal situation, India's balance of payments (BOP) remains comfortable. In 1998-99, the balance of payments strengthened substantially, with the current account deficit improving to 1% of GDP. This improvement reflected the low oil prices that prevailed for much of the year and a \$4 billion drop in non-customs imports that reduced imports by over 7%. However exports also declined, by 4% in dollar terms, reflecting not only weak markets but a loss of share of world markets for the second consecutive year. Regarding the capital account, the Resurgent India Bond raised \$4.2 billion despite the turmoil in international markets. However, foreign direct investment declined and portfolio flows turned negative. The net impact of these developments was a rise of about \$3.9 billion in international reserves (including SDRs and IMF reserves but not gold), to a comfortable end-fiscal year level of \$30.2 billion (7.6 months of imports, and comfortably larger than potential short term claims). The projection for 1999-2000 is a slight widening of the current account deficit, to 1.4% of GDP, reflecting continued high oil prices. On the capital account, increases in portfolio investment (despite the continued low levels of private capital flows worldwide) and "other" capital inflows which appear strong thus far in 1999, will offset a decline in net long-term borrowings after the one-time Resurgent

India Bond issue in 1998-99. These inflows will finance much of the larger deficit and permit some increase in reserves, although the reserve cover is likely to decline marginally to 7.2 months of imports (Chapters 8 and 9). The external debt situation remains comfortable, and the external debt to GDP ratio as well as the debt to current receipts ratio have fallen steadily since 1992-93. A large proportion of external debt is to multilateral and bilateral lenders and/or is long-term. Careful monitoring by the Government and changes in the underlying economic factors have led to a substantial fall in short-term debt, from over \$8.5 billion (10% of external debt) in 1991 to an estimated \$4.3 billion (4.4%) in March 1999.

The fundamentals of India's slow export growth lie in the lack of further tariff reform, high infrastructure and transactions costs, and continued domestic regulations such as small-scale sector reservation and labor laws that reduce India's comparative advantage in labor intensive products and, consequently, the demand for labor. As a result, India may find it difficult to take advantage of the next upsurge in world trade and the international agreement to phase out textile and garment quotas by 2005, and is not well-prepared for greater competition that will arise from the elimination of remaining quantitative restrictions on imports no later than April 2001 (of which half, mainly the special import license restrictions, are due to go by April 2000). Indeed, India already faces growing competition from a recovering East Asia. A bright spot in the current account is the rapid growth of computer service exports, which do not suffer from the anti-export biases mentioned above, but even they may be hurt if telecom infrastructure lags.

Financial System Remains a Concern. The public sector-dominated financial system is another major issue impinging on sustained growth and, indirectly, poverty reduction. The financial sector mobilizes substantial resources but still invests a large part of them in the government debt, in the case of banks about 40% of deposits. This pattern of asset holding by the financial sector does reduce India's susceptibility to financial crises but it also reduces credit availability to the private sector. From a macro-economic standpoint, these large holdings levels of debt are simply the reflection of the long history of high fiscal deficits and the need for someone to hold the resulting debt; funds can be made available to the private sector at reasonable cost only as the public debt declines relative to GDP. A second factor raising the cost of private sector credit is non-performing assets. Non-performing assets are a low fraction of total bank assets (3% net of provisions) or GDP (under 2%), but are large relative to lending to the private sector (or to bank capital). The large NPAs in turn require large provisions, another factor pushing up real lending rates. Regulation and supervision have improved substantially since the 1980s and are largely up to international standards, but they remain well below the steady evolution of international best practices. The payments system continues to lag international standards, according to participants in the sector. The capital markets are deep for a low-income country and improvements have been made – notably the set up of the electronic National Stock Exchange and the creation of a depository that has reduced transactions costs by dematerializing an increasing number of shares. Nonetheless, transparency needs improvement, notably in the activities of the dominant Unit Trust of India and in settlements, to help avoid payments crises such as hit the Bombay Stock Exchange in June 1998. More fundamentally, accounting, auditing, and corporate governance also could benefit from improvement to make India a more attractive to domestic and foreign investors (Chapter 7).

Legal and Environmental Issues. Enforcement of property rights and contracts are increasingly identified by analysts as critical institutional elements in development. Clarity and security of property and land rights and timely recourse to an efficient legal system are important not only to investors but to sustainable increases in living standards for the poor. Surveys indicate a respect for India's adherence to the rule of law and the independence and quality of the judiciary. However, the appellation "justice delayed is justice denied" is a critical concern, particularly for the poor. The

enormous case backlog and the legal processes can delay decisions 10-20 years. These delays add to the problems of the poor in obtaining protection from the legal system. All these problems, as well as the bankruptcy and liquidation processes, raise credit costs, increase non-performing assets (Chapters 4 and 7), hinder good credit allocation and limit the ability of the poor to use their limited real assets effectively.

Finally, the environmental dimension needs to be kept in mind. The Finance Ministry's 1998-99 *Economic Survey* farsightedly included a chapter on environment, which points out the disproportionate burden of environmental and resource degradation on the poor, a concern which this Report shares. As noted above, environmental degradation and unsustainable usage of resources, encouraged by subsidies and unclear property rights, may be a factor in slowing agricultural growth in some states and a limitation on improvements in the quality of life generally. Often the poor suffer from the environmental problems associated with unclear allocation of property rights to clean air, water, etc. The human sustainability of the cities is threatened by water and air pollution, which partly reflects distortionary pricing and partly lack of funding for public infrastructure (Chapter 8 and Annex 8.2).

A Second Wave of Reforms to Reduce Poverty Faster

All recent Governments have discussed the need for a second wave of reforms to launch India onto a higher growth path that reduces poverty faster. However, as noted, reforms have slowed, creating some uncertainty among investors. Many excellent suggestions for reform are contained in such reports as the Hussain Committee on Small-scale Sector Reservation, the Rakesh Mohan Committee on Infrastructure, the Tenth Finance Commission on intergovernmental finances, the Fifth Pay Commission on downsizing the civil service, the Tarapore Committee on the capital account and its implications for the macroeconomic framework, the Narasimham Committees on the financial sector, the Disinvestment Commission reports, recent Economic Surveys, RBI Annual Reports, and the 1999 Export-Import Policy. In addition to these contributions, the comprehensive framework outlined above may provide some assistance. While a basic consensus on the need for the Second Wave of Reforms has emerged, for example in the programs of the two major political parties, it needs to be translated into substantive action.

Broadly speaking the reforms would be most effective to the extent they reduce the risk of macroeconomic instability, increase the access of the poor to human development, improve governance and reduce distortions and improve the demand for labor. Poorer states in particular will need to enact these reforms to overcome the initial lags and accelerate development.

Perhaps the most effective, cross-cutting reform would be cuts in the explicit and implicit subsidies together with privatization in power and irrigation to raise the current low collections of user charges (that represents a major part of the implicit subsidies). Cutting the subsidies would cut the fiscal deficit and thereby reduce risks of macroeconomic instability and the crowding-out of private borrowers; it would free up public funds for social and infrastructure spending to help the poor and speed growth; it would encourage private sector interest in infrastructure; it would reduce distortions and environmental degradation; and it would probably improve equity (Box 5.2 and Chapter 8). In the petroleum sector, the link that was established between domestic and international prices with the September 1997 liberalization has been an important factor in cutting subsidies, and needs to be sustained. Another policy to reduce subsidies that could be enhanced further is the increasing use of cesses on fuels to fund road infrastructure. Obviously, state governments will play a major part in cutting power and irrigation subsidies. There have been welcome movements toward reform in some states, including some of the poorer states such as Andhra Pradesh, Haryana, Orissa and UP. However, state governments are not always prepared to embark on the reform path. In this context,

increasing emphasis on states' performance in Central Government transfers, increasing the proportion that states borrow directly from markets, and without central guarantees (and reducing State borrowings from the Center), and limiting the states' ability to ease their hard budget constraint, such as reducing access to high cost small-savings and limiting guarantees, would provide important incentives for reform. A welcome development along these lines is the recent use of Memorandums of Understanding to encourage fiscal discipline between the Ministry of Finance and states that receive extraordinary financing to ease the impact of the recent hefty pay revision. And, issues of links between Center-State finance and state performance appropriately form part of the Eleventh Finance Commission's terms of reference.

Realigning Central and State Governments to focus on core public activities would have high social payoffs. Basic education and health and infrastructure need better and more public spending to reduce poverty and speed growth. Withdrawal of Government from non-core activities through faster privatization (not just sales of minority shares) in manufacturing and service sectors, e.g. airlines and hotels, and increased private sector participation in infrastructure, would permit a downsizing, upgrading and focusing of Government and the civil service on truly public sector activities. It would also increase the current low returns on capital invested in these areas and raise taxable revenues. It also is worth noting that the current lack of attention and investment in these sectors is reducing their salability. The improvements in the budgets from reduced explicit and implicit subsidies and higher taxes from the formerly public enterprises would permit much needed increases in spending on infrastructure and basic human development at the Center and state level. At the state-level, the states mentioned above are embarking on much needed realignments of Government in varying degrees and sectors.

Better and more spending on health and education. Faster poverty reduction cannot be accomplished without improving the delivery of health and education services. This will involve more effective spending on elementary education and basic health systems, with better targeting on improving the quality and quantity of services to the poor and with more public funding to address the unfinished agenda. The effectiveness of public education and health services in poverty reduction can be improved by focussing on meeting consumer needs and the holistic needs of children, realigning the role of the state toward primary education and health, and making efforts to encourage improvements in and better use of private education and health services.

Governance could be improved in a variety of ways. In the public sector, tax structure and collection, and expenditure management would benefit from improvement. Effective decentralization – including improving of state and local institutional capacity and greater “voice”, a more efficient sharing of the tax base across different levels of government, and closer links of costs, revenues and service delivery – would improve governance, outcomes and inclusion of the poor (Chapter 4). This is particularly the case in primary health and education delivery that impacts heavily on the opportunities for the poor to escape poverty. In this regard, it is worth noting that India's decentralization to the third tier of rural and urban local bodies already has a firm legal basis in the 73rd and 74th Constitutional Amendments (1992). Effective decentralization and greater deregulation would help to reduce corruption, a mounting concern of Central and state governments, as would improving public administration and procedures, incentives and disincentives, and accountability (Chapter 6). The legal system would benefit from a reduction in delays and disincentives to frivolous litigation and appeals, which would make legal remedies more accessible to the poor and help reduce the non-performing assets that burden the financial system and drive up borrowing costs. The state governments also need to enforce property rights and law and order, to provide an attractive environment for investment.

Completion of the deregulation of goods and factor markets, notably through deregulation of agriculture, articulation of a time-bound tariff-reduction program, completion of the WTO

commitments, and development of a less negotiated/more rules-based treatment of foreign direct investment, would stimulate poverty reduction through higher, more labor using growth. It would also help get India ready to take advantage of the pickup in the world economy and the increased competition, domestic and international that is developing. Further deregulation of labor markets and the small scale sector would increase the demand for labor (Chapter 6).

In the financial system, India needs to speed up judicial resolution of cases and debt recovery and improve the bankruptcy and liquidation procedures. Accounting and auditing and financial system regulation and supervision, though much improved since the 1980s, need to move much closer to the steadily improving best international practices, especially as the financial system becomes more privatized and links increase with the international economy (Chapter 7). The RBI also needs to deal more rapidly with weak banks and prevent their non-performing assets from increasing. Lending to the private sector needs to improve, which will depend on a reduced fiscal deficit (to reduce crowding out) and better incentives to lend and collect, including privatization of banks. The payments system lags improvements elsewhere in the financial sector and would benefit from some quick improvements. Finally, more transparency, such as making the massive Unit Trust of India's activities more transparent, reducing settlement times in the capital market, and improving accounting, auditing and corporate governance, as laid out in the draft Companies Bill, 1998, would help reduce vulnerability and improve the allocation of scarce capital. (Chapter 7).

Improved infrastructure provision, both public and private, would help accelerate growth. The currently inadequate provision of high quality, reliable, and reasonably priced infrastructure services represents a major barrier to continued growth of the economy and services to the poor, and to the diffusion of the benefits of liberalization. The development of infrastructure needs an effective delineation of responsibilities between the regulator and the policy-maker, and the creation of independent regulators within a broader restructuring of the sectors. In many sectors, privatization and greater reliance on competition could improve service delivery in many areas. Above all, infrastructure improvement will depend on the removal of the implicit and explicit subsidies and a move to remunerative user charges (Chapter 5).

Circumstances Propitious for Reforms and Acceleration of Growth

Events at the end of 1999 seem favorable to the initiation of the second wave of reforms. The Central Government that took office in October 1999 has already made progress by passing legislation to open up insurance (the Insurance Regulatory and Development Authority Bill), liberalizing foreign exchange regulation (the Foreign Exchange Management Bill), allowing trading in derivatives (the Securities Contract Regulation (Amendment) Bill), and protecting trade marks (the Trademarks Bill). The Government enjoys a more comfortable majority than the previous one which will permit it to move forward more easily on subsidy-cuts (as it demonstrated by implementing a 40% diesel price hike in October, in spite of pressures for rollback), government realignment, and reform. At the state-level, reforming governments received electoral support and non-reforming governments seem to have lost support. Some of the poorer and most indebted state governments – such as Uttar Pradesh – are embarking on a path of comprehensive reforms, similar to the economic restructuring launched by the Government of Andhra Pradesh (that was re-elected in October 1999). These reform efforts are aimed at (a) restructuring state-level expenditure and improving governance so as to maximize the outcomes achieved by public spending and private investments in the state; and (b) enhancing the revenue base through tax policy and administrative reforms and improved cost recovery from publicly provided non-merit goods and services. These developments suggest that the chances of real reform happening are much brighter than they have been in the past; if these do occur, then, as this Report suggests, growth could accelerate to the 7.5% and higher levels of the mid 1990s. India would then have a real opportunity to reduce poverty substantially in the new millennium.

Issues for Further Analysis

In several places in the Report, gaps in the knowledge base and in country experience have been identified as issues deserving further analysis and research. Work on these and related issues will be important to reducing poverty in India.

Some of the issues are fundamental and involve cross-cutting work in various areas, and often these are the most important issues. These include:

- improving the delivery of social services to the poor;
- the links between growth, poverty reduction, and governance, especially at the state-level;
- the nature, causes and cures of urban poverty;

Other issues involve examination and comparison of policy options, based on experience within India and internationally. These include:

- possible policy paths for deeper restructuring of government at all levels, to help "right-structure and, as necessary, right-size" the state in India;
- decentralization experiences that will be most effective in improving the quality and effectiveness of the decentralization process in the Indian context (including studies of states' devolution of revenue and taxing powers to local governments to decentralize services);
- possible paths to fiscal adjustment at the central and state level, taking into account the linkage between fiscal deficits, growth, and poverty reduction, and drawing on international experiences;
- approaches to corporate restructuring, public and private, and the constraints imposed by the labor market, drawing on international experience;
- possible paths to privatization of banks, while decreasing the vulnerability of the banking system through regulation and supervision that approaches best practices and improvements in accounting, auditing and corporate governance;
- further ways to strengthen institutions and modalities for delivery and repayments of micro-credits and agricultural loans;
- options before India in the next round of trade negotiations;
- linkages between trade, growth, employment and education.

Finally, as noted in various places in the Report, a key issue for policy-making is Improvement in the quality and consistency of various statistics.

CHAPTER 1

POVERTY REDUCTION: PROGRESS AND CHALLENGES

Reducing poverty and providing for minimum needs is the ultimate yardstick against which development should be judged. These goals have been major concerns of India's Governments since Independence in 1947. Experience suggests that reducing poverty requires coordinated macroeconomic and sectoral efforts and reforms. High rates of economic growth, especially in agriculture, have contributed to rapid decreases in poverty incidence in India and elsewhere. Enabling conditions also matter – good infrastructure, a well-educated and mobile labor force, effective institutions, and a stable political and social environment. Conversely, low levels of education and ill-health, exacerbated by social and structural barriers, reduce the opportunities for escaping poverty and improving the quality of life. Low incomes and inadequate safety nets leave persons vulnerable, particularly women and children. The importance of these factors explains Indian states' differential success in reducing poverty.

A. Overview

1.1 Since the mid-1970s, India's growth rate has risen, poverty has declined, and social indicators have improved – literacy and enrollments have risen, morbidity and mortality have declined, and the gender gap has narrowed. Despite this progress, India's poverty situation remains a serious concern: in 1993-94, every third person in India still lived in conditions of absolute poverty (Datt 1997), meaning India had 50% more poor than all of Sub-Saharan Africa. In the social sectors, India's indicators remain below comparator countries and even some African countries (See Annex Table 4.1). Moreover, recently released National Sample Survey data suggest that poverty has declined only marginally since the early 1990s, despite the period of high growth in the mid-1990s.

1.2 What factors are behind the slowdown in poverty reduction? This chapter looks at the evidence and some economic factors that may explain the slowdown; human development/social sector issues are discussed in the next chapter. Although much more research is needed on the slowdown in poverty reduction, some hypotheses have emerged. First, the slowing of poverty reduction may be partly a statistical artifact – the National Accounts suggest a faster growth of consumption and cereal availability than the household surveys. The differences between the surveys and the National Accounts suggest a need for better statistics, a theme that echoes throughout this report (See Box 8.1). A second and more worrisome possibility is that growth, including agricultural growth which was previously identified as a major factor in reducing poverty, has become less effective in reducing poverty in the 1990s (World Bank 1999b). Third, while some of the better-off states have exhibited rapid growth and reduced poverty, most of the poorer states have increasingly lagged. If these poor states were to grow faster, poverty would fall more quickly. Their lagging performance probably reflects not only lags in infrastructure and human development, but also these states' relatively weaker property rights and governance (Chapter 4 discusses governance issues in India). In addition, the poorer states' fiscal problems, related to distortionary and non-transparent subsidies, poor expenditure management, low (and declining) shares of spending on social and physical capital, and ineffective spending on basic services and anti-poverty programs certainly contributed to limiting these states' growth and poverty reduction (Chapter 3 focuses on differences in state growth and fiscal management).

B. Poverty Reduction: The long view from the 1950s to the early 1990s

1.3 **The Record.** Since Independence, Indian governments have accorded great importance to poverty reduction. All the Five-Year Plans have had poverty reduction as a major goal. To measure its success in achieving this goal, the Government commissioned a series of household surveys on poverty,

beginning in 1951. These surveys provide an unparalleled record of a developing country's efforts to reduce poverty.¹

1.4 India has reduced the percentage of population living in poverty since the 1970s, but progress has been uneven over time and across states and the number of poor has continued to rise, albeit at a slower rate. From the early 1950s to the mid-1970s, poverty rates fluctuated without a clear trend, as shown in Figure 1.1² (See also Annex Table 1.1 and Ravallion and Datt 1996a). In 1951-55, the average head count index of poverty was 53% , about the same as in 1970-74. Then, from 1973-74 to the mid-1980s, poverty incidence declined fairly steadily from its earlier range – from 54% in 1973-74 to 38% in 1986-87, a decline of about 2% p.a. Poverty reduction slowed in the late 1980s, probably due to poor weather conditions and the downturn in agricultural production, but the public distribution system and anti-poverty programs kept poverty from rising as it had in such circumstances in the past. Poverty incidence dropped sharply in 1990, for reasons that are not altogether clear, and whatever contribution the macroeconomic situation made was clearly unsustainable. In 1991-92, a transitory worsening of poverty incidence occurred with the 1991 balance of payments crisis, decline in growth and stabilization measures. However, the increased poverty incidence was also related to other factors – poor harvests, limited agricultural imports, and large agriculture procurement in the following year that kept food prices high – and there may be statistical questions related to the small samples in those years³ and the price indices used to deflate the expenditure data (Tendulkar; Datt and Ravallion 1998; Dubey and Gangopadhyay). By 1993-94 the incidence of poverty had fallen to 35%. This was well below the 53% of the early 1970s, but only slightly below the 38% achieved in 1987-88.⁴

1.5 India also reduced the depth and severity of poverty even faster than the poverty rate (the headcount ratio).⁵ Thus, the decline of poverty was not simply a process whereby a segment of the population which had previously been located just below the poverty line was able to lift itself above the line, while the remaining poor were left unaffected. Rather, the process through which poverty was being reduced also improved the consumption of those far below the poverty line.

1.6 Despite these successes, over 310 million people were living in poverty in 1993-94 – 50% more than the poor in Sub-Saharan Africa. Moreover, some comparator countries seem to have been more successful than India in reducing poverty. For example, Indonesia reduced poverty from the 70% range

¹Between 1951 and 1997, the National Sample Survey Organization (NSSO) has undertaken 38 national household surveys that have obtained reasonably comparable consumer expenditure information.

² The numbers discussed in the text and shown in Figure 1.1 refer to the so-called head count index; other poverty measures show similar patterns. India's official measure of poverty is a head count index based on the food-energy method. The poverty line is the monthly per capita expenditure in 1973-74 all-India prices of Rs. 49 in rural areas and Rs. 57 in urban areas, with people below this expenditure considered poor. These expenditures correspond to a total household expenditure estimated as sufficient to provide 2400 calories daily in rural areas and 2100 calories daily in urban areas, plus some basic non-food items. This Report, and other recent World Bank reports on poverty in India, use the poverty line as refined by the 1993 Planning Commission Expert Group on Estimation of the Proportion of the Poor, but use slightly different price indices. The resulting figures are slightly lower than the Expert Group's in 1993-94 (for a full discussion including issues in poverty measurement in India, see Annex 1 in World Bank 1997a and other works cited therein).

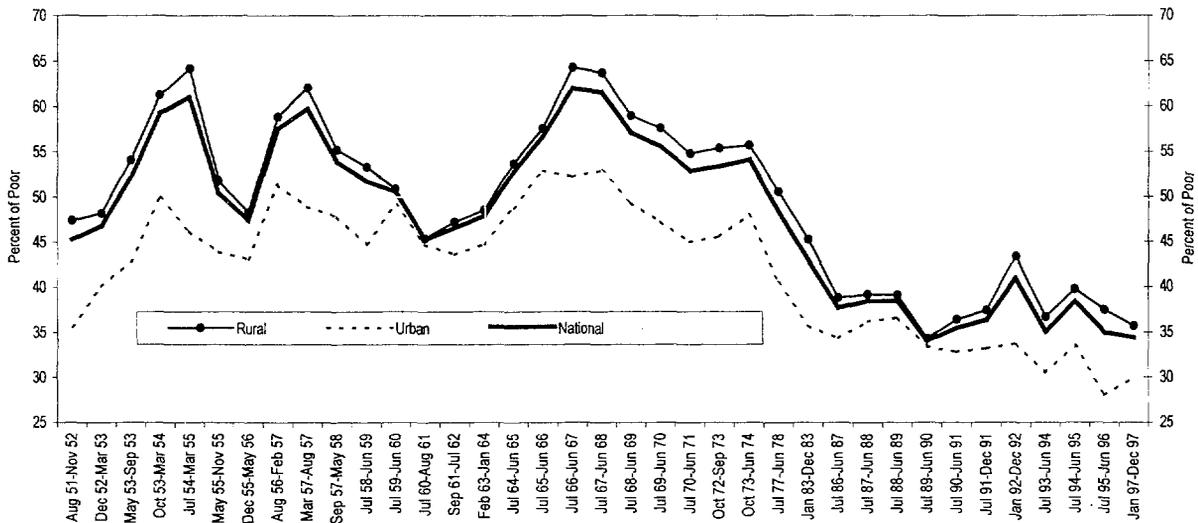
³ Some have suggested that the NSS figures are subject to error because of the limited size of the recent annual rounds. The NSS 51st, 52nd, and 53rd rounds sampled approximately 40,000 households for the consumption module of the survey. Experiments with questionnaire design reduced the comparable sample to an estimated 20,000 households at the all-India level, but some simulations show that this is estimated to give an acceptable confidence interval of only +/- 1 percentage point in the poverty estimate. The "quinquennial" surveys, most recently 1993-94 and 1987-88, are much larger, with about 115,000 households.

⁴ Between the 1987-88 and 1993-94 surveys, urban poverty dropped 6 percentage points, while rural poverty declined only 2.5 percentage points. This compares to a typical drop in rural poverty of about 5 percentage points over quinquennial periods in the seventies and eighties (See World Bank 1997a). However, Dubey and Gangopadhyay, using a somewhat different poverty line and a price index adjusted to reflect the changing pattern of the poor's consumption basket, suggest that rural poverty dropped about as fast between 1987-88 and 1993-94 as between quinquennials in the 1970s and 1980s.

⁵ This is reflected in the improvement in the poverty gap and squared poverty gap index.

in the early 1970s to below 10% in the early 1990s; even after the East Asian crisis, Indonesia's poverty was still less than 20% (World Bank 1999a).

Figure 1.1: Trends in Poverty, 1950s through mid 1990s

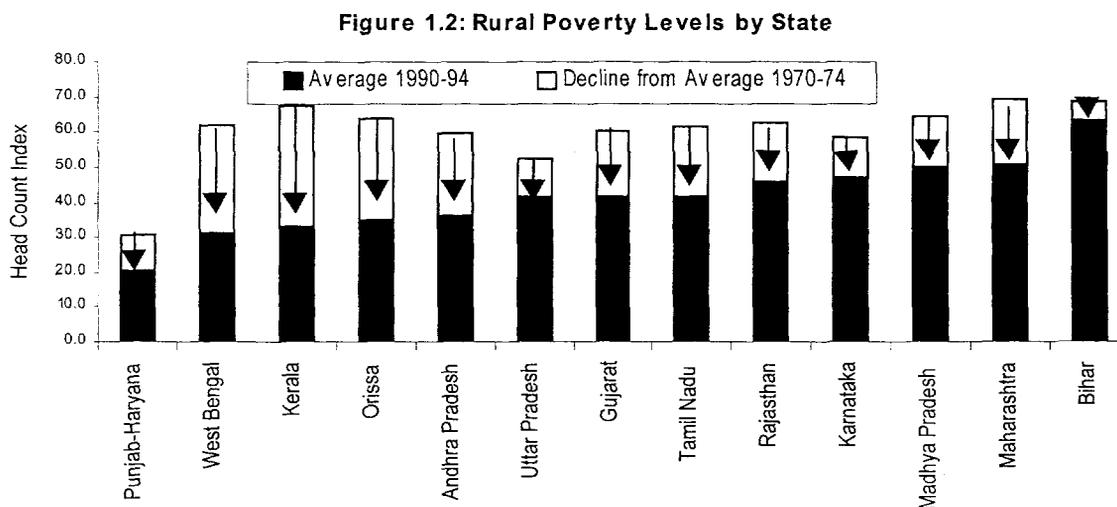


1.7 Poverty in India remains predominately rural: three out of every four poor persons live in rural areas. Changes in urban and rural poverty followed a similar path over most of the last twenty five years, with progress actually more rapid in rural India through the seventies and eighties. By 1990, urban and rural poverty rates had nearly converged; an unusual pattern compared to other South Asian countries. In the early 1990s, poverty rose faster in the rural than the urban areas, and then did not decline as rapidly.

1.8 A wide disparity in poverty across Indian states and their uneven progress in poverty reduction is a key feature of the evolution of poverty in India. In most cases, better-off states remained relatively affluent and reduced poverty, while poorer states remained poor and made less progress in poverty reduction, but there are also cases where poorer states made major progress in poverty reduction and growth – see Figure 1.2, where the states are listed from left to right by the incidence of rural poverty in the early 1990s. In Kerala, for example, rural poverty declined at 2.4 % p.a. between the early 1970s and early 1990s. Other states where poverty incidence fell substantially (as a percentage of the original level) include West Bengal, Andhra Pradesh, Orissa, and, to a lesser extent, Gujarat and Tamil Nadu. Notably poor performers include Bihar and Uttar Pradesh. The stronger performing states typically managed to reduce poverty at a rate of 1.5% to 2.0% p.a. Poor performers rarely averaged above 0.5% per annum. It should be noted that the states' poverty rankings vary with alternative indicators. However, Bihar, Madhya Pradesh, and Uttar Pradesh generally have among the highest rates of poverty whichever index is used; Kerala, Haryana and Punjab have the least (See Chapters 2 and 3, UNDP 1999; World Bank 1997a). It is also important to note that the sample sizes in some of the states are small, implying a large error of estimate in their figures. Finally, it is important to note that there exist large disparities in poverty within the states (Dreze and Srinivasan).

1.9 **Factors in Reducing Poverty from the 1970s to the early 1990s.** The historical evidence, across countries, in India over time, and across Indian states suggests that the major factors in reducing poverty are a) faster growth, particularly agricultural growth that raises agricultural wages and tends to depress the (relative) price of food, b) lower inflation, c) infrastructure (See Chapter 5), and d) human

resource development, notably female literacy⁶ (See Chapter 2). Most anti-poverty programs seem to have had little sustained impact on poverty reduction, though they certainly eased the impact of the 1987 drought. Rural to urban migration also seems to have played only a small role. (For further discussion of these issues see Datt 1997; Ravallion and Datt 1996a and 1996b; World Bank 1997a and 1998b and works cited therein.)



1.10 Regarding the role of growth, India's sustained decline in poverty began as GDP growth picked up from the 3.5% rate that characterized the country in the early years. A decomposition of the changes in poverty (in the National Sample Survey) into a growth component (of mean consumption) and a distribution component shows that the rise in growth in mean consumption accounts for about 87% of the cumulative decline in poverty and changes in distribution only 13% (Datt 1997). The opposite side of the coin is that the Surveys suggest that inequality was not increased much by higher growth— according to the National Sample Surveys, the Gini coefficients of expenditure rose (worsened) by about 10% from 1974 to 1978 in both rural and urban areas, and since then have remained fairly close to 0.29 and 0.35 respectively, a relatively even distribution of income for a developing country.⁷

1.11 Different rates of agricultural growth and increases in rural wages were major factors which led to different levels as well as rates of decline of poverty across Indian states (Ravallion and Datt 1996b). Green revolution technology, irrigation and infrastructure were associated with rising rural wages and increased rural non-farm employment, such as in Punjab and Haryana which had the highest GDP per capita up to the early 1990s (and continue to be among the top five states in 1996-97). Growth in the urbanized part of the economy was less significant in reducing poverty across states, reflecting the capital intensive, import-substituting nature of India's industrial development, its requirements for skilled rather than unskilled labor, and labor market regulations that limited the growth of formal sector employment (See Chapter 6). These factors limited the impact of urban growth on labor demand and kept the proportion of urban population relatively small (around 27%), so that its proportionate impact was low. The human resource approach to poverty reduction across Indian states is exemplified by Kerala, which exported relatively skilled labor internationally and benefited from remittances, even though its GDP

⁶ In statistical work, factors c and d are sometimes proxied by development spending.

⁷ Of course, there are the standard issues that a) the Gini coefficient is not a good measure of distribution and b) consumer surveys do not capture well the increases in consumption and income of the higher income population.

growth was not particularly rapid. A variety of international evidence supports the contribution of human development to poverty reduction.

1.12 Finally, inflation had a negative effect on poverty. Higher inflation in India is often associated with poor harvests and a relative rise in the price of food. The poor are doubly hit, as their consumption is largely food, and their wages (and demand for labor and income) rise less than prices in years of poor harvests. In addition, there is the traditional macroeconomic argument that the inflation tax hits the poor hardest because relatively more of their assets are held in the form of currency (See Chapter 8). International evidence supports the importance of a stable macroeconomic environment for growth and poverty reduction, for example in East Asia (World Bank 1993).

C. Reduction in Poverty in the Mid-1990s: A Mixed Picture

1.13 In the mid-1990s, the decline in poverty slowed sharply, particularly in rural areas, according to recently available National Sample Survey (NSS) data for the periods July 1994 to June 1995, July 1995 to June 1996 and January to December 1997 (See Figure 1.1 and Annex Table 1.1). An estimated 34% of the population was still below the poverty line in 1997 compared to 35% in 1993/94. During the mid-1990s, GDP growth exceeded 7.5% p.a. and agricultural growth seems to have remained high (See Chapter 6), while social sector indicators such as literacy and infant mortality improved (See Chapter 2).

1.14 What changed in the mid-1990s to undermine the strong relationship found before the 1990s between poverty reduction, growth and social indicators? As discussed below, the lack of decline in poverty may well be a statistical artifact. However, a closer examination of recent developments also raises concerns regarding inflation, the changing role of agricultural growth, and, more fundamentally, a lack of progress in reducing poverty in the poor states.

1.15 **Inconsistencies in Statistics** raise questions about how much of the slower poverty reduction is a statistical artifact. The recent NSS surveys cover a much smaller number of households than the larger quinquennial surveys, the most recent of which was held in 1993-94, but are still large enough to be statistically accurate (See footnote 3). A more serious problem is the *increasingly* large discrepancy between the NSS and the National Accounts. The NSS shows not only that poverty did not decline much in the mid-1990s, but that mean per capita consumption, a key determinant of poverty reduction according to various analyses, did not rise very much. Thus, according to the NSS, poverty stagnated not because inequality increased, but because of slow growth. However, the NSS per capita consumption figures are an increasingly smaller fraction of estimated consumption in the National Accounts⁸ – from 77% in 1970-71 to only 66% in the 1997, as shown in Box 1.1. Applying the NSS estimate of the distribution to the consumption figures in the National Accounts results in poverty falling in the nineties as well as the eighties (See Box 1.1). Moreover, the National Accounts consumption estimate is itself a declining fraction of total GDP: from 65% in 1988-89 to 57% in 1997-98. This fall is explained almost fully by a rise in the statistical discrepancy – the difference between expenditure and production estimates of GDP – from around zero at the end-eighties to around 10% nowadays (See also Box 8.1). Hence consumption in the National Accounts may itself be underestimated.

1.16 The differences between the NSS and National Accounts in consumption are reflected also in discrepancies with respect to food consumption. In particular, the National Accounts show rising per capita cereal availability, whereas the NSS shows declining per capita cereal consumption (Box 1.1). In theory, these two should be approximately equal.

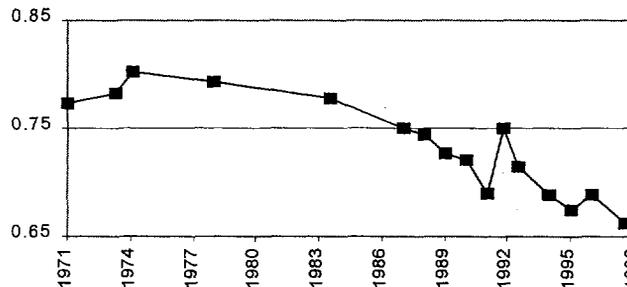
⁸ Private consumption is estimated independently in the Indian National Accounts, as are public and private investment, exports, imports, and government consumption, and an explicit estimate is made of the difference between estimates of national expenditure and production, as is done in some developing countries. See GOI (1998a) and Box 8.1. The mere existence of a substantial difference between NSS and NAS is neither surprising nor a cause for alarm; what is worrying is the growing discrepancy between the two sets of estimates.

1.17 One possible explanation for the growing difference between consumption in the NSS and the National Accounts might be a failure of the NSS to capture the consumption gains of high-income households. The NSS shows only a marginal worsening of income distribution. But if the surveys are failing to capture substantial gains accruing to rich households, they could be underestimating the rise in both mean consumption and inequality. Under-reporting of rich consumers is a common problem for household surveys. However, the estimated increase in availability of cereals (from the National Accounts) is consistent with a fairly constant income distribution and falling poverty— increased demand for cereals comes mainly from rises in income among lower income families – and goes against the hypothesis that it is the “missing rich” which explain the difference between the NSS and the National Accounts.

Box 1.1: National Sample Survey (NSS) versus National Accounts (NA)

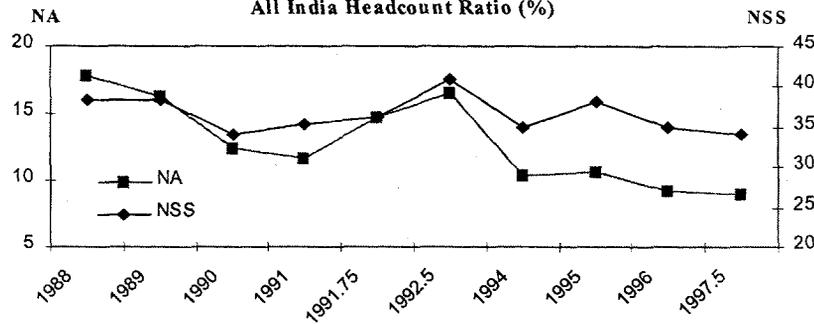
NSS and NA Consumption estimates are getting further apart

Ratio of NSS to NA per capita Consumption



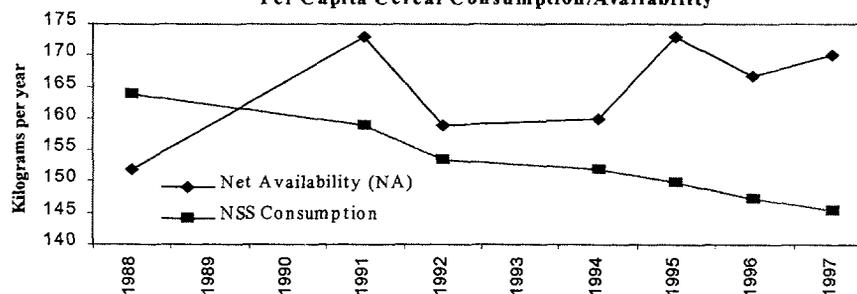
Poverty Stagnated, or Did It?

All India Headcount Ratio (%)



Food Consumption Declined, or Did it?

Per Capita Cereal Consumption/Availability



Notes: The above poverty estimates are World Bank calculations, based on NSS and NA data. The first figure uses the NA figures for private consumption and Bank estimates of annual India population levels. The “NA” poverty estimates use the NSS distribution (and poverty lines) but adjust the survey consumption levels by the ratio of NA to NSS mean consumption. Cereal availability equals net production plus net imports minus changes in public stocks, and so should approximate consumption.

1.18 One final source of evidence in this regard is the NCAER Market Information Survey of Households (MISH). This provides annual information on self-reported income from a sample of 18,000 households, slightly smaller than the NSS annual sample size. The income poverty line set by NCAER in defining its "low income group" is rather high compared to the poverty lines used with the NSS consumption data, but shows a clear downward trend in poverty in both rural and urban areas. MISH also surveys a larger set of households on possession of standard durable items (watches, televisions, etc), something which NSS does not inquire about in its annual rounds, and MISH finds consistent increases in ownership levels over time, even among low-income households.

1.19 In sum, the National Accounts data (and the NCAER data) suggest that strong growth occurred in the 1990s and that the NSS under-estimates consumption growth and consequently poverty reduction; while the NSS data suggest that not only did poverty stagnate but that the National Accounts over-estimate consumption growth. Choosing between these two hypotheses, or variants involving changes in income distribution, is not easy, and well beyond the scope of this Report. With discrepancies such as these, the only conclusion that can be made confidently is that India's statistical architecture, once a model for other developing countries, needs more consistency checks (See Box 8.1).

D. Macroeconomic Concerns: Inflation and Agricultural Performance

1.20 Although statistical issues clearly exist, differences between the 1980s and the 1990s in terms of inflation and agricultural performance do give some credence to the slowdown in poverty reduction. Other things being equal, higher inflation tends to increase poverty (that is, with the same real growth rate, higher inflation is associated with greater poverty), as noted above, and average inflation was higher in the 1990s than in the 1980s (See Table 1.1). Research has shown the poor to be particularly susceptible to increases in the relative price of food (Datt and Ravallion 1997), and here the increase was even larger in the 1990s compared to the 1980s. The large increase in food-grain prices was a particular factor and reflects large increases in procurement and issue prices associated with the Public Distribution System in the early 1990s. As discussed in Chapter 8, recent Indian governments have targeted lower inflation because of its negative impact on the poor, and have had some success. However, transitory shocks in food prices, such as at the end of 1998, related both to poor harvests and the rigid, still-highly regulated food distribution system, continue to cause transitory increases in inflation.

Table 1.1
Annual Average Growth in Price Indices

	Wholesale Price Index (1981-82 = 100)					CPIAL
	WPI	Foodgrains	Rice	Wheat	Pulses	(1960-61=100)
80/1-90/1	6.9%	6.4%	5.6%	5.7%	11.2%	6.9%
90/1-97/8	8.8%	10.4%	10.2%	9.5%	11.4%	9.7%
93/4-97/8	7.3%	8.9%	8.3%	7.7%	9.7%	9.6%

Note: WPI indices for food grains (but not overall WPI) from 1982-83.

1.21 **Differences in Agricultural Performance in the 1980s and 1990s** are also an issue. As noted above, agricultural growth was a major factor in reducing poverty in India in the 1980s. Rural growth was rapid, broad-based, and labor-intensive, leading to a reduction in poverty in the 1970s and 1980s. Production of oilseeds, and dairy and poultry products grew remarkably, and the adoption of scale-neutral, high-yield technology spread agricultural growth to the lagging rain-fed and highly populated Eastern regions. Real wages were pushed up by the increase in labor demand and the productivity increases that lowered costs.

1.22 The rate of agricultural growth in the 1990s was similar to the 1980s, according to the new National Accounts,⁹ albeit with continued year-to-year volatility. However, the growth of real daily wages in rural areas – a key link between agricultural growth and poverty reduction according to the analysis of the 1980s – slowed in the 1990s (See Table 1.2), suggesting that agricultural growth in the 1990s may have been less poverty reducing. Among the possible explanations for the slower growth in wages are: a) slower growth of demand for agricultural labor in the 1990s, associated with the new crops that account for the continued high agricultural growth in the new National Accounts; b) a slowdown in productivity growth in agriculture, possibly related to environmental issues and the need for private investment, such as generation sets, to make up for poorly performing public infrastructure (See Chand, World Bank 1999b, and references cited therein); and c) a less well distributed agricultural growth, with the Eastern states, where poverty is concentrated, suffering a slowdown.¹⁰ The latter two explanations are in turn related to the public sector's approach to agriculture, with its continued focus on providing implicit and explicit subsidies, which contribute to inefficiency and have uncertain distributional consequences, rather than on public investment and technological upgrading; its increasing fiscal constraints that have led to a decline in public infrastructure investment; and its continued regulation of the agricultural sector in contrast to the deregulation of the urban sector (See the discussions in Chapter 3 and 6, which summarize World Bank 1999b). Clearly, further analysis is needed, particularly once the state GDP accounts are fully re-based. Whatever the conclusion, a reduction in implicit and explicit subsidies, a refocusing of the public sector on poverty-alleviating spending, and a deregulation of agriculture would all probably improve the impact of agriculture on poverty reduction.

Table 1.2
Annual Average Growth in Wage Rates of
Unskilled Agricultural Male Laborers

	Nominal	Real
80/1-90/1	12.0%	4.6%
90/1-97/8	12.2%	2.4%
93/4-97/8	12.7%	2.5%
80/1-97/8	12.1%	3.2%

Note: (i) CPIAL used to deflate nominal wages.

(ii) Exponential trend growth rates were calculated using OLS

1.23 Analysis also suggests that off-farm employment is an important means of escaping poverty in rural India. Unfortunately, India's recent high GDP growth does not appear to have created more off-farm employment opportunities for the rural poor. In some regions, employment in agriculture actually increased in the nineties. Recent work (Gupta 1999) documents a rise in the proportion of workers who are self-employed or in casual wage employment in the 1990s, and a fall in regular, salaried employment. Two factors are responsible for the sluggish response in the non-farm sector: not only are there distortions

⁹ The new, re-based, 1993-94 National Accounts estimate a higher level of GDP than the old, 1980-81 based National Accounts (see footnote 1, Chapter 8 for a full discussion). Agricultural GDP is 8% higher in 1993-94 in the new accounts than in the old accounts. Moreover, the post-1993-94 agricultural growth rates in the new National Accounts series are over 1% p.a. higher than in the old series. The new agricultural GDP data, which are available only from 1993-94 onward, include a higher estimate of many non-traditional agricultural products than the earlier series and track the growth of those products after 1993-94. Presumably these estimates are more relevant for comparisons of recent income and consumer spending on agricultural products than the old series. Statistically speaking, the trend growth rates of agriculture in the 1990s and the 1980s are not significantly different, using regressions with the new GDP series growth rates for the years from 1993-94 onward. However, there is a significant fall in the agricultural growth rate in the 1990s using the old, 1980-81 base data, which are available through 1996-97.

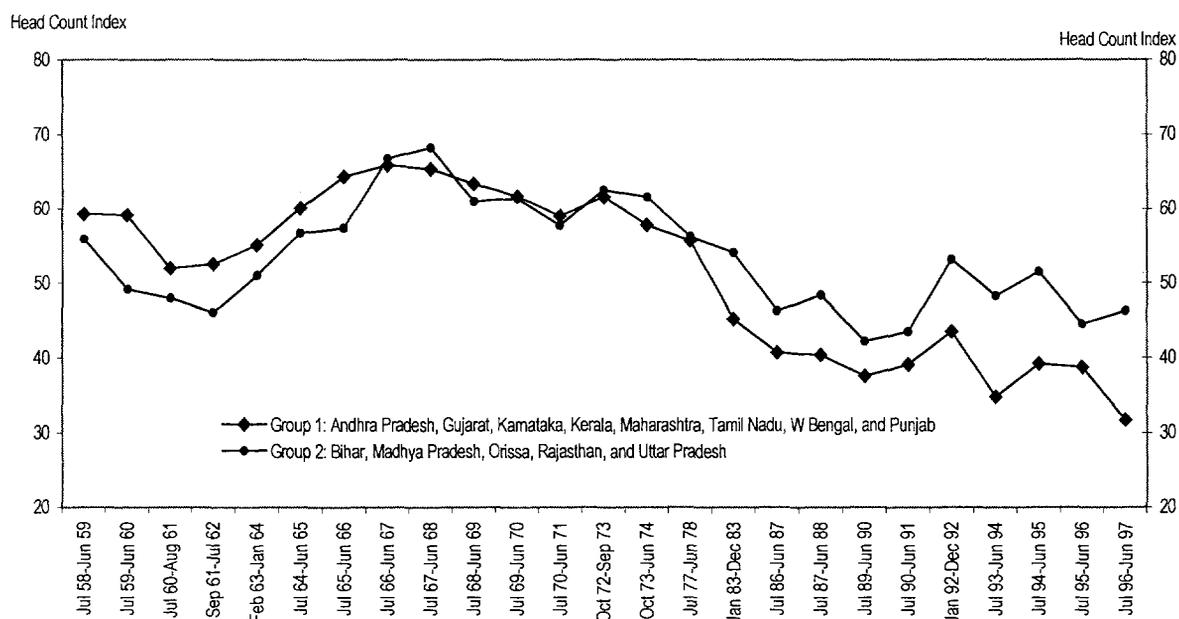
¹⁰ It should be noted that much of this analysis, particularly the inter-state comparisons, is largely based on the old National Accounts (1980-81 base), which as noted in footnote 9, show a much slower overall growth of agricultural GDP than the new National Accounts (1993-94 base).

in the agriculture sector, but there remain important distortionary policies in the non-farm sector, for example, small-scale reservation, over-regulation of markets and agro-industry, etc. (See Chapter 6 and World Bank 1999b). Removing distortions and improving infrastructure, social sector delivery and the legal framework could help to unleash a substantial round of labor-intensive growth in the rural non-farm economy.

E. Divergence in Poverty Reduction between States

1.24 Since the mid-1970s, a number of states have managed to reduce poverty, while in some low income states, notably Bihar and Uttar Pradesh, growth and poverty reduction have lagged. This differential performance appears to have increased in the 1990s. Figure 1.3 shows a growing regional rural poverty differential between India's five lowest income states (Bihar, Uttar Pradesh, Madhya Pradesh, Orissa, and Rajasthan) and the rest of India's 13 largest states, using state-by-state poverty figures.¹¹ It is likely that urban poverty shows, if anything, an even greater increase in the differential. Figure 1.3 suggests that rates of rural poverty reduction began to diverge in the late 1970s: while both groups of states evidenced a steady decline in rural poverty incidence, the rate of progress in the 5 northern and eastern states was somewhat slower in the late 1970s. The divergence increased in the nineties as poverty stopped falling in the low-income states. By 1997, the gap in poverty incidence between the two groups of states had reached nearly 18 percentage points, and poverty incidence in the low-income states was over 50% higher than poverty in other large states (the 1993-94 gap, based on the quinquennial 50th round, was estimated at 20 percentage points). By way of comparison, in the 1980s, the gap was 7-8 percentage points.

Figure 1.3: Head Count Rates (Rural India)



1.25 What explains this large cross-state differential in poverty reduction? Partly it reflects lower growth in the poor states. Most of the states that began the 1970s with relatively low per capita GDP had

¹¹ Due to limitations in sample size and data availability, this analysis involves poverty estimates for only India's 13 largest states, namely, West Bengal, Punjab and Haryana, Maharashtra, Rajasthan, Tamil Nadu, Madhya Pradesh, Andhra Pradesh, Karnataka, Kerala, Gujarat, Orissa, Uttar Pradesh, and Bihar. The five poorest states are selected on the basis of 1980-81 per capita income as per Table 3.1. The differential would have been even greater if Rajasthan had been excluded. See Datt and Ravallion (1998) for details on state-level estimation procedures.

slower growth in GDP and its three main components – agriculture, industry and services – than the middle and higher income states, as discussed in detail in Chapter 3 and the references cited therein.¹² The poor states also generally have the worst human resource indicators. Infrastructure is recognized as a particular problem in the poor states. The differentials in private GDP growth and public investment in infrastructure and human capital partly reflect weak legal and regulatory frameworks for business; and problems of governance, law and order, and weak institutional capacity more generally (See, for example, Business India 1998). Finally, the lagging states, despite allocations of central funds that favored them in per capita terms because of their low per capita incomes, suffered from fiscal problems. This was particularly the case in the 1990s, because their lack of fiscal adjustment and increased debt service payments coincided with a decline in overall central grants and loans to the states and rise in interest costs. These fiscal problems led the states to reduce their capital and human resource spending as a percentage of GDP (See Chapters 3 and 8 and World Bank 1998a).

F. Summary

1.26 India reduced poverty substantially since the mid-1970s, as growth rose and human development indicators improved (See Chapter 2). In the mid-1990s, growth increased sharply and human development indicators continued to improve. Yet poverty rates, even in the urban areas, declined only marginally. The inconsistencies between the National Accounts and the National Sample Surveys that are used to measure poverty suggest that this may be a statistical artifact. Partly the slowdown may also be explained by the higher average inflation in the 1990s compared to the 1980s, especially the more rapid increase in food prices. There are also concerns that the pattern of agricultural growth is producing less of a rise in labor demand/fall in poverty than in the past. More fundamentally, while some states were able to take advantage of the stabilization and reforms to speed up growth and poverty reduction, others increasingly lagged, due to poor governance, infrastructure, lack of human development, lack of fiscal adjustment and compression of development spending (See Chapter 3). The higher growth has brought down poverty reduction in some states, but the poorer states in particular need to undertake reforms that would lead to faster growth and poverty reduction.

1.27 Should the recent developments be taken as evidence that stabilization and reforms have worked against the poor? We would argue not. First, there continues to be some reduction in poverty, particularly in the urban areas and in some states. Second, and more importantly, the issue is not reforms and stabilization, which were clearly needed to correct an unsustainable situation, but incomplete, and partial reforms. In particular, it is generally agreed that agriculture, which may have lost its impetus in reducing poverty, remains the least reformed, most distorted sector. Lack of reforms of labor and product markets limit both the rate of growth and its labor intensity (Chapter 6). Reform of India's anti-poverty programs is now underway, but has taken place too recently for the benefits to show up in faster poverty reduction – moreover further institutional and governance improvements will be needed to make the programs fully effective (Box 1.2). Institutional and governance issues also arise in social sector services (See Chapter 2). Finally, at the state level, differences in governance and fiscal adjustment have led to differences in human development, infrastructure and private investment that contribute to the differences in growth and poverty reduction across the states. *Further analysis is clearly needed on the determinants of poverty reduction, including issues relating to urban poverty.*

¹² One might argue that the NSS Survey's finding of minimal change in income distribution is inconsistent with the observation that some of the poorer states are growing more slowly than the other states. The differences between the NSS estimates and the National Accounts data also hold at the state-level, since the total state-level GDP (production estimates) has remained a relatively constant fraction of national GDP. However, another explanation is that a minimal change in the aggregate Gini coefficient can occur, even if some of the poorer states grow relatively slowly, other poor states and the middle income states grow relatively rapidly and the initially high income states grow relatively slowly, which seems to be the case (See Chapter 3). More importantly, it has to be recognized that interstate disparities typically account for only a small fraction of total inequality – about 10% – so that even large changes in these disparities will have only a small impact on total inequality.

1.28 Against this backdrop, there is a concern that poverty reduction will continue to stagnate unless a second phase of reforms occurs. These concerns are the subject of the remainder of this Report. Successive chapters examine: the social sectors (Chapter 2), issues of state performance (Chapter 3), governance (Chapter 4), infrastructure (Chapter 5), labor demand and related sectoral issues (Chapter 6), the financial sector (Chapter 7), and macroeconomic policies (Chapter 8). Finally, Chapter 9 looks at future prospects and summarizes the key requirements for sustained poverty reduction and growth.

Box 1.2: Reforms in India's Anti-Poverty Programs

India's anti-poverty programs (APPs) are mainly run by the central government. They amount to some 6-7% of total GOI budgetary expenditure, or 1% of GDP. Even accounting for inflation, they have been growing at 10% per annum since 1992-93. There are three main types of APPs: rural works, self-employment, and food subsidy programs. All three have been subject to reform in recent years.

The food subsidy programs make up about 55% of total APP spending. By far the largest food subsidy program is the Public Distribution System (PDS), which was explicitly targeted towards the poor at the national level in 1997 and renamed the Targeted PDS (TPDS). Recent research in UP (Kriesel and Zaidi 1999) has shown impressive performance in targeting: the poor were found to be four times as likely as the non-poor to purchase subsidized food-grains through TPDS.

The self-employment programs make up only about 5% of total APP spending, but have received a lot of publicity, most of it bad, on account of the poor performance of the Integrated Rural Development Program (IRDP). This year IRDP was scrapped, along with five other small self-employment programs, all of which were replaced by a single program - the *Swarnjayanti Gram Swarozgar Yojana (SGSY)*. Not only is this rationalization very welcome, but the new program seems to be better designed. It basically replaces subsidized lending to individuals under IRDP by subsidized lending to self-help groups. Group lending has the advantage of peer-group pressure leading to higher repayment rates, and has demonstrated its potential for success in India as well as many other countries.

The rural works programs account for about one-third of APP spending. There are two main schemes, the EAS (Employment Assurance Scheme) and the JRY (Jawahar Rozgar Yojana) now renamed the JGSY (Jawahar Gram Samridhi Yojana). The EAS is continuing as an employment-generation scheme, but with better targeting to poorer states and districts. The JRY, which was an employment-generation scheme, has now been redesigned in two aspects. First, it will be exclusively implemented by the Gram Panchayats, or village local governments. Second, its main focus now is on infrastructure development, with employment generation relegated to a secondary objective. The thinking behind this is that JRY was failing both to develop durable assets and, due to poor targeting and abuse, to provide employment to the poor. While no one can argue with the need for more and better rural infrastructure, there is now a real need to reform the EAS as the burden of providing a rural safety net now falls mainly on it.

The rationalization and better targeting underlying the above reforms are both big steps forward. All the programs are also giving a greater role to rural local government for implementation and for beneficiary selection and monitoring. The reforms also lay stress on transparency, making information about the programs public at the village level, and on the importance of physical, financial, and social audits. While these reforms are very welcome, there is still a long way to go on the ground. The same research in UP which showed good targeting of the TPDS also found that only 40% of the grain allocated to the state actually reached the intended beneficiaries: 20% was simply not lifted from central storage facilities, and the remaining 40% was unaccounted for. To reduce leakages and abuse, and to promote the new guidelines on transparency, access to information and accountability, the central government could make participation by state and local governments in the APPs conditional on good performance.

CHAPTER 2

IMPROVING HEALTH AND EDUCATION FOR THE POOR

A. Overview

2.1 In India, as elsewhere, social outcomes both embody poverty and represent a way out of poverty. Malnutrition, poor health, a lack of learning opportunities, and limited choices are defining characteristics of poverty. Good education, health, nutrition, and low fertility help reduce poverty by increasing opportunities to generate income. By the same token, an improved standard of living leads to gains in health and education, freeing people from the trap of ignorance and exposure to disease. There are also positive connections between health and education. Education empowers people to use information better to make healthy behavioral choices; healthy people are more likely to attend school or go to work, and can learn and work more effectively. Unfortunately, the more common experience is that costs of illness keep people in poverty, and poor quality education limits their opportunities to escape poverty.

2.2 Progress in the social sectors is both a vital yardstick of and a key element in the reduction of poverty. In India, there are Constitutional and oft-stated government commitments to ensuring basic education and health services. India has shown substantial improvements in education and health outcomes over the last decade (in this Report, health is defined to include health, nutrition and population, but does not focus on important health-related areas such as sanitation and water supply). Nonetheless, indicators continue to suggest surprisingly low levels of literacy and school enrollments, and surprisingly high levels of infant mortality, maternal mortality and malnutrition, relative to China and Indonesia, or even other low-income countries. Within India, inter- and intra-state disparities are large. The poor, rural women, disabled, and people belonging to scheduled tribes and castes stand out as the most vulnerable sections of society. In particular, the indicators suggest substantial problems in the same large states where poverty is high (See Chapter 1). It probably will be difficult to reduce poverty substantially in the future without major improvements in spending on and delivery of health and education services in these States.

2.3 The delivery of public services in health and education is fraught with problems related to limited accountability for performance, low management and worker incentives, inadequate materials and equipment for effective health care and education, demands for payment for supposedly free public services, and poor targeting of services and subsidies at the poor. Because of these problems, private delivery of health and education is expanding rapidly, to the public in general and even to the poor.

2.4 The sections that follow describe the issues in more detail. First, both the health and education sectors are examined in terms of their outcomes. Then, the infrastructure, human and financial resources, and institutional issues that are common to both sectors are described. The chapter ends with ideas on how the problems identified can be overcome so that the government's commitment to effective health and education services for everyone, especially for the poor, can be fulfilled. The main proposals are:

- **Spend more effectively on elementary education and basic health systems, with better targeting to the poor, and with more public funding to address the unfinished agenda;**
- **Focus public education and health services on meeting consumer needs;**
- **Realign the role of the state to focus on primary education and health and make efforts to upgrade private education and health services and to use them effectively;**
- **Focus on meeting the holistic needs of children.**

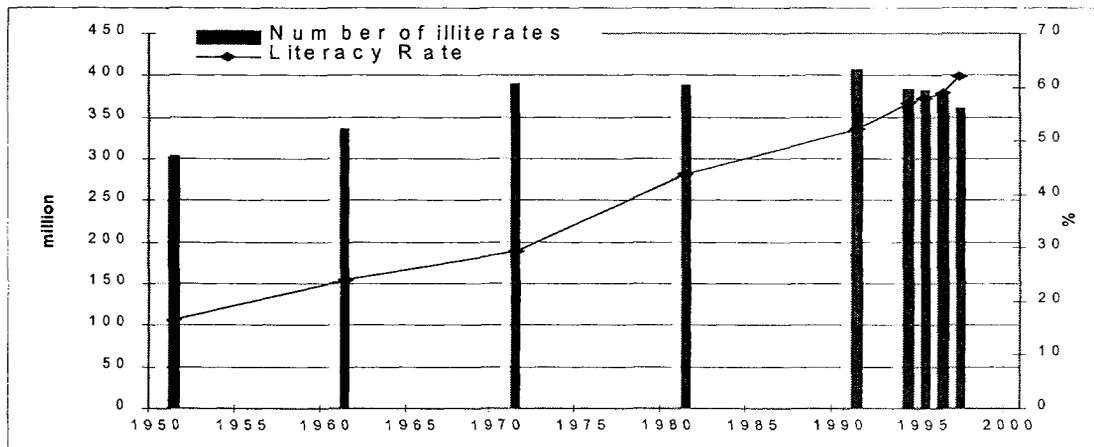
B. Education and Health Outcomes in India

2.5 **Education.** In India, as elsewhere, greater coverage and more effective elementary education in grades 1-8 would be the education sector's most significant contribution toward alleviating poverty.

Average educational attainment has improved in India; however, India still lags behind comparator countries in average educational attainment, particularly among the poor. Studies of education consistently suggest large benefits from achieving a critical minimum level of education across the population. This indicates that mass expansion of primary education to raise India's currently low educational participation levels (averaging about 2 years) to 4-5 years of primary education per worker would have high economic and social pay-offs. The pay-offs would be particularly high for the poor, less than 20 percent of whom currently complete all eight primary grades.

2.6 A major indication of India's recent progress in education is the significant rise in literacy rates within the last decade. From 1991 to 1997 the overall literacy rate increased from 52% to 64%, rising from 64% to 73% for males, and from 39% to 50% for females, according to the NSS. Progress is still slow but the number of illiterates (aged seven years and above), which had actually risen from 1981 to 1991, appears to have begun to decline in the 1990s (See Figure 2.1). Among the states, some of the poorest, for example Uttar Pradesh, Bihar, Rajasthan, registered significant improvements in literacy albeit from low bases (See Annex Table 2.1). In most of these states, female literacy rose even faster than overall literacy

Figure 2.1: Literacy in India, 1951-1997



2.7 Although India has raised literacy rates, it still has a long way to go. Many countries, including China and Indonesia, have overtaken India in literacy rates. For example, China had problems of illiteracy in 1950 that were similar to India's at the time. Today, China has virtually eliminated illiteracy in the younger age groups (Dreze and Loh). Indonesia has achieved 85% literacy, with a female literacy rate of 80%. If India's literacy rate continues to grow at the current rate of 2.75% p.a., it will still take 16 years before India catches up with Sri Lanka's current literacy rate of 90%, and even then about 120 million persons will still be illiterate!

2.8 Gross enrollment ratios have also improved, reaching 90% at the primary stage, with girls' enrollment reported to be 73% (NCERT 1998). It is worth noting that this figure is significantly lower than the figures reported by the Ministry of Education, which are based on enrollment figures submitted by the districts and which are the basis for comparing achievements with plan targets and providing budgetary support – another example of inconsistencies in Indian data that complicate policy making. Despite the improvement, 33 million children in the 6-11 age group are still out of school. The NSS also suggests that 7.8% of girls and 6.9% of boys in the 6-11 age group are in the work force, mostly in rural areas (GOI 1997d).

2.9 Children of poor families are less likely to be enrolled in school, which is a major factor behind the low enrollment rates. The poverty gap in enrollment is large; the enrollment rate is 25 percentage points lower for the poorest households (annual per capita income of less than Rs. 3000) than for the richest households (with annual per capita income of Rs. 10000 and above). And, the drop-out rate for the poorest households is about 4 times that of the richest ones. A major deterrent to school enrollment among the poor is its high cost. Parents need to spend about Rs. 318 per year per child, besides the opportunity cost to the family that rises with the child's age (PROBE). The few empirical studies of learning achievement also suggest that primary-level learning achievement is low, and that it varies from state to state and with the background of the child. Low income children in the north and east are particularly worse off (for example, see Filmer and Pritchett).

2.10 **Health outcomes** have also improved but have a long way to go, particularly among the poor. Between 1970 and 1993, life expectancy at birth increased from 50 to 61 years, infant mortality decreased from 137 to 74 per 1,000 live births. India no longer faces famines and severe epidemics which kept life expectancy barely over 30 years at Independence. On the demographic front, the conditions prevailing at the time when the national family planning program was launched in 1951, have changed radically. By 1992, fertility had declined to 3.6 births per woman compared to 6.0 about four decades ago. There have also been some remarkable successes related to specific diseases in recent years. The number of leprosy cases has fallen from 1.7 million in 1992 to 0.5 million in 1999, and polio has been nearly eliminated. Despite these improvements, India's health outcomes remain significantly below that of the East Asian "miracle" economies, even after their recent crisis; and below many African countries (See Annex Table 4.1).

2.11 Nutrition is a particular problem area; India has a high percentage of malnutrition and some segments of the population have among the highest levels of malnutrition in the world. Weaning children and women are particularly affected. There have been only modest declines in the levels of severe and moderate malnutrition in children in the last 20 years, so that over half (53%) of the children below four years continue to be moderately or severely malnourished (Indian Institute of Population Sciences). Only Bangladesh has higher levels. Micronutrient deficiency is also widespread. For example, a nationwide survey found that 87% of pregnant women are anemic, largely due to iron deficiency (Indian Council of Medical Research). The economic losses due to malnutrition are estimated to cost India at least \$10 billion every year (World Bank 1998d).

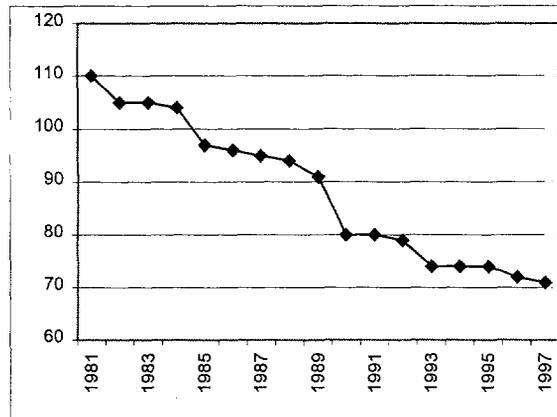
2.12 The poor suffer particularly from health problems. For example, in 1992-93, compared to the richest 20% of Indians, the poorest quintile had about 2.5 times the infant mortality and under five mortality rates, double the fertility rates, and nearly 75% higher rates of child malnutrition (World Bank 1999d).

2.13 The reduction in infant mortality seems to have slowed during the 1990s (See Figure 2.2). Infant mortality is a gross indicator responding to many underlying causes, and therefore the explanation is not straight-forward. One possible explanation is the slowdown in poverty reduction (See Chapter 1); another is the impact of the stubbornly high levels of disease and malnutrition, and poor sanitation and water supply, particularly in the poorer states.

2.14 In 1997, infant mortality rates were as high as 96 per 1,000 live births in Orissa, 94 per 1,000 live births in Madhya Pradesh, and 85 per 1,000 live births in Uttar Pradesh and Rajasthan (GOI 1998d). At the other end of the spectrum, Kerala had a remarkably low rate of 12 deaths per 1,000 live births, followed by Maharashtra (47), Punjab (51), Tamil Nadu and Karnataka (53). The gaps between states are increasing, as better-off states such as Maharashtra, Karnataka, and West Bengal have shown the most rapid declines in infant mortality in the 1990s (See Annex Table 2.1). There are also large differences between districts within states, with the worst-off districts found in states with the poorest overall mortality rates. Urban areas consistently have better health outcomes than rural areas, although these

figures probably do not fully reflect the situation of the urban and peri-urban slums where in-out migration is high and the settlements have not been legalized.

Figure 2.2: Infant Mortality Rates in India



Source: GOI, Registrar General 1998.

2.15 India's health programs need to improve their services for females. One indicator of the problem is that India's ratio of females to males is below one – 927 females to 1,000 males. In the rest of the world outside Asia, the biological advantage of females results in a higher proportion of females to males. This gender disparity suggests a need to make India's health care, nutrition, and social rights of women more equitable. The largest gender disparities are found in the northern states, notably Haryana and Punjab, despite their being two of the most prosperous states. Among Indian States, only Kerala has a female to male ratio above one. The relative neglect of women's health is also reflected in poor reproductive health indicators: maternal mortality is estimated at over 430 deaths per 100,000 live births in India, compared to an average of 350 among low and middle income countries.

2.16 Health and education outcomes are related. In the context of infant growth and infant and maternal malnutrition, research has demonstrated that the early years of a child's life are critical for cognitive and psycho-social development (Young). Child development is determined not only by the nutritional status of the infant, but is also affected by the total, synergistic impact of health and nutritional factors and the quality of social interactions and stimulation received from the environment. Children who experience early growth failure are more likely to delay enrollment in school. Protein energy malnutrition, temporary hunger and micronutrient deprivation adversely affect learning achievement. Under-nutrition is also found to have a greater impact on poor children's cognitive development than on development of children who are not poor (World Bank 1998b). Infants growing up in poverty, and particularly in environments lacking in stimulation, therefore face problems such as stunted physical and mental development which sets the stage for poor educational and developmental outcomes such as low academic achievement, high drop-out rate, functional illiteracy and overall lack of productivity in the workforce. Early childhood development programs have proved to be effective in compensating for these critical deficiencies (Kaul et al). Although India has one of the largest centrally sponsored integrated child development programs, which has been in operation since 1975, its limited impact on child development indicators remains a cause of concern.

C. Characteristics of Education and Health Services

2.17 India's social services are facing major challenges. A growing population, industrialization, and a globalizing economy that places a premium on information and technology, are stretching the capacity of India's education system to deliver relevant and effective services. Yet enormous tasks remain: getting 33 million children from poor families into primary schools, increasing the retention rate so more children

finish primary grades, and upgrading the average quality of the schooling received (see the discussion in World Bank 1997c). In health, the country is undergoing an epidemiological transition. There continue to be high rates of communicable diseases, malnutrition and maternal and perinatal illnesses, representing a large unfinished agenda that predominantly affects the poor. There are also growing rates of non-communicable diseases, while rapid urbanization is resulting in new health problems. New diseases, notably AIDS, are placing greater strains on society and the health of the poor in particular. Even though the social sectors are changing dramatically, the role played by the public sector has changed little. In this section, the major challenges for health and education services are outlined according to issues of public infrastructure, workforce, financing, institutional issues, public-private partnerships, and the implications of these issues for the poor. Each of these can build on recent positive developments in both education and health.

2.18 Elementary education in India has seen two positive developments in the past decade. First, elementary education has been brought to the fore as a priority issue, starting with the Jomtien Conference on Education for All (1990). Elementary education has begun to get an unprecedented amount of attention and importance both in terms of political and public discourse. Secondly, with a series of externally funded and centrally-sponsored projects including the District Primary Education Program (See Box 2.1), it has seen a great deal of innovation and experimentation aimed at qualitative improvement of the services offered by the system including partnerships with some NGOs. Some specific examples are the decentralization and empowerment of local government (for example, Madhya Pradesh, Andhra Pradesh, Rajasthan and Uttar Pradesh), guaranteed provision of education in response to local demand in currently unserved or under-served areas (for example, Madhya Pradesh), use of local para-teachers (for example, Rajasthan, Madhya Pradesh and Andhra Pradesh), incentive schemes for under-privileged groups and the Non-Formal Education Scheme, and pedagogical and management innovations under the District Primary Education Program. Although such examples of successful practices have been documented, the larger system continues to raise challenges and concerns related to quality and management.

Box 2.1: India's District Primary Education Program

The District Primary Education Program (DPEP) has been designed to enhance government efforts to provide basic education to all children in the age group 6 to 11 years with a focus on girls, marginalized communities (Scheduled Castes and Scheduled Tribes), children with disabilities and working children. The program supports interventions for i) expanding access to primary school or its equivalent for all children, ii) increasing retention and improving student learning achievement levels and iii) enhancing capacity of the district and sub-district, state and national institutions for effective management of primary education.

The program covers at present 149 districts (including the Uttar Pradesh Basic Education Projects) in 14 major states of India. Initial reviews of the program indicate a significant reduction in gender disparity in enrollment. Also, the rate of enrollment is higher in project districts as compared to the non-project districts.

2.19 There have also been a number of positive developments in health. New technical paradigms are being introduced for the control of leprosy, cataract blindness, malaria, tuberculosis, and reproductive health. Some states (for example, Tamil Nadu) are re-organizing pharmaceutical supply systems to improve access, safety, costs and rational use of drugs. Under the leadership of the Ministry of Health and Family Welfare, the issue of health communications, which have long been fragmentary and stressing awareness-raising over changing behaviors, is being addressed more strategically. Decentralization efforts are improving the accountability of public sector health services in some states (for example, Kerala and West Bengal), and other states are focussing efforts on improving services to under-served tribal areas (for example, Orissa, Madhya Pradesh, and Maharashtra). Governments are beginning to recognize the existence of the private sector (such as Andhra Pradesh, Karnataka, Maharashtra and Rajasthan), and are collaborating with them more effectively in, for example, contracting services, sharing information, and developing standards for quality.

2.20 Institutional Arrangements and Issues in the Public Sector. Education and health are joint responsibilities of the Central and State Governments, with funds for them provided by both levels of government (see below) and delivery of services largely a state responsibility. In **education**, the system is changing dramatically as the Panchayati Raj Institutions at district, sub-district and village levels are beginning to function within the framework of the 73rd and 74th Constitutional Amendments (See Chapters 3 and 4). This devolution of responsibility is expected to improve education by generating more community support, more school-level responsibility for effective instruction and a decentralized resource support. But it is also likely to lead to increased uncertainty as states decide on what responsibilities will be transferred to these institutions. The shifts in responsibility need to be accompanied by planning and training to ensure effective financing and management at the decentralized levels. Alternatives like using para-teachers instead of regular teachers or small alternative schools with local community involvement need careful evaluation. At the same time, care will be needed to ensure that decentralization is not stifled by new regulations. Effective use of the media to educate the community on their rights and responsibilities emerges as a priority.

2.21 In **health**, the existing fiscal and administrative set-up is complex, hindering effective financing and accountability for decentralized management of health facilities and deterring effective coordination across the health, population and nutrition sectors. The center-state financial transfer mechanism, and the three separate structures for the Health, Family Welfare and Women and Child Development Departments are ineffective in providing essential inputs, correcting inequities between states, strengthening decentralized management, and monitoring program performance. Greater field-level coordination and integration of nutrition services with health and family welfare is important to improve the health status of the mother and child. Strengthening sanitation and water supply interventions will also be critical.

2.22 Public education and health involve enormous infrastructure and bureaucracies, and are spread thinly across the massive country. Day-to-day management of services of this size, not to speak of training and upgrading, is a major task, even at the state level. Schools and health facilities are often in disrepair, poorly equipped (schools often lack water and sanitary facilities), and under-supplied, reflecting poor use and low levels of health and education spending (see below), and their bias toward salaries and new construction rather than maintenance (See Chapter 5). Absenteeism of teachers and doctors and medical staff is common, particularly in rural areas. Partly due to these conditions, the middle and lower level health facilities are often under-utilized and actual school attendance is low, while the quality of health services and education suffers. At the same time, tertiary hospitals are overcrowded and the numbers of classrooms and teachers have not kept pace with the growth of the school-age population – it is estimated that 1 million (40%) more classrooms and 0.6 million (33%) more teachers would be needed to enroll the entire 6-10 age group. Currently, there is an average of 49 students per teacher in India (59 per teacher in Bihar and Uttar Pradesh); this is much higher than, for example, Indonesia, which in 1993, had 21 students per teacher spread fairly evenly across the provinces (World Bank 1996b).

2.23 Public Sector Financing of Health and Education are Low by International Standards. In **education**, the central and state government expenditures in 1996-97 were equal to 4.0% of GDP for all levels of education, or 13.4% of total government revenue expenditures, which is somewhat below the average of 17.5% for all low-income countries (UNDP 1993). In the 1999-2000 budget, the central government's plan expenditures on education are 6.6% of its total plan expenditures and its overall expenditure on education is 2.5% of its overall expenditures. While the Central Government's share is a relatively small part of overall government spending in education (14.6% in 1996-97), most of the expenditures are used to create and sustain new programs, giving the Central Government a greater influence over the system's evolution than its expenditure share might suggest. State expenditures, as a share of GSDP, are somewhat below peak levels and vary considerably across states. For example, in 1995-96, state education spending ranged from 3-7% of GSDP in the major states; and ranged from 16-29% as a share of total state expenditure.

2.24 In the distribution of general government expenditure among educational levels, elementary education (which benefits the poor the most) receives, per student, a much smaller level of funding and subsidy, compared to secondary and tertiary education (NIPFP, GOI 1997b). The funds going to elementary education have been roughly constant at 1.5-1.6% of GDP. The composition of expenditures in elementary education is, however, unbalanced. Recent studies indicate that salaries account for roughly 97% of education department expenditures in lower primary schooling and 96% in upper primary schooling while only 0.2% of GDP is spent on the other components.

2.25 The need to broaden the coverage of elementary education among the poor and improve its quality, including the targeted goal of universalizing elementary education, means more funding is needed. In the past few years the Central and State Governments have indicated their intent to increase public spending on education to 6% of GDP during the Ninth Plan. The States are likely to have to provide most of this funding. Given the importance of elementary education in reducing poverty and the states' current fiscal problems, they will need to reduce implicit and explicit subsidies and find new revenues (See chapter 3). The Central Government will also need to expand its role in elementary education in view of the low level of resources that many state governments devote to primary education and the large number of children not enrolled in schools. There is also a need to build, in states and districts, the capacity to plan and manage education more effectively and the need for research to identify more cost-effective strategies. These options for center and state governments will have to be considered in the broader context of administrative decentralization and changing center-state fiscal relationships.

2.26 In **health**, India's public spending is very low: an estimated 1.2% of its GDP. This figure places India among the lowest quintile of countries, and on a per capita basis, is far less than the amount recommended to provide basic services by the World Development Report 1993. In terms of maternal and child care, India's spending per capita is one-third less than the recommended amount. Public spending on preventive and promotive primary care services has not kept up with the growth of demand for services, particularly for people below the poverty line. India also lags in addressing the determinants of good health that lie outside the health system, such as in water and sanitation, nutrition, and education. For example, at 0.5% of GNP, India spends far less on nutrition programs than what is needed to reduce the high rates of malnutrition.

2.27 The States cover close to three-fourths of the public funding for the health sector (excluding central grants to the states). They mainly finance primary health-care facilities, hospitals, and aspects of disease control programs. Central spending emphasizes family welfare, nutrition and disease control programs. Capital investment is shared equally by the center and the states. Within the health sector, resource allocation in the public sector has also been skewed in the past in favor of tertiary care services relative to the needs at the primary and secondary levels, but again in some states, there have been some improvements in this area. Much of health spending is absorbed by salary costs, and the recurrent budgets for operations and maintenance are chronically under-funded.

2.28 Despite the states' deteriorating fiscal situation, some states have managed to increase the resources for health and initiated systemic changes (for example, Andhra Pradesh, Karnataka and West Bengal). However, in general, the same recommendations apply to health spending as education. In general, public sector health spending is significantly lower in the poorer states, where health outcomes are also poorer. Although the mechanisms used by the Central Government to fund health programs at the state-level have the potential to reduce disparities in resources among states, and even within states, these mechanisms, as currently operated, have not overcome inter-state inequities, and in some cases even exacerbated them.

2.29 **The Private Sector's Role in Education and Health.** In **education**, the total private spending (excluding overseas education) is estimated at about one-third of the total education expenditure. Private spending on elementary education generally takes one of three forms: a) schools which cater to the lower-income groups charge very low fees and provide students with little more than basic literacy – such

schools are generally not recognized or aided by local governments; b) schools that cater to middle-income groups charge higher fees and are aided; and c) elite schools that charge very high fees and cater to an exclusive minority of the upper middle class and above. Private spending on elementary education is expanding rapidly because of: a) the inability of the public system to deliver; and b) parental ability to pay. In Uttar Pradesh, 36% of school-going children were enrolled in private schools. In other northern states, the proportion ranges from 5% to 11%. The recent PROBE study indicated that even poor families and disadvantaged communities are making great sacrifices to send children to private schools, with one-fifth coming from families involved in casual labor and one-half from scheduled caste or backward caste groups. Parents see private schooling as being more accountable and demonstrating higher levels of teaching activity, particularly in terms of instruction in English.

2.30 Although private spending is being encouraged by the Central and State Governments to complement their own efforts, private schools are unlikely to improve the education of the poor directly, because they remain outside the reach of the vast majority of the poor. Other public/private issues are the absence of adequate information and regulations on private school quality (PROBE), the possible shift of the more articulate/education-oriented parents to private schools leaving less pressure on the public system, and the possible divisive pattern of differences in schooling. These issues are, of course, classic ones in the public/private school debate. Another aspect is the possibility of greater reliance on public finance/private provision of services as discussed in the next section.

2.31 Although India's public spending on health is low, overall **health** spending is high because of private spending. Private spending on health (including out-of-pocket expenditures at public facilities) is four times public spending, i.e. about 80% of health spending in India, which is one of the highest proportions of private expenditure on health in the world (World Bank 1997d). As a result, India's overall expenditures on health are about 6% of GDP, among the highest in the region. There are large inter-state variations in private financing and provision. For example the lowest proportion of private hospital care is found in rural Orissa and West Bengal (9% and 18% of hospitalizations respectively), compared to over 75% in rural Andhra Pradesh and Bihar (GOI 1998d).

2.32 Despite the high levels of spending on health, reflecting high private spending, India's health indicators are relatively poor. For the poor in India, health indicators are particularly dire. The private health sector as currently organized is unlikely to improve the health and nutritional status of the poor substantially. Private spending and delivery neglect "public goods" or inequality-reducing characteristics of key preventive and promotive health services such as immunization, ante-natal care, infectious disease control, and hospital care for the poor, as well as services in poor areas. The private sector remains virtually unregulated and has widely variable quality of care. The private sector includes highly trained allopathic specialists and services, and a significant number of practitioners of Indian systems of medicine. Yet the largest type of health practitioners are completely unqualified. Despite a significant not-for-profit presence, much of the private sector is dominated by profit motives, often resulting in over-medication, inappropriate use of technology, and over-charging of patients. These problems are particularly great for the poor, who lack information on the quality of care and have a hard time paying for private care. On the other hand, as in education, the failings of the public sector health services are leading to rising demand for private services (See GOI 1999g). The public sector has an important role to play in enhancing the effectiveness and access to individual health services, and in developing and implementing comprehensive policies addressing private financing and delivery.

D. A Similar Story in Health and Education Services for the Poor

2.33 The poor are often not reaping benefits from public health and education services and education and health costs are enormous burdens for the poor. For **education**, the direct cost, even for public schools and even ignoring the opportunity cost, is nearly prohibitive for a poor family. For example, in Bihar, the State with the lowest per capita household expenditure on education, the percentage of total household expenditure incurred on elementary education is 7.3% for the lowest income group (less than

Rs. 3000 per annum). In Kerala, which has the highest household education expenditure, the figure is 21.4% (NCAER 1994). Of course, these costs are a lower fraction of higher income groups' spending. Disaggregation of education expenditure into components reveals that school uniforms, books, and stationery absorb the major part of the total expenditure. In some States like Assam and West Bengal, private coaching and transport also contribute substantially to the expenditure. Thus, elementary education becomes a major financial burden, particularly for poor households with several children of school-going age. According to the NFHS data (1993-94) the probability of children in an Indian village being in school increases by 11% if they belong to the second rather than the poorest quintile, and increases with each level of household wealth (Lanjouw and Ravallion). Similarly, school attendance is lowest in the poorest quintiles compared to the wealthiest quintile in all states, with the largest gaps between rich and poor found in Bihar, Punjab, and Rajasthan, and the lowest in Kerala and the north-eastern states (Filmer and Pritchett).

2.34 The availability of a school increases enrollment, but only by about 4%. The mere presence of a school in a village does not guarantee quality education. Poor parents are more likely to withdraw their children from school (rather than transfer them to other schools) in situations where teachers are often absent, or the quality of teaching is poor. Also, research in low-literacy districts in eight states demonstrates that schools catering to a larger concentration of disadvantaged and scheduled tribe students have much poorer facilities (such as *pukka* buildings, furniture and equipment and instructional aids, World Bank 1997c) and fewer number of teachers compared with other schools. Empirical estimates of community-specific effects show that both village and district averages of parents' education and wealth are important determinants of school attendance and achievements. Improving the quality of education is, therefore, not just a requirement for children already in school but a powerful lever for increasing enrollments of the poor.

2.35 **Health** care also absorbs a lot of poor families' incomes but often the spending and the public health services do not yield much benefit. On an average, households spend 5-7% of their income on health, though rural households below the poverty line spend 12-19% of their income on health (NCAER 1996). The poor also benefit less from health services. Compared to the richest 20% of Indians, the poorest quintile was half as likely to use modern contraception; less than one third as likely to have antenatal care during pregnancy and one sixth as likely to have a delivery by a medically trained health worker; poor children were a third as likely to be immunized for measles, and more than 25% less likely to go to a health facility in the event of diarrhea or acute respiratory infection (World Bank 1999d). The large number of private unqualified practitioners, found mostly in rural areas and urban slums, are mainly used by the poor. In this situation, health gaps between rich and poor are likely to increase.

2.36 The goal of reducing poverty in India will remain elusive as long as the poor have low utilization of preventive and curative health services (immunizations, ante-natal care, institutional deliveries, treatment for diarrhea and respiratory illnesses), poor hygienic conditions, low school enrollment and attendance, and poorer quality schools and health services. These problems are occurring despite the longstanding recognition that health and education services are a public responsibility, as enshrined in the Indian Constitution.

2.37 The rapid expansion of the private sectors in health and education is partly a result of public sector's problems in providing quality services. The considerable spending by the poor on private services demonstrates their demand for health and education. But private sector activities in these areas are not effective in providing public goods, and are beyond the scope of many of the poor. Moreover, (a) the poor are often ill-informed and have low expectations from service providers; (b) they have little or no recourse for poor quality services, because of low accountability, and (c) the public sector has not implemented appropriate policies to deal with the private sector, particularly in terms of providing information, licensing and regulation to protect and empower consumers, especially low income consumers.

E. Solutions Being Found in Education and Health

2.38 **Education Sector Solutions.** Himachal Pradesh (HP) has demonstrated the key measures are required for improving primary education: official commitment expressed in resource allocations, parental demand that their children be educated, and civic cooperation in supporting schools (See Box 2.2). In addition, policies and strategies for developing primary education need to respond to the local environment; they must be founded on a vision for effective and appropriate education; and they need to target the most disadvantaged groups.

2.39 Even if there is political will and resources to support primary education, evidence suggests that improvements in education must emerge from the community and at the school level. They cannot be fully defined or directed from the state or national level. Current schemes – the Education Guarantee Scheme in Madhya Pradesh, Lok Jumbish and Shiksha Karmi in Rajasthan, the District Primary Education Programme (See Box 2.1) – provide excellent examples of how cost saving programs like these can be organized. The current movement towards assigning responsibility for elementary education to the Panchayati Raj Institutions provides a medium for adapting these schemes to fit the larger systemic need, if planning and management are well executed.

Box 2.2: Himachal Pradesh: A Successful Experiment in Improving Primary Education

In the state of Himachal Pradesh, illiteracy has plummeted from above the all-India average in 1951 to significantly below it today. A recent report on education in India investigated the reasons for this rapid decline in Himachal Pradesh and found the following “foundations of success”:

- **Official commitment.** Public policy includes an explicit commitment to the rapid expansion of education; per capita expenditures on education are twice the national average; policy also aims at reducing regional disparities, and provides incentives for disadvantaged children to attend school.
- **Parental demand.** Most parents take it for granted that schooling is as an essential part of every child’s upbringing; parents support compulsory education for all children, girls as well as boys; and children are self-confident.
- **Civic cooperation.** Parents are involved with their children’s schools; they assist with chores and construction projects; they watch over teachers, often informally rather than through formal associations, but with great effect – even schools in remote areas, untouched by inspectors, seem to function well.

The PROBE investigators found that HP’s egalitarian social structure helped it make rapid strides towards the abolition of illiteracy. Equally important, however, was that public administration had fostered the conditions for parental involvement and demand for education. As parents found their demands being heard, and learnt that to seek an education for ones’ children was not impossible, these demands were strengthened (rather than discouraged as has happened in many other states). HP’s experience confirms that there is no magic formula for educational improvement. Rather, HP demonstrates that a sustained state government commitment to universal education needs to be complemented with public response (parental demand).

Source: PROBE

2.40 Furthermore, successful programmes are marked by a clearly articulated vision of a well-functioning school, which incorporates expectations about children’s learning and the anticipated role of teachers. The vision needs to be clear enough to allow the parents and communities to define the objectives while remaining flexible enough for them to pursue local needs. The Rishi Valley Centre and Eklavya provide examples of successful programmes.

2.41 Finally, the resources that are applied to improving primary education need to be targeted to those groups in the population who are most in need of support. This means that program designs need to include special provisions for girls, scheduled tribes, scheduled castes, children with disabilities, and working children, and with an effective component of early childhood development. These provisions need to be followed through locally with planning and implementation processes that facilitate appropriate lending. Many programs already do this, and their experience can be built on. Also, in six of the largest states – Andhra Pradesh, Bihar, Madhya Pradesh, Rajasthan, Uttar Pradesh, and West Bengal – more than half of the school-age children do not attend school. To redress this, these states, some of which are the poorest (See Chapter 3), will need more than half of all incremental spending on education.

The Central Government has an important role to play in seeing that its resources respond to these differential needs among states, and both the Central Government and the states should consider ways to better involve private schools in meeting the demand for primary education in ways that enhance the use of public and private resources for the disadvantaged.

2.42 Health Sector Solutions. The Government of India maintains that public investments in health are critical for the sustainability of development and poverty alleviation. India's Ninth Plan (1997-2002) identifies health as one of the six priority areas, and emphasizes: integration of vertical health programs; better surveillance and control of communicable and non-communicable diseases; improved health management information systems; strengthened logistics management; and facilitation of the Panchayati Raj Institutions' involvement in health. The Central Council of Health and Family Welfare has also noted the importance of linking preventive and promotive care with selective aspects of curative care.

2.43 An emerging consensus around three broad strategies for reforming the health sector incorporates: (a) using public information more strategically to empower consumers of health care and enable people to be better providers of their own health care; (b) rejuvenating the public sector to better deliver its core services; and (c) engaging the private sector to better meet societal health goals.

2.44 Using Public Information. The use of information to improve healthy behaviors, and to enable people to better hold health services accountable to the public is a critical, but under-developed strategy. A better educated and empowered public needs to become a force for higher standards in both the public and the private sectors. A number of states have taken steps to help promote this, such as publishing standards for procedures and pricing. Several states have publicized patient's rights and responsibilities at all health facilities as an initial effort at improving public accountability in public facilities. In a number of places, community-based organizations and Panchayati Raj Institutions are also being used to hold health facilities accountable, taking on such responsibilities as improving clinic hours, reducing staff absenteeism, and organizing patient transport. The Ministry of Health and Family Welfare (MOHFW) and Department of Women and Child Development and a number of states are also beginning to make public health and nutrition information more strategic and less ad hoc, moving beyond distribution of messages to raising awareness to concentrating on changing behaviors to improve health.

2.45 Rejuvenating the Public Health Sector. The public sector needs to find ways to focus on better delivering the core functions of government, and developing a culture of performance. Core functions include not only improvements in public service provision, but also in oversight of the health sector to protect the public interest. The functions of policy development, information dissemination, regulation, mandating, and financing are under-developed. Public sector health managers and workers need different types of training, supervision support, and incentives, which are focused on achieving results and solving problems. Building leadership skills and management systems are vital, as is breaking down the structural barriers if the public sector is to function more accountably and efficiently. Better management information, and greater testing and experimentation will be needed for the Government to take the lead in anticipating and dealing with the health transition that India is undergoing, and to deliver much better services to the poor.

2.46 Some of the specific steps that could be taken include: (i) reviewing the fiscal structures and procedures in the health sector, including the roles of central, state and panchayati raj institutions financing the provision of basic inputs; (ii) developing budgeting and management tools at facilities, district, state and central levels to better plan, utilize, and monitor resources against the progress of important health outcomes; (iii) developing fiscal tools to enable greater experimentation with resource allocation, alternative financing mechanisms and with regard to choices between provision versus financing of health care services; and (iv) finding ways to share responsibilities and coordinate activities between the center and the states in the health, family welfare and nutrition areas, especially with regard to sectoral planning, health strategy and policy reform. Involving the states more intensively and collaboratively will help to solidify their commitment to the overall development policy on health,

population and nutrition services. Involvement of the Panchayati Raj Institutions would also address the development agenda for health much more broadly by focusing on important health outcome-related issues that are affected by water, sanitation and environmental concerns.

2.47 In strengthening the management of health systems, there is an urgent need to focus on improving the quality of services. Current plans to review and redefine processes for quality assurance, including the establishment and use of functional standards for the delivery of care are positive measures. Such processes are also needed as a check to the unplanned introduction of expensive and relatively ineffective technologies, while facilitating the use of new effective approaches. Examples where technical shifts are being pursued include new therapeutic approaches in leprosy and tuberculosis control, broadening the interventions used in malaria control, and integrating management of childhood illnesses.

2.48 There are also specific steps which could directly reduce the scourge of malnutrition and poor health of small children. These include: (i) refocusing the Integrated Child Development Services Program on 0-24 month-old children, concentrating on improving quality of the services provided rather than expansion to additional community development blocks; (ii) improving targeting and monitoring of the Public Distribution System and National Mid-Day Meals Program; (iii) strengthening health worker skills relating to nutrition; and (iv) rebuilding India's institutional capacity to develop policy and undertake training, research, and advocacy. An effort to make early childhood development interventions more effective would need to focus on integrating psycho-social stimulation with the reduction of malnutrition and illness in a coherent manner.

2.49 **Engaging the Private Sector.** The private sector can no longer be ignored, but instead needs to be engaged as an agent to meet the basic societal goal of good health, particularly for the poor. This can, and is starting to, happen in a variety of ways, from contracting private services for various uses, to training non-governmental organizations and other private providers to deliver public programs, to initiating meaningful regulation and quality assurance measures. What is important now is to undertake studies and open a dialogue to better understand the dynamics of the private sector provision and financing in different areas of India. Another key step is to initiate joint efforts at identifying and solving problems. In some states, private providers and government have developed forums to form a common agenda for action.

F. A Way Forward: Delivering More and Better Education and Health to the Poor

2.50 A renewed commitment to education and health services is required if the poor are to reap the benefits of better education and health. Building on ideas that are currently being tested is a good basis for the way forward. *Moreover, there is a clear need to enhance our understanding of the factors that would improve delivery of basic health and education services, particularly to the poor. Continuing research in these areas would be a vital element in an effective poverty reduction strategy.* While more spending is needed, the framework and incentives would need to change in order to make spending more effective. Four steps are proposed to improve education and health services that would contribute to reduction in poverty in all its dimensions:

(a) **Spend more effectively on elementary education and basic health systems, with better targeting to the poor, and with more public funding to address the unfinished agenda.**¹ More spending in the same manner is not what is needed. The systems for resource distribution and political oversight of health and education have led to technically inefficient and inequitable allocations. Common symptoms are that funds are too thinly dispersed, salaries are crowding-out maintenance and operational costs, and capital investments are frequently located in sites that are inaccessible to the poor. Expanding the reach and quality of elementary education by re-directing government subsidies away from secondary and tertiary education towards elementary education would ensure that the poor receive the maximum benefit from government spending on education.

¹ For a discussion of the need for better and more spending in primary education, see World Bank (1997c).

(b) **Focus public education and health services on meeting consumer needs**, which will help improve the quality of public spending. Creative and vigorous processes are needed to generate greater demand for higher quality and more accountable education and health services. This would necessitate finding ways to increase the involvement of communities in the planning, monitoring, financing and oversight of social services, for which effective examples already exist, notably through women's self-help groups. It would also require more strategic and professional means of communicating among governments, service users and service providers about service availability, quality and costs. Carefully planned decentralization of education and health resources and accountabilities can facilitate this process, provided that these resources do not become "captured" by local elites and bureaucracies.

(c) **Realign the role of the state to focus on primary education and health and water and sanitation, while making efforts to upgrade private education and health services and to use them effectively.** Where the government has assumed its primary role as a provider of education and health services, it may be more effective in increasing the quality and quantity of services, and in making them available to the poor, if it were also a more capable purchaser and regulator of these services from the private sector (including non-profit and for-profit sub-sectors). Experience needs to be gained in India on separating the financing and provision of social services. The relatively neglected functions of policy development, monitoring and regulation, and information provision will need to be developed in government. In any case, public sector management would need to be transformed by *explicitly focussing on improved results in reaching the poor, rather than budget administration*. Effective decentralization would also require states and local governments to develop planning and management capacity, in the context of broader governance and civil service reforms.

(d) **Meeting holistic needs of children.** India's future will depend on its children, where the greatest returns on its investment still lie. In view of the interdependent nature of health and educational needs of children, there is need to strengthen linkages among each sector, as well as to ascertain which set of interventions will be most effective. Since the process of human development is both continuous and cumulative, priority will need to be given to interventions in the earliest years of life which are critical to addressing the educational and health needs of the child in a more holistic and integrated manner.

CHAPTER 3

REDUCING POVERTY FASTER : THE ROLE OF STATE FISCAL AND SECTOR REFORMS

A. Overview

3.1 States in India play a key role in devising and implementing policies to reduce poverty, promote human development and stimulate growth. In addition, under the Indian Constitution, they are assigned significant responsibilities in major sectors such as agriculture, industry, infrastructure, education, health, social welfare and tax and expenditure policy at the state-level. Finally, the states' increasingly large fiscal deficits mean their fiscal policy is an important factor not only in their own performance but in India's overall fiscal sustainability (See Chapter 8). Improvement in the states' economic and fiscal management is therefore essential for rapid poverty reduction, faster growth and sustainable development.

3.2 This Chapter reviews developments in the states and suggests approaches to increase their contribution to poverty reduction. The main findings are:

(a) On an average, the higher income states grew faster than other states from 1980-81 to 1996-97, with the exception of Tamil Nadu and Rajasthan. This divergent growth pattern widened the gaps in per capita income among the states, despite the Government's efforts to achieve balanced development across states.

(b) Since 1991, Maharashtra, Gujarat and West Bengal in the high income states and all but one of the middle income states accelerated their growth, making the most of the Central Government's reforms because of their initial leads in governance, infrastructure, and human resources. As a result, the gap in per capita income has widened since 1991.

(c) Growth slowed in the poorer states and Rajasthan after 1991. Bihar, the poorest state, actually experienced a decline in per capita income. Growth also slowed in Punjab and Haryana, the richest states in 1991. These states were probably less able to take advantage of the new opportunities created by the central government reforms because of weak governance, infrastructure and human resources, or, in the case of Punjab and Haryana, growth was restricted by the limited reforms in agriculture and issues of sustainability (See also Chapter 1).

(d) The slow-growing, poor states (Bihar, Orissa, UP, and Madhya Pradesh in the 1980s) constitute about 40% of India's population. Unless these states improve their performance, it will become increasingly difficult to accelerate poverty reduction and development in India. The states improvement will have to come primarily through their own efforts, given their major roles in human development, infrastructure, and governance. The poor states have already received favorable treatment in central government transfers and loans, and further redistribution from the Center is unlikely, given their lack of performance and the Center's desire to reduce its large fiscal deficit. However, the Central government could support state reforms through its own reforms to help improve governance, the civil service and the compensation system; to further improve inter-governmental fiscal relations; and to modernize the tax and industrial incentive system.

(e) The states will need considerable improvements in governance, institutions, and the regulatory environment, and in their physical and social infrastructure. In turn, this will entail cuts in state public sector deficits through cuts in inefficient and, in many cases, inequitable subsidies to power, irrigation and secondary and tertiary education; increases in public infrastructure and human development

spending; and supporting reforms in power, irrigation, and the regulatory framework in general, in order to encourage private investment.

(f) Andhra Pradesh has emerged as a leading reforming state. It has demonstrated that, with sustained political commitment, states can improve their policy environment, put their economies on a higher growth path, and narrow the disparities with the higher income states regardless of their initial conditions. Some of the lower income states (UP, Rajasthan, Madhya Pradesh) are showing increasing commitment to reforms. Successful implementation of these reforms could substantially decrease overall poverty in India.

B. Differential Growth and Widening Disparities Among States

3.3 Balanced regional growth has always been an objective of successive Indian Governments and is supported by redistributive transfers to the states. Nonetheless, on average, the middle and high income states grew faster than the low income states from 1980-81 to 1996-97 (See Table 3.1).¹ The high income states' average growth rate per capita (3.9% p.a.) was almost twice the low-income states' (2.1%); the middle income states' average growth rate per capita (3.2%) was nearly 50% higher.

3.4 Consequently, ranking of the states by per capita income has changed only marginally since 1980-81 (See Table 3.1). The only significant changes that did take place occurred between 1980-81 and 1990-91. From 1980-81 to 1990-91, Rajasthan and Tamil Nadu realized the highest growth rates of all, 4.7% p.a. and 4.1% p.a., respectively. Rajasthan invested heavily in public infrastructure. Tamil Nadu had excellent initial conditions in terms of human resources and the irrigation sector where most of the potential investment had already been completed. Their rapid growth rates moved Rajasthan up from the low to the middle income group (from 13th to 9th in ranking), and Tamil Nadu from the middle to the high income group (from 8th to 5th).

3.5 After 1991, growth differentials accentuated, with growth increasing in the high income states of Gujarat, Maharashtra and West Bengal, and in the middle income states, except Rajasthan. At the same time, growth slowed in most of the low income states, as well as in the two highest income states in 1990-91, Punjab and Haryana. The policy environment changed significantly after 1991 with the central government's liberalization of the trade and investment regime. These reforms and other policy changes allowed the states a larger role in determining their development paths and attracting investment. Gujarat, Maharashtra and most of the middle income states were able to take greater advantage of the new conditions because of better initial conditions, governance, infrastructure, and human resources, than the low income states. Moreover, the poorest states, with the exception of Orissa, failed to improve their state-level policies to offset their initial disadvantage in attracting new investment. As a result, their growth has slowed and in Bihar, the poorest state, GDP per capita actually declined. Punjab and Haryana, with their dependence on agriculture where limited reforms occurred, also experienced slower growth.

¹ The analysis in this chapter covers 26 States (including Delhi), except in Sections B and C, where based on the real per capita income (1980-81 prices), the 14 major states have been grouped into three categories – high income states, middle income states, and low income states, accounting for, respectively, about 30%, 30%, and 40% of the total population of the group. The states' GDP data used for the analysis is the old National Accounts, based on 1980-81 prices and weights. The analysis will need to be revisited once the GDP data for the individual states is re-based to the 1993-94 prices and weights and with the additions to output in some of the sectors (See Chapter 8, footnote 1). However, given the changes in the National Accounts, it seems unlikely that the re-based accounts would change the conclusions much.

3.6 The widening growth differential naturally translates into a widening dispersion of state per capita incomes, an unusual result compared to other countries.² As Table 3.2 shows, dispersion of average

Table 3.1: Indian States' (14 Largest) Real Per Capita Income (Rs. 1980-81 prices)

	Per Capita Income						Growth Rate (%)		
	1980-81	Rank	1990-91	Rank	1996-97	Rank	1980-81 1990-91	1991-92 1996-97	1980-81 1996-97
High Income States	2,385		3,269		4,377		3.2	6.1	3.9
Punjab	3,020	1	4,163	1	4,935	2	3.3	2.8	3.1
Maharashtra	2,671	2	3,826	3	5,358	1	3.7	7.4	4.4
Haryana	2,647	3	3,864	2	4,392	3	3.9	2.6	3.2
Gujarat	2,200	4	3,047	4	4,221	4	3.3	8.6	4.2
West Bengal	1,912	5	2,349	6	3,146	6	2.1	4.9	3.2
Middle Income States	1,607		2,159		2,676		3.0	4.2	3.2
Karnataka	1,690	6	2,295	7	2,988	7	3.1	3.4	3.6
Kerala	1,690	7	2,106	8	2,705	8	2.2	4.9	3.0
Tamil Nadu	1,677	8	2,514	5	3,297	5	4.1	5.2	4.3
Andhra Pradesh	1,543	9	1,997	10	2,432	10	2.6	3.8	2.9
Madhya Pradesh	1,508	10	1,951	11	2,205	11	2.6	4.1	2.4
Low Income States	1,308		1,725		1,840		2.8	1.8	2.1
Uttar Pradesh	1,418	11	1,842	12	1,997	12	2.6	1.8	2.2
Orissa	1,415	12	1,555	13	1,833	13	0.9	1.5	1.6
Rajasthan	1,373	13	2,170	9	2,533	9	4.7	3.9	4.3
Bihar	1,062	14	1,374	14	1,245	14	2.6	-0.7	1.0
Average of 14 States	1,715		2,310		2,842		3.0	4.4	3.2

Note: Using the 1980-81 based GDP series

Source: CSO, World Bank staff estimates

Table 3.2: Standard Deviation of States' Per Capita Output (Logs of output of 14 Major States)

	State GDP	Agriculture	Industry	Services
1980-81	0.29	0.33	0.37	0.33
1981-82	0.29	0.34	0.37	0.34
1982-83	0.30	0.38	0.36	0.34
1983-84	0.29	0.34	0.36	0.34
1994-85	0.30	0.33	0.36	0.34
1985-86	0.31	0.36	0.39	0.35
1986-87	0.31	0.36	0.39	0.33
1987-88	0.31	0.39	0.37	0.34
1988-89	0.31	0.37	0.37	0.33
1989-90	0.33	0.37	0.37	0.34
1990-91	0.33	0.38	0.37	0.35
1991-92	0.33	0.39	0.35	0.36
1992-93	0.36	0.40	0.39	0.37
1993-94	0.36	0.39	0.40	0.40
1994-95	0.38	0.39	0.44	0.40
1995-96	0.39	0.40	0.45	0.42
1996-97	0.40	0.44	0.45	0.42

Source: RBI, using real GDP with a 1980-81 base.

² Widening inequality among Indian states is in sharp contrast with the evidence from other federal countries. Inter-state inequality has declined in USA, Canada, Europe, Japan, Australia, China (until 1992), and at a slow pace, Indonesia. In addition, inter-regional inequality is significantly higher in India compared to the other large federal states, with the exception of China. The standard deviation of per capita income was estimated at 0.28 in Indonesia (1993), 0.20 in USA (late 1980s), 0.15 in Japan (1980s), 0.25 in Italy (1990), 0.10 in UK (1990), and 0.51 in China (1992) against 0.40 in India (1996-97). For a more detailed discussion of interstate disparities and a literature survey on the convergence issue, see Yagci.

per capita real income among the 14 major states, measured by standard deviation, has increased from 0.29 in 1980-81 to 0.40 in 1996-97.³ In 1980-81, the highest state per capita income (Punjab) was 2.8 times the lowest (Bihar). This ratio increased to 4.3 in 1996-97. If the trend continues, the ratio would reach 7.5 in the next 15 years. Table 3.2 also show that dispersion has increased in all three major sectors (agriculture, industry, and services), and accelerated after 1991.

3.7 Although the share of population below the poverty line declined and human development indicators improved in all states, progress was generally faster in the fast growing states, which are mostly higher income states (See Table 3.3). The standard deviation of poverty incidence worsened slightly and the disparity in health indicators (birth rate and infant mortality) widened noticeably, although the disparities in literacy fell.

Table 3.3: State Poverty and Social Indicators and Their Standard Deviations

	Population below the Poverty Line/a			Literacy/b			Female Literacy			Birth Rate/c			Infant Mortality/d		
	1978	1994	Rate of Change (%)	1981	1991	1997	1981	1991	1997	1981	1991	1996	1981	1991	1997
Maharashtra	67.8	43.5	2.7	53.5	64.9	74.0	39.6	52.3	63.0	29.8	25.2	23.2	79	59	47
Punjab*	26.9	21.6	1.4	46.4	58.5	67.0	38.4	50.4	62.0	30.2	26.3	23.5	81	56	51
Haryana	-	-	-	41.7	55.9	65.0	25.8	40.7	52.0	35.9	30.9	28.8	101	75	68
Gujarat	39.9	33.8	1.0	49.9	61.3	68.0	36.9	48.6	57.0	34.2	28.0	25.5	116	67	62
Tamil Nadu	54.9	34.9	2.8	52.6	62.3	70.0	39.4	51.3	60.0	27.9	19.5	19.2	91	58	53
West Bengal	51.8	26.0	4.2	46.3	57.7	72.0	34.4	46.6	63.0	32.0	25.7	22.8	91	65	55
Karnataka	52.9	37.6	2.1	43.9	56.0	58.0	31.7	44.3	50.0	29.1	25.5	23.0	69	73	53
Kerala	53.2	29.2	3.7	78.9	89.8	93.0	73.4	86.2	90.0	24.9	17.4	17.8	37	17	12
Rajasthan	51.6	43.5	1.1	28.4	38.6	55.0	13.4	20.4	35.0	40.1	34.0	32.3	108	90	85
Andhra Pradesh	47.0	29.4	2.9	34.1	44.1	54.0	23.3	32.7	43.0	30.8	24.3	22.7	86	71	63
Madhya Pradesh	63.9	44.1	2.3	32.2	44.2	56.0	18.0	28.9	41.0	38.5	34.9	32.4	142	104	94
Uttar Pradesh	46.7	40.2	0.9	31.4	41.6	56.0	16.3	25.3	41.0	38.4	36.2	34.0	150	98	85
Orissa	62.1	40.3	2.7	38.8	49.1	51.0	24.0	34.7	38.0	34.0	27.2	26.8	135	115	96
Bihar	64.8	60.4	0.4	30.3	38.5	49.0	15.8	22.9	34.0	37.2	32.0	32.1	118	73	71
Standard Deviation	0.24	0.26	-	0.27	0.23	0.17	0.45	0.38	0.27	0.13	0.20	0.19	0.34	0.44	0.49

* Data for population below poverty line for Punjab includes Haryana

a/ percent, based on World Bank India Poverty Assessment 1997.

b/ percent of population of seven years and older

c/ per thousand population

d/ per thousand live births

Source: Government of India, Economic Survey; Ministry of Human Resources Development, Annual Report 1997-98; World Bank Staff Estimates.

3.8 Some states, notably Kerala and West Bengal, had the fastest rates of poverty reduction over 1978-94 (See Table 3.3), faster than several more rapidly growing states. For example, in Kerala, human resource development enabled Keralites to emigrate internationally and generate remittances that raised income and reduced poverty in ways that are not captured by Kerala's Gross State Domestic Product (GSDP) figures. However, the large poor states cannot adopt this strategy very well, given their poor levels of human development, their weak fiscal situations that limit the availability of funding for human

³As noted in Chapter 1, this result need not be inconsistent with a minimal worsening of the Gini coefficient of (spending) distribution derived from NSS data, because the middle income states grew faster than the highest income states. Also, the increase in the standard deviation of per capita incomes, though an unusual result and worrisome, is not significantly different from zero. And, of course, the NSS data refer to individuals, not average state-wide data.

development, and the difficulties of substantially affecting the work force in these large states by emigration, even to other states. In the case of West Bengal, land reforms and high agricultural growth over the period may have been important causal factors. *Further analytical work on such issues (and the linkages between growth, poverty reduction, and governance) would help our understanding of the determinants of growth at the state level. Also, further analysis of the performance of reforming states such as Andhra Pradesh, Gujarat, and Madhya Pradesh, focusing on the links between micro-reforms and macro outcomes, would be useful.*

C. State-Level Reforms to Reduce Poverty

3.9 Accelerated, labor-intensive development in the states is needed to reduce poverty, particularly in the four poorest states (Bihar, UP, Orissa, and Madhya Pradesh). These states constitute almost 40% of the population and have been a heavy drag on the efforts to reduce poverty and on national economic and social development. Speeding up India's development will depend heavily on better performance in these states.

3.10 The states' improved performance will depend largely on their own efforts, given their major roles in human development, intra-state infrastructure, and the intra-state regulatory framework. The states already receive large loans and transfers from the center – Bihar and Uttar Pradesh, for example, fund only about 35% of their revenue expenditures, with 65% coming from the Center – and it is unlikely that large increases in support will be forthcoming given the need for overall fiscal prudence and the problems with many states' previous use of transfers. The Central Government can, however, provide a supportive overall framework that contributes to sustainable rapid growth in output and labor demand, including improved governance, reduced international trade restrictions, internal deregulation, improved infrastructure, a sound financial system, and fiscal and monetary prudence (See also paras. 3.31, 3.35, and chapters 4-8).

3.11 Accelerated development in the states will depend on more public and private investment to speed growth, greater efficiency in the use of investment, and improved human development. What specific state-level reforms might bring this about? In general terms, efforts will be needed to improve governance and institutions, for example, strengthening transparency, increasing accountability in service delivery, reducing opportunities for discretion, and improving expenditure management and tax administration. Physical and social infrastructure needs improvements, which will entail supporting reforms in state finances, power and irrigation, and the regulatory framework in general. Such reforms and development spending will create an investment-friendly environment to attract private capital that is needed for growth (See Govinda Rao et al). Recent state-level economic studies, undertaken with close cooperation between the state governments and the World Bank (AP, UP, Karnataka, Orissa, and Rajasthan) and NIPFP (Punjab, Haryana, Assam, Delhi, Tamil Nadu, and Kerala) have helped outline key fiscal and sector reforms in more detail. These, along with fiscal decentralization, are discussed below.

D. Cutting the States' Fiscal Deficits and Raising Their Development Spending

3.12 **The Weakening of State's fiscal performance in the 1990s.** The states adjusted only marginally to the crisis of 1991, almost exclusively by cutting their capital and human development spending between 1990-91 and 1993-94 (See Table 3.4 and Annex Table 8.8). This pattern of adjustment raises questions about the sustainability of longer run development and poverty reduction. The states made only limited attempts to raise revenues by increasing user charges and bringing untaxed incomes into the tax net; indeed, Kurien suggests that the states engaged in competitive populism and "tax wars" to lure investment. The states also allowed their non-developmental spending to continue to rise as a percentage of GSDP. One element in the rise of revenue spending was the rise in the states' interest burden. Interest costs rose, even as the deficit declined somewhat and the states' debt stock remained

roughly constant, because India's financial liberalization made the true cost of state borrowing clearer. After 1994, even this marginal improvement in the states' deficit was reversed, as the Central Government, as part of its efforts to control its own fiscal deficit, cut its grants to the states and the states made minimal adjustments.

3.13 By 1997-98, the deterioration in fiscal performance of the states would have pushed the deficit back to the level of 1990-91 but for the one-time injection of VDIS revenues raised by the Center (See

Table 3.4: Main Fiscal Trends in All States (percent of GDP)
(Fiscal Year ending March 31)

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98 R.E.
Total Revenue	11.5	12.1	11.9	12.0	11.8	11.2	10.8	11.3
Own Revenue								
Tax	5.2	5.4	5.2	5.3	5.4	5.2	5.0	5.4
Non-Tax	1.6	1.9	1.7	1.8	2.1	1.9	1.7	1.6
Central Transfers	4.6	4.8	5.0	5.0	4.3	4.1	4.1	4.3
Shared Taxes	2.5	2.5	2.7	2.6	2.4	2.4	2.5	2.6
Grants	2.2	2.3	2.3	2.4	1.9	1.7	1.6	1.8
Total Expenditure	14.7	15.0	14.7	14.4	14.4	13.8	13.5	14.6
Revenue Expenditure	12.4	13.0	12.6	12.5	12.4	11.9	12.0	12.6
Interest Payments	1.5	1.6	1.7	1.8	1.9	1.8	1.8	2.0
Education	2.7	2.6	2.5	2.5	2.4	2.4	2.3	2.5
Health and Family Welfare	0.8	0.8	0.7	0.8	0.7	0.7	0.7	0.7
Capital Expenditure (net)	2.3	2.0	2.1	1.9	2.0	1.9	1.5	2.0
Revenue Deficit	0.9	0.9	0.7	0.4	0.6	0.7	1.1	1.3
Fiscal Deficit	3.2	2.9	2.7	2.3	2.6	2.6	2.7	3.3
Debt Stock	18.7	18.6	18.4	18.3	17.8	17.4	17.2	18.2

Note : New GDPmp series is used (revised base 93-94) and for years prior to 1993-94 re-basing is done assuming a linking factor
Source : RBI States Supplement 1998, CSO

Table 3.5).⁵ In 1998-99, the states' fiscal deficit worsened to 4.2%, well above the 3.2% in 1990-91 and is likely to remain high in 1999-2000 (See Table 3.5) as the Central Government's excessive wage settlement continues to cascade down to the states (See Kurien and World Bank 1998a). Moreover, the composition of state public spending has worsened even further, with rise in revenue expenditure and the likely slowdown in development spending (See also Chapter 8).

3.14 The issue related to reform of state finances has assumed immense significance as the fiscal deficit of state governments has reached unsustainable levels. The gross fiscal deficit (GFD) to GDP ratio of all state governments touched a high of 4.2% in 1998-99 – the highest recorded in Indian fiscal history so far. The fiscal performance of individual states varied widely over the 1990s, with the most marked deterioration coming in some of the poorer states. In Uttar Pradesh, the fiscal deficit rose from 4.5% of GSDP in 1993-94 to 8.6% in 1997-98; in Bihar, from 4.0% to 6.2%; in Orissa from 5.7% to 6.3%. Of course, fiscal deterioration was not limited to the poorer states – in Kerala the deficit deteriorated to 7.3% and in Rajasthan to 4.6%.

⁵In Table 3.4, VDIS revenues are not included in the 1997-98 figures (revised estimates) for state revenues. However, the actual figures, which are shown in Table 3.5, include the states' share of VDIS revenues, which reduces the fiscal deficit. See World Bank (1998a) for details on VDIS.

3.15 As a result of their deficits, most poorer states have become highly indebted; in Uttar Pradesh, the debt-to-GSDP ratio rose from 26% to 31%; in Bihar from 35% to 42%; and in Orissa from 41% to 43% (See Annex Table 3.1 for deficit and debt ratios of individual states). Financing these large deficits has meant increased borrowings and guarantees (See Table 3.5 and Box 3.1). These states, and the others with large deficits, are on unsustainable development paths given the high real cost of borrowing and the crowding-out of development spending by interest costs, salaries and subsidies. This is also indicated by the rising revenue deficits and their increasing share in the overall fiscal deficit. The political environment and the weak reform record in some states suggest that it will be an enormous challenge to restore their fiscal health and strengthen the development impact of their public sectors.

Table 3.5 : Financing of All States Fiscal Deficit (Percent of GDP)

	1990-91	1994-95	1995-96	1996-97	1997-98	1998-99 (RE)	1999-00 (BE)
Fiscal Deficit	3.2	2.6	2.5	2.7	2.9	4.2	4.0
<i>Financing :</i>							
Loans from Center	1.7	1.3	1.1	1.2	1.5	1.8	1.9
Market term loans	0.5	0.4	0.5	0.5	0.5	0.6	0.5
Others (PFs, reserves and deposits)	1.0	0.9	0.9	1.0	0.8	1.8	1.6
Memo :							
Revenue Deficit	0.8	0.6	0.6	1.1	1.0	2.2	2.2

GDP numbers are at the 1993-94 base. For 1998-99 GDP, revised estimates (July 1999) have been used

Source : RBI Annual Report 1998/99 (Appendix 4.5 for 1997-99 figures), Supplement to RBI Bulletin on Finances of State Governments, CSO, World Bank Staff Estimates

Box. 3.1: Financing State Governments' Deficits: Borrowing and Guarantees

The States are limited in their domestic borrowing by the Central Government and 60% of their debt is to the Central Government. The Central Government passes on funds that it borrows on behalf of the States at its average cost of funds, which have been rising with financial liberalization. The States are constitutionally prohibited from borrowing internationally and have reasonably tight limits on overdrafts at the Reserve Bank of India. Thus the Indian States face a relatively hard budget constraint in the sense that they are unable to automatically access central bank funding, in contrast to the Argentine states whose access was a major factor in Argentina's inflation. (Brazilian states had automatic access to their own banks, and also external capital.) However, the Indian States have been able to ease the budget constraint through, in some cases, temporarily eased access to the Reserve Bank, build up of arrears to suppliers (a technique also used by State Public Enterprises), and campaigns to stimulate relatively high cost, small savings that are largely funneled back to the State that mobilizes them – another factor in rising interest costs of state debts (See Box 3.3).

State Government Guarantees have also been used to circumvent the "hard budget constraint". Before 1994-95, State Public Enterprises (SPEs) were given separate borrowing allocations for each year as part of state-specific overall ceilings for SLR and market borrowing. With the removal of these limits, state guarantees given to the SPEs have become a convenient means for the states to circumvent the ceiling imposed on borrowing by the Central Government. This issue has assumed growing importance in recent years because of rapid increase in these liabilities. The volume of state guarantees increased from Rs. 403 billion in March 1992 to Rs. 796 billion in September 1997, representing a compound rate of growth of 12% a year. Total outstanding guarantees now account for about 9-10% of states' combined GSDP. Variation among states is large – as a percentage of GSDP, state guarantees range from 4% in UP to 14% in Punjab.

The main reasons for the substantial increase in state government guarantees in recent years include: growing need for infrastructure at the state-level particularly in the power, irrigation and road sectors; and a substantial decline in central government loans to the states from 3.4% of GDP in 1995-96 to 2.2% in 1997-98. These, together with a sharp fall in grant transfers from the Central Government from 2.7% of GDP in 1993-94 to 1.9% in 1997-98, have forced the states to resort to off-budget financing of infrastructure through SPEs without making adequate provision for project-specific cost recovery.

A Committee consisting of finance secretaries of a few state governments and RBI officials was formed in November 1997 to review the issues concerning state government guarantees. The Committee completed its work and published its report in February 1999 (RBI 1999b). The main recommendations include setting ceilings on the use of guarantees with reference to NSDP, Consolidated Fund or net market borrowing of the state. Andhra Pradesh, Gujarat, and Karnataka have already established ceilings for the volume of state guarantees. Monitoring state government guarantees would be a critical element in an enhanced dialogue of the Central Government with the states on fiscal reforms.

3.16 State-level **fiscal reforms** that would correct this deteriorating situation and improve the states' development potential would include efforts to:

- **improving the tax system** – for example, tax simplification, introduction of VAT (See Box 3.2), introduction of taxes on agricultural incomes and land;
- **reforming public enterprises** – including private service provision, privatization, closure, retrenchment and re-deployment;
- **re-prioritizing spending** – increased social sector and infrastructure spending, consolidation of the numerous welfare programs, better targeting of social subsidies, downsizing and upgrading the civil service; and
- **improving cost recovery** – particularly in power and irrigation, sectors that are key to the reform process (See below).

Such measures would reduce the fiscal deficit to a sustainable level, encourage private investment, and ensure that the states' public sectors contribute substantially to poverty reduction and development. In fact, fiscal crisis has spurred some of the poor and most indebted state governments – such as Uttar Pradesh – to embark on the path of comprehensive reforms, similar to the economic restructuring program launched by the Government of Andhra Pradesh. The reform efforts of these states are aimed at (a) restructuring state-level expenditure and improving governance so as to maximize the outcomes achieved by public spending and private investments in the state; and (b) enhance the revenue base through tax policy and administrative reforms and improved cost recovery from publicly provided non-merit goods and services.

Box 3.2: India's Experience with State-Level VAT

Maharashtra is the only Indian state to adopt a (partial) VAT in 1995. It was recently repealed because of taxpayers' resistance and revenue loss. Reviews indicate that such implementation problems owed to inadequate design and preparation for VAT. VAT has been successfully implemented in over 100 countries including some federal systems with state-level VAT. The main weaknesses of Maharashtra VAT included: (a) adopting one kind of VAT (the credit invoice method, where sellers receive a rebate on VAT paid by input suppliers on showing supporting invoices) up to the manufacturing gate, and another kind of VAT (the subtraction method, under which the amount of VAT on a transaction need not be stated on the associated invoice) to cover wholesale and retail trade. The different kinds of documentation required for the two methods resulted in Maharashtra losing the opportunity to have an unbroken record of the chain of sales and purchases from the manufacturing to the retail stage. Yet, the key to achieving effective VAT compliance rests on the ability of the tax administration to cross-check records from one stage against the other; (b) adopting a subtraction VAT with more than one rate (Maharashtra had three rates), which is regarded as a fundamental design flaw and can lead to anomalous VAT computations; (c) the decision not to abolish the many tax holidays and tax deferrals when the VAT was adopted narrowed the base considerably and likely encouraged over-invoicing; (d) introduction of VAT by grafting of VAT features on the existing laws and administrative system; and (e) most damaging, the lack of adequate attention to staff and taxpayer education and strengthening the tax administration. Andhra Pradesh and Madhya Pradesh have adopted a different approach. Utilizing technical assistance, they are preparing legislation for a full-fledged VAT and emphasizing administrative renewal and staff and taxpayer education. The Central Government could support the more efficient taxation approach of VAT by itself moving to a national VAT. While there has been a decision to introduce VAT in all States by April 2001, preparations for that event are behind schedule.

3.17 A number of reform initiatives that are under the responsibility of the Central Government would help improve the general policy environment for all the states. They include: agricultural reforms (such as reduction in distortionary subsidies, improved pattern of public spending, deregulation of the sector and rural finance, and empowerment of the poor through participation); elimination of small-scale industry reservation; removal of barriers to inter-state trade; providing leadership and incentives in politically sensitive measures such as elimination of industrial incentives by the state governments, harmonization of state taxes, improvement in cost recovery and the regulatory framework, and introduction of civil service and compensation reforms; and improvement in decentralization (See below) and rationalizing and modernizing inter-governmental fiscal relations (See next paragraph). Unless

supportive measures are taken in the poorer states, this second wave of reforms by the Central Government would continue benefiting mainly the higher income states.

3.18 Recently, the Center has been attempting to help the states embark on the path to fiscal rectitude, in response to their plea for extraordinary financing to manage the impact of the recent hefty pay revision, in line with the award of the Fifth Central Pay Commission for the federal-level services. The Central Government has signed Memoranda of Understanding (MoUs) with 9 states so far, whereby extraordinary short-term advances have been made by the Central Government in return for fiscal reform by the states. These efforts are a welcome complement to the efforts already underway on the part of some reforming states.

E. Reforming Power and Irrigation at the State-Level

3.19 **Power and irrigation sector reforms would be the center-piece of the reform strategy in the states.** Explicit and implicit subsidies (mainly to farmers) are the highest in these sectors – for example, they amounted to about 5% of GSDP in AP in 1997. The subsidies are not only costly, but also induce inefficiencies, such as overpumping of aquifers, and have unclear distributional impacts. Without reforms and improved cost recovery, it will be difficult to encourage private provision of power or better use of the canals. Therefore, improvement in cost recovery in these sectors on a sustained basis and sector restructuring, are essential to restore sustained growth (particularly in agriculture) and sustainable state finances.

3.20 The power sector in almost all the states faces a twin crisis: severe power shortages and heavy financial losses to the State Electricity Boards (SEBs), arising mainly from theft and provision of almost free power to farmers. These subsidies are a major element in the deterioration of state finances. De-politicization of tariffs and management of the utilities, and restoration of creditworthiness in the sector are essential to attract private funds to reduce the acute power shortages in the sector. The needed reforms would typically involve separation of the generation, transmission, and distribution activities of the SEBs, setting up new independent companies operated commercially under the Companies Act to carry out these activities, privatization of distribution business, setting up an autonomous Electricity Regulatory Authority to establish and regulate tariffs, and enacting legislation to enable implementation of these reforms (See Chapter 5).

3.21 Effective expansion of irrigation is key to ensuring sustained agricultural growth and reducing rural poverty. The states normally allocate large public funds for the development of canal irrigation network. However, the benefits of these investments are not fully realized, because these funds are thinly spread over too many new projects, leading to substantial time and cost over-run. In addition, Operations & Maintenance (O&M) activities are severely under-funded. The resulting deterioration of the network adversely affects the efficiency of the irrigation system. The main irrigation sector reforms would include: adequate budgetary provisions for O&M expenditure, substantial improvement in cost recovery, greater participatory involvement of farmers in irrigation systems management through constitution of Water Users' Associations (WUAs), transfer of revenue collection and O&M responsibility to WUAs, and improvement in the institutional and legal system. Encouraging private sector participation in infrastructure through creation of a supportive legal and policy environment and improvement in delivery of social services by strengthening institutions and training staff is also a priority reform area. It is important for the state governments to create an enabling environment that attracts fresh investments and improves private sector participation in the states' development process. Without these sector reforms, both fiscal sustainability and accelerated growth would be very difficult to achieve.

3.22 Andhra Pradesh has emerged as the leading reforming state in the past three years, gaining considerable attention in India and abroad, and generating a strong demonstration affect amongst many

other states in India. It has launched a comprehensive reform program, which covers state finances (civil service downsizing, subsidy reduction, reprioritization of expenditure, and a proposed adoption of VAT), public enterprise reform (privatization, closure of unviable companies, and employee downsizing with a supporting safety-net program), power (unbundling of APSEB, setting up a Regulatory Authority to determine tariffs, and privatization of distribution), and irrigation (improving cost recovery, increasing allocations for O&M, establishment of over 11,000 WUAs, and transfer of O&M responsibility to the same). So far, the reforms have been implemented effectively. The fiscal deficit has been brought down from 3.8% of GSDP in 1994-95 to 3.0% in 1997-98. The business community has reacted positively to these initiatives and AP has become one of the leading states in attracting new local and foreign investment. AP has demonstrated that, with sustained political commitment, states can improve their policy environment, embark on a path to higher growth and narrow the disparities with the higher income states regardless of their initial conditions.

3.23 Orissa is the pioneering state in power sector reform – it has served as an example for other states, and in particular for Haryana and AP. It has recently sold off 49% of its thermal power generating company – the first privatization of its kind in India and the largest by a state – and has also privatized majority stakes in its distribution companies (See Box 5.3). Orissa also has a reasonable record in public enterprise reform and private participation in the mining industry and infrastructure.

3.24 Other states showing an increasing commitment to reform include Haryana (power sector) and Gujarat (public enterprise reform, private sector participation in infrastructure). Rajasthan, UP, and Madhya Pradesh are also considering fiscal and sector reforms to improve their finances and promote growth. UP has also initiated work to improve governance and address environmental issues in the state. A worrisome development is the policy back-tracking in Punjab and Maharashtra: Punjab started providing farmers with free power and water and Maharashtra promised free power to farmers. These developments make it politically more difficult to improve cost recovery in these sectors in other states.

F. Decentralization: Emerging Issues and the 11th Finance Commission

3.25 Given its economic, demographic, and social diversity, India has developed a three-tier structure of government (Center, states, and local authorities) to promote political involvement, accountability, effective service delivery, and regional balance. States have considerable fiscal autonomy under the Constitution, but until recently, central planning and the dominance of national parties in national politics limited the full realization of decentralization.

3.26 Since 1991, three developments have initiated a process of further devolution of powers from the Center to the lower levels of government. First, opening of the activities previously reserved for the public sector, elimination of industrial licensing by the Central Government, and weakening of central planning, have created an environment in which state governments assume larger responsibilities to define their development policies and to attract private investment in their respective territories. Second, weakening of the national parties has led to multi-party coalition governments at the Center, enabling smaller regional parties to participate in these coalitions and have a strong influence on national politics. Third, the Constitution Amendment Acts (73rd and 47th) in 1992 provided a strong legal basis for strengthening the local governments.

3.27 **Fiscal federalism.** The Constitution specifies the expenditure responsibility of the Central Government and state governments in three lists defining central powers, state powers, and concurrent powers where both levels of government can exercise authority. Expenditures under states' responsibility include public health and sanitation, water supply, agriculture and irrigation, and road transport. Expenditure on education, social security, and supply of electric power is under joint responsibility with the Central Government. The Constitution also specifies the taxation powers of the Central Government

and the state governments. The states' list includes land revenue and agricultural income tax, state sales tax, state excise duty on alcoholic beverages, and taxes on motor vehicles.

3.28 While the states collect about 37% of the consolidated government revenue, they account for about 60% of the consolidated government expenditure net of state interest and central transfers. The states incur about 87% of total expenditure on social services and 59% on economic services. The resulting vertical fiscal gap is financed by grants from the center and borrowing as limited by the Central Government (See above). There is a wide gap in the states' self-finance, ranging from Gujarat's 76% to Uttar Pradesh and Bihar's 35-36%.

3.29 A Finance Commission, which is appointed every five years, recommends how the proceeds of taxes collected by the Central Government should be shared with the states, how this should be divided amongst the states, and how to distribute grants-in-aid to the states. In the past, the size of these transfers has been largely determined by the need to fill the gap between the entire or non-plan "current-account" revenues and expenditures of the states, based on five-year projections. The Planning Commission, in consultation with the states, determines direct central government support (a mixture of loans and grants) for projects in states' development plans and the distribution of development grants from the center to the states. Most transfers by the Planning Commission to the states are block transfers composed of loans and grants. Official development assistance to the states is passed on to the states at the same terms as regular transfers, with full additionality since 1992. The Central Government also provides conditional matching grants for Centrally Sponsored Schemes (CSS) which are cost-shared programs. Regional balance is a key consideration in determining the transfers under these three mechanisms.

3.30 This system has a number of positive features. It provides a transparent rule-based framework, which makes states' own revenue and transfers from the Center predictable. As discussed above, by subjecting state borrowings to central government approval and precluding access to external finance, it also imposes a relatively hard budget constraint on the states. However, the system also provides perverse incentives for the states to increase the size of their development plans and the current expenditure without adequate regard to expenditure priority, debt sustainability, and resource mobilization.

3.31 The main weaknesses of the system include the following:

- (a) the "gap filling" approach, adopted traditionally by the Finance Commission, in determining the grant awards, undermines fiscal discipline because it is not guided by the fiscal capacity of the states, and encourages states to run revenue deficits;
- (b) the block transfers by the Planning Commission in aid of state plans have an inherent bias in favor of new projects which crowd out expenditure for the maintenance of the public assets;
- (c) provision of central financing for wage components of new programs for the first five years from inception encourages an unsustainable "ballooning" of state civil services;
- (d) proliferation of centrally sponsored schemes (over 180 programs equivalent to 1.3% of GDP) with their high administrative overhead costs and rigid eligibility criteria, undermines effectiveness and distorts state priorities;
- (e) the high cost small savings mechanism, which has recently grown to be equivalent to 1.2% of GDP, far outstripping the financing contribution of market loans at 0.6% of GDP (See Box 3.3);
- (f) market borrowings arranged by RBI with a single interest rate for all states constitutes a barrier to the development of a competitive market for sub-national debt with state-specific risk premia leading to market-based fiscal discipline;

(g) borrowing ceilings for individual states are not determined with reference to state-specific debt sustainability analysis; and

(h) occasional central government loan forgiveness and refinancing without conditionality creates the expectations of future debt relief which undermines financial discipline amongst states.

3.32 Many of these weaknesses are acknowledged by the Central Government in the Ninth Plan. Under the theme of co-operative federalism, the Ninth Plan proposed to move with the states to a more flexible approach to transfer, design and the coordination of development strategies. Specifically, it proposed that the National Development Council suggest changes in the grant-loan formula while also considering the question of inter-state distribution of central assistance among states. The Ninth Plan also proposes to remove the bias in favor of large plans by de-linking the size of plan from the level of central assistance to the states. This proposal, if fully implemented, would make a welcome reduction in the distinction between plan and non-plan expenditures. However, there is little sign that these proposals will be adopted soon.

Box 3.3.: The Growing Importance of Small Savings in State Finances

Small savings in India comprise ten financial instruments run by the post offices and public sector banks and amount to 1.6% of GDP (in 1999-00). Prior to the Budget for 1999-2000, 75% of the net collections from small savings used to be transferred from the Consolidated Fund of the Central Government to the state governments/union territories (UTs) in which the savings originate, in the form of non-plan loans. These loans are offered at 13.5% rate of interest for a tenure of 25 years, with State governments enjoying a 5-year moratorium. Apart from the tax foregone on these tax-saving zero-risk financial instruments, small saving collections cost the Central Government about 17-18% (which includes administrative/transaction costs, commission charges to the wide network of agents). Despite the fact that these are high-cost funds, States have been increasingly resorting to these loans in the absence of improved efforts at raising own tax revenues. In fact, most States oppose efforts to lower interest rates on small savings, essentially due to the fear of an adverse impact on mobilization. Following interest rate deregulation of time deposits with banks, increased risk perception attached to competing deposit takers and a fall in stock market returns in recent years (except 1999), there has been a substantial jump in small savings as part of the capital receipts of the government.

In the past, the non-plan loans offered to state governments in lieu of small savings collections used to be part of expenditure of the Central Government, adding to the already high fiscal deficit of the Center. Largely based on the recommendations of the R.V.Gupta Committee Report, 1998, the Union Budget for 1999-2000 proposed a change in the accounting framework for small savings (See RBI Annual Report, 1998-99, Box IV.1). Accordingly: (i) small savings collections will be credited to the National Small Savings Fund (NSSF) in the Public Accounts, and not the Consolidated Fund; (ii) all withdrawals of small savings by the depositors would be made out of the accumulation to the NSSF; (iii) the balance in the NSSF would be utilized to make investments in "special securities" of the Central and state governments; (iv) the interest earned on these government securities will constitute the income of the NSSF while the servicing cost and management cost of small savings will be the expenditure of the Fund; (v) these "special securities" thus issued will add to the respective government's internal debt.

The changes thus effected are mere changes in accounting, leaving the basic issues unchanged, and simply shift the debt burden from Central to state government books. On the other hand, the recent rise in small savings collections has increased the urgency of reform, since small savings, alongwith government guarantees (see Box 3.1), are avenues of partial escape from the relatively hard budget constraint established for the states by the GOI and are an increasingly important source of internal debt. The hard budget constraint could be restored by delinking small savings from going to the states where it is collected, while continuing to permit states to have access to the savings pool. Other measures would need to address the high cost of this instrument, such as freeing up the interest rate, and dropping the tax concession. It would also help to make explicit or do away with the implicit GOI guarantee on this instrument.

3.33 Fiscal decentralization needs to match the on-going devolution of powers with fiscal resources to enable local governments to spend on public goods and services they are responsible for. The Central Government intends to increase its dialogue with the states on fiscal reform and Plan implementation and devote more attention to periodic fiscal surveillance and implementation of agreed commitments by the states. It is thought that a more intense dialogue within the spirit of co-operative federalism will encourage better accountability and commitment of state governments to their constituents. This new

initiative, which involves policy conditionality by the Central Government for their resource transfers to the states, is a welcome development and a good initial step towards rationalizing and modernizing the system of inter-governmental transfers.

3.34 Another positive development is the terms of reference of the Eleventh Finance Commission (EFC), which is currently deliberating. In the past, Finance Commissions were discouraged from examining transfers other than the ones they award. But the terms of reference of the EFC explicitly enjoins it to “review the finances of the Union and the states and suggest ways and means to ... restore budgetary balance and maintain macroeconomic stability”. Complying with this request will require it to take a comprehensive look at all aspects of the transfer system including those overseen by the Planning Commission and particularly the debt and deficit sustainability position of highly indebted states.

3.35 Much scope exists for additional reform. Further liberalization of banking and financial markets would provide an opportunity for the creation of a competitive market for state government securities. But meaningful reform is unlikely to occur unless financial institutions are free to reject the debt issues of financially weak states, and the Central Government rejects the implicit full guarantees against default and establishes a transparent set of rules for highly indebted states (perhaps with an element of co-insurance or partial guarantees). The states are ill-served by the still high-cost small savings system (See Box.3.3). Other policy options which could be considered include: (a) consolidating centrally sponsored schemes to reduce administrative costs and partly converting them into block funds; (b) clarifying the constitutional assignment of indirect taxes, and the exchange or rental of taxing powers to permit the implementation of a dual VAT; and (c) designing new financial institutions or market structures to intermediate the borrowings of state governments so that they can finance their increasing infrastructure needs without creating moral hazard problems for the Central Government. (A start could be made by increasing the proportion that states borrow directly from markets, without Central guarantees).

3.36 **Decentralization to Local Authorities** (See also Section E in Chapter 4). The 73rd and 74th Constitutional Amendments provide the local authorities with legal status as directly elected bodies and eliminate state governments' earlier discretion in determining the tenure and structure of these lower level bodies. This is a major step towards strengthening of local governments, improving governance at the state-level, transferring larger responsibilities to panchayats and municipalities, and making them accountable to their electorate. These amendments also make a specific provision for the representation of women and other disadvantaged groups in the elected bodies in order to ensure greater participation of these sections of local communities.

3.37 Unlike for state governments, the Constitution does not specify any expenditure/functional responsibility or revenue powers to panchayats and municipalities but contains indicative areas which could be considered appropriate for devolution. Determination of these responsibilities and powers is left entirely to state governments. Given the economic, demographic and social diversity, this approach allows the state governments to design a structure which would better fit local needs, under the guiding principles set out in the 73rd and 74th Amendments.

3.38 Panchayats' own revenues are small, and do not cover more than 5-10% of their expenditure (65-70% in the case of municipalities). Therefore, they rely heavily on transfers from the state government. Local governments, with the exception of municipal corporations, also have no borrowing powers. The 1999 Union Budget sought to increase the reliance on and devolution of resources to Gram Panchayats for several key public services, including primary health care, primary education and rural employment schemes. However, the overall weak financial conditions of most states clearly complicates the devolution of resources from them to the local governments. Recognizing the need for stability, predictability and transparency in the state-local government fiscal relations, the 73rd and 74th Amendments provide for the setting up of a finance commission in every state to make recommendations

regarding the devolution of expenditure responsibilities, tax powers, and the principles for determining grants-in-aid to the local bodies. This provision provides a unique opportunity to restructure the existing state-local fiscal relations in order to impart enough flexibility to meet the rapidly changing local needs and responsibilities. The finance commissions have been constituted, and their recommendations have been submitted in a number of states. However, the state governments have been slow to accept and implement these recommendations and to take steps to enable local bodies to execute the newly devolved functions. Recent assessments show steady progress in states such as Karnataka, Gujarat, Maharashtra, West Bengal, Kerala and Madhya Pradesh in devolution of powers to the local governments. In some cases, states are experimenting with different or additional levels of rural government. In other states, progress has been slow – while the necessary legal framework has been created, clear expenditure responsibilities, adequate tax powers, and a transparent system of fiscal transfers from the state governments to local bodies have not yet been established.

CHAPTER 4

GOOD GOVERNANCE: THE BUSINESS OF GOVERNMENT

A. Overview

4.1 Good governance is a necessity for development and poverty reduction, not a luxury. Various studies suggest that good governance is a major contributor to development, while people living in ineffective or venal states suffer from a lack of economic and social development.¹ Key institutional and capacity elements of good governance are a comprehensive legal framework defended by an impartial and competent judicial system, an accountable, open and transparent executive decision-making coupled with a capable, flexible and efficient bureaucracy and strong civil society participation. Good governance ensures effective property rights and contract enforcement without excessively restrictive and arbitrary regulatory structures, and the delivery of an appropriate mix and quality of public services, with the inclusion of the poor and women, and without corruption. Good corporate governance (an issue dealt with in Chapter 7) is necessary for efficient allocation and use of resources within a more transparent framework, and so helps to promote private investment. Concern with these issues has mounted after the recent experience of East Asia.

4.2 Weak or arbitrary property rights and contract enforcement are important factors in underdevelopment, according to Nobel Prize winner Douglas North; they deter saving and investment, especially foreign investment that is particularly handicapped in an opaque legal system.² The poor are hurt, not only by lower investment and growth of labor demand, but because they cannot count on speedy, low-cost enforcement of their contracts and protection of their property, for example, prevention of illegal evictions. Excessive limits on contracts and poor enforcement are likely to end up hurting the poor, for example, by limiting credit access and employment growth (See Chapter 6). Corruption weakens contract enforcement and property rights and is anti-poor. Opportunities for corruption increase with the number and complexity of rules, licenses, taxes, and subsidies which set up conflicting property rights and require complicated resolutions; liberalization, by decreasing the scope of controls, reduces the opportunity for and gains from corruption, provided competition is strong.³

4.3 The capacity to formulate good policies and efficient public service delivery are obviously critical for development and poverty reduction. An efficient, uncorrupt bureaucracy is a key factor and it tends to encourage investment (Mauro 1995). Efficiency of public services is particularly important for the poor, who depend on public services, such as primary education and health, to improve their lot and mitigate the risks they face. Non-transparent budgeting and spending, widespread subsidies, and corruption are likely to lower the efficiency and equity of public spending. Lack of accountability and properly directed incentives and disincentives in the government and civil service mean that such problems are likely to remain unresolved and responses to crises will be weak.

International and Domestic Survey Assessments

4.4 While governance is clearly a critical development issue, its evaluation is complex and methods to do so are still in their infancy. The approach taken here is to evaluate procedural quality by comparing countries based on various survey metrics and results by key service outcomes. Since much of the data are from opinion surveys, often based on perceptions, and since they reflect differing cultural and legal milieux, they are subjective in nature and cannot be taken as definitive. In terms of such indicators from

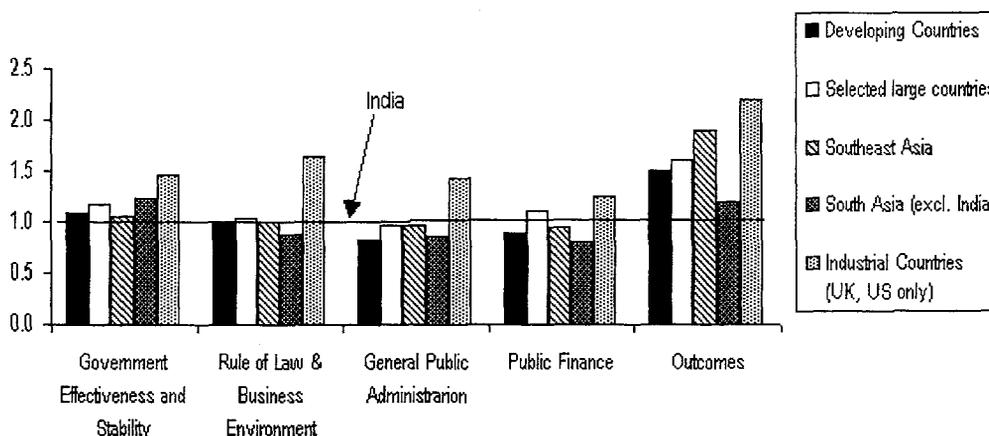
¹ See for example, North (1981, 1990), Olson (1996), Olson et al, Mauro (1995), Knack and Keefer, Easterly and Levine, Sala-i-Martin, Campos and Nugent

² Mauro's recent empirical study finds that corruption has a significant negative impact on the investment rate.

³ See M. Ahluwalia (1997) for a discussion.

international sources, India fares about average among developing countries on governance though it ranks well below industrial countries (See Figure 4.1 and Annex Table 4.1). India's strong democratic traditions, free press, independent judiciary and high caliber civil service are key strengths in governance.

Figure 4.1: India's International Ranking on Selected Governance Indicators
(unweighted averages, scaled relative to India = 1.00 i.e. worse than India is below the line)



4.5 These assessments are, however, not uniformly supported by surveys of domestic business (See Annex Tables 4.2 – 4.7).⁴ According to the survey done in 1999, over 50% of domestic business firms see the government as inefficient. Of the different areas covered in the survey, telephone services, which have been liberalized to some degree (See Chapters 5 and 6), have the highest efficiency rating next to the armed forces (See Annex Table 4.3). Health, legislative services and roads are worse with 49% to 68% of respondents rating services as inefficient to some degree. This survey also highlights business concern about the uncertainty surrounding legislation and the regulatory framework, despite its predictability having increased during the past 3 years (See Annex Table 4.4). Although India's judicial and legal machinery ranks above the 50th percentile in the international cross-section, and is generally trusted by businesses, 64% of domestic firms find the court system expensive and 88% find it slow (See Annex Table 4.5). Next to inflation, the surveyed domestic firms consider labor regulation, corruption, poor infrastructure and policy instability as the most serious obstacles to operations and growth (See Annex Table 4.6). An encouraging sign is that the survey finds an improvement in overall government performance during the past 3 years with the improvement in the availability of telephone services standing out.

4.6 India's "outcomes" tend to be worse than the evaluations of its governance processes, particularly in public service delivery, which suggests implementation problems (See Annex Table 4.1). Over the last 20 years, India has done relatively well in achieving growth, achieving higher rates than all but the high-performing countries in East Asia. However, this growth has not been sufficient to reduce the number of people living below the poverty line (43% in 1983, 34.4% in 1997, See Annex Table 1.1), and also the measured reduction has slowed recently (See Chapter 1). Less widely acknowledged is India's limited improvement in education, health, and gender equity. While improvements have occurred, performance in these areas is still low (See Annex Table 4.1), such as in the case of education despite its enshrinement in the constitution. Indeed, according to these indicators, performance has been worse than

⁴ The discussion in this section is based on a survey of 210 firms carried out by the CII and supported by the World Bank as part of its World Business Environment Survey (1998-99). An earlier survey of 53 firms, based on an abridged version of the 1999 questionnaire, was carried out by the World Bank in 1996 for the World Development Report (1997).

even some of the late starting and severely constrained countries in sub-Saharan Africa. Analysis is limited by weak data – for example, official enrollment figures, on which funding allocations are based, show gross enrollments of well over 100%, but surveys of education typically show enrollments well below 100% (See Box 8.1). Also, India's share of trade in GDP is low, compared even to other large countries such as China (See Annex Table 4.1), which reflects not only high levels of protection but red tape and weak infrastructure (See Chapter 5), as well as reported payments to customs officials (See Annex Table 4.7). These low levels of trade reduce India's benefits from international specialization and international competition, weakening the push to cut costs and improve quality for consumers and business. On the other hand, India's financial system is well developed for a low income country (See Chapter 7).

4.7 The remainder of this chapter discusses some important areas where improvement of governance is likely to have a substantial payoff. To bring about improvements in property rights, contract enforcement and the business environment, key reforms include an improved legal structure, more efficient judicial management and reduced corruption. Problems with the legal structure are illustrated by drawing on important examples from bankruptcy and labor laws while the impact of judicial delays is illustrated by examining problems of debt recovery. Next, the discussion turns to public administration, and examines how it might be improved through a better incentive framework for the civil service. An important sectoral issue, management of Public Sector Enterprises is also discussed here (See Box 4.2). Improvements in budgetary and financial management, institutional arrangements to ensure accountability and tax administration reforms are then examined. Finally, the prospects for decentralization of services as a way to improve service delivery are examined. The important area of weak governance at the level of the states has already been dealt with in Chapter 3, and problems of inappropriate regulation or over-regulation in key sectors such as banking, financial markets and corporate governance are discussed in detail in Chapter 7, and international trade in Chapter 6.

Box. 4.1 Project LARGE

A research project on *Legal Adjustments and Reforms for Globalizing the Economy (LARGE)* was initiated in December 1993. This project was taken up under the Ministry of Finance/UNDP umbrella, with initial involvement of the National Law School of India, Bangalore. LARGE's mandate was to examine economic and commercial legislation in India in order to make it more market-friendly, with a focus on central government legislation in the first phase (Dec 1993 – Dec 1997). There were around 3000 Central Acts to consider and around 450 dealt with economic and commercial decision-making, directly or indirectly.

The first phase of LARGE, which brought out thirty Policy Papers (some of which incorporate draft bills) and four books, largely addressed issues relating to the relevance of particular legal provisions in the light of reforms; any possible conflict or overlap with other legislation; resolution of such conflicts, if any; technical amendments necessary to prevent unintended loopholes; judicial interpretations running counter to the broad objectives of the law; level of transaction costs associated with any particular piece of legislation; enforceability and user-friendliness of laws; comparable legislation in other countries, especially developing countries.

Several seminars to disseminate the results of research work as well as to increase the interface between lawyers and economists were held. Broadly, the work covered labor and land markets, the financial sector, the environment, direct and indirect taxation, intellectual property rights and some assorted areas. The second phase of LARGE is expected to examine critical areas not dealt with in the first stage focussing on (i) state government legislation, with emphasis on laws relating to land, labor and the environment; (ii) administrative law reform (government orders, rules and regulations, etc); (iii) alternative dispute resolution; (iv) reform of the court system (Limitation Act, the Evidence Act or the Code of Civil Procedure); and (v) competition policy for infrastructure sectors (historically been public sector monopolies).

B. Rule of law, contract enforcement, and the business environment

4.8 India performs reasonably well in preserving the rule of law and protecting property rights in a 1995 cross-country comparison (See Figure 4.1 and Annex Table 4.1). However, ratings of the business environment by Business Environment and Risk Intelligence, Transparency International (for 1998), and from the International Country Risk Guide are less satisfactory. A major issue is actual contract

enforceability, which presumably includes the problems in debt recovery and executing collateral that many banking institutions cite as a major factor in non-performing assets (See Chapter 7).

4.9 As many reports have highlighted, there are several key weaknesses in India's legal framework that are inhibiting the process of economic change (See Debroy et al 1999, World Bank 1998a, and Box 4.1). These slow down industrial and corporate restructuring and contribute to corporate mis-governance (See Chapter 7 for a detailed discussion), are onerous for small-scale industry (which does not have the capacity to deal with excessive regulatory and disclosure requirements), and leave room for subjective interpretation and could hence lead to harassment and corruption. There is recognition of at least some of these deficiencies in the legislative agenda that has been put forward to successive Parliaments – while the Urban Land Ceiling Regulation Act was repealed and some important laws such as the Insurance Regulatory and Development Authority Bill, Foreign Exchange Management (Fema) Bill, the Securities Contract Regulation (Amendment) Bill on derivatives trading, and Trademarks Bill were passed in 1999, many others were pending, such as the Patents Bill, Prevention of Money Laundering Bill (both referred to Select Committees), recovery of debts bill etc. Other key reform areas, especially labor laws and key aspects of company law (See Chapter 6) are, however, still under discussion.

4.10 Turning to judicial management proper, India's judiciary is respected for its integrity and sagacity, but the issue of "*justice delayed is justice denied*" is a major one, much worse than in the quasi-judicial BIFR proceedings. As noted above, these points are borne out in the survey of Indian firm's perception of the court system's efficiency. With 28 million cases pending and mounting arrears, it can take up to 20 years before a decision is obtained and enforced, putting judgements beyond the reach of the poor. Important causes of delays are under-supply of judicial resources, under-equipped courts, socially under-priced court services; cumbersome court procedures, perverse incentives to prolong litigation; and a vast body of non-transparent laws. Over 3,000 Central statutes and 10 times that many statutes exist in the different states, many of them archaic and serving no purpose. This does not take into account the vast volume of subsidiary and administrative laws of which no estimate is available.⁵ Nor does this take into account the conflicting definitions and often incomprehensible language in which the law is written, leading to the need for judicial clarification. Specific problems include:

Factors Contributing to Delays

- Inadequate number of judges; for instance, there are 10 judges per million persons in India compared to between 41 and 107 judges per million persons in Australia, Britain, Canada, and the United States. Given the backlog of cases, at least a 50% increase in the sanctioned strength of judges in the 18 High Courts and the Supreme Court will be needed to keep abreast of the workload. Furthermore, the large number of vacant posts will need to be filled. The situation in the lower courts is even worse.
- Overuse of oral arguments and limited use of written briefs and ex-parte judgements.
- Utilization of sitting rather than retired judges by the government for purposes other than adjudication, for example, to head Commissions of Enquiry.
- Procedures for admission of cases and writs which bend over backward not to deny almost anyone a hearing, leading once again to excessive litigation.
- Easy procedural avenues to delay court decisions (such as through adjourned hearings) which result in no costs to the responsible party even though the cost to the opposing party (due to the delay), the court (due to lost time) and society at large (due to continuing congestion) are considerable.
- Multiple appeals against lower courts.

⁵ Recently, the Government has begun reviewing its administrative laws. A Commission to Review Administrative Laws submitted its report in September 1998. It recommended "action" in respect of over 1700 statutes. A follow up Standing Committee submitted a report on implementation of the Commission's recommendations in June 1999.

- Failure to computerize and automate routine judicial procedures and court records to speed them up, and to reduce the opportunities for petty corruption among court functionaries (for example, in allotting dates for hearings or in tampering with court records).
- Failures to reduce/bypass the backlog through alternative dispute resolution systems: arbitration, mediation or conciliation techniques have not been well developed. Arbitration has typically led to judicial appeal (The Arbitration and Conciliation Act, 1996 may help). Also, the implementation of The Debt Tribunal Act, 1993 experienced numerous delays and as yet has had only minimal success. The innovative Lok Adalats have taken root only in some states and government agencies and even they have failed to bring about an overall decrease in judicial delay.

Adverse Incentive Structures

- Limited accountability and enforcement of sanctions against non-performance by judges leading to absenteeism and short workdays in many cases.
- Court fee schedules which have remained unchanged for decades leading to under-pricing of judicial services and consequent overuse.
- Incentive systems for government servants making it the major litigator in civil suits (being involved in over 60% of suits very often as the plaintiff or appellant) without regard to either its own or citizen's costs. In fact, cases in which the government is both the plaintiff and the defendant are far from rare. Once admitted, there are implicit pressures for government suits to be appealed, lest the original suit appear meritless.
- Lawyer's fees based on hours spent in case preparation and court appearances rather than results, giving them the incentive to prolong judicial proceedings.

4.11 The outcome of slow judicial proceedings is inefficiency in the business environment. For example, a study examining 1,849 companies that were in the process of liquidation in High Courts shows that in 59% of these cases the procedure took more than 10 years and, in 32% of the cases, more than 20 years. The result is that the value gets stripped by promoters and their middle-men, leaving little for unpaid workers or secured creditors. This reflects insensitivity to the cost of time, and the distinction between sale proceeds and their distribution. The liquidation process is full of arcane legalities which, among other things, includes the preparation of audited accounts that go back several decades. A weak legal and judicial mechanism for debt recovery has been a traditional source of high non-performing assets (See Chapter 7 for details).

4.12 To reform the system, a multi-pronged strategy is needed to ease supply bottlenecks, decrease incentives for frivolous or prolonged cases by changes in fee structures, and limit admission. Such a strategy has been spelt out by the National Task Force on Judicial Reforms, which submitted its report in November, 1996. A high-powered body could be constituted to oversee the time-bound implementation of the Task Force's recommendations. These recommendations could be extended to various tribunals and not just courts. In addition, internal government incentives to penalize officials for filing meritless cases or appeals and speeding-up of the government program to simplify laws, repeal redundant laws, and replace outdated laws with new ones, for example, the new Company Law (See Chapter 7), would help.

4.13 Corruption is another major problem weakening the rule of law, affecting particularly the business environment, and is a rising concern of the Central and state governments. India's Prime Minister devoted a substantial part of his address on the 50th Anniversary of Independence to the problem of corruption and measures to address it. Transparency International's 1998 survey of international businesses' perceptions ranks India worse than China and other Asian countries, and somewhat worse than other large countries (See Annex Table 4.1), though its earlier surveys ranked India better than China. The 1995 Global Competitiveness Report also ranked India somewhat higher than China (See Annex Table 4.1). In the survey of local businessmen, 83% reported paying bribes in transactions

ranging from customs, taxes and licenses, to infrastructure connections and government contracts. 91% of the respondents say the payments were less than 10% of the contract value, but 2% said they paid more than 25%. These results suggest that an important cause of unsatisfactory development outcomes and business dissatisfaction with government services, may be corruption.

4.14 Reducing corruption is not easy, particularly once it becomes “part of the system”. A three-pronged approach encompasses most of the recommended policies:

- Reducing opportunities for corruption by deregulation and privatization, placing greater reliance on competition to ensure low prices and good quality.
- Improving incentives for good performance and disincentives for corrupt practices in government.
- Improving administrative procedures to reduce the opportunity for corruption by increasing accountability, transparency and the role of citizen’s voice. The Central Government has taken an initiative to get Citizen’s Charters framed by various Ministries/Departments/Organizations. The Center has framed 61 such Charters and six states/UTs have framed about 93.

The following sections discuss the last two parts of the above approach, and Chapter 6 discusses issues of deregulation and improving competition.

C. Improving Public Administration: Strengthening Performance Incentives and Accountability in a Downsized Civil Service

4.15 Successful public administration reform needs to be based on a vision redefining the role of the public sector in the economy (See Chapters 2,3,5 and 8), and a change in the corporate culture of public administration. Since the early 1980s, a number of countries, such as the UK, US, Australia, New Zealand and Canada have launched a series of innovative reforms aimed at enhancing the productivity of the public service and improving its client focus and responsiveness. These reforms are now being pursued, in whole or in part, in a variety of other nations, ranging from Chile to Mongolia.⁶

4.16 The success of public administration will also depend on the quality of the civil service and its accountability. The initial capacity of India’s civil service is among the highest anywhere, with meritocratic recruitment, a very high level of competition in civil service examinations (under 1% of applicants qualified in recent years for the higher services) and a mix of technically and non-technically educated entrants (See Das). Technical capability and occupational demands are reasonably matched within the three All-India Services and 50 functionally specialized Central or State Services given the existing training facilities.⁷ Yet India’s civil services, the principal “face” of the government to the public and responsible for implementing government programs, must shoulder some of the responsibility for dissatisfaction with government’s performance in providing a sound business environment, curbing corruption, and providing public services. The problem is not initial capability but institutional deficiencies. Non-transparency, limited accountability, low salaries, and inadequate performance appraisal weaken the civil service’s administration, as do the standard problems of political interference in specific situations and government’s widespread and intricate interventions that delay actions, create unwarranted power and provide opportunities for corruption.⁸ Numerous government commissions have pointed out the particular problems of the civil service and made recommendations to tackle them, most recently the Fifth Pay Commission,⁹ recommendations that have largely been ignored.

4.17 In particular the following recommendations of the Fifth Pay Commission would substantially improve civil service and public administration:

⁶ For a discussion, see for example, OECD (1997).

⁷ Except, in certain cases, for the generalist Indian Administrative Service; See Das.

⁸ For example, see Das, Yugandhar, Godbole .

⁹ For listing and discussion see the works by Das or Yugandhar cited above and Khanna.

- A multi-pronged approach to employment reduction in Central Government targeting a 30% reduction over a 10-year period. Contrary to this recommendation and despite the modest measure abolishing 4 secretary level posts announced by the Finance Minister in his 1999 Budget speech, central employment is expected to grow by 1.5% in the current fiscal year, resulting in a projected increase in staff expenditure of 10.5% over 1998-99 (RE).
- Restructuring and “rightsizing” central government services by decentralizing functions to states and local government, by converting departmental undertakings such as the Indian Railways into public undertakings, and by entrusting certain functions to NGOs, cooperatives and autonomous bodies.
- Doing away with arbitrary and frequent transfers of bureaucrats, particularly those in All-India Services at the state-level by laying down minimum tenures for posts and the need to clear all premature transfers through a Civil Services Board, to be constituted for this purpose. The Annual Confidential Report (ACR), arbitrary transfers and sale of posts are alleged by many observers to be the main means of subverting or circumventing the civil service, leading to corruption.¹⁰
- Restructuring performance appraisal to make the current ACR system more effective and open, coupled with a 5-yearly high-level review of “Group A” officers to decide whether the officer should undergo compulsory premature retirement or not.
- Increased transparency by passing a Right to Information Act and corresponding revision of the Official Secrets Act.

4.18 In addition, a closer link between performance and promotions or pay increases, improved procedures to ensure individual accountability for lapses and improved enforcement of sanctions are needed.¹¹ More broadly, a simplification and liberalization of excessive restrictions, along with privatization, would reduce red-tape and the scope for corruption. In addition, it would permit a downsizing of the civil services and a focus on fewer, truly public activities, where better delivery could be demanded. All these measures would be far more effective if they were conducted within the framework of a clearly defined and articulated vision for the reform of the public sector.

D. Sound Budgetary and Financial Management

4.19 India's ranking on its budgetary processes and efficiency and equity of revenues and expenditures in international comparisons is fairly high. However, in terms of the more general category of management of public finances, India ranks much lower, an appraisal that is borne out by India's high fiscal deficit, where India ranks among the worst 10% of countries in the world; its high level of implicit and explicit subsidies that have negative efficiency effects and at best uncertain equity effects; and its tax system, which still has a limited base, and a heavy dependence on customs and excises (See Annex Table 4.2 and World Bank 1996a and 1998a).

4.20 An institutional framework conducive to overall fiscal discipline is one in which (i) there is a comprehensive annual budget of the government with few off-budget expenditures and sources of revenue; (ii) limited earmarking; (iii) expenditures are planned in a medium-term (2 to 5 year) framework based on consistent macroeconomic forecasts to allow forward planning; (iv) there is a hard budget constraint on expenditure dictated by revenue availability; (v) there is a framework to reconcile actual outlays with the budget and impose sanctions for over-spending and (where this implies inadequate service delivery) under-spending; and (vi) the budget process is transparent, with accurate and timely information on the budgeted and actual revenue and expenditure being published, and open to public scrutiny.

4.21 In India, not all of these requirements are met. First, future revenue and expenditure implications, even for long-term capital projects are not reported or taken into account in the budget. Instead of

¹⁰ See the works by Das and Godbole cited above and also Wade.

¹¹ For a possible strategy to strengthen enforcement, see Narasimhan.

revenue availability dictating expenditure ceilings, revenue and expenditure budgets are separate exercises, with Additional Resource Mobilization (ARM) measures decided on if projected resources fail to meet expenditure projections. Second, the states are only engaged in short-term cash management with no medium-term perspective or framework; unlike the Central Government (*where there is a Controller of Accounts*), the states continue to depend on the Comptroller and Auditor General (CAG) of

Box 4.2 : Public Enterprise Governance – A System that has not Delivered

Although public enterprises are part of the public sector, they are also commercial, for-profit organizations, and increasingly, are expected to operate more independently and without support from the government budget. Where private firms are allowed to compete with public firms, public sector enterprises (PSEs) have generally come out second-best. This is not surprising, since while liberalization has eliminated many of the constraints on the private sector, the public sector remains shackled. PSEs have higher average costs than comparable private sector companies, arising mainly from their structure of fixed costs, particularly employee costs. Another major difference is in the corporate governance structure. Shareholders of private companies are direct beneficiaries of profitable performance and, hence, their representatives have incentives to monitor management to maximize profit. In contrast, PSEs do not have a substantial body of informed private shareholders whose income depends upon the performance of these companies. PSEs are also subject to demands to carry out many 'social' activities, whose efficiency and impact on profits are not well monitored.

Government shareholding in PSEs is exercised by MPs (Members of Parliament), Ministers, and civil servants. A sample survey of Parliamentary questions regarding PSEs shows that commercial viability, profitability, cost minimization, and optimal investment decisions only rarely reveal themselves as concerns. Civil servants, next in the hierarchy of shareholders' representatives, are typically *process oriented and risk averse, whereas firms have to be result oriented*, and this creates an inconsistency between the organizational forms of governments and those of modern financial and industrial entities. These non-commercial objectives of shareholders' representatives result in loss of motivation for most chief executives of PSEs, who quickly adopt the line of least resistance – loss-making plants are neither down-sized nor closed, wages are not linked to productivity, and redundant workers are not retrenched. Above all this sits Article 12 of the Constitution of India, which defines 'the State' as "the Government and Parliament of India and the Government and Legislature of each of the states and all local or other authorities within the territory of India or under the control of the Government of India". Since most PSEs have more than 50% government ownership, they fall under the ambit of 'the State'. This has affected PSEs in several adverse ways:

- All PSEs are constitutionally expected to achieve a wide variety of non-commercial objectives which are imposed by the Ministries and Parliament.
- PSEs are subject to an annual audit by the Comptroller and Accountant General (CAG) in addition to the audit by the statutory auditor. Owing to repeated allegations of financial impropriety by the CAG, PSE managers tend to be conservative and, for example in the case of purchases and tenders, tend to choose the lowest bid even if quality is poorer. In this case, PSE managers know that propriety dominates profitability.
- There exist constraints on appointment of senior management personnel, which can only be made through the Public Enterprise Selection Board (PESB) and, thereafter, clearance from the Department of Personnel, the Home Ministry, and, in many instances, by the Office of the Prime Minister. This has led to delays, non-appointment of CEOs and executive directors, and excessive emphasis on seniority – which means very few CEOs can enjoy their full term.
- Since PSEs are parts of 'the State', they are subject to writ petitions to the Supreme Court under Article 32, and High Courts under Article 226 of the Constitution.
- Again by virtue of being considered as servants of 'the State', managers of PSEs are often subjected to criminal investigation by the Chief Vigilance Commissioner and the Central Bureau of Investigation.
- 'State' status limits managers from down-sizing plants, retrenching or re-deploying employees.
- Finally, the directors of PSEs have little autonomy in finalizing any large investment decisions (approved by the Planning Commission).

Under these circumstances, it seems unlikely that a PSE can achieve better governance standards and yet remain under majority government control. The experiments with MoUs have by and large failed. Improving governance and thus performance of PSEs is the most important argument for privatization of all but strategic PSEs to below 50% (as the Budget speech of 1998 stated, to 26%). In fact, Dr. Vijay Kelkar, the then Finance Secretary, declared in a recent speech (Pune Spring Lecture, May 1999) that in his opinion "the only strategic public sector enterprises should be those dealing with atomic energy, space and defense" and that PSEs in other areas should be privatized. With the resultant freeing up of both human and financial resources, the Government can then improve on its core business of providing basic social and physical infrastructure.

India, *both to prepare their accounts as well as to audit them*. Furthermore, instead of sanctions, additional, post-budget expenditures, which impact adversely on the fiscal deficit, are incorporated in

three supplementary budgets, one in each parliamentary session. Last, instead of transparency, published government accounts never permit actual aggregate expenditures to be determined.¹²

4.22 Given the overall budget, the next stage is allocation of resources in accordance with strategic priorities. To achieve this, (i) important stakeholders should be consulted during budget planning; (ii) allocations should reflect strategic priorities, and (iii) implementing agencies or spending ministries should have the capability and freedom to manage their allocations effectively, with little need for further consultation with the Ministry of Finance (MoF). Accountability for spending can be ensured by (iv) the existence of a system of reporting service delivery outcomes, such as zero-base or performance budgeting and an evaluation of end-of-year outputs achieved, both of which are integral to the budget formulation process. Transparency is facilitated further through (v) institutional channels through which stakeholder groups can voice their concerns about budget allocations and their level of satisfaction with outcomes.

4.23 In India, there is ex-ante rather than ex-post control of expenditure by line agencies through the institution of Financial Advisors in each department who report both to their own departments and to the Ministry of Finance; and the performance budgeting system for reporting of outputs and outcomes is divorced from financial reporting and budget preparation. A strength of the budgetary process is, however, the extensive feedback from stakeholder groups in newspapers and television after the budget is presented for legislative scrutiny.

4.24 Given departmental allocations, operational efficiency and effectiveness crucially requires accountability. This encompasses (i) fixing individual responsibility for delivery of defined service outputs; (ii) personnel policies linked to performance, with performance being measured by actual outputs in relation to prescribed service delivery standards and preset targets; (iii) independent internal and external, financial and performance auditing with mechanisms for effective corrective or disciplinary action based on audit findings; and (iv) “customer” satisfaction surveys. Transparency requires (v) publication of program performance reports and (vi) feedback mechanisms to elicit client feedback on the quality of services provided. Aside from internal and external auditing, the institutional framework for service delivery in India meets none of these standards and, for example, sanctions linked to poor performance, or program modifications based on client feedback are sporadic, at best.

4.25 The result of deficiencies in expenditure management in India (See Annex Tables 4.8 and 4.9) are that aggregate fiscal discipline is severely lacking, with inefficient allocation of budgetary resources to competing needs; lack of incentives for efficient service delivery; and limited transparency and accountability. This has led to:

- The continued existence of implicit and explicit subsidies and heads of expenditure many of which are not transparently identified in the budget.¹³ If these are identified, they are not evaluated in terms of their return to society;¹⁴ and where evaluated are found to yield poor returns¹⁵ (See Annex 4.1);
- Leakage and misuse of budgetary resources facilitated by poor expenditure control, and lack of accountability and corruption, according to the Comptroller and Auditor General (CAG) (See Annex 4.1).
- Non-transparent budgets with budget estimates understating actual expenditures, the extent of understatement having increased in recent years, and, conversely, revised estimates overstating expenditures (See Annex Table 4.10).

¹² For a description of infirmities in the Finance Accounts see Das-Gupta (1999a).

¹³ For example, exemptions under Section 10 of the IT Act, value of perquisites to government servants, and intra-public sector litigation.

¹⁴ For example, income tax exemptions, excise and customs duty exemptions, and export subsidies.

¹⁵ For example, the Public Distribution System; the Integrated Rural Development Programme; fertilizer subsidy; and poor cost recovery (10.3%) in power, irrigation, higher education and tertiary health.

- Borrowing requirements and the fiscal deficit being grossly underestimated in the budgets (See Annex Table 4.10).
- Arbitrary across-the-board budget cuts or cutting of peripheral expenditures during budget preparation or later in the year.
- Unrealistic development budgets with several departments failing to utilize allocations in recent years, leading to actual development spending falling short of targets, while, at the same time, expenditure management focuses on spending of appropriations rather than on efficient and effective service delivery (manifested in the “March rush” to spend allocations).
- Financial outlays that are based on unrealistic or outdated cost norms unrelated to the cost of services or delivery targets.
- Poor maintenance in the case of capital projects and premature acquisition of capital goods and consumables leading to wasteful expenditure as identified by the CAG (See Annex 4.1).
- Fraud and misappropriation of funds that occasionally come to light during audit, which however, has only selective coverage as identified by the CAG (See Annex 4.1).

4.26 To improve budgetary and expenditure management it would be desirable to constitute the Expenditure Reforms Commission announced by the Finance Minister’s 1999-2000 Budget speech. To promote efficiency and effectiveness in government expenditure, thoroughgoing reform of the budget and financial management process is needed at the aggregate level, at the sectoral allocation level and at the level of program implementation and service delivery. Key principles are: (i) improved transparency through reforms in accounts and budget presentation and linking of expenditures to physical outcomes in the budget; (ii) effective action to reduce employment and downsize departments that provide services outside the core competencies of the government; (iii) increased autonomy for line agencies in expenditure management and a switch from ex-ante control of expenditure to ex-post accountability; (iv) improved incentives for effectiveness and efficiency through individual accountability and also positive incentives for individual contributions to increased efficiency. A reform program that the Commission might consider is suggested in Annex 4.2.

4.27 Improving Accountability: Increasing the Effectiveness of the Audit Mechanism.

Independent audits by the CAG are a major institutional mechanism to ensure accountability of the executive. The reports of the CAG are tabled in Parliament and are scrutinized by its Public Accounts Committee (PAC). Yet, this admirable institution too has been unable to curb mismanagement of expenditure:

- The CAG audit focuses mainly on financial irregularities and while systems or performance appraisals are carried out, these fall short of management audits and do not indicate how management can be strengthened. Also, physical inspection is rarely undertaken.
- There is no effective system to establish individual accountability for lapses pointed out by the CAG. The problem stems, in part, from the nature of program management since individual responsibility is not easy to establish under existing management procedures.
- Responsibility for lapses and fraud are divided among three offices – the CAG, the Central Vigilance Commission (CVC) and the Central Bureau of Investigation (CBI). There is limited cooperation between the three offices, so that a coordinated examination of errors is made difficult, and only in relatively few cases is specific accountability established and sanctioned.¹⁶ Recently, the CBI was brought within the purview of the CVC through the CVC Ordinance, as an attempt to try to redress the above problem.
- The PACs scrutinize only a few of the CAG’s reports and furthermore, have a tenure of one year only.

¹⁶ Further discussion is in Narasimhan (1997).

- States have withdrawn over Rs. 850 billion from their Consolidated Funds over what was budgeted over the last two decades without accounting for it. If spending exceeds the budgeted amount, governments are supposed to 'regularize excess spending' by the PAC. While Article 205 of the Constitution directs state governments to clear excess spending before their legislatures, this process is being bypassed through the system of regularization by the PAC.
- Besides "Action Taken Notes" that Ministries must submit to the CAG on audit observations, there is no effective system of follow-up to ensure corrective management action. Even for Action Taken Notes, responses by Ministries are delayed or not given. This absence of effective enforcement and a long-term perspective in accountability procedures means that, in practice, individual accountability for lapses is seldom established and sanctioned, and poor expenditure administration persists year after year.

4.28 **Improving Tax Administration.** Broader based, efficiently administered taxes are also an essential part of sound financial management. Tax reform in the 1990s has focused mainly on tax structure reforms, and within this, largely on rate reform. Though some progress has been made, most notably the curtailing of the power to issue exemption notifications in the 1999 Budget, widespread exemptions persist and new ones have been introduced in every budget in the 1990's (See Annex Table 4.11) with no mechanism in place to evaluate their economic benefits and render the cost to the exchequer of these implicit subsidies transparent.¹⁷ Progress in implementing administrative reform and institutional restructuring, as recommended by the Tax Reforms Committee (TRC) has been neglected (See Annex Table 4.12). Institutional reform to broaden the tax base, improve Central-State tax powers and tax-sharing, and the structure and administration of state taxes (discussed earlier in Chapter 3) would be highly desirable.

4.29 In the 1990's, though the corporation tax has shown robust growth and the personal income tax has performed almost as well, there has been a marked decline in the performance of both customs and excise duties (See Annex Table 4.12). The performance of customs duty can largely be attributed to the lowering of customs duties in line with the liberalization program and recently the drop in oil imports, which account for 20% of customs revenues. The performance of the central excise has shown a secular decline since the 1970's, which the recent rationalization of excise duty rates (continued in the Budget of 1999-2000) and limited base broadening, via removal of exemptions and the introduction of a service tax, has been unable to reverse.

4.30 Regarding tax concessions, assessment of the benefits to society from the resulting revenue sacrifice is difficult as the necessary information is not readily available. To enable assessment of the benefits from revenue sacrificed the Government should, as a first step, begin compiling data on tax expenditures as part of its budget to increase transparency and to assist in the evaluation of their returns. Studies by research units of tax departments, based on samples of assesseees, should also be conducted to assess the benefits from tax concessions. The Government should ensure that removal of exemptions are taken up in its next Budget, in accordance with the recommendations of the Committee to examine exemptions announced by the Finance Minister in his 1999-2000 Budget speech.

4.31 In tax (including customs) administration, while there has been some success in simplifying procedures, decreasing the incidence of non-filing and increasing automation, institutional and organizational reform still lag behind. The effectiveness of several procedural reforms is, however, questionable (See Annex Table 4.13 and Annex 4.3).

¹⁷ Misuse of these concessions is documented by the CAG in some cases and there is anecdotal evidence of misuse, for example, of the backward area allowance (by attributing production to dummy factories in backward areas) and the concession for charitable contributions. Data to permit an assessment of returns in rupees of revenue sacrificed are not readily available, though some studies evaluating specific concessions exist.

4.32 An important example of the adverse impact of poor tax administration procedures is the increased transactions costs borne by exporters and importers due primarily to cumbersome customs procedures (other sources of transactions costs, albeit less serious, are reviewed in Chapter 5). Indicative evidence shows (See Annex Table 4.14) that customs clearance time for imports in India varies from 48-120 hours, more than for comparable countries such as Indonesia (48-96 hours), Argentina (3 hours), Mexico (12-24 hours), and considerably more than best practice of 15-25 minutes (Singapore). Also, India insists on 100% inspection, while many other countries inspect on a sample basis. Reduced delays are essential for India's competitiveness in today's time-sensitive markets.

4.33 The most important pending reform is implementing TRC recommendations for minimum tenure of Chairmen and members of tax boards and autonomy and control over expenditure allocations and personnel matters within their departments. Other administrative reforms that could be considered are outlined in Annex 4.4.

E. Improving Public Services through Effective Decentralization

4.34 Decentralization is becoming a standard remedy for improving public service delivery, especially to the poor. With service providers closer to recipients, it is argued that recipient's "voice" will be better heard and service adapted to local conditions, thereby improving delivery (See Box 4.3). Of course, inherent in this argument are the issues of providing non-public goods through the market, by the private sector, rather than by the public sector, and the possibility of providing even public services privately but financed by the government – for example a voucher system for private schools such as used in Chile. Another issue is the extent to which "voice", as well as efficiency of delivery/use, is reduced by delinking service provision from taxes and user charges – an issue that experience suggests is important in India. Finally the success of decentralization depends on the enhancement of capacity at the lower levels of government and a strong institutional framework not subject to "capture" by the local elite.

Box 4.3: The Effectiveness of Voice

In 1993, the Public Affairs Centre, a non-government organization in Bangalore surveyed 807 randomly selected households "to obtain systematic feedback on the public's experience with different (government) service providers and on their assessment of the adequacy and quality of the services". Among the major findings were that "the level of public satisfaction with the performance of service providers in Bangalore is uniformly low...", and that "Corruption is widespread in most agencies and has no doubt contributed to the severity of public dissatisfaction".

The "report card" on public services drawn up on the basis of the survey was given wide publicity, to government service agencies, the press and citizen's groups. In follow-up activity, the news media, which had given prominent coverage to the report card ran several public service investigations. The report card was also replicated in other cities in India. In a follow-up survey of "100 persons drawn from citizens groups" conducted in 1997:

- 69% of respondents felt that public pressure had resulted in improved services;
- 54% felt that the public agencies were more responsive to citizen problems than three years ago;
- 49% felt that there was increased sharing of information by public agencies;
- 47% felt that the behavior of staff in public agencies had improved as a result of public pressure;
- 29% felt that corruption had declined though 46% felt that corruption had not.

Source: Paul (1995).

4.35 India has made a promising beginning in decentralization following the 73rd and 74th amendments to the Constitution. However, decentralization is far from complete and cracks are already beginning to surface in the evolving systems of fiscal and functional decentralization, although strengthening the generally weak management capacity of the over 220,000 local governments (See Annex Table 4.15) to ensure adequate service delivery, and the setting up of accountability institutions has barely begun. Therefore, the overall picture is one of incomplete institutional development and inadequate capacity building (See Annex Table 4.16). Consequently the proposal in the 1999 Union Budget to increase the reliance on and devolution of resources to Gram Panchayats for several key public

services, including primary health care, primary education and rural employment schemes needs to be accompanied by effective steps to improve the management capacity of local government. Another area where decentralization, along with improved transparency, can help, is environmental management (See Box 4.4).

4.36 The Constitutional and legal framework of decentralization in India now consists of a three-tier structure of government; local, state and federal. At the local level, there are Panchayats at the village, block and district levels, and three grades of municipalities depending on pre-determined factors such as

Box 4.4 : Improving Environmental Governance

In efforts to improve environmental management in India, governance and public sector institutional weaknesses are the fundamental weak links, not the financial cost of environmental protection. Both inadequate environmental policies and poor enforcement prevent India from capturing the high net economic benefits available from environmentally friendly efficiency gains and policy reforms. For example, an important part of such policy reforms would actually be a *reduced* financial burden of the public sector in environmental management – through increased user fees to be collected from the beneficiaries of clean water supply, sanitation, and solid waste services, and an explicit shifting of the cost of pollution control to private polluters (See also Chapter 8). In addition, improved governance would reduce environment-related public interest litigation, hence reducing the burden on the courts.

To improve environmental governance, the priority focus areas are improved information disclosure and transparency, due judicial process, and decentralization. Both improved information and the decentralization of the monitoring and compliance functions to the state and local levels invite the participation of the private sector, NGOs, and communities. This in turn improves the accountability of the state and local regulators – where results can be measured on the ground. More than at the central level, state-level environmental and judicial authorities operate in close proximity to managers of infrastructure and industrial investments, to land-use planners, to health officials, and to the affected urban (in the case of pollution impacts) and rural (in the case of most natural resource use) stakeholders. Hence, a process of decentralization and transparency are highly correlated with improved governance by the various government agencies whose actions impact on the environment. Similarly, institutional strengthening efforts in environmental management, therefore, have the greatest impact at the state-level.

population, functions and the economic base. Additional features include: an institutional framework in the form of District Planning Committees (DPCs) and Metropolitan Planning Committees (MCPs) for purposes of planning and development at local levels; rights of the State Legislature to determine the functional and fiscal powers of local bodies; incentives to states in the form of XIth and XIIth Schedules to enlarge the functional space of local bodies; and mandatory State Finance Commissions (SFCs) to make recommendations for the finances of local bodies and State-local fiscal relations. Several problems remain in the effectiveness of decentralization:

- Local Government's own revenue receipts constitute a very small proportion of total government revenues. In 1991-92, revenue raised by municipalities amounted to 4.6% of the revenue raised by the Central Government and 8.05% of the revenues raised by the state governments. Currently, own revenue resources of gram panchayats are extremely weak.
- Local government's own revenues meet only a part of their recurrent expenditure. In the case of Panchayats, for which the data base is fragmentary, it is estimated that own revenues cover no more than 5-10% of the expenditure making them almost wholly dependent on the state governments (See Annex Table 4.17). For municipalities, the average proportion of expenditure covered by own revenues ranges between 65-70%.
- The administration of local taxes is unsatisfactory and reflected in poor collection to demand ratios, inability of local governments to periodically adjust the property valuation tax rates and user charges to inflation, as also the high cost of administration and enforcement. In the case of property taxes, which is the principal source of revenue for municipalities in non-octroi levying states, the collection to demand ratio is likely to be, on average, no more than 40-45%. Few Panchayats and Municipalities have taken steps to build property valuation records and to adjust them to market prices, despite legal powers being available. Similarly, user charges (including license fee, fines and permits) which have a large potential are barely used.

- Local governments, by and large, do not have the autonomy to choose the tax rates, these being either laid down by the state governments or approved by them.
- Except for municipal corporations, local governments have no borrowing powers and are wholly dependent on the state governments for capital loans. The borrowing powers of municipal governments are governed by The Local Authorities Loans Act, 1914, which require them to borrow with the previous sanction of the State Government.
- Many “conformity acts” enacted by different states to give effect to the Constitutional Amendments seek to restrict the autonomy of the local governments, particularly Panchayats, with provisions that are possibly at odds with the Amendments. Several State Acts treat Panchayats as agents of the state government instead of self-governing bodies; devolution of functions shows wide differences and, furthermore, most states have retained the power to amend or withdraw functions, in some cases by executive order; and in several states functions either overlap with the State Government or there is joint control.
- Few conformity acts specify adequate audit and accountability mechanisms, a matter which has, however, been dealt with by some State Finance Commissions (SFCs). The existing accounting procedures and audit arrangements of the Panchayati Raj Institutions are inadequate. The staff available to the village Panchayats is lacking in number and ability to maintain accounts, and the strength of the departmental audit staff is not enough to conduct audit, given the large number of local bodies. The 73rd Amendment to the Constitution envisages supervision of the Panchayats by public audit (gram sabha) through information sharing and open discussion. While widespread success of public audits has not been established as yet (the rural population may not be familiar with accounting methods to detect misappropriation), there are a few cases where this has worked.

4.37 The states’ weak financial status clearly complicates the devolution of resources from them to local bodies, and subsidies at the state-level reduce the resources available to provide services in general, whether or not through the Panchayats. This has affected the approaches followed by the different SFCs, which are not uniform. While they have, largely, recommended continuation of the status quo in taxing powers of states and local bodies, with SFCs’ recommending greater local flexibility in setting tax rates, four different approaches exist for purposes of revenue-sharing: creation of a divisible pool of state resources; assigning pre-determined shares of state taxes to local bodies; fixed transfers; and allocation of a portion of shared central taxes to local bodies. Furthermore, the wide variation in recommendations concerning grants-in-aid, from maintaining the status quo to greater use of various specific purpose grants, does not include increased reliance on general purpose grants. A weakness in most SFC reports is that these have been drafted without SFCs having access to clear descriptions of the functional jurisdiction and service provision responsibilities of local bodies partly on account of the nature of conformity acts.

This situation would be improved by:

- A review of legislation and SFC reports in different states to highlight infirmities;
- A re-examination of the scope for enhancing financial powers of municipal corporations and District Panchayats such as through bond issues (as in Ahmedabad);
- Making available technical assistance to local government to devise sound local government systems based, perhaps, on promising models like the Mayor-in-Council system in West Bengal and the rural local government system in Kerala.
- Providing technical assistance to local government for project design, costing and planning such as through a recent NGO initiative in Kerala.
- Strengthening communication between local government and local self-help and civil society groups.

4.38 Clearly, there are several gaps in our understanding of the risks posed by decentralization. *Further study of decentralization experiences, both positive and negative, would be a vital building block in improving the quality and effectiveness of the decentralization process.*

CHAPTER 5

IMPROVING INFRASTRUCTURE TO REDUCE POVERTY AND SUPPORT GROWTH

A. Overview

5.1 **Improved Infrastructure would help India's Poverty Reduction and Growth Substantially.** Sixty-two percent of the respondents to the 1999 CII survey rated India's infrastructure as a hindrance, with roads rated the worst among all public goods and services. However, the overall rating of infrastructure, notably telephone availability and roads, seems to have improved since 1996 (See Annex Tables 4.3 and 4.6). International investors also rank India's infrastructure very low – the 1998 Global Competitiveness Report of the World Economic Forum rated India 53rd out of the 53 countries surveyed in the context of infrastructure. Household connections to power and water are limited, telephone-density is among the world's lowest, and transportation services do not meet the needs of an increasingly mobile population. Moreover, as growth proceeds, exports (and imports) increase, and urbanization rises from its currently low level (25%), even larger infrastructure needs will develop for transport networks and urban infrastructure, to transport goods and provide a livable urban environment for their citizens. In 1996, the Mohan Committee estimated that a 45% increase in infrastructure investment would be desirable as well as feasible macro-economically (Vol. I, p. 4; Vol. II, pp. 44-50).

5.2 The poor quality of India's infrastructure services (See Box 5.1) reduces growth directly, hindering specialization, continuous process industries, and firms that depend on good quality water and power. Poor quality transport facilities raise transport costs and contribute to uncertain delivery times, forcing businesses to hold large inventories and reducing the attractiveness of India's exports to foreign buyers. Safety problems in transport (See Mohan Committee, Vol. III, p. 142) and health problems related to water availability represent major issues in the economy. Businesses in India routinely provide their own utility services, in the form of captive power and water facilities, to offset the poor quality of public service. However, this duplication of investment increases the capital intensity of India's growth. And the small private facilities are less efficient than what could theoretically be achieved with well maintained, high quality, larger-scale works providing service through effective transportation and distribution networks.

5.3 Poverty reduction would benefit from increases in infrastructure, as shown by the experience of Punjab and Haryana, as well as various statistical studies.¹ Improved infrastructure will be needed to allow the hinterland, such as Uttar Pradesh and Bihar, to benefit from liberalization, along with the coastal areas.² A major expansion in the availability of safe water would improve health among the poor greatly. Finally, construction of infrastructure would increase labor demand, given the labor intensity of construction. However, experience suggests that attempts to increase labor employment through public works programs typically do not provide good quality infrastructure without substantial capital and managerial inputs.

5.4 Infrastructure investment in India would thus yield large benefits, both in terms of supporting higher growth, improving the lot of the poor and the population generally, and yielding high rates of return.³ Without such investment, growth could well slow and become increasingly concentrated in coastal areas and states with good infrastructure.

¹See for example, Ravallion and Datt (1996a), Rao et al, and Lall.

²See Chapter 3, and Bajpai and Sachs.

³Various studies suggest that the returns to infrastructure are very high (See World Bank 1994, p. 15, for a summary of some studies). Criticism of aggregate estimates of infrastructure's productivity suggest that the historically estimated returns are inordinately high, and there is little evidence that additional investment would yield such returns. Some authors have tried to

Box 5.1: Progress in Infrastructure Provision

Telecommunications. The waiting list for a connection is higher now than at the start of the decade, at over 2.8 million, around 20% of the present number of lines. Only 50.1% of villages had public telephone service by end March 1998 (GOI 1999e). India's growth in the number of mainlines is slow compared to the growth achieved in China. Telephone density in India (at 1.72%) is below that of the neighboring Asian countries such as Thailand (11.4%), China (7.3%) and Indonesia (2.9%) (TRAI).

Power. India-wide, the shortfall in meeting demand is conservatively estimated as 11% for regular and 18% for peak energy demand (GOI 1997c), although the variation amongst the states is substantial. In order to cope with irregular supply, and also in part due to the high tariffs levied on industrial consumers to cross-subsidize agricultural and residential consumers, industry has increasingly relied on captive generation. The SEBs have become a chronic financial drain upon the government budget because of inadequate and unbalanced tariffs, high levels of power theft, non-payment and non-collection of bills, and inefficiency.

Urban Water. Of 27 Asian cities with populations over 1 million, India's four largest cities are ranked amongst the five worst cities in terms of water availability hours per day. Physical losses are typically high, despite low pressures, ranging from 25% to over 50%. Low pressures and intermittent supplies allow back-syphonage and contamination. Every year about 1.5 million children under the age of five die in India because of water-borne diseases. The lack of availability of water affects the urban poor disproportionately. In Delhi, for example, even though the official per capita water supply is about 200 liters per day, about 30% of the city's 9 million people have access to less than 25 liters per day.

Ports. By Government estimates, the current capacity at the major ports is over-stretched. Total tonnage handled during 1997-98 was 251 million tons, as against capacity of 217 million tons (Ministry of Surface Transport). India's ports have struggled to keep up with the increase in demand. The total costs of moving a container through a terminal are on average 70% to 80% higher than those in Japan and in the US, where labor costs are much higher. Productivity at container terminals in JNPT is less than half that of Colombo. External trade procedures, in particular customs, also play a part in reducing overall port productivity, with customs clearance taking on average 3 or 4 days (See Chapter 4).

Roads. Private road projects are being constructed in India, with successful examples so far being largely limited to toll bridges and bypasses in urban or semi-urban areas. Expansion of national highways through private funding is being pursued, with the Government also considering a form of shadow-tolling with little traffic risk to the private investors/operators. However, the development of the road network will require public funding, for both maintenance and capital expenditures. To this end, the last two budgets announced measures to increase resources for the roads sector through levies on fuel. The 1998 budget cess of Re. 1 per liter on petrol is to be used for National Highways, while 40% of the 1999 budget cess of Re.1 per liter on diesel is to be used for roads, mainly for highway expansion rather than maintenance.

B. India's Public Provision of Infrastructure

5.5 India relied almost completely on public sector provision of infrastructure until the early 1990s. For example, power (except for some auto-generation and limited private distribution), railways, roads and telecoms were all public sector monopolies.⁴ The trend towards private sector provision of infrastructure, in particular power, telecoms, ports and airports, gained momentum worldwide in the 1980s. This trend was precipitated by the recognized failings of the public sector in this area, as well as technological developments which enhanced the possibilities for competition, especially in telecoms and power. Recognizing the need to attract more investment in infrastructure, India opened that sector to private investment as part of the country's 1991 reform program. The success of the Government in attracting private investment, and the evolving policy response, are assessed in the following section. It has to be recognized, however, that a large part of India's infrastructure needs will continue to be provided by the public sector. For example, private investment may contribute to the expansion of the roads sector, but public sector will have to continue to fund this area.

5.6 Public sector spending on infrastructure has fallen from about 3.5% in the first half of the 1980s, and 4% in the latter half of the 1980s, to about 3% currently (See Table 5.1). Electricity, gas and water investments have fallen by about 0.8% of GDP since the late 1980s/1990s. For the 8th Plan covering 1992-1997, actual spending on power was only 80% of the planned, and the increase in public capacity

respond to these criticisms by noting that historical aggregate estimates are based on the initial estimates in infrastructure networks – which is what applies to developing countries like India. On the other hand, say, duplicating road or railroad networks in developing countries would not yield very great returns.

⁴See Mohan Committee, Vol. III, pp. 54-55, 100, 141.

generation was only 14,992 MW compared to the planned 27,728 MW.⁵ Railway investment has fallen about 0.3% of GDP while other transport (including roads) has remained a low 0.3% of GDP. Only communications investment has shown an increase in the 1990s, of about 0.3% of GDP.

**Table 5.1: India - Infrastructure and Other Investments
(% of GDP)**

	1981/82	1985/86	1991/92	1992/93	1995/96	1996/97	1997/98
Gross Domestic Investment	23.1 (13.4)	23.5 (13.0)	21.0 (12.4)	22.0 (13.6)	24.0 (16.7)	21.4 (14.7)	22.4 (15.5)
Infrastructure	4.8 (1.4)	4.8 (1.2)	5.4 (1.4)	5.2 (1.6)	4.2 (1.0)	4.4 (1.5)	4.6 (1.6)
Electricity, Gas, Water Supply	2.5 (0.4)	2.6 (0.2)	2.9 (0.3)	2.6 (0.5)	2.0 (0.2)	1.8 (0.2)	2.0 (0.2)
Railways	0.6 (0.0)	0.6 (0.0)	0.5 (0.0)	0.6 (0.0)	0.4 (0.0)	0.4 (0.0)	0.3 (0.0)
Other Transport	1.3 (1.0)	1.2 (0.9)	1.4 (1.0)	1.3 (1.0)	1.4 (1.1)	1.4 (1.2)	1.3 (1.1)
Communications	0.3 (0.0)	0.4 (0.0)	0.5 (0.1)	0.7 (0.1)	0.4 (0.0)	0.7 (0.1)	0.9 (0.3)
Other	18.4 (12.0)	18.8 (11.8)	15.6 (10.9)	16.8 (12.1)	19.9 (15.7)	17.0 (13.2)	17.9 (13.9)
Memo:							
GDPmp (Rs. billion at current prices)	1728.1	2836.6	6671.6	7635.6	12179.6	14098.5	15635.52

Note: Private sector investment within parentheses.

Source: National Accounts Statistics.

5.7 Moreover, it is generally recognized that maintenance expenditures are too low. In power, low maintenance partly explains plant load factors and plant availability that are well below international standards,⁶ although there has been some improvement in these areas. In roads, the neglect of maintenance is very costly, particularly given the deterioration caused by increased traffic and heavy loads – World Bank (1988) estimated that, in 85 countries, an erosion of \$45 billion in road assets occurred that could have been avoided at a cost of \$12 billion in maintenance. For India, even in 1988, inadequate road expenditure and maintenance is estimated to have cost the country at least Rs. 30 billion per year in excess wear and tear of vehicles, accidents, fuel costs, etc.⁷, and this figure can only have gone up with the major increase in traffic volumes thereafter.

5.8 **High explicit and implicit subsidies and low user charges limit internally generated resources** and is a major factor in the slowdown in public infrastructure investment. In power, for example, average revenues are only about 80% of costs,⁸ reflecting low collections⁹ and subsidies to agriculture and small consumers. Agriculture and domestic consumers pay, respectively, Rs. 0.21 and Rs. 0.91 per KWh on average, with free power or flat fees prevailing for agriculture in many states. The supply cost of power is estimated at Rs. 1.86 per KWh (Parikh, p. 121); moreover, this average cost is understated because it reflects a low rate of return, 3%, which is substantially below the cost of capital in India. India's average power tariff is also very low by international standards, which are typically equivalent to Rs. 2.5-3.0 per KWh. The low user charges generate heavy losses for most SEBs – the average rate of return was estimated at -14% in 1996-97. Even while charging much higher tariffs to

⁵Compared to original targets, the percentage shortfall in transmission was nearly as great; however, targets for transmission capacity were scaled down as the shortfall in generation capacity became clear (M. Ahluwalia 1998).

⁶Another factor is high ash, low quality coal.

⁷According to a road users' cost study quoted in Kathuria (1996), p. 375.

⁸See Mohan Committee, M. Ahluwalia (1998), Parikh.

⁹Low collections reflect power theft, distribution losses and increasing payment delays. In UP, for example, receivables from the sale of power have been increasing from about 6 months sales in 1990-91 to nearly 12 months sales in 1996-97; of these receivables, nearly 40% are accounted for by the public sector.

industrial customers, the SEBs are unable to cover costs, let alone generate internal surpluses to finance investment. Hence they have been unable to invest and have, in fact, become an enormous burden on the state governments' budgets and have run up large arrears with the central government enterprises such as Coal India and National Thermal Power Corporation (NTPC).¹⁰

5.9 The situation in the other sectors is similar. The States have also allowed irrigation charges to decline sharply in real terms. States' typical charges for water are far less than delivery cost; in Punjab, for example, drinking water is free. This encourages water losses in a water-scarce country. In roads, central and state governments traditionally finance construction and maintenance; there is no tradition of tolls even on major highways (tolls are charged only for major bridges to recoup construction costs). While road-related taxes (road tax, registration tax, taxes on fuels and vehicles, etc.) yield 2.1% of GDP, lack of earmarking means that only 48% of these are used for roads. Only in ports and telecommunications have user charges generated substantial internal funds for financing investment (M. Ahluwalia 1998).¹¹

5.10 **Increased public spending on infrastructure, as well as increased private provision, will be needed** to meet India's infrastructure needs well into the 21st century. As private spending grows in some areas, in response to improvements in the regulatory framework (see the next section for a discussion of current developments in key sectors), public sector spending can be realigned. And, public spending will be particularly needed in sectors where private interest is low, where there are substantial externalities, where difficulties exist in closely linking charges to services, or where there are strategic or distributional considerations. Even in these cases, the problems of limiting access, and lost time and safety considerations of toll plazas (as demonstrated by the problems of octroi taxes) suggest alternative approaches such as shadow tolling and payments to operators for construction and maintenance out of a 'Road Fund', which the Government is considering. Other examples are urban infrastructure – such as roads, flyovers, storm drains, solid waste disposal, provision of basic needs for water and sanitation – rural roads, and infrastructure in strategic areas of the country.¹² Even in these cases, the infrastructure could be constructed and maintained by the private sector, while being funded by government contracts that provide appropriate incentives for timely delivery and good quality services.

5.11 **A drastic reduction of implicit and explicit subsidies**, including cross subsidies (See also Chapters 3 and 8), is a key to funding the needed increase in infrastructure, as well as improving the efficiency and distributional aspects of infrastructure (See Box 5.2). For example, according to the Mohan Committee, the biggest barrier to efficient use of power by consumers is the SEB pricing policy that extends unsustainable levels of subsidies to large consumer segments (Vol. III, p. 65). These subsidies include not only low prices but also flat fees and lack of peak load pricing. Funding for roads, public and private, could be increased by further increasing the cess paid by consumers on petrol and diesel fuel for road construction, a step that was begun in the last two budgets.¹³ Water charges could be raised to remunerative levels, and include a fee for sanitary disposal of water. A number of countries link assessments for local taxes to improvements in, for example, availability of water and disposal of sewerage networks. Irrigation operations and maintenance charges could also be raised. Any subsidies that remain should be limited, clearly specified and targeted (for example, basic water requirements), and

¹⁰See Chapters 3 and 8, and Mohan Committee, Vol. II, p. 72.

¹¹Telecommunications tariffs currently contain a substantial cross subsidy from long distance to local users. However, TRAI has taken steps to reduce the cross subsidy through its 1999 Tariff Order, taking into account the liberalization of long distance services and the impact this will have on DOT's ability to subsidize local rates from this sector.

¹²In some cases, for example urban roads, particularly for access to the city center, a mixture of high tech and low tech user charges may be applied, not only to pay for construction and maintenance, but to relieve congestion. Parikh, chapter 6, summarizes many of these approaches.

¹³The funds collected by the 1998 and 1999 cesses have not yet flowed to the road sector – for this to happen, an executive decision by the Ministry of Finance is needed. In this context, suitable enabling legislation on the lines of the Maharashtra State Road Fund would help.

paid for by the government rather than through cross subsidies. The long history and political sensitivity of subsidies in India suggests a need to accompany subsidy reduction with a clear linkage between use and cost (which may be facilitated by privatization and decentralization), an emphasis on the unsustainable nature of the current approach that leaves infrastructure funding to “someone else”, and an improvement in quality of supply.

Box 5.2: The Perverse Impact of Subsidies

Subsidies as applied in India are distortionary, have hindered private provision of services, and have non-transparent distributional effects. In terms of inefficiencies, the power subsidies encourage over-pumping of aquifers, reduce the availability of aquifers for drinking water, and, in a macroeconomic sense, encourage production of water-intensive crops in a country where water is scarce. The implicit subsidy in the failure to distinguish between peak and non-peak tariffs increases pressures to overbuild capacity – the World Bank estimated in 1991 that various measures to reduce peak usage could reduce peak generation requirements by about 12% over a 10 year period. Since part of the power subsidy comes from not covering operations and maintenance, outages are frequent (reducing utilization) and users that require good quality power are forced to invest in low efficiency generation sets. Since power subsidies are partly financed by higher charges to industrial users, they are encouraged to self-generate power, which is less efficient than generation in large-scale power plants, but less costly to them because of a) the inflation of charges to them by cross subsidies, and b) outages. Subsidies in canal user charges have led to lack of operations and maintenance spending, and correspondingly an overly rapid deterioration of the capital. In addition, lack of maintenance contributes to waterlogging and salination of soils.

The subsidies' distributional effects may contribute to inequalities and are far from clear. The beneficiaries of the subsidies may or may not have higher incomes than the taxpayers. Moreover, a part of many “subsidies” (for example, in power and water) reflects “non-technical” losses, and another part reflects the abilities of firms and individuals to define themselves as part of the subsidized group. Thus, the incidence of the subsidy is almost impossible to define. In addition, subsidies to one group of users is partly covered by other users in the same sector (either as a cross subsidy or as deterioration of the service they receive). This is a politically easy way to fund the subsidy but has unclear distributional consequences and little support on efficiency or equity grounds in tax theory.

In the case of power, the poorest are involuntarily paying for power supply to the richer people. Since State Electricity Boards (SEBs) are not allowed to charge realistic tariffs, their accumulated deficits are at least partly serviced by deducting their dues from the Central Plan assistance to the states. The impact of this reduced central assistance as well as the direct state subsidies to power is that the poorest in India, who typically do not have access to power, are involuntarily and indirectly (by not receiving adequate supply of basic services like health and primary education) made to pay for the cost of power services to richer segments within society.

5.12 The linkage between reducing subsidies and increased public funding is clear. But reduced subsidies are also critical to efficient private provision of services. Prices that do not cover costs carry the clear implication of political interference in providers' cost recovery, which generates risk for providers. To offset such risks, private providers often demand guarantees that, unless carefully specified, can reduce their incentives to evaluate projects, perform effectively, and take appropriate risks, and can therefore take away much of the benefits associated with private service providers.

C. Attracting Private Investment in Infrastructure – Evolving Policies

5.13 Recognizing the need to attract more investment into infrastructure, as part of the 1991 reform program, India opened the infrastructure sectors to private investment. Progress in increasing private participation in infrastructure has, however, been slow. While fiscal pressures meant that public investment in infrastructure declined from 4% of GDP in 1991-92 to 3% in 1997-98, the anticipated private sector investment has not been realized with it rising from 1.4% to only 1.6% over the same period, so that overall infrastructure investment declined (See Table 5.1). Indians still largely receive infrastructure services – such as electricity, telecommunications, ports and water – through public entities, which are usually part of a government department and, relatively infrequently, a corporatized entity operated on commercial lines.

5.14 The full potential of the private sector in meeting India's pressing infrastructure needs is as yet largely untapped. With relatively few exceptions, principally in the power sector in Orissa, there has been little in the way of privatization of existing companies. Both central and state governments have

perceived the private sector's role largely in constructing new facilities – for example, IPPs and greenfield port sites; or in establishing new companies competing with public operators – as in the case of the telecommunications sector. However, this largely neglects the productivity and efficiency gains that could be obtained via private management and ownership, under an appropriate regulatory regime, and with competition introduced wherever possible, and which would go some way towards relieving the present infrastructure constraints.

5.15 Telecommunications. This sector witnessed some of the first attempts to introduce the private sector into service provision. Although there are over 1 million cellular subscribers, and the first private basic service providers have begun network roll-out, the impact of the private sector has been substantially less than anticipated. The main reason for the slow network roll-out is the high level of license fees payments, which are difficult to sustain under present market conditions. Most of the licenses were bid for by the private sector, and represent a combination of genuine overestimation and deliberate overbidding in the hope of renegotiating the fee at a later date.

5.16 The New Telecom Policy, released in March 1999 represents a substantial move by the Government to further modernize the Indian telecommunications sector. Under this, the Government has now publicly committed to the corporatization of DOT, introduce competition into long distance services and expand competition in basic and cellular services. It also addresses some of the implications of convergence. The Government has also taken steps to permit the existing license holders in basic and cellular operations to migrate to a revenue-sharing scheme which will be more compatible with the revenues that can be generated from the sector. The next stages of reform will increasingly involve competition between publicly-owned service providers and private companies for the more profitable long distance and, eventually, international services. A successful opening of the sector will require the development and enforcement of the rules of the game (for example, interconnection) by a party which faces no conflict of interest. Recent moves by the Government, including the commitment in the new policy to a strong and independent regulator, have strengthened the regulator, but the overall policy and regulatory framework still allows for ad hoc policy interventions by the Government in some of the details of the rules of the game. In the context of interconnection, it should be noted that the New Telecom Policy states that the Telecom Regulatory Authority of India (TRAI) will be involved only as arbitrator in disputes between the policy-maker and the licensee, when international practice is more for the policy-maker to state the general principles underlying interconnection pricing and let the regulator, along with the service providers, handle the detailed issues. Moreover, although the policy recognizes the principle of Universal Service Obligation (USO), it is not clear why DOT should be refunded any cellular license fees it pays (as proposed by the policy), as opposed to being reimbursed for its USO.

5.17 Power. Government attention initially focussed on private investment in generation. The fundamental sector problems – high levels of losses due to theft, and heavily subsidized tariffs to agricultural and, to a lesser extent, residential consumers – were unchanged. Faced with buyers who were largely bankrupt, relatively few IPP developers have been able to obtain financing for their projects. As of June 1999, 3000 MW of privately-financed IPPs, selling to SEBs, had been commissioned, with a similar level of capacity presently under construction. Implementation difficulties – related to signing bankable fuel supply and transportation contracts – have also slowed down some projects which had received central government counter-guarantees.

5.18 Far reaching power sector reform is being attempted by a number of states. This involves divestiture of existing assets to private operators in combination with establishment of a regulatory framework for the sector which will allow the recovery of cost-based prices. Orissa has been the pioneer in these efforts. Legislation was enacted in 1995 to create the Orissa Electricity Regulatory Commission and corporatize the Orissa State Electricity Board, Gridco, which is responsible for transmission and distribution. An existing state-owned corporation, the Orissa Power Generation Company, has since been the subject of a successful divestiture, with 49% of the equity being sold to AES, the highest bidder. More significantly, the Government has recently completed the privatization of the distribution business of

Gridco (See Box 5.3). Gridco will continue as the bulk transmission entity, and will in the transition period also be the bulk purchaser (single-buyer) of power on behalf of the distribution companies operating in the state, a situation which will be reviewed, at a later date, by the Regulatory Commission. The states of Haryana and Andhra Pradesh have enacted and made effective reform legislation similar to that developed in Orissa. Under their respective reform acts, they have restructured (unbundled) their power sector and established their regulatory commissions. The legislative assemblies in the states of Uttar Pradesh, Rajasthan and Karnataka have enacted similar reform legislation, expected to become effective by April 2000. Reform programs in all these five states include distribution privatization, and some of them are expected to move very actively in this area during the year 2000.

5.19 At the national level, the Government unbundled its utilities in 1993, by consolidating the transmission activities of several central and joint sector generators into a separate transmission company, the Power Grid Corporation of India Ltd. (POWERGRID). India opened the power transmission sector for private investment under The Electricity Laws (Amendment) Act, 1998. POWERGRID is preparing the first projects for implementation by independent power transmission companies, to be contracted through competitive bidding processes. The Act also provides for state-level transmission utilities to similarly contract private transmission. Following the September 1999 national elections, the Government is reviewing and accelerating its disinvestment plans. In the power sector, POWERGRID and the National Thermal Power Corporation (NTPC) have been identified as possible candidates. Were the state power reform process more advanced and spread across India, the Government could create a competitive wholesale power market and at the same time realize high privatization proceeds by selling off NTPC, plant by plant, through competitive bidding processes.¹⁴

Box 5.3 : Privatizing Distribution in Orissa

In July 1997, Gridco, the utility responsible for transmission and distribution services in Orissa, decided to offer the entire distribution business in the State (divided into four zones) for privatization simultaneously, instead of sequentially, as envisaged earlier. The Orissa Government and Gridco decided to offer majority stake and management control to strategic investors. Eleven consortia, including some major international utilities and leading Indian power companies, were prequalified to bid for 51% of the shares in each of the distribution companies. Bids from three consortia – Bombay Suburban Electricity Supply Ltd. (BSES), Grasim Industries/Singapore Power consortium, and Tata Electric Companies (TEC)/Viridian Group PLC consortium – were received for three out of the four zones in January 1999. BSES emerged as the successful bidder for all the three zones; majority equity and management control in these distribution companies have been transferred to it, generating disinvestment proceeds of Rs.1.2 billion for 51% of the equity in the three companies, representing a premium of 50% over book value. The Government of Orissa has recently completed the sale of 51% of equity in the fourth zone to AES.

5.20 **Water.** This sector has not seen, as yet, any privately-financed projects of a substantial size reach financial closure, although the Tirupur project, supplying water predominantly to industrial customers, is nearing this point. All projects attempted thus far have been bulk supply projects. Where these are selling to a municipality or a board, the main concern of potential investors is the ability of the purchaser to pay for the services to be supplied; where these are selling to industrial consumers who have the ability to pay for the services, additional complications arise such as the requirement to provide water at subsidized rates to residential consumers located near the project.

¹⁴ Government disinvesting its equity in NTPC to below 50% would obviously lead to NTPC becoming a private company, which at 18,000 MW and growing, would remain in the foreseeable future a dominating force in the sector, and as such, would probably make any future plans to introduce more advanced competitive wholesale power markets very difficult to implement successfully. While plant-by-plant privatization would avoid this potential risk, it does raise some additional caveats: (a) if private shareholders have a say, they could complicate the restructuring of the system; (b) unless plant-by-plant privatization sees a change in management, efficiency gains will be minimal; and (c) even plant-by-plant sales to private management may need some voluntary staff reduction before sale.

5.21 The poor operational performance of this sector shows strong parallels with the power sector. The current emphasis upon bulk supply facilities financed by the private sector and selling either to a public body or to industrial consumers also mirrors the initial emphasis upon IPPs in the power sector. The provision of urban water supply in India suffers because of the lack of a commercial orientation. The private sector can, under an appropriate regulatory framework, provide the management expertise and incentives to reduce losses and expand service. However, India has yet to embark upon the introduction of private management in this area. The appropriate strategy for doing this will have to combine tariff increases with improvements in service standards and water availability – the latter in some cases requiring substantial investments.

5.22 Management contracts may be a possible entry point. However, without full management control, the ability to shed workers and to provide incentives for good performance, such contracts are unlikely to produce the substantial improvements in operating performance that would come from more substantial forms of private sector participation such as leasing or concessioning. If the private sector is to be responsible for investments, then the issue of cost recovery needs to be addressed. If price increases have to be phased in over time so that they match more closely the improvements in water availability and quality, and to provide a transition from the very low present levels, there may be a need for phased and targeted government support. The strategies adopted need to take account of two additional factors: (i) provision of a policy framework where informal water providers can continue to provide services to the poor; and (ii) addressing of water resource and allocation issues, particularly in the water-deficient areas of India.

5.23 **Transport.** In ports, toll roads, and airports, privately-financed facilities are being constructed and commissioned. However, in ports and airports, thus far, the focus has been largely on the creation of new facilities rather than privatizing operations at existing facilities. The government envisions demand growth for port services of around 200 million tons, with estimated throughput of around 415 million tons in 2001-02. It is therefore planning to add 122 million tons of port capacity over the Ninth Plan period (1997-2002). Approximately 45 million tons, or around one-third of capacity, is expected from the private sector, in addition to 31 million tons from captive schemes.¹⁵ In the case of airports, the Government has announced that it is planning to lease out operations at four major airports to the private sector. The successful commissioning of the Cochin airport represents a landmark for private investment in this sector.

5.24 Privately-financed toll roads are now under operation, with more being commissioned in India. Thus far, these have been relatively small facilities such as bridges and bypasses, although larger projects are coming on stream. However, these projects typically have extensive recourse to the public sector, with debt being largely guaranteed by the concessioning public authority. It would be expected that a successful program of projects would see a reduction in the risk being borne by the public sector. Without a reduction in the liabilities being borne by the public sector, the benefits of obtaining private investment will be diluted. (Nevertheless, for the expansion of national highways, the Government is also considering an approach whereby the private sector faces little demand risk in that it would be paid shadow toll revenues that would largely be independent of the volume of traffic using the road). As far as the expansion and maintenance of the road network is concerned, it will continue to be largely funded through public resources.

D. Developing Specialist Regulatory Agencies

5.25 Specialist regulatory agencies now exist in three infrastructure sectors within the economy – telecommunications, power and ports.¹⁶ The actions of regulatory agencies, such as the TRAI and the

¹⁵Capacity increases are expected at the major ports of JNPT, Kandla, Mormugao, New Mangalore, Mumbai, Chennai and Paradip.

¹⁶In other sectors such as gas, airports and water, economic regulation continues to be exercised through government departments and public sector service providers.

Orissa Electricity Regulatory Commission, to date, have already introduced enhanced scrutiny of the performance of existing public sector service providers, and transparency in the prevailing tariff structure¹⁷. However, the experience of regulatory bodies thus far provides certain lessons about the political economy of regulation within India, and the design of regulatory bodies to ensure that they can effectively fulfil their mandate as independent regulators. In particular, it shows the need to have an effective delineation of responsibilities between the regulator and the policy-maker and to place the creation of an independent regulator within a broader restructuring of the sector (See Box 5.4).

5.26 Power – Creating Genuinely Independent Regulators. The Electricity Regulatory Commissions Act 1998 provides for the establishment of State Electricity Regulatory Commissions. The moves by a number of states, including Delhi, Madhya Pradesh, Maharashtra, Tamil Nadu and West Bengal, to establish regulatory agencies following the Act are welcome initiatives. However, most of these state commissions are established by notification of the state government, rather than through legislation, and can be eliminated via de-notification. They also have a relatively limited range of powers, although again, more can be granted by notification by the state government. In contrast, the regulatory commissions in Orissa and Haryana, for example, enjoy greater security, as, being created by legislation, they cannot be eliminated by de-notification; they have a broad range of powers over and above tariff-setting, including licensing, regulation of the quality of service, and dispute resolution (See Annexes 5.1 and 5.2). Insulating the regulator from political pressures by establishing their independence will be extremely important given that the price regulatory mechanism grants a relatively high degree of discretion to the regulator.

5.27 The Electricity Regulatory Commissions Act, 1998, also provided for the establishment of the Central Electricity Regulatory Commission (CERC), to promote competition, efficiency and economy in the electricity industry. The tariffs of central generating companies, the tariffs of other generators with a composite scheme for generation and sale of electricity in more than one state, the transmission of energy by POWERGRID and the inter-state transmission of electricity, including tariffs, are within its regulatory mandate (see Annex 5.1 and 5.2). CERC has started its operations in an impressive manner. Among its major outputs are: (a) the order on the Indian Electricity Grid Code in October 1999, following preparations by POWERGRID and hearings by the Commission; and (b) a consultation paper on bulk electricity tariffs in September 1999, followed by extensive regional consultations in September–November 1999. CERC expects to issue its order on bulk power tariff principles by early 2000, including an innovative frequency-linked power pool for unscheduled interchange. The new bulk power tariffs and the pool are expected to help improve the operational discipline in the regional grids and promote power trading.

5.28 Regulators Alone will Not Solve the Problem. It is also clear that the creation of an effective and independent regulator alone will not transform an inefficient or loss-making company or sector. Regulation is an imperfect alternative to competition, where the latter can be introduced, since a government department or board has little concern about bottom lines and the parameters set by regulators to achieve efficiency. In the power sector, this means that the privatization of distribution, where the losses due to theft and mismanagement are so pronounced, is key to turning the sector around and meeting consumers' needs. In telecommunications, DOT's present status as a government department handicaps it in its role as service provider, giving it little mobility to counter competition or to innovate to meet emerging demands. Corporatization would be an essential first step in giving it more freedom. In the ports sector, the separation of operations from public statutory activities in the major ports will be an essential first step. The introduction of competition within ports, either from different

¹⁷The tariff rulings issued by both of these bodies have come at the end of substantial interaction and discussion with the consumers, service providers and Government.

terminals or services such as stevedoring, will be key in ensuring that consumers get better deals for port services.

Box 5.4: Design of Regulatory Agency Powers – Lessons from Telecoms

Experience of the telecom sector in India shows the advantage of clearly demarcating the responsibilities of the regulator and the policy maker. Under the Act that established it, TRAI enjoys a range of powers that are comparable to those held by regulatory bodies in a number of dynamic telecommunications markets. Its responsibilities include recommending the need for and timing of the introduction of new service providers and recommending the terms and conditions of licenses. It is also charged with effective inter-connection between service providers, and regulating revenue-sharing arrangements.

Four cases have been filed with the High Court which center over the extent to which TRAI can intervene in issues between the DOT and a service provider. In addition, DOT has moved that TRAI cannot hear any disputes involving DOT, given that the latter acts in a policy-making role. The High Court, on a single bench ruling, has upheld DOT's granting of a license to MTNL to enter the Mumbai and Delhi cellular markets, arguing that DOT is not obliged to seek TRAI's recommendation on the entry of new service providers, and that any such recommendations would not be binding. The High Court has also ruled that TRAI has no role in the dispute between the license holder and the licensor in the case regarding provision of Internet services. High Court rulings, which are the subject of appeal in a higher court, thus far, suggest that TRAI has relatively limited power in disputes between license holders and the licensor, and in the grant of licenses. There are concerns that the former has implications for TRAI's role in interconnection, since these arrangements are specified as part of the license agreement. These tensions have arisen largely because of DOT's multiple roles as service provider, policy-maker and, on behalf of the President of India, licensor of its private sector competitors.

Controversy following TRAI's 1999 Tariff Order has highlighted the issue of whether, under its establishing legislation, TRAI is adequately protected from political interference. TRAI's first Tariff Order of March 9, 1999 mandated a substantial rebalancing of tariffs, reducing long distance and international call charges and increasing the cost of rentals and local calls. Subsequent to the tariff order, the Minister for Communications directed TRAI to suspend implementation of tariffs for the time being. In the final analysis, the Government respected TRAI's pricing order, with DOT facing the lowered price caps on long distance charges, and rural connections priced at the previous, lower rates, as allowed for in the TRAI order.

Although the fact that TRAI's pricing order was respected has strengthened the regulator, the possibility exists that in the future the Government could use its powers to issue policy directives to overturn TRAI's orders.

CHAPTER 6

INCREASING THE DEMAND FOR LABOR: DEREGULATION TO INCREASE EXPORT GROWTH, AGRICULTURAL GROWTH AND LABOR MARKET FLEXIBILITY

A. Overview

6.1 Sustained poverty reduction depends on rapid growth in both quantity and quality of labor demand. In turn, rapid growth in labor demand depends on rapid output growth. There is a strong association between output growth and rising real wages in agriculture and manufacturing (See, for example, World Bank 1995c for cross-country evidence). Economic growth has also promoted labor shifts from low productivity, informal and self-employment in agriculture and services, to higher productivity, higher wage, formal employment in industry and services (for cross-country evidence, see Figure 2.3 in World Bank 1995c). Of course, broad-based human development, inclusive of females, is needed to maximize the impact of rapid growth in output and labor demand on poverty reduction, as well as to sustain rapid growth. These relationships are illustrated in the rapidly growing East and Southeast Asian economies, where poverty fell sharply and labor incomes rose rapidly, as education became more widespread (World Bank 1993; World Bank 1996b discusses Indonesia in detail). The recent crisis in Southeast Asia, although painful, was small relative to the long history of benefits from growth, and left the vast stock of infrastructure and education in place. Moreover, since the crisis, growth has rebounded surprisingly fast in most of these countries.

6.2 Poverty reduction also depends on the labor intensity of growth – a sustained increase in labor demand per unit of GDP. Little additional labor demand comes from capital-intensive growth fostered by protection of inefficient industries and subsidized investment. Moreover, such a development strategy eventually slows investment and growth because of the limited size of the domestic market and the lack of competitive pressure to upgrade capital (See World Bank 1998a, and Bhagwati). At the same time, such a strategy forces consumers to buy low quality/high cost goods, and producers of potential exports to use high cost inputs. Such concerns were major factors in India's reforms in the early 1990s. However (i) tariff and non-tariff barriers in India still remain very high, making it one of the most protected economies in the world; (ii) labor market flexibility in the organized sector remains low and has discouraged the creation of formal employment, while the dominant unorganized sector remains outside the purview of labor legislation that regulates work standards and social security benefits to workers; and (iii) agriculture, which employs 62% of the workforce, remains the least deregulated sector in the economy and subject to inefficient and unsustainable public spending. These factors contribute to constraining the growth of labor demand.

6.3 Thus, from the standpoint of poverty reduction, a key issue is the combined effect of growth and its labor intensity. In that regard, labor demand is unlikely to be stimulated by specific policies supporting labor, such as those favoring small-scale industry or workers in the formal sector, when the overall incentive and regulatory framework encourages capital-intensive growth. A more effective approach to reduce poverty and increase labor demand in general is likely to be a deregulated, general incentive framework that encourages economy-wide growth and makes the best use of India's abundant labor.

6.4 Along these lines, this Chapter examines how India can use further deregulation to increase growth in labor demand and output in three key areas:

- Encouraging more exports, *and imports*, as a percentage of GDP, since India's exports tend to be more labor-intensive than import substituting industries;
- Increasing labor market flexibility to stimulate the general growth of labor demand, and

- Increasing growth in the agricultural and rural sector, which still provides incomes for 73% of the population.

B. Deregulation to Increase Trade, Growth and Labor Demand

6.5 Despite improvements, India's trade and industrial policies continue to impose a heavy cost in terms of slower export growth that feeds back into slower growth in labor demand, output and productivity. This section discusses how increased export growth, with its consequent benefits in terms of poverty reduction and higher growth, will depend on a second phase of reforms that includes reducing protection, reducing bureaucratic transaction costs and logistic delays for exporters, eliminating small-scale industry reservation, and improving the environment for Foreign Direct Investment (FDI).

6.6 **Trade, Growth and Employment.** Increased trade is positively related to growth according to numerous studies that use a variety of methodologies.¹ Moreover, international trade also increases the demand for labor in areas where it is best able to compete internationally and raises real wages in the manufacturing sector (See Figure 8.1 in World Bank 1995c). Increases in exports *and imports* shift resources into industries where productivity is higher (measured at world prices), thus generating a higher national output. In addition, higher exports allow firms to exploit economies of scale. Higher exports *and imports* encourage competition and innovation; together with foreign direct investment, they encourage technology transfer, all of which contribute to a sustained increase in growth. The East and Southeast Asian countries provide an example of the benefits associated with rapid export growth. Moreover, it is worth noting that their export growth reflects a massive shift in the nature of exports – from primary products, to labor-intensive manufactures, to high-tech and capital goods (Yeats 1999) – a steady progression up the technology ladder that was associated with a steady rise in labor demand for an increasingly educated labor force.

6.7 **India's Limited Use of Trade Benefits.** The share of trade in India's GDP has been low, less than half of Southeast Asia's in the 1980s,² or even China's (See Box 6.1).³ Between 1977 and 1986, India's share of world exports declined from 0.61% to 0.47%, and did not recover to its 1977 level until 1996. It lost market share in major products to East Asian countries. In some products (including jewelry), where its share rose, others, including Pakistan and Bangladesh, did better (Srinivasan, and Kathuria and Taneja). This performance reflected India's well-known, severe anti-trade bias in tariffs, quotas, licenses, etc. Nonetheless, India's main export industries – textiles, leather, metal products and "other" manufactures demonstrated the benefits of exporting. Over the periods 1973-83 and 1984-93, these industries exhibited rising labor productivity, capital deepening, and falling unit labor costs which were accompanied by a rise in the rate of growth of employment and wages (Gangopadhyay and Wadhwa 1998). The performance of these industries suggests that export markets provide the scope for rapid, employment-intensive industrial expansion. More generally, India's export industries are more labor-intensive than its import industries (See Annex Table 6.1), as well as more productive (See para. 6.11). These facts suggest that an expansion of India's exports (and imports) would increase output and labor demand.

6.8 India's 1990-91 balance of payments crisis led to major reductions in tariffs, licensing, and trade-related bureaucratic procedures, and to a substantial exchange rate devaluation, all of which increased export growth sharply. From 1992 to 1996, India's share of world exports increased every year (See Figure 6.1). Export growth (in dollars) averaged 15.3% p.a., similar to Southeast Asia's (Indonesia, Malaysia, Philippines and Thailand) 15.8%. These years coincided with a sharp rise in total (aggregate)

¹ See, for example, Bajpai and Sachs; GOI (1999e); Stiglitz; and Srinivasan, which summarizes recent studies.

² In 1985, India's trade to GDP ratio was 15%, compared with Indonesia's 44%, Thailand's 49% and Philippines' 46%.

³ In fact, as a share of PPP GDP, India's trade was only 4.5% in 1996 (World Development Indicators), since India's PPP GDP is much higher than the nominal dollar value of its GDP.

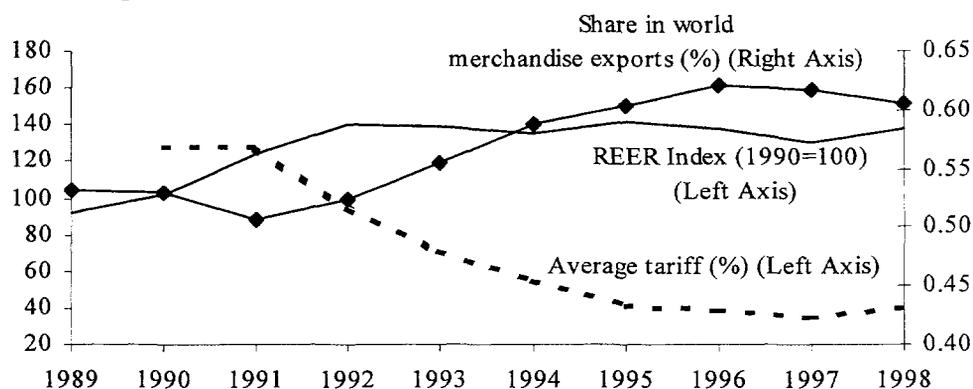
Box 6.1: China's Exports and India's Foregone Exports

Trade has been a key element in growth even for a country as large as China. China's exports of goods and services grew from 6.3% of GDP in 1980 to 21.0% of GDP in 1996 and total trade reached nearly 40% of GDP, thus contributing increasingly to its very impressive GDP growth of 10% p.a. over this period. In contrast, India's exports of goods and services grew from 6.5% to only 11.6% of GDP over 1980-96, while average GDP growth was 5.8 % p.a. (See also Annex Table 6.2). India did not take advantage of long periods of world trade growth, such as in the 1970s. Although India was one of the largest developing country exporters in the 1950s, its share of world exports steadily declined and it was overtaken by the fast-growing East Asian economies in export markets.

It is interesting to make a very crude assessment of India's foregone opportunities. India and China started out at roughly the same level of exports, with competition existing between them in many exports (See Kathuria and Taneja, and Srinivasan). Thus, China's exports can be used as a rough proxy for India's potential export level. In just one labor-intensive product, garments (comprising about 14 % of India's exports), India's total exports were \$4.6 billion in 1996, compared with \$25 billion for China. If the two countries had maintained the same share of exports (that is, India and China had split their current sales evenly), then India's garment exports would be about \$15 billion. Thus, *India's anti-trade policies contributed to a potential loss of \$10 billion of exports in one product alone (equal to over 25% of current exports)*. This translates into millions of lost jobs and opportunities to make a real impact on poverty. The same would be true for many other Indian exports, which are largely labor-intensive (See Annex Table 6.1).

factor productivity (See Chapter 8 and Annex 8.1), as would have been predicted by the analyses noted earlier. In 1997, India's share of world trade declined (marginally) for the first time in six years, and the decline continued in 1998. This decline coincided with a slowdown in GDP growth and a fall in total (aggregate) factor productivity. Despite the prior major reductions in protection, in 1997, India was still one of the most protected countries in the world (See Box 6.2). And in 1997 and 1998, tariff protection rose (See Figure 6.1) – tariffs were raised across the board (except for petroleum) by 3 percentage points in September 1997, and the 1998 Budget imposed an additional duty of 4 percentage points (which translated into about a 6 percentage point increase in the average tariff, since the duty is levied on the c.i.f. price including all tariffs; See World Bank 1998a for a discussion). QRs remained roughly constant in 1997 and 1998 (See Annex Table 6.3). The average annual real exchange rate for 1998 was about the same as in 1993, with some depreciation occurring after July 1997 (See Figure 6.1 and Annex Table 6.4).

Figure 6.1: India's Share in World Trade, REER, and Tariffs



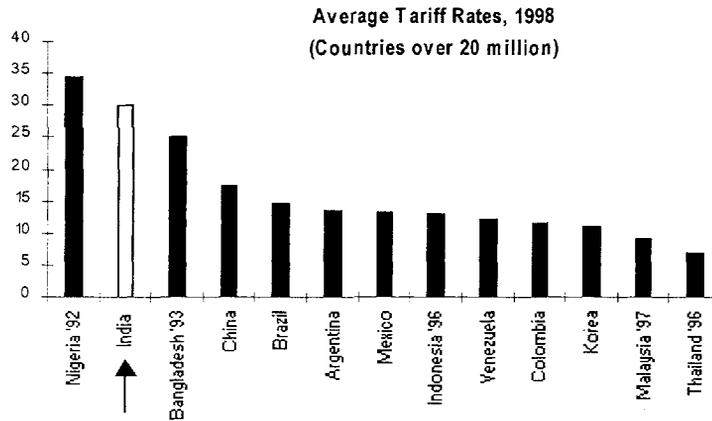
Source: IMF for REER, WTO for trade, World Bank for tariffs.

6.9 Getting Exports Back on Track. Radelet *et al* conclude that with a proper policy environment, South Asian export growth and GDP growth could increase to the rates achieved in East Asia. With only a 0.61% share in world exports in 1998, Indian exports could keep growing faster than world trade for some time, as the East Asian countries have done in the past and some, such as China and Korea, continue to do even today (See Annex Table 6.5). What policies would India need to get back to a sustained high export growth that increases labor demand? The best way would be to create *an overall environment for export growth*. This will ensure that India makes best use of its abundant labor resources. Since a high

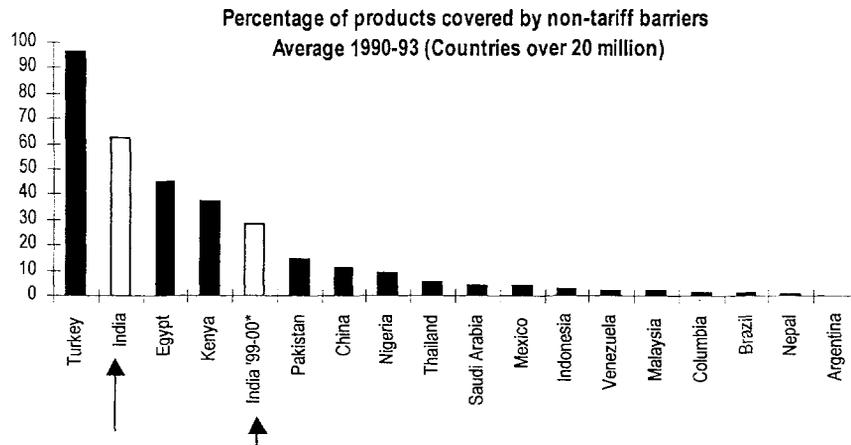
export growth rate and share of exports in GDP also means a high import growth rate and share of imports in GDP, it will also ensure that firms, including domestically-oriented firms, face competition from the world market, thereby encouraging them to improve product quality and innovate. Finally, it will ensure that firms can invest with a view towards the export market. One-shot policy changes only induce temporary boosts in exports. Schemes to offset the anti-export bias of high protection, typically, work poorly and fail to generate the general benefits of competition and export-oriented investment because of their complexity, fears of withdrawal on the part of investors, and potential leakages in the benefits.

Box 6.2: India – One of the Most Protected Countries

Despite liberalization, India's tariff and non-tariff protection remain higher than almost all large countries. Even the 1999-00 reduction in the coverage of QRs, to 28% of output, leaves India's QRs higher than those of most countries in 1990-93.



Source: UNCTAD TRAINS Database.



Source: UNCTAD TRAINS Database from WDI 1997

*World Bank staff estimates

Moreover, such schemes are susceptible to charges that they are export subsidies – even if that is not the case – as has been happening over the last year, and invite retaliatory action. Thus, the best policy is to *create an environment where an export policy is not needed*, as the Commerce Minister stated in his

EXIM Policy speech on March 31, 1999 (“...EXIM Policy by itself cannot achieve a very high export growth rate...”). Many of the issues raised below are echoed in the Minister’s speech.

6.10 Specifically, action along the following lines will help reduce the anti-export bias and thereby increase exports on a more sustained basis than in the past:

- Reducing protection to low and uniform levels and limiting anti-dumping – a new form of protection;
- Maintaining an exchange rate that supports export competitiveness;
- Reducing the bureaucratic, transaction costs borne by exporters;
- Reducing logistic and infrastructural delays;
- Providing a more hospitable environment for foreign direct investment.
- Eliminating product reservation for small-scale industry; and
- Increasing labor market flexibility.

These issues are discussed below and in the next two sections, in more detail

6.11 **Reducing Tariff Protection to Relatively Low and Uniform Levels.** Tariffs have been increased over the last two years, and anti-dumping (which also protects inefficiency) is on the rise (See Boxes 6.3 and 6.5). High protection hurts exports by making *import substitution more profitable than exports*, diverting scarce resources to import substitution, making inputs for exports more expensive, and keeping the exchange rate relatively appreciated. Rapid export growth requires low protection and rapid import growth, so that more of the scarce labor, capital and other factors of production can move out of import-substitution and into exports. Moreover, this policy makes imported inputs available cheaply and subjects domestic producers of inputs for exports to the discipline of import competition. Rapid export and import growth raises output, as well as labor demand, since the factors of production can produce more output, valued at world prices, in exporting industries than in import-competing ones. For example, the effective rate of protection on the secondary sector (mainly industry) was 47.6% in 1998-99, implying that on average, the use of land, labor and capital in the secondary industry was 47.6% less efficient than in the production of exports (NCAER 1999). Also, by allowing more imports, a reduction in protection increases the demand for foreign exchange and, therefore, leads to a depreciation of the exchange rate, which has a positive impact on exports. An exchange rate appreciated by high tariffs keeps both exports and imports low, and thus sacrifices much of the gains from trade. Apart from this, there is great administrative merit in moving to relatively low and uniform protection, since it reduces incentives for classification disputes and bribery. In addition, low tariffs make duty exemption schemes redundant, which would greatly reduce transaction costs for exporters. Simplification of duties would also call for substitution of the complex and non-transparent system of basic duty, surcharge and special additional duty by a simple and single rate of duty.⁴

6.12 The 1999 EXIM policy reduced quantitative barriers significantly, and the remaining restrictions are to be eliminated (except for 533 out of 10220 items on environmental, security and religious grounds) by April 2001 (See Box 6.3). The 1999 reduction in import restrictions saw the QR coverage ratio (See Annex Table 6.3) falling to 28% in 1999-00 from 38% in 1998-99, and 88% in 1988-89⁵. Until such time as the QRs are eliminated, the high level of QRs – particularly in agricultural products, textiles and some consumer goods – provides unlimited protection to investments and constrains efficient investment decisions. QRs are particularly costly because they impose no limit on cost/quality differences and, thus,

⁴ See World Bank (1998a). The imposition of the special additional duty in 1998-99 and its special exemptions have led to greater opacity rather than transparency in the duty structure.

⁵ These calculations involve aggregation by simple arithmetic mean (Method 1). On the basis of value-added weights, the QR coverage is 22% in 1999-00, compared with 61% in 1998-99. The large drop is on account of substantial declines in sectors, such as “other” crops, sugarcane, and milk and products, which have a large weight in the 1989-90 input-output table.

allow even more protection to inefficiency over time than tariffs. By switching fairly quickly to tariff-based protection and gradually reducing it in a pre-defined way, India could reduce the degree of domestic inefficiency, ease the adjustment process, and capture some of the benefits, that currently go to producers, in terms of increased revenue.

Box 6.3: Recent Developments in Trade Policy

The EXIM Policy announced on March 31, 1999, has heralded the second generation of reforms by announcing an accelerated phase-out of QRs. Of the 2714 items notified under the BOP cover by the Indian Government (not including items excluded on safety, environmental and security considerations), as many as 1285 items (892 in the 1999 Policy) have been moved to the free list of imports, as against 1146 in the phase-out schedule agreed to in the WTO, and another 685 items (414 in the 1999 Policy) have been put on the SIL list. 1429 items now remain on the restricted list (685 SIL, 744 restricted/canalized). This policy move is extremely desirable on the grounds of efficiency, revenue generation, and export promotion. Protection by QRs gives unlimited protection, unlike tariffs which define the upper limit of protection and inefficiency that a country is willing to live with. To the extent that actual imports increase, customs revenue will also go up. As mentioned earlier, this will also depreciate the exchange rate and improve export prospects. Nonetheless, the US preferred a faster phase-out of QRs, and obtained a dispute panel ruling in the WTO in its favor. In December 1999, India and the US reached an agreement to phase-out QRs on the remaining 1429 items by April 2001 (714 of which will be removed by April 2000), ahead of the originally agreed date of April 2003. Other steps in the EXIM Policy include recognition of service exports' potential by treating service exports on par with merchandise. Steps not taken, but mentioned by the Commerce Minister as needed for export growth, include removal of export restrictions on agricultural and processed goods.

Unlike QRs, tariff protection has not declined in the last few years. Average (unweighted) tariffs at 39.6% in 1999-00 are about the same as in 1995-96 (See Annex Table 6.6). Tariffs declined quickly after the 1990-91 level of 128%, slowed down after 1995-96, and reversed since September 1997 (World Bank 1998a). As a result of the 1999-00 Budget proposals, which replaced the special duty of 5% with a surcharge on basic duty of 10%, and retained the non-transparent special additional duty of 4%, the total duty remained almost unchanged (unweighted tariff declined from 40.2% in 1998-99 to 39.6% in 1999-00, but tariffs weighted by 1995-96 imports rose from 29.7 to 30.2%). Positive aspects of the Budget proposals include a decline in the dispersion of tariffs (which reduces classification disputes and makes for less distorted production incentives), and a reduction in the peak rate. But the negative consequences of high tariffs remain, as outlined in para. 6.11. Indian tariffs remain amongst the highest in the world (World Bank 1998a). Announcing a clearly articulated tariff reduction schedule as part of the second generation of reforms will reduce investor uncertainty and the tariff-hopping type FDI (which, along with domestic investors, can later create pressure against tariff reform).

6.13 Exchange Rates. Previous export booms, notably during 1986-90 and 1993-96, have been associated with depreciation of the REER. Roberts and Tybout indicate that sustained export growth depends on an exchange rate that maintains export profitability, as well as a commercial policy that is not biased against exports. In this context, reducing the fiscal deficit is important. A high deficit leads to higher interest rates, higher inflows of capital, which keeps the exchange rate relatively appreciated. While there has been some depreciation since July 1997, the rupee's REER in September 1999 was more appreciated than in 1993 (See Annex Table 6.7). Moreover, India's exchange rate has appreciated against some of its potentially strongest competitors, such as Indonesia, Malaysia, Thailand and Korea. From a longer run standpoint, however, continuous depreciation faster than domestic inflation is likely to feed back into accelerating inflation, and is therefore not a panacea to sluggish exports. In the long-run, increases in productivity are the only way to bring about sustained increases in export growth.

6.14 Reducing the bureaucratic, transaction costs borne by exporters is a daunting task, given the complexity of the regulations, their multiple origins (revenue protection, foreign exchange control), their interaction with other elements such as cargo logistics and customs procedures (See para. 4.32 for evidence), and widespread entrenched vested interests.⁶ A reduction of transaction costs would need to address customs clearance procedures for both imports and exports, as well as duty- and tax-free access to imported inputs, which could be based on a modern systems approach relying on self-compliance (tax payers), risk analysis and management (customs), supported by periodic ex-post audits of records.

⁶ See Maxwell and Export-Import Bank of India. Both the Commerce and Finance Ministries have voiced their concern about the impact of high transaction costs on exports. The Finance Minister has set up a Committee headed by the Revenue Secretary to suggest measures to reduce high transaction costs in foreign trade licensing, tax procedures and the banking system.

Electronic Document Interchange (EDI) techniques could be used aggressively to lock in simplified procedures, automate routine procedures, and minimize face-to-face contacts.

6.15 Reducing logistic and infrastructural delays is essential for India's competitiveness in today's time-sensitive markets. The simplification of cargo handling and customs procedures is one part of the solution. This should be accompanied by the privatization of port management, the adoption of a landlord port approach – where the port authority owns the land and basic infrastructure and leases it out to operators – and finally the full privatization of the ports. Data for containerized sea freight in Mumbai suggests that dwell time for imports could be from 10-19 days (and it is worse in all other ports except for JNCP), which is far more than the best practice of less than 30 hours. Apart from JNCP, which is starting operations, no major International Container Line (ICL) has scheduled stops in India, so that container cargo has to be shipped via feeder lines to either Singapore or Sri Lanka, which means further delays.

6.16 Providing a More Hospitable Environment for FDI. By discriminating between core and non-core FDI, India's access to global production networks and intra-firm trade was severely restricted. In 1995, for example, almost one-third of world exports were accounted for by foreign affiliates. US data, if extrapolated to the rest of the world, suggests that more than a third of world exports are between affiliated firms. A recent econometric study for 52 countries suggests that there is a positive and significant correlation between FDI and manufactured export performance (UNCTAD 1999, pp. 246-47). In China, foreign affiliates' share in total exports rose from 17% in 1991 to 41% in 1997. In India, foreign affiliates have played a much smaller role – in 1996, FDI inflows accounted for only 2.9% of GFCF in India against China's 17.0%, and the FDI stock to GDP ratios were 2.6% and 24.7%, respectively (UNCTAD 1999, p. 232 and UNCTAD 1998, pp. 6, 204, 394, 408). This has meant that India has lost out on potential labor-intensive and other exports, as well as opportunities for far greater spread of technology and, thus, increase in productivity.⁷

6.17 FDI is also deterred by the very poor state of infrastructure (including ports, roads, phones and power) where India ranked the lowest among 53 countries in the 1998 Global Competitiveness Report. Apart from infrastructure, post-approval implementation in India remains slow, which deters investment and the conversion of approvals into inflows. Other deterrents to FDI in India are its rigid labor laws and poor industrial relations (See paras. 6.25-6.31). India is attempting to tackle some of these problems, for example, by seeking to attract FDI in infrastructure. However, the expected changes in infrastructure regulation have been slow in coming (See Chapter 5), which has been a factor in the worrisome slowdown in FDI (See Annex Table 6.8).

6.18 Unshackling the Small-Scale Sector. The Small-Scale Industry (SSI) sector successfully produces labor-intensive export items, and provides the second highest employment after agriculture (roughly 50 million in 1996-97). In 1997-98, there were over 3 million SSI units in India which accounted for about 40% of the total production of the manufacturing sector, 35% of exports and 80% of additional employment in manufacturing (16.8 million people) (RBI 1998a, Kapur Committee). However, in trying to promote the growth of SSI firms, Indian policy has not had the desired effect, and instead has given rise to a number of negative outcomes.

6.19 The Abid Husain Committee Report and the Commerce Minister's speech have argued for the phase-out of **reservation for the SSI sector**. Reservation has led to capacity fragmentation, and sub-

⁷ Of course, the benefits of FDI can be fully realized only if domestic markets are competitive, protection levels low and quantitative restrictions non-existent, and if subsidies and incentives are transparent and small. In the absence of these, foreign firms may indulge in 'tariff-hopping' type FDI, turn rent-seekers (and often do a better job of that) and could even join the protectionist lobby. One instance is provided by the car firm Maruti-Suzuki. Granted early access to the domestic market two decades ago, Maruti quickly went on to dominate the market, facing little domestic or import competition (imports are subject to strict quantitative restrictions). Since the mid-1990s, and especially since 1998, it has faced increasing domestic competition, forcing it to slash prices of its largest selling model, and introduce newer models at a much faster pace than hitherto, which has been highly beneficial for the consumer.

optimal production scales in many cases, and reduced exports and, hence, employment. *Many key export products for India such as garments, shoes and leather products, and potentially key ones like toys are on the reserved list.* This, along with labor rigidity, has been a major export constraint for India and allowed China, for example, to outperform India in these sectors. In spite of de-reservation of a few products (such as seed drills, reapers, some agricultural machinery and sole leather crowbars) in February 1999, recent policy moves have been against the spirit of liberalization. As feared in the World Bank's 1998 Macroeconomic Update, the Cabinet in February 1999 decided to lower the investment ceiling for small-scale industry from Rs. 30 million to Rs. 10 million (notified by the Government in December 1999), which will constrain further the already constrained firms. Moreover, the latest EXIM policy announced on March 31, 1999, has added about 159 items to the existing list of about 563 items that were on the reserved list but also freely importable (making a total of 722 out of a total of about 1040 reserved items that are freely importable), further skewing the playing field against large domestic firms – while large domestic firms continue to be barred, *large foreign firms will enter via imports and compete with small Indian firms, which is both inequitable and inefficient.* This inequity adds to the already powerful case for de-reservation, which is now essential if India is to successfully compete in both the export and domestic markets (See Box 6.4; and Box 5 in World Bank 1998a).

Box 6.4 : Gokaldas Exports – Constrained by SSI Reservation

The Bangalore-based Gokaldas Exports group is the largest exporter of garments in India. During 1997, the flagship company of the group, Gokaldas Exports, exported garments worth Rs. 657 million while exports of another major group company, Unique Creations, were even higher at Rs. 781 million. Unlike a number of medium and large Indian garment exporters, Gokaldas Exports depends entirely on in-house manufacturing and does not sub-contract production to smaller units. It manufactures standard products like shirts, trousers, shorts, jackets, coats, parkas, rainwear and suits, using assembly-line factory systems of production. Its factories are equipped with imported, power-operated sewing machines and other modern special equipment that transforms assembly line production into state-of-the-art manufacturing. The group also has strong in-house computer-aided design capabilities (assisted by foreign designers who are enlisted to develop patterns and contemporary styles). Given the large magnitude of its investments in manufacturing, Gokaldas is able to skirt small-scale reservation of the garments sector only because of its high export-orientation. Till 1993, large units could enter this sector only if they undertook an export obligation of 75% of new or additional production – this was reduced to 50% in 1993 (though this was constrained by the requirement that at least half had to be exported to non-quota countries). While this has enabled Gokaldas to expand production and exports, Gokaldas' director, Mr. Rajindra Hinduja, says that he and his top officials have had to spend a great deal of time and effort in Delhi to fulfil the onerous procedures and formalities required to get such exemptions based on export commitments. Over the years, the group has set up as many as 32 manufacturing units (employing, in total, over 15000 workers) for many of which it has had to get such exemptions. Several of these factories are dedicated to producing only customer-specific garments of leading foreign clothing companies all year through. According to Mr. Hinduja, Gokaldas may have missed several export opportunities because of the hassles involved in getting such approvals. In the case of smaller orders, it is not even worthwhile for the company to invest a great deal of time and effort in seeking exemptions. Further, large foreign importers are put off by the fact that Indian companies have to get special permissions before they can commit large and regular export orders – this affects their perception of the reliability of Indian suppliers and their ability to deliver on time. While Gokaldas is now a large company and has significant influence in Delhi, other Indian companies which wish to get exemptions face a more difficult and harassing task. In general, Mr. Hinduja feels that SSI reservation seriously handicaps Indian garment exporters in facing competition from large modern units in countries like China (or even Bangladesh).

Source: Field Study by Uday Sekhar

6.20 Getting Indian Industry Ready for the Phase-Out of QRs and the Multi-Fiber Arrangement (MFA). As part of its WTO commitments, India has agreed to phase-out all quantitative restrictions on imports (except those imposed on strategic or environmental grounds) by April 2001, and on half by April 2000 (See Box 6.3). The Agreement on Textiles and Clothing (as the MFA is now called) is scheduled to end in 2005. Is industry ready for the increased competitive pressure, domestically and internationally, that this will entail? There are a very wide variety of industries that are very competitive, and can hold their own in any market. But there are many, such as some of the capital-intensive, continuous process industries, that may be less able to compete with imports (Kathuria 1995). With trade liberalization, there is bound to be some restructuring of industry, with resources being drawn away from import-substituting

Box 6.5: The Adverse Consequences of Anti-dumping in India

There has been a *striking increase in the use of anti-dumping* in India, which can have serious adverse consequences (see below). Prior to reforms in 1991, import licensing and high tariffs meant that anti-dumping was redundant. Even after trade reforms, the rupee depreciation shielded domestic industry from widespread import competition, and strong growth of demand meant that imports were not growing at the expense of domestic industry. With the slowdown in industry (growth declined from 12.2% in 1995-96 to 6%, 5.9% and 4.7%, respectively, in the next three years), appreciation of the real exchange rate, and decline in world prices, particularly after the East Asian crisis, the pressure for protection began to increase. Between 1992-93, when the first three anti-dumping cases were initiated, and mid-1997, 21 cases were initiated in India. The pace increased markedly thereafter, and between mid-1997 and March 1999, 33 cases had been initiated, and in 1998 a separate Directorate General of Anti-dumping was established. The most targeted country has been China, followed by Japan, South Korea and the US. Anti-dumping duties, which come on top of normal import duties, are currently being applied to a wide range of intermediate materials and inputs, including basic steel, petrochemicals, other chemicals, synthetic rubber, synthetic fibers, and industrial sewing needles.

As experience in other countries has shown, AD can have serious adverse consequences for India:

- First, the foreign firms penalized by the anti-dumping cases are almost always (as in other countries) those that are most competitive and have the largest and/or fastest growing market shares. This in turn signals other exporters to charge "reasonable" prices or also face anti-dumping actions, and results in a real terms-of-trade loss to India. For a number of products, AD duties have first been imposed on imports from firms in one or a few countries, and then, later, a new case has been initiated and AD duties imposed on imports from firms in selected other countries.
- Second, the anti-dumping cases have greatly increased the (already high) protection of industries producing important and widely used intermediate materials (such as basic steel, petrochemicals, other chemicals, synthetic rubber, and synthetic fibers).
- Finally, AD duty, or protection to a single industry in general, implies the adoption of a producer viewpoint, neglecting both user industries as well as consumers. It is also often the case that AD can reinforce market power – in India, in many of the products on which AD duties have been imposed, there were just one or two producers. It can also set in motion a chain of demands for increased protection, as industries that have to face increased input prices arising from AD duties find themselves becoming less competitive. For example, the imposition of AD duties as well as floor prices and the resultant rise in landed prices on HR coils in November 1998 has resulted in protests by the directly affected CR coil industry, and will also feed into higher costs for a wide range of other steel-using industries. More generally, increased protection and prices of intermediates increases the production costs of consumer goods just as India is rapidly phasing out QRs, and will provide arguments and pressures for higher tariffs.

In India, as in other countries, the use of anti-dumping is justified by arguing that it is needed to deal with predatory pricing by foreign firms, which otherwise will undercut and drive Indian firms out of business, and then raise their prices and exploit Indian buyers. Detailed studies of anti-dumping cases in other countries (See Finger 1993, 1998) have shown that the alleged dumping firms have almost never had sufficient market power to eventually raise their prices, even supposing their alleged dumping would cause the firms in the importing country to close. The existence of such market power is also quite implausible in the Indian cases. In a number of these, imports were coming from 20 or more countries, and in others, even though fewer supplying countries were involved, some of these were very large (USA, China) with a number of strongly competing domestic firms. The AD cases already decided in India and the potential for unrestricted anti-dumping to undermine the liberalization of the trade regime that has been achieved so far, suggest a review of current AD policies. Else, the momentum of AD would add significantly to the anti-export bias that already exists. The present impetus of anti-dumping could be stopped or slowed in a variety of ways (See discussion in Finger 1998, pp.14-16, and in Finger 1993):

- Using the safeguards provisions as the main safety valve for responding to protectionist pressures and maintaining it as a temporary, short term tariff-based instrument to provide extra protection to firms while they adjust.
- Incorporating a buyer/consumer interest in the AD and safeguards laws and requiring cases to be decided on the basis of the overall economic costs and benefits of imposing duties.
- Explicitly including an anti-trust type filter in the AD law, which would make predatory pricing and the likelihood of subsequent market power a precondition for the imposition of AD measures.

to exporting industries. Domestic rigidities and policy distortions need to be phased out to enable domestic industry to compete more effectively. As discussed earlier, these would include the need to deal with labor markets, small-scale reservation, and tariff and non-tariff barriers. Unless these are dealt with expeditiously, Indian firms will increasingly have to compete with imports that are not subject to such constraints (as we have seen, exports are also similarly constrained).

6.21 For example, textiles and garments, one of India's most important industries, faces several opportunities as well as threats. Opportunities will open up as developing country exports will no longer

be subject to quotas after 2005. However, this also means that the most competitive suppliers will ease out those who had survived only because of the quotas. India stands to make substantial gains provided it creates the right policy environment⁸ – including dereservation of garments for exclusive SSI production, a flexible labor policy with safeguards, removal of policy bias against synthetic fibers, automatic approval of FDI in garments upto 51% foreign equity (See paras. 6.9-6.20). On the other hand, slow/lack of action on these issues could mean not only a loss of export markets, but also increasing import penetration in the textiles and garments industry.

6.22 The pressure is already being felt. Partly because of having to cope with continuing domestic policy distortions in the face of increasing competition, Indian firms have successfully lobbied for a significant increase in the use of anti-dumping (See Box 6.5).

6.23 More importantly, *a response that deals with India's own structural policies will yield greater dividends* than one which seeks to fine-tune the AD system. A system that responds to the increasing competition from imports (as QRs and, presumably, tariffs decline) by trying to create an environment for quicker and more flexible responses – by, for example, making labor laws less rigid, improving bankruptcy and foreclosure, and not bailing out industries or sectors that are in trouble – should in the longer run make the economy less vulnerable to competition. Of course, these responses will have to be accompanied by a much improved system of re-training, lay-off compensation schemes (see below), and so on, to take care of the sectors that will be affected. On the other hand, a response that involves substantial use of protection, will, as seen above, increase the anti-export bias and reduce exports, render related industries less competitive, induce retaliatory protection amongst trading partners, and eventually lead to a higher cost and more vulnerable economy.

6.24 *In this context, further analytical work on options before India in the next round of trade negotiations would help India make more informed and strategic choices. Policy-making would also benefit from further analysis of the linkages between growth, exports and imports, labor demand, and education.*

C. Improving Labor Market Flexibility

6.25 Any strategy to improve the condition of the poor hinges on improving the labor market, since income from work and quality of work are the main determinants of the living conditions of the poor (World Bank 1995c). India is endowed with an abundant and technologically skilled (especially engineers and scientists) labor force, and is ranked first among 53 countries for both these criteria in the Global Competitiveness Report (GCR) 1998. However, India's labor market is ranked 45th for degree of labor market flexibility in the GCR 1998. Rigidities include rigidities in the deployment of human resources, in work practices and in wages. Various studies suggest that such rigidities constrain the effective redeployment of labor during the process of adjustment to changes in demand and technology, and more importantly, act as a disincentive towards future employment creation, i.e. there appears to be a tradeoff between creating better paying, low turnover jobs and the overall creation of good jobs (See for example, Fallon and Lucas; OECD Jobs Study; International Labour Organization). The industrial relations scenario, as reflected by mandays lost due to strikes and lockouts, has been confrontational as compared to international standards. However, industrial relations have been improving significantly – mandays lost fell from an average 28.6 million p.a. over 1989-92 to 17.1 million p.a. in the post-reform period of 1993-98.

6.26 **Current Labor Regulations Impede the Growth of Formal Employment.** Only about 9% of India's workforce is in the organized sector, and the remaining 91% is in the unorganized sector. Of course, to a large extent this reflects the still high share of agriculture (62% in 1993-94) in the workforce, owing partly to the low growth in manufacturing employment. However, even in manufacturing, formal

⁸ See Pigato *et al* and references therein for the gains from the MFA abolition, and Kathuria and Bhardwaj for the industry analysis.

sector employment is only 25% of the workforce. In the private manufacturing sector, formal sector employment is even lower, at 15.5% of the workforce.

6.27 This segmentation of labor can be explained by the pattern of growth in which domestic regulation and protection from imports encouraged increasingly capital intensive industries (See Gangopadhyay and Wadhwa), while labor legislation (see below) and public sector employment gave employment protection and relatively high wages to the few employed in the formal sector. In addition, labor mobility across sectors has been hindered by the pension system in the formal sector – generally speaking pensions are not mobile across jobs and many years of work are needed before an employee becomes eligible for a pension.

6.28 Employment growth in the organized sector was only 1.6% p.a. during 1981-91 and industrial sickness increased even as manufacturing output was rising rapidly (Anant).⁹ The employment elasticity for the organized manufacturing sector during 1981 to 1991 was only 0.09 (0.14 for 1981-97) and 0.30 for the organized sector as a whole (0.23 for 1981-97). Over the period 1991-95 the growth rate of formal employment dropped even lower, to 0.6% p.a. While the most recent period partly reflects the cyclical slowdown and recovery, the developments over the whole period are in large part explained by the low flexibility of labor use and the consequent reluctance of employers to create formal employment. This is borne out by an industry survey, which identifies labor regulation as the second highest obstacle to the operation and growth of business (Annex Table 4.6) and discussions with industrialists.¹⁰

6.29 The other side of the rigid, high-cost organized labor market was a low-cost unorganized sector with a flexible, unorganized labor market which absorbed the growth of labor. Average labor intensity in unregistered manufacturing increased from an average of 59.3% over 1988-89 to 1990-91 to 62.4% over 1993-94 to 1995-96 (See World Bank 1998a, Annex Table 12). Hence, had labor markets functioned more flexibly, pensions been more mobile, and legislation been more conducive, the organized sector might have occupied a more prominent share of the workforce. Formal sector employees might have grown more rapidly and been more mobile, and the benefits of more formal employment shared across a larger number of employees, including women, who have been unable to participate fully in the labor market (See Box 6.6). All this means that while India's comparative advantage lies in labor-intensive products, labor laws and procedures militate against efficient use of that advantage.

6.30 **Labor Legislation.** The main rigidities in the labor laws include a very wide scope for initiating industrial disputes (which can be initiated on the basis of "interests" rather than "rights"), long procedures for settlement of industrial disputes, inflexible provisions relating to change in conditions of service (instead of being part of the collective bargaining process), and provisions enabling government interventions in areas such as lay off, retrenchment and closures.¹¹ This legislative framework impedes large scale industrial restructuring, relocation or exit, and even the relocation of labor within an enterprise and often even in the same city/town. In the private sector, these rigidities are circumvented by the setting up of smaller units which are beyond the purview of labor legislation, or the increasing use of contract labor, which further increases the divergence between the organized and unorganized sectors. Future policies aimed at strengthening voluntary arbitration, conciliation, collective bargaining (by

⁹ One important reason for industrial sickness is believed to be the poor link between wages and productivity (Anant and Goswami).

¹⁰ Mr. Mukesh Ambani, Vice-Chairman of Reliance Industries, India's largest private sector company, recently declared in a meeting with World Bank staff that Reliance could increase its textile and garments business ten-fold, from its current \$0.5 billion to \$5 billion – provided labor laws, which he considered the single biggest barrier to India's industrial growth, were eased.

¹¹ The main legislation covering employment security are the *Industrial Disputes Act 1947* (provides for settlement of disputes in cases of termination) and the *Industrial Employment Act 1946* (sets rights and obligations of employees and employers relating to service rules). Industrial sickness is dealt under the framework provided by the *Industrial Disputes Act 1947* (and the 1976 Amendment), the *Companies Act 1956* and the *Sick Industries Companies Act 1985*.

allowing recognized representative trade unions),¹² and promoting tripartite dialogue, will reduce disputes and litigation. Also, the implementation of labor laws, in particular labor welfare laws, results in the “Inspector Raj” syndrome, which affects small scale industries disproportionately. For example, small-scale industries are constrained by excessive regulatory burdens and disclosure requirements – 80% therefore operate without incorporating (World Bank 1998a). A key impact of not incorporating is that it *forecloses access to formal credit markets including capital markets.*

Box 6.6: Women in the Indian Labor Market

Women are a particularly vulnerable segment of Indian society. While females represented 32.4% of the labor force in 1993-94 (33.9% in 1977-78), their labor force participation rate was about half of that of males (28.8% for females and 55.6% for males). The female labor force grew at 1.8% p.a. between 1977-78 and 1993-94 (2.2% p.a. for males). Whereas the low female participation rate is partially due to the statistical invisibility of women’s work (housekeeping, tending cattle, etc), there is evidence that they face discrimination in the labor market. For example, while the recorded rate of unemployment for females (at 1.8% in 1993-94) is lower than that for males (2.6%), this conceals large female underemployment (87.8% of the subsidiary workers, i.e those working for only a small part of the reference period, or “discouraged” workers, were women in 1993-94). Furthermore, the quality of female employment is lower than that of males. A large proportion of females are employed in the agricultural sector (74.5% of total females in 1993-94, compared to 56.9% of total males), and as casual labor. In 1997, only 16.4% of total organized labor was female (14% of the public sector and 22% of the private sector). Females also earn lower wages than males in similar occupations (for example, they earned 71% of the daily wage earned by males in casual agricultural labor).

The above features are partly a result of inequalities in educational attainment. The average number of years of schooling for females was 2.3 in 1993-94 (1.5 in 1983), about half that of males (4.3 in 1993-94 and 3.3 in 1983). Inequalities are also present in the political systems (the 33% women’s reservation in local governments is not utilized), the legislative framework (for example, equal rights of inheritance in property rights laws are not enforced; in Andhra Pradesh, legislation has been passed to enable land titles to be given solely to women, with good results), and the credit market (women lack the collateral needed to raise loans). As a result, women are largely poorer than men in India. Any strategy targeted to poverty reduction in India will necessarily have to redress the constraints faced by women in participating fully in the political, legal and economic systems.

Sources: Ghosh; GOI 1999e.

6.31 As many as 165 labor legislations exist in India, including 47 Central Acts (Debroy 1997), and substantial need exists for harmonizing and rationalizing them. For example, as the Acts have evolved, definitional variations have developed in concepts such as employee, workman, wages, factory and industry. The term “wage” has been defined in 11 different ways in as many labor laws. The greater part of labor legislation is in the Concurrent List of the Seventh Schedule of Article 246 of the Indian Constitution, giving both Central and State Governments the power to legislate for items that are on this list. State-level amendments were actively introduced, for example, by West Bengal, Andhra Pradesh, Maharashtra, Gujarat and Madhya Pradesh.¹³ Differences among states also arise in the institutional framework¹⁴ and the industrial relations scenario.¹⁵ However, state governments are required to refer

¹² Under the Trade Unions Act 1926, a minimum of 7 employees can form and register a trade union – this results in a multiplicity of trade unions. In addition, though the Industrial Disputes Act 1947 refers to the term “recognized union”, this is not defined – hence, employers only recognize the majority union for the purpose of collective bargaining.

¹³ Special provisions have been incorporated by States in the *Trade Unions Act 1926* (for example Gujarat, Madhya Pradesh, Maharashtra, Orissa, Uttar Pradesh and West Bengal) and *Industrial Disputes Act 1947* (for example Andhra Pradesh, Karnataka, Kerala, Gujarat, Maharashtra, Madhya Pradesh and West Bengal)(Venkata Ratnam). Wage protection under the *Minimum Wages Act 1948* covers 79 job categories in Orissa, while only 8 in Manipur (Anant). In addition, the range of minimum wages varies from the highest in Maharashtra to almost none in Haryana.

¹⁴ In Kerala, Industrial Relations Commissions operate in industries such as plantations, and various welfare funds are in place for unorganized workers. In Maharashtra and West Bengal, special employment guarantee schemes have been implemented, while welfare schemes are available in Tamil Nadu. The Rajasthan Roadways has a profit-sharing scheme with its employees and Rajasthan has a renewal fund for redeployment of sick industries employees.

¹⁵ For example, while politically affiliated unions are common in West Bengal and independent enterprise level unions are widespread in Maharashtra, most industries in Karnataka (particularly in Bangalore) are union-free. As central legislation provides for trade union registration, but not recognition, Andhra Pradesh has been using the secret ballot system for recognition, and Orissa and West Bengal have recently introduced this system through legislation.

their amendments to legislations to the Center for the assent of the President of the Indian Union. This procedure has been slow, and proposals submitted by Tamil Nadu and Andhra Pradesh a few years ago, for example, have still not been processed. To bypass this process, some states have substituted the term “appropriate government” with “state government” in The Industrial Disputes Act 1947. Furthermore, it is difficult to gauge a true picture of the labor situation in the states, as over half the states do not submit even the statutory returns (such as number of registered unions) to the Labor Bureau.

6.32 **Reducing child labor** is an area where efficient labor legislation must be complemented by effective economic measures. India already has well-framed child labor laws (though there is a lack of harmony in the definition of “child”). However, 11 million children were working according to the 1991 census. Moreover, this figure may well be an underestimate – a study by the Indian Operations Research Group quotes a figure four times larger. India ranks 52nd out of 53 countries in relation to the perception as to whether child labor is strictly prohibited (Global Competitiveness Report 1998). While income poverty reduction provides the most sustainable solution to eliminate child labor, policies to improve the health status of working children and broaden educational opportunities are also needed. Improving the quality of education will help stimulate the demand for education, thus diverting children from work. In addition, expanded production of labor-intensive products based on reduction in protection, increasing FDI, dereservation etc (See paras 6.5-6.23) will increase the demand for labor endowed with basic education, and, in turn, increase the opportunity cost of child labor. Concomitantly, the proper enforcement of domestic child labor laws will contribute to reducing the demand for child labor.

D. Improving Agriculture’s Contribution to Development

6.33 Agricultural growth has been a major factor in reducing poverty (See Chapter 1 and references therein). Over the 1990s agricultural GDP trend growth of 3.3% p.a. was (statistically) similar to the 1980s, according to the new National Accounts; and food-grains production 2.6% p.a. (both well in excess of (declining) population growth, estimated at 1.6% p.a. (GOI 1999b), although still subject to substantial year-to-year volatility).¹⁶ Yet rural poverty declined much less in the 1990s as compared to the 1980s.

6.34 Two elements may partly explain agriculture’s limited impact on poverty in the 1990s, and raise questions about the sustainability of current agricultural growth unless policy changes occur. First, the overall picture conceals an agricultural slowdown in the northern and eastern states, which has probably contributed to their slow reduction in poverty. Second, the pace and pattern of technological change in agriculture may have changed. There are some indications that agricultural productivity growth has begun to slow. These changes are both related to the inefficiencies in, and unsustainability of, the current pattern of public spending in agriculture, and to the limited reform in agriculture (See World Bank 1999b for a fuller discussion of these issues and what follows; note that much of the analysis of regional growth and technical progress is based on the old GDP Accounts, which showed a slowing of agricultural GDP growth).

6.35 Broadly speaking, the public policy approach to agriculture, particularly in the 1990s, has been to subsidize power, water and fertilizer inputs, implicitly or explicitly, in order to keep down the increases in food price, including the costs of the massive public distribution system that is used by many of the non-

¹⁶ Both trend growth rates are calculated using time series regressions, starting in 1978 to avoid beginning in a trough or boom year. The regressions were calculated by using the new National Accounts for 1993-94 onward, and calculating a corresponding figure for pre-1993-94 GDP in agriculture by applying the growth rates from the old National Accounts to the new base. No statistically significant break exists between the 1980s and the 1990s, although growth seems less variable in the 1990s than the 1980s, which included a major drought of 1987. Both point-to-point and trend growth rate estimates are highly sensitive to starting and ending points. Note that the old Accounts do show a statistically significant decline in agricultural GDP growth (though not food-grains) in the 1990s. The difference reflects the inclusion of new agricultural products in the new, 1993-94 based, Accounts.

poor. The equity, efficiency, and sustainability of the current approach remains an open question. The subsidies also have unclear impacts on income distribution and the demand for labor. The boost in output from subsidy-stimulated use of fertilizer, pesticides and water may partly be coming at the expense of deterioration in the aquifers and soil – an environmentally unsustainable approach that may partly explain the rising costs and slowing growth and productivity in agriculture, notably in Punjab and Haryana (See, for example, Chand). Moreover, the limits on public finance (See Chapters 3 and 8) have meant that subsidies have, in effect a) “crowded-out” public agricultural investment in roads and irrigation and expenditure on technological upgrading, b) limited maintenance on canals and roads, and c) contributed to the low quality of rural power. These problems are particularly severe in the poorest states. Although private investment in agriculture has grown, this is partly a substitute for lower public investment and deteriorating quality of public services, in some cases involving macroeconomic inefficiencies (such as private investment in generating sets). At the same time, power capacity is underutilized because of poor distribution and maintenance, and excessive use of capital on the farms encouraged by low-cost credit (Binswanger and Khandakar). The Center’s and states’ fiscal problems suggest that the subsidies cannot continue to grow, and the rural capital and technological basis for growth will be limited by the past pattern of spending.

6.36 In addition, agriculture has seen much less reform than the other sectors. While overall reforms related to the exchange rate and industrial protection have helped, agriculture is still constrained by central and state regulations that limit price movement and intra-state trade, public procurement, and canalization of trade (See Table 6.1 below). For example, simply allowing greater private trade in products would help reduce price fluctuations; more general reforms would improve the productivity of labor and land-use and stimulate agricultural exports. Removal of small-scale reservation would help the growth of domestic agro-industry, which in some cases is now facing increased competition from larger size offshore producers as a result of lower protection. Cotton and textile policies effectively tax cotton producers by 15%, and oilseed policies effectively tax oilseed producers by 30% (World Bank 1997f, 1999b).

6.37 Future agricultural growth could be speeded by policy and institutional reform in the sector, namely a) an improved pattern of spending and a reduction in distortionary subsidies; b) deregulation of the sector and of rural finance, with a greater role for the private sector in credit and termination of the use of credit subsidy as a transfer mechanism; and c) empowerment of the poor by improving their access to land and common resources, increasing their control over services and infrastructure in rural areas, and improved safety nets.

6.38 The above-mentioned policy reforms would help reduce poverty. For example, increased public spending on rural roads, agricultural technology improvement, rural education, safety nets, and irrigation would all help reduce poverty (IFPRI). Growth in the rural non-farm sector would also benefit from improved infrastructure (roads, power, communications) and social services. More efficient and competitive markets can deliver better prices and greater market opportunities to farmers, without raising consumer prices, that would help farmers offset the impact of cuts in subsidies. Better markets together with futures markets and eased restrictions on commodity movements and private participation in international trade can help reduce price fluctuations.

6.39 Poverty reduction will also be enhanced by empowerment of the poor – shift from top-down, centralized management to bottom-up, demand-driven participatory processes for the provision of rural infrastructure and support services. Numerous successful individual programs (including World Bank financed projects) in rural water supply, minor irrigation, watershed development and joint forest management are demonstrating the benefits of such a strategic shift. A wider adoption of this principle, particularly in the numerous Government safety net programs (such as JRY, EAS and MWS) would help such programs better meet their primary goal of poverty alleviation.

Table 6.1: India's Regulation of Agricultural markets & Agro-Industry						
	Rice	Wheat	Sugar	Oilseeds	Cotton & Textile	Dairy
Central Government:						
FCI/TPDS (pan seasonal & territorial price)	✓✓✓	✓✓✓	✓✓✓	-	-	-
Dual markets	✓✓✓	✓✓✓	✓✓✓	-	-	-
Forced Procurement (levy)	✓✓✓	-	✓✓✓	-	-	-
Essential Commodities Act	✓✓✓	✓✓✓	✓✓✓	✓✓✓	(✓✓✓)	-
Selective Credit Controls (RBI)	(✓✓✓)	(✓✓✓)	✓✓	(✓✓✓)	(✓✓✓)	-
Size Reservation (SSI)	-	-	-	✓✓✓	✓✓✓	-
Barriers to Entry	-	-	(✓✓✓)	-	-	✓✓✓
Administered Prices (sugarcane, ginning)	-	-	✓✓✓	-	(✓✓)	-
Ban on forward & futures markets	✓✓	✓✓	✓✓	(✓✓✓)	(✓✓)	-
Health safety legislation & enforcement	-	-	✓✓	✓✓	-	✓
State Governments:						
Movement controls	✓✓	✓✓	✓	✓✓✓	✓✓	-
Storage Controls	✓✓	✓✓	✓✓	✓✓	✓✓	-
Regulated markets management	✓✓	✓✓	-	✓✓	-	-
Control on Cooperatives	-	-	✓✓	-	✓	✓✓
Non-unitary & multi-point taxation	✓	✓	✓	✓	-	-
Source: World Bank						
Note: The number of "✓" indicates the intensity of the inefficiencies imposed by the corresponding policy or regulation. "(✓)" means either lifted or recently repealed.						

6.40 Another area where policy and institutional reforms are required to better meet the needs and aspirations of the poor is in policies related to the management of forest resources. The Government needs to rethink its role in downstream production and marketing where the private sector, including community interest groups, could be brought in much more effectively. Instead the policy focus should be more on the management of externalities and provision of public goods, the definition and enforcement of property rights, resolution of conflicts, and improving the access of the poor to natural resources of importance to them (particularly non-timber forest products).

CHAPTER 7

RAISING AND USING CAPITAL WELL: THE FINANCIAL SYSTEM AND CORPORATE GOVERNANCE

7.1 Capital is scarce in India and other developing countries. Mobilization of investible resources at reasonable cost, their allocation in a manner that yields the best combination of risk and return, and efficient management of these resources are critical issues in growth and poverty reduction. All countries' financial systems play a key role in mobilizing and allocating resources for the private sector, as well as raising resources for the public sector. Corporate governance and information play key roles in the allocation and efficient use of resources. Finally, the financial sector and corporate governance play key roles in the vulnerability of the economy to economic crises, as evidenced by recent developments in Southeast Asia. This Chapter looks at ways to improve India's financial and corporate systems' allocation and use of resources and ways to reduce vulnerability. The next chapter continues this discussion with regard to the public sector's use of resources and reducing macroeconomic vulnerabilities.

7.2 India's deep financial system has undergone significant reform and improvement in prudential regulation and supervision since the early 1990s, though much remains to be done as indicated by various recent Government committees (See Box 7.1). India's financial system resisted contagion from the East Asian crisis because of limited foreign exchange exposure in the financial institutions and corporates and the financial institutions' large public sector debt holdings (See also Chapter 8). Despite the improvements, the financial system could be a constraint to renewed 7% p.a. growth. India mobilizes resources very well but much of the resources are absorbed by public sector borrowings. These borrowings increasingly finance public consumption and push up the cost of funds to and "crowd out" the private sector. Although banks have low ratios of non-performing assets (largely because of the high share of public debt in the system), the still-high NPAs on lending to the private sector (advances) pushes up the cost of funds and suggests the allocation of funds could be improved. And, the capital markets and non-banks are unlikely to provide as much finance as they did in the recent past. A second wave of reform, taking off from the recommendations of the second Narasimham committee (henceforth Narasimham II; see Box 7.1 for a summary of its recommendations as well as those of other recent committees on financial reforms), would ease the finance constraint and reduce the economy's potential vulnerability to financial sector problems. Key areas are:

- a better legal and judicial framework for debt recovery,
- a reduced public sector deficit to reduce crowding-out in the financial system,
- further tightening of regulation and supervision to reach best international practices,
- greater private ownership and management under the improved regulatory framework, to increase incentives for better lending and collection, and
- an improved payments system.

Capital markets would benefit from continuation of the improvements in transactions and settlement practices and, especially, from a shift toward fully-funded pensions that would provide long-term funds for development as well as good retirement incomes.

A. Sound Financial System to Allocate Credit and Reduce Vulnerability

7.3 **Resource Mobilization.** India has a "deep" financial sector (See Annex Table 7.1 for the structure of the system). Broad money (M3)¹ is over 50% of GDP and capital markets are large (See

¹ M3 includes currency with the public and demand deposits with the banking system plus 'other' deposits with the RBI (M1), plus time deposits with the banking system.

paras. 7.29-7.30). As early as the mid-1980s financial depth was similar to middle income countries (World Bank 1989). This mobilization reflected high private saving rates, avoidance of high inflation, and a massive bank branch network.² However, M3:GDP growth temporarily stopped after 1987.

Box 7.1: The Narasimham II, Khan, Gupta, and RBI Reports on the Financial Sector

The Narasimham I Committee Report, in 1991, along with other reports issued at that time, provided an outline for reform of India's financial system. In 1998, the Narasimham II Committee Report on banking, the Khan Committee Report on harmonizing banks and development finance institutions, and the Gupta Committee Report on rural credit, along with the 1997 Tarapore Committee on capital account convertibility, suggested approaches for broadening and deepening reforms in the financial system. In 1999, RBI issued a report on the role of banks and development banks, which suggested that a gradual, orderly move toward universal banking might take place, as the institutions consider appropriate (RBI 1999a).

Narasimham I's recommendations followed best practices of the period, focusing on reduced controls on interest rate and credit allocation; tougher capital requirements, supervision, and classification of non-performing assets; and easing entry, including that of foreign banks. The implementation of many of these recommendations and the worldwide problems with public sector banking and bank crises mean that there is a new set of challenges. Narasimham II brings to bear the best current practices to these issues. Appropriately, it focuses, even more than the last Report, on upgrading banks' performance through improved incentives for prudent behavior rather than by relying solely on regulation and supervision.

Narasimham II's major recommendations along these lines are:

- Reduce Government and RBI equity stake in banks to 33%, by market sales that dilute Government ownership.
- Separate RBI from its role in bank boards.
- Raise bank capital to 9% of risk-weighted assets by 2000 and 10% by 2002; mark-to-market and give government securities a 5% "risk weight" to begin to deal with their interest rate risk. Give open foreign exchange positions a 100% risk weight (that is, 8% of the open position would have to be matched by capital, up from the current, separate 5% requirement).
- Reduce NPAs sharply; tighten definitions, avoid further recapitalization by the Government; any "hiving off" of NPAs to new institutions should involve major operational restructuring to prevent the problem's recurrence; closure of weak banks that cannot be revived, with safeguarding of depositors' and employees' interests. (A high-level committee has recently submitted recommendations to the Government on the issue of NPAs in weak banks.)
- Give banks (that have gone to the market) more autonomy in bank management and pay-setting, lengthen terms for top managers, restructure and develop voluntary retirement schemes as appropriate, upgrade staff and computerize faster; improve risk management; improve disclosure.
- Leave deposit insurance coverage as is, but move to risk-based premia.

The Khan Committee's principal recommendation was a move toward universal banking, with a progressive elimination of the boundary between banks and the development finance institutions. Narasimham II also supported this convergence. Both committees noted the need for harmonization of the cash reserve and statutory liquidity requirements over time. The Khan Committee also recommended lowering the CRR (as did the Tarapore Committee) and abolishing the SLR. Both the Khan Committee and Narasimham II called for improvement in the legal framework for loan recovery.

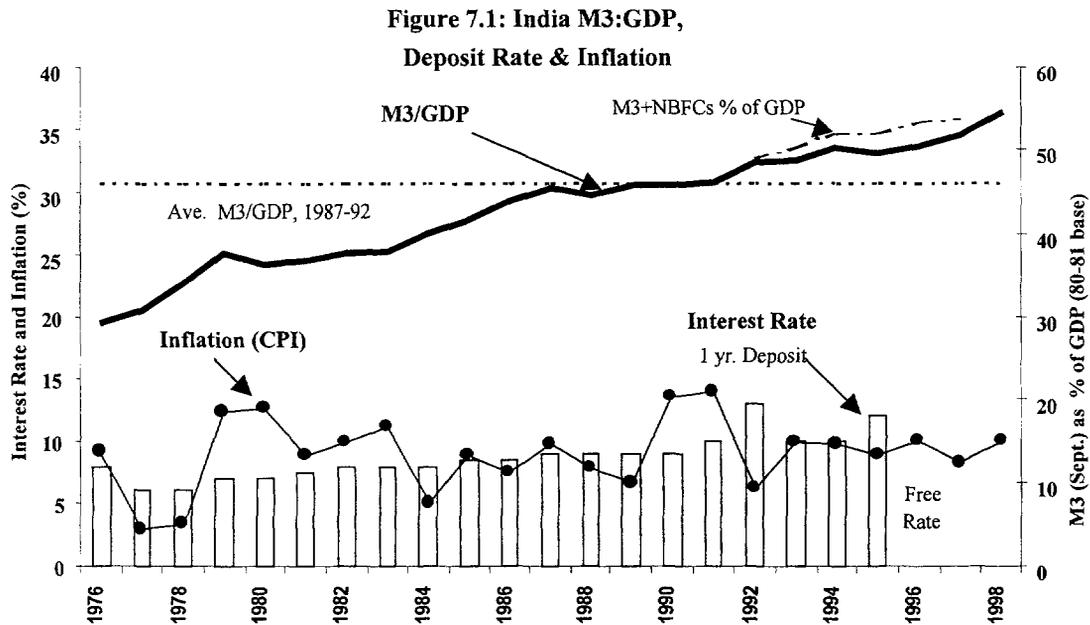
The Gupta Report, and the Khan and Narasimham II Committees have recommended further deregulation of priority sector lending. The Gupta Report has recommended allowing banks to set interest rates on agricultural loans and speeding up the credit process by allowing branches to approve most loans. It also recommended replacing the priority sector lending target with a system of annual targets.

7.4 The ratio of M3 to GDP began to rise once again in 1992, as stabilization and financial liberalization (which gradually freed interest rates, reduced directed credit to the Government and tightened regulation and supervision, see Reddy, Narasimham Committee 1991, 1998 and Annex Table 7.2 for a discussion) took hold. The stock market and new issues also picked up dramatically (See para. 7.29). However, the M3:GDP ratio has grown less rapidly since 1992 (2.4% p.a.) than in 1980 to 1987 (3.2% p.a.). Probably, part of this slower growth reflects the growth of less-regulated corporate deposits³

² Banks' branches grew rapidly in the 1970s and early 1980s, then slowed. Branches numbered about 64,000 in 1998.

³ India traditionally permitted non-financial companies to take deposits from the public, as a way around the high costs of bank borrowing. The amounts are limited to 25% of the company's paid-up capital and free reserves and are not covered by deposit insurance. Many large companies are, in effect, small financial intermediaries, raising funds from the public (and the financial system) and on-lending to suppliers. As competition heats up and bankruptcy becomes more likely, pressures may develop for the Government to guarantee corporate deposits. However, the Government has so far refused to extend deposit guarantees to "sick" companies and non-bank financial corporations.

and, especially, non-bank financial corporations (NBFCs) that provided increased housing and consumer credit, a growth that slowed recently following problems in the NBFCs.⁴



7.5 Large Government Debt Holdings Crowd-out Private Credit. The public sector absorbs much of the funds mobilized by the financial system. Commercial banks hold over 45% of their deposits in Government debt and the Cash Reserve Ratio (CRR). In fact, banks hold more government liabilities now than in the late 1980s (as a fraction of GDP or deposits), despite the cuts in CRR and SLR; correspondingly, banking sector credit to the private sector has been limited (See Annex Tables 7.2 and 7.3). NBFCs, regional rural banks (RRBs), development banks, insurance companies, and provident funds are also required to hold much of their portfolios in government debt, and their liquidity ratios remain high. Moreover, much of the bond market consists of government debt bought in the primary market by the financial intermediaries and held to maturity.

7.6 The financial intermediaries' large Government debt holdings mostly reflect a macroeconomic constraint: "someone" must hold this debt, and absorb the increases generated by the still-high public sector deficits.⁵ In addition, financial intermediaries, including insurance companies, pension funds and

⁴ In 1997 a major non-bank financial corporation failed and deposit outflows hit the sector. Appropriately, the Government refused to provide deposit insurance *ex-post* and RBI limited weak NBFCs' deposit taking and required them to wind up activities. In January 1998, RBI announced a new framework for regulating NBFCs, which retains the minimum capital of Rs. 2,500,000, requires NBFCs accepting public deposits to undergo the full range of supervision, links the maximum level of deposits to the NBFC's rating and limits the deposit rate to 16%. About 9000 companies that applied for NBFC status met the minimum capital requirement – of those only about 800 were considered eligible for receiving deposits, compared with about 10,000 at end 1996.

⁵ Another factor in the large holdings of public sector debt is the use of (non-marketable) government debt to recapitalize the banks over the last few years. The stock of these securities was equal to about 1% of GDP in 1998-99 (See Chapter 8). Although provision of capital in this form spread out the fiscal cost of recapitalization over time, it also means that the recapitalization did not increase the availability of funds for new private investment. Another factor is the elimination in the 1990s of liabilities of non-government entities, mostly public enterprises, from eligibility for the Statutory Liquidity Requirement, and their replacement by Government debt. Such liabilities represented 11.2% of banks' "selected assets" in 1989-90, but only 4.3% today (See Annex Table 7.3). Yet another factor, in the rise of banks' holdings of public debt is the sharp drop in RBI's holdings (as a

provident funds, are attracted to public sector debt by a number of factors, including higher interest rates on it than in the 1980s,⁶ low capital and priority sector requirements,⁷ low transactions costs, easy justification as an asset choice in case of any investigation; and lack of credit risk – a factor that partly explains why Indian banks were less hard hit than East Asian banks. These factors generate a “safe lending bias” and increase the demand for Government debt relative to private sector debt. The demand is particularly great when there is pressure to reduce NPAs, as for example occurred recently in the case of Regional Rural Banks (RRBs). However, it is important to note that this “safe lending bias” affects the relative terms on which financial institutions hold Government debt voluntarily. It remains true that “someone” must hold the large Government debt, be it either the public, in which case they would deposit less in financial institutions, or the financial institutions, whether because of requirements that implicitly tax financial intermediation (as in the 1980s) or the attractions described above (as in the 1990s). Correspondingly, private sector credit is crowded-out, as discussed in Chapter 8 and World Bank 1998a. If, for example, banks or provident funds were to suddenly invest more in corporate debt and equity, then someone else would have to hold the public sector debt they sell (or do not buy). Thus, increased credit for sustained, private sector-led growth can only come if the government reduces its borrowings/deficit.

7.7 Bank Performance and Non-performing Assets have improved substantially since the early 1990s, but remain short of best practices. NPAs, at end 1998-99, were about 6% of total assets and 3% net of provisions⁸ for the commercial banks; the public banks which still account for over 80% of commercial bank assets have slightly higher figures (RBI 1999e). The public banks’ NPA figures reflect the limited growth of NPAs after 1993, when the tightening of regulation revealed gross NPAs of 11.8% of assets, and the substantial increase in provisioning begun in 1993. The private and foreign banks have lower NPAs than the public banks but their performance has deteriorated somewhat over the last two years. The development banks⁹ portfolio have a higher ratio of net NPAs to assets than the commercial banks (9.9% on average) and their portfolios deteriorated in 1998-99, even after some restructuring (RBI, 1999e). The small regional rural banks (RRBs) and cooperative “banks”¹⁰ have much higher NPAs than commercial banks although RRBs have improved somewhat recently. For the banking system as a whole, reported gross NPAs are probably less than 3% of GDP, a fairly low figure. Of course, in all countries NPA figures depend on the accounting and supervisory standards and are backward-looking, which means they have proved to be lower bounds when a crisis occurs.

7.8 Other standard indicators of bank performance show improvements. Capital is up, with the large recapitalizations of public banks from 1992 to 1999, 8 public banks’ raising capital in the market, and capital increases from retained earnings. At the end of March 1999, 26 of 27 public banks and 99 of 105 commercial banks met or exceeded the 8% Basle capital adequacy guideline; over 70% of both public and private banks exceeded 10% (RBI 1999e). Profits after provisioning are low however, and declined from about 0.8% of assets in 1997-98, to 0.5% of assets in 1998-99, reflecting provisions of nearly 1% of assets (RBI 1999e).

% of GDP) since the early 1990s, as RBI reduced its role as financier of the Government and built up its international reserves (See Chapter 8).

⁶ Interest rates on public sector debt were raised in the latter part of the 1980s to reduce the burden of the statutory liquidity requirement. With liberalization, the shift to auctions of government debt and the reductions in the liquidity requirement further increased rates on public sector debt.

⁷ For example, banks’ investments (in government or corporate bonds) are considered as investments rather than lending, and so do not attract priority sector lending requirements, which are set at 40% of lending.

⁸ Settlements on and write-offs of NPAs are made difficult by Indian laws and public bank managers tend to avoid these actions to avoid any possible political problems or accusations of favoritism. The result is that NPAs stay on the books while provisions are built up, and remain on the books even after full provisioning, increasing gross NPAs.

⁹ As used here, the development banks include IDBI, ICICI, and IFCI.

¹⁰ Cooperative “banks” often operate like transfer agencies for government funds, and have very high arrears.

7.9 India's on-going industrial slowdown largely affected the private banks and the development banks, while the public banks have reduced their NPA ratios slightly. The development banks grew fairly rapidly in recent years and they have large exposure to some of the industries that are undergoing a shakeout of excess capacity (See Chapter 8). They already restructured some loans to the steel industry in 1999.¹¹

7.10 More importantly, from a long term-perspective, India's capital and NPA ratios are substantially improved by the large holdings of (performing) government debt.¹² Because government debt has a low risk weight,¹³ risk weighted assets are only about half of total assets. In turn, this means that public banks' actual capital is not much larger than their net non-performing assets.

7.11 Similarly, with so much government debt in the portfolio, the quality of Indian banks' lending is better measured by the ratio of NPAs to credit (advances in Indian terminology) rather than NPAs to assets. India's public banks' gross NPAs were 15.9% of credit and 8.1% net of provisions in March 1999. Private and foreign banks have lower ratios – NPAs to assets was 5.8% for "old" private sector banks, 2.3% for "new" private banks and 2.9% for foreign banks in March 1999. The figures for foreign and new private banks reflect the low NPAs typical of new banks. As noted above NPA ratios of the private banks rose in 1998-99. Finally, RRBs' NPAs were 33% of outstanding credits in March 1998 (RBI 1999e).

7.12 **Improving Credit Delivery/Reducing Vulnerability.** NPAs tie up substantial credit in unproductive activities and raise the cost of credit – the current average rates of provisioning alone (about 1% of assets) can increase the cost of credit by 1-2 percentage points.¹⁴ Moreover, the foregoing analysis suggests any increase in lending to the private sector will require a) much more capital (as the average risk weight of the portfolio increases), and b) runs the risk of increased NPAs and macroeconomic vulnerability unless substantial improvements occur in lending and collection. Such improvements will depend on action in three areas :

- improving the legal and judicial framework for debt recovery ,
- reducing the burden of priority sector lending further, and
- improving the incentives for sound banking, which in turn will involve both a greater private sector role and improved regulation and supervision, key areas for a second wave of reform, that build on Narasimham II's recommendations.

7.13 **Improving the legal and judicial framework.** Weak legal and judicial support for loan recoveries is identified by bankers and Narasimham II as a major factor in NPAs. Although most loans are collateralized, a judgement to "execute" collateral may take 10 years and then may prove difficult to

¹¹ In March 1999, IDBI announced loans of Rs. 10.8 billion to 6 steel companies for completion of on-going projects, conditional on promoters' up-front infusion of new equity equal to 1/3 of the new loans, return of funds to the projects that had been diverted to other activities in the group, the right to convert the loan to equity at par, and improvements in management, corporate governance and auditing. ICICI is considering a new loan to some of the firms.

¹² Government debt is considered fully performing. However, RBI, in 1998, announced that Government guaranteed debt which fails to meet income recognition standards should not be accrued as income and provisions on state government guaranteed debt should be made over a period of four years beginning in 2000 (Reddy).

¹³ In its October 1998 Credit Policy, RBI announced that Government/approved securities will carry a risk weight of 2.5%, with effect from the year ending March 31, 2000; an additional weight of 20% on investments in the Government guaranteed securities of Government undertakings which do not form a part of the market borrowing program will also be introduced with effect from the financial year 2000-2001.

¹⁴ The degree to which provisions increase the cost of credit depends on a) whether the banks include the provisioning costs in all decisions to buy assets (-) or only advances (+), b) the degree of competition from banks with low NPAs (-), and c) the willingness of shareholders, notably the Government for the public banks, to accept low returns on equity (-).

enforce (RBI 1999c).¹⁵ Once a company is declared sick, it can escape legal demands for repayment for some time and collateral can be diverted. These difficulties in the legal framework, as well as the current recession, may explain the rising NPAs and weakening profits in some of the private and foreign banks. The set-up of specialized debt tribunals, as recommended by Narasimham I was intended to speed up judgements and bypass the log-jam in the courts (See Chapter 4). However, a recent RBI review emphasized the need for substantial improvement in the tribunals; as of June 1997, only about 9% of cases had been decided, and less than Rs. 2 billion of the Rs. 89 billion involved had been recovered (RBI 1999c).¹⁶

7.14 Setting up additional tribunals, as was done following the proposals in the last two Budget speeches, will reduce some of the problems. However, action is also needed to clarify and streamline procedures. Even with the new tribunals, the backlog of cases is overwhelming and the possibility of filing an appeal contradicts the objective of quick settlements – one possibility would be to reduce incentives for frivolous appeals by imposing additional penalties for the loser of the appeal. Action is also needed to improve the process and shorten the time during which a company can remain sick, and to improve the implementation of procedures for protecting priority creditors rights.¹⁷ Finally, as discussed in Section B, bankruptcy and liquidation laws need improvement.

7.15 **Priority sector lending**, which remains 40% of credits, has about a 35% higher NPA rate than non-priority lending.¹⁸ Direct agricultural lending is a particular problem.^{19,20} Political pressures, targets for priority sector lending, use of credit to offset poor harvests, etc., have led to loans to uncreditworthy borrowers and easing of lending standards (See M. Ahluwalia 1997). At the same time, the credits' use has often not led to increases in the productive capacity of the economy.²¹ The burden of priority sector credits on the banks has been reduced by the rise in interest rates on them and the widened eligibility of credits for priority status. Nonetheless, the “safe lending bias” noted above is leading to a shift towards government debt, safe corporate bonds, and to other investments such as stocks (which RBI has permitted up to 5% of capital), which do not carry priority sector obligations (See para. 7.6, and Annex Tables 7.3 and 7.4).

7.16 Better lending to the current priority sectors, as opposed to political transfers, could be stimulated by a further reduction in political interference, improved legal remedies for recovery, and better

¹⁵ Of course, banks typically do not wish to takeover collateral. However, their inability to do so as a last resort increases their dependence on relationships for obtaining debt service and can pressure them to send good money after bad in hopes of eventual payment.

¹⁶ Implementation of the Debt Tribunal Act, 1993 was delayed by legal challenges, one of which is pending in the Supreme Court, and administrative problems.

¹⁷ The slow resolution partly relates to the understaffing and slow resolution in the Board for Industrial and Financial Reconstruction, and the often-stated political problems of dealing with the staff of sick firms, although given the delays in settlement, most of the firms' worker have actually found other activities. Another, unstated, factor may be the unwillingness to sell off the sick firms' valuable land assets, because they would depress land prices.

¹⁸ Priority sector lending of the public banks accounted for 47.8% of NPAs on credit at end 1998 (RBI 1998a, p. 27) and were about 40% of credits, yielding the estimated NPA rate of 19; by similar calculation, the NPA rate for non-priority lending was 13.9%.

¹⁹ For example, public sector banks recovered only 60% of direct agricultural lending (that is, excluding loans to NABARD, Infrastructure Rural Development Fund, etc.), and 30% of IRDP loans in 1993-95 (RBI 1996, pp. 35, 37).

²⁰ Partly, the better performance of private and foreign banks on NPAs may reflect their lower direct agricultural lending. Because of their more limited branch network they are permitted to satisfy more of their priority sector agricultural lending through lending to NABARD, and through loans to small-scale industry. Moreover, foreign banks have a 32%, rather than 40%, priority sector requirement of which export credits account for 10 percentage points.

²¹ Studies suggest that the directed credit had little impact on agricultural growth and was a poor substitute for the physical inputs needed for growth; rather much of the credit seems to have gone to increase the capital intensity of production (See, for example, Binswanger and Khandakar). Regarding lending to small-scale industry, as with agriculture, those firms that accessed low cost credit seem to have used it to adopt more capital-intensive technology, rather than expand and increase employment (See, for example, Sandesara, Suri).

incentives for sound banking, including a greater private presence. This is particularly the case in the rural sector. Subsidies on priority sector lending should be made explicitly through the budget, not implicitly through credit. Crop insurance and employment schemes, rather than credit, should be the main instruments of disaster relief. More fundamentally, changes in the approach to agricultural lending and micro credits is needed. For small-scale agricultural and rural lending, institutions like the Grameen Bank, that are beginning to be formed in India (for example the SEWA program) can play a more important role. For larger loans, the success in providing credits, as opposed to subsidies, will depend on incentives to make sound loans and collect, as for example the “credit desa” program of Bank Rakyat Indonesia where repayment rates have remained over 95% despite the economic crisis. Either model is likely to require much higher interest rates than the prime rate (See Yaron et al 1994 and 1997, and World Bank 1999b) Further investigation is needed of ways to strengthen institutions and improve the vehicles for micro-credits and agricultural loans, and ensuring their repayment.

7.17 A particular priority sector credit issue is the explicit or implicit inclusion of infrastructure finance. Generally speaking the arguments against directed credit are well known, in terms of diverting credit from/implicitly taxing other sectors. In the particular case of infrastructure, neither India’s banks nor development banks have much experience in evaluating such projects and their rapid expansion into these areas are likely to increase NPAs, as well as expose the banks to a major term transformation risk.²² Moreover, problems with private sector infrastructure may relate more to the “bankability” related to issues in the regulatory framework and cost recovery (See Chapter 5). Channeling more credit to infrastructure would not resolve these problems, only transfer their cost to the banks or the guarantor of the credits.

7.18 **Improving Incentives, Regulation & Supervision.** Priority sector lending is, however, far from the whole explanation of high NPAs – NPAs on non-priority lending are estimated at about 14%, well in excess of best practices.²³ Another factor in NPAs, suggested by experience around the world, is probably the system of incentives for sound lending and recovery, particularly in the public banks, including the regulatory & supervisory framework. Worldwide experience suggests that inappropriate incentives make it difficult for public sector financial institutions to carry out good lending and collection practices. Public sector employees have less stake in sound lending and collection than private sector employees. Pressures exist to lend for non-market objectives and to go easy on collections. Directors and the owner – the Government – seem unable to obtain reasonable rates of return on capital or even to maintain capital. In addition, there is limited market discipline because of the government’s implicit guarantee.²⁴ Moreover, when public banks dominate the system, regulation and supervision often becomes aimed mainly at malfeasance and ensuring directives are fulfilled, since additional profits from high-risk high-return lending do not recur legally to the institution or its employees.²⁵ Of course, private banking has its own problems, as good accounting, auditing and frequent reporting are needed to increase market discipline. Private banks may choose high-risk high-return loans, reflecting fractional banking, low capital and limited liability, and with market discipline limited by deposit insurance and inherent limits on information. Thus, regulation and supervision of private banking is needed not only to reduce malfeasance, including non-arms length lending, but also to limit imprudent behavior.

²² Such risks can be transferred to the borrowers through variable rate lending; however, the possibility of bankruptcy limits the transferability of the risk.

²³ See footnote 18.

²⁴ Illustrating this point is worldwide tendency for depositors to switch from private to public banks in times of financial crisis, despite public banks’ typically inferior balance sheets.

²⁵ It is generally agreed that the moral hazard for imprudent lending increases when equity stakes drop in banks, an example being the US Saving and Loan Crisis. This is also a concern for public banks when they perform badly – managers may act imprudently in hopes of offsetting bad performance.

7.19 Despite India's major steps in improving bank performance and regulation and supervision (See Reddy), the foregoing considerations, recognized by Narasimham II and the Government, suggest a second wave of reform is needed, particularly in 3 areas:

- Dealing with the stock of NPAs and large new ones without creating incentives for poor performance,
- Going beyond international norms to reach best practice in regulation and supervision, and
- Privatization to improve incentives.

7.20 **Dealing with NPAs.** Net NPAs in the public banks remain a burden and, as noted above, are similar to capital. Moreover, in some cases, for example Indian Bank, large new NPAs have developed. Dealing with the stock of NPAs will depend on the government's political will to recover loans, in spite of the current industrial recession, and putting greater pressure on the banks to resolve NPAs without exception. The government will need to assess the likelihood of collection and settlement on a bank-by-bank basis, reward banks that exceed the targets, and put in new capital as needed. General principles for settlements will be needed, to protect management from accusations of favoritism.

7.21 Leaving collection of NPAs to the individual banks in this way is likely to result in greater reduction of NPAs and less cost to the government²⁶ than transferring them to a general asset reconstruction fund. The announcement of such a general fund will itself generate incentives for more NPAs, as bankers try to clean their balance sheets and debtors switch to what they are likely to perceive to be an easier regime, based on their experience with the Board of Industrial and Financial Reconstruction (BIFR). Any transfer of loans and collateral will be subject to errors and legal challenge. Debtors will not even have the incentive to pay for maintaining relations with their bankers. Finally, the success of such a fund will depend on taking the best work-out specialists from the institutions. General asset reconstruction funds typically have been used only in general crises, they have only worked well when fairly draconian measures were taken to collect and execute collateral, and the fund was wound up quickly, for example the US Resolution Trust Corporation. A further problem with a general fund, suggested by the experience with the BIFR, would be its likely long life, and the negative incentives generated to bank managers for sound lending and collection by the possibility of additional transfers of NPAs to a long-lived fund.

7.22 Regarding banks that generate large new NPAs, better regulation and supervision, and quicker government action may provide some help. For example, US regulatory authorities intervene in banks well before all their capital is lost. However, regulation and supervision can only be a second line of defense and cannot prevent all failures. Moreover, some of the regulatory-based incentives to prudent private banking may even work perversely for public banks; for example, higher capital requirements may be treated simply as low cost funds by public banks unless the managers can be held responsible for returns on capital. The standard remedy for weak public banks – transferring management – has some effect, but it remains difficult to provide either strong incentives to the staff or market discipline through the providers of funds. One option for public banks that continually perform poorly is to turn them into narrow banks, holding only government debt, and gradually wind them down (Tarapore 1997, 1998, 1999). This approach would limit new losses, and could be a non-monetary incentive to other banks to avoid large NPAs, lest they too become narrow banks.

7.23 **Regulation and supervision** has improved substantially, to largely reach international norms in areas like the 8% capital requirement (RBI has mandated 9% by 2000), Basle Core Principles of Banking

²⁶ The cost to the Government will depend only on the success of collection, and not on whether the NPAs are in the banks or a general asset reconstruction fund. By transferring the NPAs to the fund at par, the true costs can be obscured and additional capital for the banks will be unnecessary. However, to provide the banks with actual new capital, as opposed to the non-marketable securities that have been used for past recapitalizations, the fund will have to be actually capitalized and its losses on less than par recoveries will have to be paid by writing down its capital.

Supervision, etc.²⁷ Market pressure has also been increased through competition with the licensing of 9 new Indian banks and 22 new foreign banks since 1992, and the reduction of limits on competition such as mandatory consortium lending and the restrictions on switching banks and multiple banking relationships.

7.24 The issue now is to move to best practices, which will be especially desirable in the context of further privatization. Particular issues are: 1) removing the various current exclusions from the 180 day rule for recognition of income²⁸ and moving to a 90 day rule, as practiced in countries like Argentina and Chile; 2) further increasing provisions, including raising the specific provisions that currently are lower than most countries, and increasing the recently instituted general provision of 0.25% as a cushion against general portfolio deterioration or shocks; and 3) increasing capital to 10%, as recommended by Narasimham II. In addition, it would be desirable to use specific additional capital requirements on potentially risky activities such as the recent imposition of a 100% weight on foreign exchange positions. In addition, a) the current high exposure limits (as percentages of capital)²⁹ should be reduced substantially, including the exposure on infrastructure projects, b) rules on lending to director-related activities should be tightened, and c) the minimum capital (less than \$ 25 million for banks, \$60,000 for non-banks) should be raised substantially to encourage economies of scale (risk reduction) and scope, and be in the form of cash or government securities. Finally, the issue of quicker sanctions for non-complying banks needs to be addressed – public and private banks have been allowed to operate for some time with low capital. Best practice suggests quick intervention is needed to reduce the risk of additional losses.

7.25 In supervision, one issue is how to move from analysis on an historic basis to a forward-looking basis, which will include an evaluation of how the credit and risk management systems are being used. This change will require significant upgrading of the supervisory capacity and, in the current environment, it may be difficult to retain supervisors who can carry out such functions effectively. The licensing procedure needs to be more transparent and include a discussion of the applicants intended activities and formal background checks. More fundamentally, RBI will need to continually re-examine the appropriateness of its guidelines for risk management. Finally, accounting and auditing standards, while much improved and moving towards international standards (Reddy), would require greater improvement to reach best practices. An important accounting issue is the consolidation of firms and banks activities. Another issue is fragmentation of the accounting industry, which raises the issue of the franchise value of providing sound reports.

7.26 **Privatization**, under a sound regulatory and supervisory system can provide incentives for better credit allocation and injections of much needed capital, as recognized by Narasimham II. However, significant political will is needed to a) induce the Government and the managers to give up their highly concentrated power to allocate credit under the current arrangements,³⁰ b) carry out the legal changes needed for even gradual privatization through the market, and c) use the more effective approach of strategic sales .

²⁷ In terms of regulation, India increased the capital requirement to 9% (by March 2000), moved toward recognition of NPAs after 180 days, increased provisioning, is gradually imposing mark-to-market on securities, introduced systems of credit, foreign exchange and risk management, and increased information requirements (including data on NPAs). In supervision, a CAMEL system has been introduced to better identify weak banks, on site inspections have improved, and India fully complies with 14 of the Basle Core Principles of supervision, and is implementing its compliance with the 11 others, which mainly relate to procedures for licensing of banks, implementation of risk management in the banks and its evaluation, and consolidation of accounts and the sharing of information on them, both internally and internationally. See Reddy for more details.

²⁸ These inclusions include an almost automatic exception for an additional 30 days, exceptions related to agricultural harvest cycles, and exceptions related to delays in project completions that particularly benefit development banks.

²⁹ Currently, limits are 25% of capital to a single borrower, 50% to a group of related borrowers, and an additional 10% for infrastructure projects.

³⁰ Depending on the bank, Chairmen and Managing Director personally approve all loans exceeding about \$ 7.5 million, with General Managers responsible for loans between \$ 2.5 million and \$ 7.5 million and Assistant General Managers for loans between \$ 2.5 million and about \$ 600,000.

7.27 Currently, eight public banks have sold shares and further sales by them would begin to approach the lower legal bound on Government ownership. But, lack of new capital for growth, the higher new requirements mandated by RBI and NPAs write-offs will strap the performance of these banks. Banks are already trying to meet their capital needs by the risky approach of selling each other subordinated debt. Raising new capital solely through the market could easily mean more than 50% of equity would be publicly held, requiring changes in the Banking Companies and State Bank of India Acts that would face major parliamentary opposition. Moreover, many factors make even the best banks' attractiveness to the market unclear – the partially divested banks' share prices have lagged the indices, representation of private shareholders on bank boards is still under implementation, banking has become a much more competitive activity, and banks' actual capital is not much larger than unprovisioned NPAs. The status of bank staff (currently treated as 'de-facto' civil servants), if the government were a large minority shareholder, would also be an issue. Finally, even if Government shareholdings were reduced to 33%, as recommended by Narasimham II, the Government's position as dominant shareholder could allow it to run the bank effectively. These considerations suggest that sales to strategic shareholders would not be much more difficult than the gradual privatization recommended by Narasimham II, and could yield more revenue from the sale, as well as more efficiency. Whatever the method chosen, it is likely that the government will need to resolve issues of staffing through voluntary retirement packages, and to inject more capital to write-off unprovisioned NPAs, as in the privatization case of Philippines National Bank concluded recently. *Further analytical work exploring possible paths to privatization of banks, while decreasing the vulnerability of the banking system through regulation and supervision that approached best practices and improvements in accounting, auditing and corporate governance, could help the privatization process in India.*

7.28 **Payments System.** The payments system affects everybody – individuals, enterprises, financial institutions, and government agencies. While the RBI has been taking steps to improve it, the system still lags international standards as well as developments in the rest of the financial sector. Some of the problems include delays between the receipt of payment instruction and the completion of payment; reconciliation problems, sometimes remaining unsolved for months and even years; risk exposure due to delay in the finality of settlement, which could lead to systemic risk; low security level of the systems, which may facilitate fraud. Improvements in these areas would lead to a more stable financial system and faster developments in financial markets, which are heavily dependent on the payments system.

7.29 **Capital Markets.** India has one of the largest stock markets in the developing world, with more companies listed than in the US and market capitalization about 36% of GDP. The market was a major source of funding for companies in the mid-90s and boomed with the inflows from opening up to foreign institutional investors (FIIs). There were also major improvements in transparency, with the computer-based National Stock Exchange (opened in 1994) now accounting for about 60% of trading,³¹ and SEBI's requiring that shares in the major indices be "dematerialized" in the depository, in order to ease settlement and verification problems. For most of 1998 the market was in decline, reflecting the slowdown of industry and capital inflows, the major settlement/payments problem in the Bombay Stock Exchange, in June 1998, and then, in the latter part of 1998, the redemption problems of Unit Trust of India (UTI, the Government-run mutual fund) over concerns that its guarantee of high returns could not be met. Many of the new issues of the mid-1990s have not only collapsed in price (a problem that also occurred in the US after its new issue boom), but are also minimally traded and have difficulty in meeting the exchanges' requirements for information. However, the stock market has picked up in 1999. The 1999 Union Budget reduced taxes on equity-based mutual funds, including UTI. The Budget also proposed injecting additional funds into UTI.³² Although the market has rebounded after the 1999-2000 Budget speech, it

³¹ The 15 regional stock exchanges have announced their intention to move to linked, computer based trading.

³² The proposal was to invest Rs. 48.1 billion in UTI securities, which UTI would use to buy back Government of India bonds. With the market reacting positively to the Budget announcements, the Government has put in a lower amount of Rs. 33 billion.

remains true that new foreign flows are unlikely to match the increase that occurred when the market was first opened, and new issues are likely to be scrutinized more carefully than in the past.

7.30 The capital market would benefit from increased transparency in UTI's activities, given its magnitude relative to the market and the numerous private placements it accepts. A critical issue is eliminating UTI's guarantee of returns, given the Government's revealed political difficulties in denying responsibility for UTI's performance. Further improvements in the settlement process, with the ultimate aim of gradually shortening settlement to five days after transactions, would avoid the necessity of trying to harmonize settlement dates and reduce the pressures that currently arise from the bunching of settlements. More importantly it would improve transparency and reduce the risk of non-settlement and payments crisis which have hit the equity markets from time to time. More fundamentally, accounting and auditing need significant improvement, as discussed below, to encourage investment in the market.

7.31 The bond market is also large; it would be large even for a middle-income country (World Bank 1995a). It includes an active primary market for public and private debt, although public debt (notably government dated securities) dominates the market. The secondary market is, however, much less active, reflecting the financial intermediaries' tendency to hold government bonds to meet liquidity requirements, apart from holding these instruments to maturity. The bond market could be enhanced by RBI's taking a less active role in setting rates in the primary market, moving to the dematerialized depository system used for stocks, and harmonizing stamp taxes across states, as is the case for stocks. A really major growth in the capital market would occur if the private and public pension system moves towards fully-funding, under appropriate regulation and supervision. This would raise demand for longer term debt substantially. Fully funded pensions, linked to individual employees, would also reduce problems of vesting and allow pensions to move with workers, improving labor's mobility (para. 6.27). The public sector would be a major area to implement more fully funded pensions. However, this would increase the measured fiscal deficit (as opposed to the implicit contingent liability that now exists), because the government would have to contribute to funding current workers' pensions as well as pay pensions to existing retirees.

B. Strengthening the Framework for Corporate Governance.

7.32 **Corporate Governance** refers to the procedures and rules, explicit and implicit, that provide the incentive framework for companies to attract financial and human capital, perform efficiently and avoid corruption (World Bank 1999f). The crisis in East Asia has highlighted the importance of corporate and financial governance systems supportive of market processes and competition – and the huge costs stemming from the weakness of such institutions. Most macroeconomists failed to appreciate that the devil could also be in the micro. In an era of instantly mobile global capital flows, East Asia has shown how macroeconomic collapse can be exacerbated by systemic failure of corporate governance – excessive corporate leveraging, poor financial disclosure, misallocation of corporate funds, bad banking practices, unregulated capital markets, and absence of expeditious bankruptcy procedures. With investors in emerging markets becoming more cautious, good corporate governance will be critical to attracting foreign investment. For India, it also will be vital in bringing back the small investor into the capital market, whose confidence has been shaken by scams and vanishing companies.

7.33 Corporate governance has received some public attention in India in recent years. The Confederation of Indian Industry (CII), published a voluntary code of governance (*Desirable Corporate Governance: A Code, 1998*). The Working Group on the Companies Act incorporated more stringent disclosure and fiduciary standards as well as more streamlined liquidation procedures in the draft Companies Bill, 1998. However, the Bill is yet to be presented to Parliament. The current standards of corporate governance would need substantial improvement to reach the best international practices. In what follows, five key issues/concerns relating to private corporate governance are considered; governance of public enterprises is also briefly analyzed.

7.34 **First**, the quality of financial and non-financial disclosures mandated by law, while stronger than almost all East Asian countries, many developing countries and even many countries in continental Europe, needs strengthening. Consolidation of corporate groups' financial statements to eliminate misleading reporting of intra-group transactions, needs to be mandated by law. On other issues, the CII code recommends that large listed companies have Audit Committees to supervise the company's audit procedures; domestic public disclosure be the same as for ADR and GDR issues; and SEBI mandate a corporate governance compliance certificate along with the annual report. In addition to this, best practices suggest voluntary disclosures beyond those mandated by the Companies Act. For example, few Indian companies give information on debt composition, economic value added, foreign currency management, etc. Related issues, noted in Section A, are improvement of accounting and auditing, and the small size of most accounting firms, which means franchise values for establishing a record of sound accounting and auditing are likely to be low.

7.35 **Second**, oversight³³ is limited in most publicly listed companies. Currently, most boards of listed companies are dominated by management or "gray outsiders",³⁴ and stockholder representation is limited. Moreover, the Companies Act allows persons to hold up to 20 directorships (the US average is 3.5, the CII code recommends no more than 10), which is far too many if the directors are to play an informed, active role. Also, non-executive directors are often not given adequate corporate information.

7.36 **Third**, banks and other financial intermediaries have not been able to exercise effective corporate governance and assertion of their rights as major debt and equity holders. Nominee directors of financial intermediaries, who are neither rewarded for good monitoring nor punished for non-performance, have little personal incentive to monitor their companies, and to demand accountability, disclosure or transparency. Adding to this is a long-standing practice of financial intermediaries to support the existing management except in extreme circumstances, making the stability of existing management a virtue by itself, which could be at odds with the objectives of greater transparency, cleaner practices and higher shareholder value. Supporting existing management implies not questioning managerial decisions, not suggesting ways in which the company can improve its profits, and more or less going along with every board resolution in a way which the management desires. Although nominee directors are generally becoming more assertive and demanding, it remains true that they are not very vocal until a company is in trouble. Another problem of nominee directors, often admitted by the chief executives of financial intermediaries, is that they do not have enough senior staff who can *properly* discharge their obligations as good corporate governors. All this means that the institutions which, in theory, could play a proactive role in corporate governance (as in the case of German lead banks), have been preoccupied with issues that are not at the heart of maximizing corporate and shareholder value. But the real solution needs to recognize that in the long run, it will be difficult to strengthen corporate governance when banks, financial institutions, and the major mutual funds remain under control of the Government. These institutions are not sufficiently concerned about adverse income and wealth consequences arising out of wrong decisions and inaction; their poor incentive structures do not reward performance and punish non-performance; and, most of all, they remain highly susceptible to pulls and pressures from various ministries that have little to do with commercial accountability, and which often destroy the bottom-line. Therefore, a stable environment for good corporate governance probably requires the government to become a minority shareholder in the financial institutions.

7.37 **Fourth**, although the quality, transparency, fairness, and efficiency of the capital market and the rules that govern corporate takeovers have improved substantially, procedural issues remain. There are no longer restrictions on transferability of shares in the Companies Act – barriers that were used in the

³³ The extent to which corporate boards exercise fiduciary responsibilities to maximize long term shareholder value.

³⁴ 'Gray outsiders' are family members of executive directors, attorneys who represent the company, investment or commercial bankers who have close financial relationship with the company, long term consultants, or directors who have substantial business dealings with the company.

1970s and 1980s to entrench promoters in management despite small shareholdings. Moreover, the SEBI Takeover Code has made takeovers far more transparent, and offers a much fairer deal to minority shareholders, while RBI has allowed banks to fund takeovers. These are substantial improvements compared to the past. However, there are still a few procedural problems. The most important of these has to do with jurisdiction. On the one hand, SEBI is supposed to have jurisdiction on all capital market matters for listed companies. Yet, the Company Law Board and Ministry of Finance have the powers to overrule. In addition, SEBI is not empowered to give legally binding decisions, and to impose penalties and punishment. Ideally, the Ministry of Finance should not be the appellate authority, since it is an executive wing of the Government. Instead, the appeal should be heard by a division bench of the High Court. In spite of many improvements, the present division of authority can prove to be detrimental to takeovers as more complex bids become common.

7.38 **Fifth**, India's bankruptcy and liquidation laws and procedures, are inadequate, time-consuming, and contribute to corporate misgovernance. Poor protection of creditors' rights allows companies to reallocate funds to highly risky investments (since management fears neither attachment nor bankruptcy); it raises the cost of credit; it debases the disciplining role of debt; and it risks the health of the financial sector. In India, bankruptcy reorganization of large industrial companies is governed by the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA), and the process is directed and supervised by a quasi-judicial authority called the Board for Industrial and Financial Reconstruction (BIFR). The system could be improved by:

- **Early detection.** The current recognition of financial distress as erosion of net worth rather than 'mere' debt default reduces the probability of a successful turnaround. Between July 1987 and November 1998, only 11% of the 1954 cases that BIFR has considered 'maintainable' are no longer sick.
- **Speedier and streamlined procedures.** Currently, the mean delay in arriving at a decision in BIFR exceeds 2 years. Delays are caused by tedious quasi-judicial procedures that confer additional bargaining power to company management at the expense of secured and senior creditors.
- **Reduced rights for debtor in possession.** Neither SICA nor BIFR recognize that incumbent management always has a great informational advantage compared to outside creditors, and allow existing management to run a bankrupt company during the period of reorganization. Studies of companies under BIFR show that, in the final reorganization decision, secured creditors had to make large write-offs on their exposure, while management and shareholders did not.
- **Adherence to priority creditor rule.** BIFR procedures violate the principal of senior debt priority by often rewarding incumbent management and old shareholders (despite net worth being negative) at the expense of fully secured creditors.

The Sick Industrial Companies Bill, 1998, recognized these problems and proposed a more market-determined bankruptcy system. But it has not been passed in Parliament.

7.39 **Liquidation** poses even more problems than bankruptcy. As discussed in Chapter 4 (See para. 4.10), most liquidation cases take between one to two decades, reflecting a complex and arcane legal process, and results in a system that favors promoters at the expense of workers and secured creditors.

7.40 The Draft Companies Bill, 1998, and the Report of the Working Group on the Companies Act suggested new liquidation procedures that were transparent, time bound, and reflected the view that rapid sale of productive assets is good not only to settle the dues of workers and creditors, but also for the economy. Unfortunately, as stated, the Companies Bill remains outside Parliament.

CHAPTER 8

GROWTH, MACROECONOMIC DEVELOPMENTS AND POLICIES

A. Overview

8.1 India's trend growth of 5.8% p.a. since 1980 is the highest outside Southeast and East Asia among large developing countries. However, despite this relatively high growth, poverty incidence is still 34% (World Bank estimate, see Annex Table 1.1) and India's economic structure remains relatively unchanged. By comparison, even after the Southeast Asian crisis, Korea, Thailand and Indonesia have substantially higher per capita incomes and social indicators, and considerably lower poverty than India, although the countries had similar per capita incomes in the 1960s. The experience of Southeast Asia suggests that India needs sustained, higher, more labor-using, outward-oriented growth, coupled with improved social service delivery, in order to reduce poverty.

8.2 Moreover, the sustainability and vulnerability of India's current approach to development are a concern. Substantial reforms in the early 1990s led to high growth. More recently, however, growth has declined while reforms have slowed and in some cases reversed, for example, tariffs and the fiscal deficit. The key agricultural sector remains highly regulated (See Chapter 6). Export growth, which could provide more employment, has slowed, not only because of the slowing world economy but also because policy is reducing the profitability of producing exports compared to import substitutes and the deteriorating infrastructure. These issues raise questions about India's ability to take advantage of the next upswing in world growth, the domestic opening up under agreements with the WTO and the end of the Multi-fiber Arrangement. Agricultural and urban growth face environmental problems. The General Government deficit (as a percentage of GDP) worsened in 1998-99, back to about the level of 1990-91, raising concerns over macroeconomic instability that could hurt the poor and limiting private investment by keeping real interest rates high and crowding-out. Within governments' budgets, consumption spending, which is increasingly financed by borrowing, is crowding-out critically needed social and infrastructure spending (See also Chapter 3). Large implicit and explicit subsidies and inefficient public enterprises deter private sector-led development and contribute to inequalities and inefficiencies, and raise questions about the sustainability of agricultural growth that is so critical for poverty reduction.

8.3 A rapid reduction in India's poverty and increased growth will depend on a second wave of reform, as all recent governments have recognized. As discussed in the previous chapters, reducing poverty and increasing development will depend on a comprehensive framework that improves access of the poor to education and health services, improves infrastructure, and provides good governance, transparency, a sound legal and judiciary system, a strong financial system, and human and environmental sustainability. As discussed in this and the previous chapter, sustained development will also critically depend upon continued sound macroeconomic policy, namely:

- greater openness to trade, to encourage more efficient resource use and increase labor demand, and
- sounder public finance, namely reduced subsidies and deficits and the realignment of government away from non-core public sector activities and consumption spending and towards more and better infrastructure and basic social services.

B. Economic Growth in 1998-99 and over the Longer Run

8.4 **In 1998-99, India's GDP grew 6%**, one of the highest growth rates in the world, and up from 5% in 1997-98, according to the new National Accounts.¹ **Agriculture** accounted for all of the rise in

¹ All 1998-99 figures are revised estimates. All GDP related figures in this chapter from 1993-94 onward are based on the new National Accounts except, as noted, when it is necessary to make comparisons with pre-1993-94 data. The growth rates in the new National Accounts are somewhat higher than the old. Moreover, there is an absolute difference in the new and the old (nominal) estimate in 1993-94 of 9.0%, correspondingly reducing the ratios of most items to GDP, such as budget figures,

GDP growth, growing 7.6% compared to -1.0% in 1997-98. Growth in all other major sectors declined in 1998-99 (See Table 8.1). This pattern, and other recent developments, suggest that India's growth and poverty reduction continue to depend heavily on good monsoons and harvests, albeit less than in the 1970s and 1980s (See Chapter 1 and D. Ahluwalia). This dependence, coupled with the inefficiencies and unsustainability in rural public spending, the limited reforms in agriculture, and the potential environmental problems related to water and heavy fertilizer use, raise concerns about the sustainability of current growth and poverty reduction (See Chapters 1 and 6, and World Bank 1999b).

Table 8.1: GDP Growth 1981 - 1999

	(Percent Per Year)									
	1981-90 Avg.	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98 ^a	1998-99 ^b
GDP ^c	5.7	5.4	0.8	5.3	6.2	7.8	7.6	7.8	5.0	6.0
Agriculture and allied	3.6	3.8	-2.3	6.0	3.7	5.4	0.2	9.4	-1.0	7.6
Industry	7.1	7.6	-0.7	4.0	6.1	9.3	12.2	6.0	5.9	4.1
Mining & Quarrying	8.5	10.7	3.7	1.1	1.7	9.2	7.4	1.2	2.7	-2.0
Manufacturing	7.6	6.0	-3.6	4.1	8.5	10.6	15.0	7.7	6.8	5.2
Electricity, Gas, & Water	8.8	6.5	9.6	8.4	6.3	9.3	6.7	5.7	6.6	6.3
Construction	4.9	11.6	2.2	3.4	0.9	5.3	8.2	2.9	4.1	2.1
Services	6.7	5.2	4.1	5.4	8.0	8.5	9.8	8.0	8.2	6.2

a. Quick estimates.

b. Revised estimates.

Notes:

1. Based on the new series with 1993-94 as the base year.

2. Figures for 1981 to 1992 are staff estimates.

Source: Central Statistical Organization, National Accounts Statistics 1998 and Quick Estimates 1999.

8.5 Manufacturing growth slowed for the third consecutive year in 1998-99, to 5.2% compared to 6.8% in 1997-98. Partly the slowdown reflects a shake-out and consolidation in capital-intensive sectors like autos, steel, cement, synthetic fibers, etc. Another factor may be the difficulties of the non-bank financial sector (See Chapter 7), which had been a major source of consumer and housing finance in the boom years. Domestically, large capacity increases have come on line; internationally, competition has increased, notably from East Asia in steel. In autos, these pressures have led to lower prices and greater model choice that have benefited consumers while putting pressure on older models like the Maruti 800. In steel, in contrast, protection has been increased for investment projects that were undertaken despite worldwide excess capacity. The steel industry is now suffering from large losses and many firms have already required financial restructuring (See Chapter 7). Moreover, the protection-induced rise in steel prices will hurt consumers and worsen the international competitiveness of Indian users of steel. The case

investment, and trade, by about 8.0%. This difference in the new Accounts reflects a re-basing to 1993-94 prices and sectoral value added coefficients, plus the inclusion of some new products; the old National Accounts series was based on 1980-81 prices and value added coefficients. The largest absolute sectoral differences between the old and the new series are in agriculture (8% higher than the old National Accounts estimates in 1993-94), real estate, including owner-occupied housing (10%) and trade (13%). The fishing and mining sectors are also much larger in percentage terms in the 1993-94 based series, but their small absolute size means they contribute little to the difference in overall GDP between the old and new figures. Since the CSO has not yet revised the pre-1993-94 GDP figures, this Report re-estimates them by applying the old growth rates to the new 1993-94 figures, which leaves the pre-1993-94 year-to-year growth rates unchanged.

of steel represents one reversion to the inefficient approach of the 1980s, in which scarce capital was allocated to internationally uncompetitive, capital-intensive industries that required protection and did not generate much employment. Similar concerns exist regarding the projected expansions in petrochemicals and refining.

8.6 Another factor in manufacturing's slower growth was the further slowdown in India's exports in 1998-99, reflecting not only the slowdown in world trade but also the further loss in India's share of world exports after 1996 (See Chapter 6). From the standpoint of demand, without sustained higher export profitability and growth, Indian businesses are likely to invest only enough to supply a domestic market that can be expected to grow at about the post-1980 trend rate of 5.8% p.a., thereby making 5-6% growth a self-fulfilling prophecy (Bhagwati, World Bank 1998a). From the supply side, a more open economy – more exports *and* imports – is needed to encourage better resource use, faster productivity growth and higher labor demand.

8.7 **From a longer-term perspective**, India's post-1980 trend growth rate of 5.8% p.a. is the highest outside Southeast and East Asia among countries with over 20 million population. During the 1990s, India rebounded rapidly from the 1990-91 balance of payments crisis, returned to the post-1980 trend growth rate in 1992-93 and 1993-94, then, led by surging private sector production and investment, achieved an unprecedented 7.7% p.a. average growth. However, in 1997-98 and 1998-99, average growth fell back to the post-1980s trend and is below the (statistically) significant rise in growth that occurred from 1993-94 to 1996-97 (See Annex 8.1).

8.8 The years of rapid growth were associated with both greater factor productivity in a macroeconomic sense (See the discussion in Annex 8.1) and a higher investment rate, which was also encouraged by liberalization. The increase in productivity probably reflects three factors. First, more efficient use of resources was encouraged by the greater openness to trade. Liberalization increased incentives to export *and* import substantially, raising the share of both exports *and* imports in output. In a relative sense, resources shifted out of industries competing with imports and into exports, where they are more productive in a macroeconomic sense. Estimates suggest that on average, the productivity of land, labor, and capital in exports is over 47.6% more than in secondary industry,² and that exports use more labor than imports (See Annex Table 6.1). Second, increased competition probably raised the firm-level efficiency of resource use. Third, the rise in productivity also probably reflects better and more efficient use of capital, also associated with greater openness. Protection on capital goods was reduced and foreign direct investment rose dramatically, while domestic private sector investment rose to an annual average of 16.5% of GDP (old series) over 1993-96, as compared to an average of 14.6% in the previous 5 years (See also Annex Table 8.1). A possible indicator of India's increased productivity, in the macroeconomic sense, was the rapid growth of exports and increased market share from 1992 to 1996, despite the slow growth of and intense competition in world markets in products that India exports (World Bank 1998a).

8.9 Correspondingly, the recent slowdown in growth may be explained, at least partly, by exhaustion of the benefits of the first stage of reform and the slowdown, and in some cases reversal, of reforms (World Bank 1998a, Chapter 6). In particular, as India has raised protection in the last two years, it has lost market share in world exports (See Chapter 6), and exports and imports have declined as a percentage of GDP. Private and foreign investment remain higher than in the past. However, more protection encourages domestically-oriented investment, lowers job creation and output growth, and correspondingly makes the development process less sustainable, as Brazil's example in the 1960s and 1970s suggests.³

² The effective rate of protection in secondary industry is about 47.6%. In other words, the average "margin" available to pay for land, labor and capital in the secondary sector is 47.6% more than to produce a unit of exports. Thus, switching to export production would produce 47.6% more output (valued at world prices) with the same resources.

³ From 1957 to 1977, Brazil was a "miracle" economy, with growth over 7% p.a. The oil price shocks and the debt crisis exposed the fundamental unsustainability of this growth. Not only was there macroeconomic instability that manifested itself in

8.10 From a longer run perspective, India's 5.8% p.a. average growth is a relatively good performance; however, it must also be recognized that 20 years of growth at this rate has not changed India much. For example, 73% of the population still live in rural areas; poverty has declined, from 43% in 1983 to 34% in 1997 (See Annex Table 1.1), but the incidence of poverty remains high even in the rapidly growing states.

8.11 The example of the rapidly growing East Asian economies, as well as the cross-sectional analysis of Indian states (See Chapter 3) suggests that sustained, faster, labor-using growth, along with inclusive education and health services, will contribute to reducing poverty (See Table 8.2 and Annex Table 4.1). India, Indonesia, Korea, and Thailand all had similar per capita GDPs (in \$ terms) in the late 1960s (See IMF, *International Financial Statistics*). However, the Asian "miracle" economies grew faster than India from the late 1960s to the mid-1990s, particularly in the 1970s. Their fast growth reduced poverty dramatically with little worsening of the income distribution (World Bank 1993). The recent crisis, though serious, did reduce the South and East Asian economies' lead over India but, except for Indonesia, these countries are recovering surprisingly rapidly. Even Indonesia, the country hardest-hit by the crisis, had a poverty incidence below 20% in 1998 (World Bank 1999a). Generally speaking, East Asia's growth was associated with higher investment rates and higher, and greater increases in the average education of the labor force than India. East Asia also had a much greater degree of outward-orientation than India, which, through the gains from trade, external competition, and access to imported technology, tended to ensure more productive use of capital and greater growth of labor demand in the macro-economic sense. Part of Indonesia's growth reflects the shift of females from informal, rural labor to formal labor in the export-oriented sector (World Bank 1996b).

8.12 The comparison with East Asia suggests that India needs higher, more labor-intensive growth, and improved social sector delivery to reduce poverty faster. Key elements in increasing growth and reducing poverty will be a) further reduction in India's still-high protection, in order to encourage greater labor demand, more efficient use of resources, and greater productivity growth through greater international specialization and competition; b) liberalization of internal markets, particularly agriculture and labor markets;⁴ c) improved infrastructure to improve the links between domestic and international markets and spread the impacts of liberalization throughout the country; and d) widespread improvement of social services (See Chapters 2, 5 and 6 for discussions of policies along these lines).

8.13 Moreover, even India's current growth rates may be difficult to sustain without significant changes. One concern is the possible slowdown in total factor productivity growth in agriculture, associated with possible environmental problems (See Chapter 6 and Annex 8.2). Also, environmental degradation arising from inefficient and distortionary energy, water and fertilizer subsidies adversely affects the economy's capacity to grow (See Annex 8.2 for a fuller discussion of the relationship between environment, economic growth and poverty). A second concern is the apparent slowdown in growth in the poorer states (See Chapter 3). Continuance of these trends would slow the growth of overall factor

severe inflation and balance of payments deficits, but also Brazil's improvement in education was one of the lowest among large developing countries. Resource allocation followed an inefficient, forced import substitution model, with protection and subsidies shifting resources into high-cost, capital-intensive sectors (the contribution of these sectors was over-estimated in GDP because their contribution to output was not adjusted downward to reflect their higher prices compared to imported goods). Despite foreign direct investment in many of these sectors, productivity growth in import substitution was actually less than in the economy as a whole. The limited employment produced by these industries along with the low levels of primary education resulted in one of the most unequal distributions of income in the world. See Coes and works cited there.

⁴ "In East Asia, more than elsewhere, governments resisted the temptation to intervene in the labor market to counter outcomes unpalatable in the short run or to particular group.... A relatively high level of efficiency in the allocation of labor was achieved by allowing wages and employment to be determined largely by the interaction of those supplying and those demanding labor services, rather than by the government legislation, public sector leadership, or union pressure. ... In East Asia, wages were pulled up by increases in the demand for labor, whereas elsewhere there was a greater tendency for wages to be pushed up artificially." (World Bank, 1993, p. 266). It is also worth noting that the rapidity of growth in labor force demand reduced the impact of limits on labor force flexibility in East Asia. See also the discussion in Chapter 6.

productivity and the rise in incomes, as well as push up the relative price of agriculture from the cost side, to the detriment of poor consumers.

Table 8.2: India and High Growth East Asia: A Statistical Comparison

	GDP Per Capita 1997		National GDP			Openess/ a		Investment Rate/ b		Literacy Rate/ c	
	PPP \$	Current \$	1996 / 1970	1996/1970	1997/1977	1970	1997	1970	1996	1970	1997
			Growth Rate p.a.		Growth Rate p.a.						(Female)	(Female)
India	1510	451	3.4	4.7	5.2	7.2	17.8	14.6	22.9	33.6	62.0
										(18.1)	(50.0)
China	3120	745	5.9/ c	10.5/ d	10.4/ e	11.2/ e	35.4	28.3/ f	33.8	51.7	82.9
										(35.8)	(74.5)
Indonesia	3490	1079	5.6	6.9	6.4	22.9	44.1	13.6	31.8	56.3	85.0
										(44.0)	(79.5)
Korea	13580	9623	8.1	8.4	7.8	32.2	63.6	23.0	35.0	86.6	97.2
										(79.8)	(95.5)
Malaysia	8190	4544	6.3	7.3	7.1	77.8	159.7	17.7	42.4	58.3	85.6
										(46.1)	(81.0)
Thailand	6690	1959	6.5	7.5	7.3	28.4	77.3	23.7	35.6	80.0	94.7
										(72.7)	(92.8)

a. Openess equals total trade (exports+imports) as share of GDP.

b. Gross fixed investment as a share of GDP.

c. Figures in the brackets are female literacy rates.

d. Data pertains to 1978-1996.

e. Data pertains to 1978-1997.

f. Data pertains to 1979.

Sources: IMF, International Financial Statistics; World Bank, World Development Indicators.

8.14 Macroeconomic stability and vulnerability to internal and external developments are also important issues in sustaining India's growth. India's still-large fiscal deficit and the increasing use of borrowing to finance public sector consumption, notably inefficient subsidies that often probably increase inequality, raise concerns. The rest of this chapter discusses India's commitment to macroeconomic stability, areas of potential vulnerability and policies to reduce these problems.

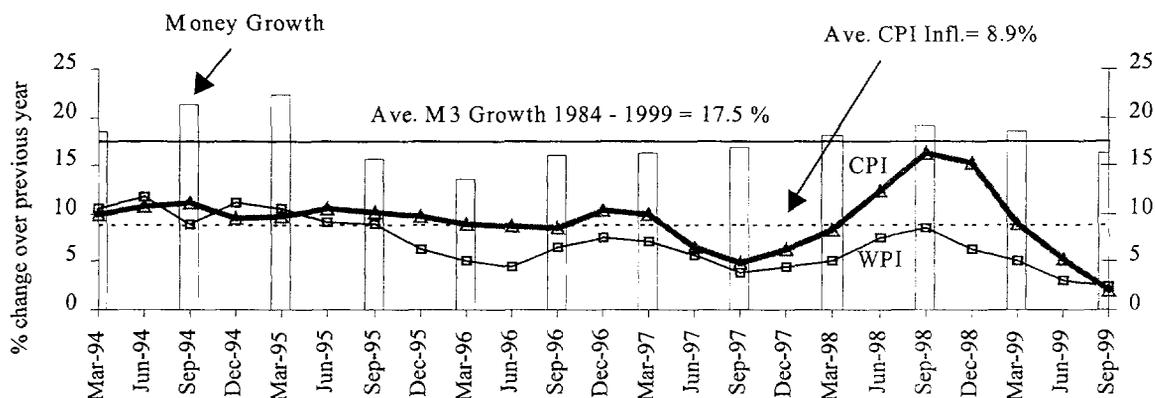
C. Inflation and Monetary Policy

8.15 Recent **Inflation** history illustrates both India's still-high dependence on good harvests, which is magnified by the rigid food distribution system and controlled agricultural trade, and India's continued commitment to keep inflation under double digits. The Wholesale Price Index (WPI) based inflation (year on year) was 4.8% in March 1999, down from 5.3% in March 1998, and dropped further to less than 3% in October 1999. Consumer Price Indices for Industrial Workers (CPI-IW) rose from 8.3% in March 1998 to 8.9% in March 1999, but dropped sharply to 0.9% in October 1999. These numbers do not reveal the sharp intra-year variations during 1998-99. Earlier, between June and October 1998, WPI inflation exceeded 8%, while CPI inflation rose to as much as 18-20% in October-November 1998, following poor harvests and lack of imports. Specifically, there were sharp rises in the (wholesale) prices of onions (247% from November 1997 to November 1998), potatoes (157%), mustard oil (103%) and chillies (70%), and, more importantly, rice (13%) and other cooking oils (about 30%). Beginning in December 1998, food prices actually fell as the good "winter" harvest brought inflation down to low levels. Indeed, onion prices fell so far that exports were allowed to resume. The transitory rises in food prices hit the poor hard, particularly the urban poor. A more elastic agricultural distribution system, with greater private participation, better futures markets, and liberalized imports (World Bank 1999b) would help reduce the structural problem of temporary rises in prices from harvest shortfalls. In fact, price variations over the last four years have largely reflected variations in primary articles and fuel— "core inflation", as represented by the WPI for manufactured products, has been relatively steady. (Between 1995-96 and

1998-99, the WPI at end March was 5%, 4.9%, 4% and 3.7% respectively. Similar rates for primary articles were 5.4%, 7%, 5.5% and 7.8%, and for fuel and power 3.7%, 16.9%, 11.4% and 1.7% respectively).

8.16 Over the last few years, inflation has trended downward, although the decline has been erratic (See Fig. 8.1) because of supply shocks to food prices. It is also important to note that the price data as well as other data, need substantial improvement (See Box 8.1). The weights in the CPI are outdated, and the WPI includes numerous items whose prices have not changed recently.

Figure 8.1 India: Inflation and Money (M3) Growth 1994 - 1999



8.17 India has consistently tried to keep inflation below double digits, by tightening *monetary policy* when inflation exceeded 10%, most recently in 1995-96. The recognition of the vulnerability of the poor to inflation (See Chapter 1), reiterated in Prime Minister Vajpayee's Lucknow statement (February 3, 1999) that "inflation is the single biggest enemy of the poor", explains Indian policymakers' commendable commitment. Higher inflation increases relative price variability, as worldwide experience shows, and India's poor lack the resources to offset even a temporary rise in the relative prices of the necessities they consume. Experience worldwide also suggests that the inflation tax is regressive, because the poor hold much of their assets in currency, and currency bears the brunt of the inflation tax. Hence, maintenance of low inflation is a key anti-poverty measure.

8.18 Broadly speaking, **monetary policy** has been well-managed recently, given the increasingly complex environment, but the continued large fiscal deficit places limits on central bank independence. In 1998-99, broad money (M3)⁵ growth continued the rise that began in 1996-97, and reached 12-month growth rates of 19-21% from August 1998 to February 1999. However, in March 1999, the 12-month growth of money slowed to 18.4%, somewhat higher than the 15-year average of 17.5% p.a. In the first five months of 1999-2000, M3 growth remained above 18% until August 1999, when it slowed to 17%.

8.19 The pattern of money growth within 1998-99 reflected a) the repatriation of the Resurgent India Bond (RIB) proceeds, b) the resumption of RBI's role as residual financier of the rising Government deficit, and c) year-end foreign exchange inflows and RBI's net sales of government debt. The Resurgent India Bond eased credit for the private sector, although much of the repatriations ended up in holdings of Government debt through reserve and liquidity requirements and banks' voluntary purchases of government debt. In 1998-99, RBI's holdings of Government debt rose 12.9%, faster than 8.8% in 1997-

⁵M3 includes currency with the public and demand deposits with the banking system plus 'other' deposits with the RBI (M1), plus time deposits with the banking system.

98. The growth of RBI credit to Government was particularly rapid from June to November 1998, representing absorption of deficit-induced Government debt that the banks and other buyers were unwilling to buy at interest rates that RBI and the Government considered appropriate. Money growth was also rapid, in the 19-21% range, from August 1998 to February 1999. However, credit growth slowed in March 1999, when RBI claims on Government actually declined by nearly 3%, which contributed to slowing down of money growth. Also in March 1999, following the Budget Speech and the Finance Minister's expression of hopes that monetary policy would "do its part", the RBI cut the Bank Rate and repo rates and lowered the (cash) reserve requirement to 10.5%. This led to a small reduction in public banks' lending rates.⁶

8.20 In the April 1999 monetary policy statement, the RBI reaffirmed its commitment to low inflation. Effective May 8, 1999, the CRR was further reduced to 10%, which enhanced the lendable resources of banks. In the first five months of 1999-2000 (compared with end-March 1999), RBI credit to the Government actually declined by 1.2% (in the same period of 1998-99, it had increased 4.1%), while banks' credit to the commercial sector showed a pickup of 2% (in the same period of 1998-99, it showed no increase).

8.21 Lending and deposit rates drifted downward in 1998-99, but money market and government securities' rates, by and large, rose over the year (See Annex Table 8.2). Lending rates of major public sector banks, which are more sensitive to RBI's Bank Rate and government policy, declined from 14% in March 1998 to about 12% in April 1999, following the cut in the Bank Rate from 10.5% to 9% in April 1998, and to 8% in March 1999. On the other hand, short-term rates such as the call money and 91 day treasury bill rate, sensitive to monetary interventions and the foreign exchange market, moved in a general upward direction. Also, longer-term yields on government securities, both in the primary and secondary markets, moved up over the year, reflecting market sentiment and the large and growing volume of central government borrowing. Such large government borrowing, along with large non-performing loans, crowds out the private sector and puts a floor on real interest rates that the private sector has to pay (See Chapter 7). Since June 1999, rates seem to have been tending upward again (See RBI 1999e).

8.22 Monetary policy-making is increasingly complicated by India's more open economy, as well as domestic financial liberalization.⁷ Some examples illustrate the growing importance of international factors in monetary developments: a) since August 1997, an important objective of monetary policy has been to limit excessive pressures on the exchange rate, even though this required transitory increases in interest rates during a period when manufacturing growth was falling;⁸ b) the 1998-99 growth of money was boosted by the RIB sale and year-end capital inflows; c) variations in base money are increasingly linked to variations in international reserves and, from time to time there has been an offsetting movement between reserves and RBI domestic claims, characteristic of open economies (See Annex Table 8.3). This

⁶ Also, small saving rates were reduced on January 1 and March 20, 1999, with the cuts ranging from 0.5-1.0 percentage points.

⁷ As shown in Figure 7.1, Non-Bank Financial Corporations (NBFCs) grew sharply after financial liberalization, providing credit and contributing to a slower than usual rise in the M3-GDP ratio (the demand for M3 did not rise as fast as expected because of demand for NBFC deposits) that made it difficult to target monetary tightness. Then, in early 1997, problems began in the NBFCs, and the demand for their deposits shifted to components of M3, at least at the margin. This contributed to a faster rise in the ratio of M3 to GDP than in the recent past. Again, monetary targeting was complicated, particularly in the context of the problems associated with the East Asian crisis and the rising fiscal deficit. Thus, while M3 was growing fast because of the switch-back from NBFC deposits, overall credit growth (including credit from NBFCs) was not growing as fast. In other words, the varying growth of NBFCs contributed to instability in the M3 to GDP relationship. Kannan, Vasudevan, and Mohanty and Mitra discuss problems of monetary targeting in the Indian context (See also RBI 1999d, Boxes III.1, III.2 and III.3).

⁸ To limit pressure on the exchange rate, which had depreciated from Rs. 36.4 per \$ in August 1997 to Rs. 40 per \$ in January 1998, the RBI raised the repo rate (from 9% to 11%) and increased the cash reserve ratio (from 10% to 10.5%), despite slower industrial growth. Exchange market pressures emerged again, particularly after the nuclear explosions in May 1998, which further depreciated the exchange rate to about Rs. 43 per \$ by mid-August 1998. However, with the inflow of \$4.2 billion from the RIB and a further rise in the cash reserve requirement to 11% in August, the rupee appreciated slightly to stabilize at about Rs. 42.5 per \$ from end-August 1998 until March 1999.

changed empirical relationship suggests that India may increasingly face what Obstfeld calls the “open economy trilemma”— it is difficult to carry out an independent monetary policy while maintaining an exchange rate target when the capital account is (even partially) open. Of course, India’s large international reserves (over \$30 billion), low short-term debt, and limitations on capital flows leave it

Box 8.1 : The Need to Improve India’s Data

India has a long tradition of good statistics and statisticians. India was one of the first developing countries to undertake regular household surveys, beginning in 1951, in order to track poverty reduction and household living standards. Recently, India has begun to publish much more economic and social data with a much shorter lag. For example, much of RBI and Commerce data are available on the Internet (although there is a longer lag on RBI data on trade, and this needs to be improved, see below); the WPI is available with a minimal lag, and the various RBI reports show banking developments, including non-performing assets, in much greater detail. India is compliant with the Special Data Dissemination Standards of the IMF, and has begun publishing quarterly GDP estimates, as well as monthly fiscal accounts for the Central Government.

Over time, however, the usefulness of Indian statistics for policy-making has declined. The economy’s increased complexity and liberalization have complicated data collection, as has occurred in many countries.

In many cases, however, India’s data problems also reflect limited use of new methods and lack of efforts to achieve consistency between different data collecting agencies. The resulting data problems also complicate policy-making. For example, in the area of poverty, the consumption (and food-grains consumption) estimates in the NSSO sample surveys and the National Accounts have *increasingly* diverged (See Chapter 1), and consumption in the National Accounts may itself be underestimated (see below), making it hard to say whether poverty has declined or stagnated. It is difficult to say how well programs to improve school enrollments are proceeding, when official figures for gross enrollment ratio are higher than the NSS figures for gross attendance ratio, especially for classes I-V, where the difference is about 20% (GOI 1998b). Similarly, unofficial sample surveys suggest much less participation in employment schemes than official data relating to employment generated by such schemes.

Anti-poverty and anti-inflation policies are complicated by the lack of a good indicator of inflation. The CPI is based on outdated weights, including those for some food items that have declined in the household’s market basket (simply shifting to more up-to-date weights makes a major difference in estimates of poverty changes, see Dubey and Gangopadhyay). The WPI includes a large number of goods that have shown no increase in prices for some time. Not surprisingly, there are substantial differences in inflation estimates from year to year. Some of the problems are sought to be addressed in the revised, 1993-94 base, WPI. A CPI revision exercise has also begun.

The National Accounts have been updated and re-based recently for the years 1993-94 onward. Such re-basing is appropriate to take into account the economy’s changed structure and India does it every ten years or so. The new National Accounts appropriately reflect new types of agricultural production, rises in owner-occupied housing and trade (See footnote 1). The State National Accounts now need to be re-based as well. The old National Accounts series was well coordinated between estimates of state GDP and national GDP – national GDP has remained a fairly constant 15% larger than the sum of state GDP estimates for the 14 largest states, but until the State Accounts are re-based, that link will be broken. The re-basing of the state data is particularly important given the major difference between the old and the new estimates of agricultural production, which is important in most states. Second, the pre-1993-94 GDP data need to be “officially” re-based. As part of that re-basing it may be possible to resolve the increasing “residual” in the old National Accounts estimates between production and expenditure estimates of GDP (6.5% of GDP in 1995-96). The direct estimates of investment by type and sector were about 2% of GDP less than the estimates derived from the equality with saving (this divergence is part of the divergence between production and expenditure based estimates of GDP); in the 1980s, the divergence was about the same size but of the opposite sign. Moreover, the estimates of “household” investment varied substantially from year to year. The residuals are much smaller in the new National Accounts, but the prior years remain a problem and efforts will be needed to ensure the gap does not widen again. Regarding specific sectors, the estimates of GDP in the key agricultural sector are based on combining yield and acreage estimates, both of which could be subject to large errors – it might be possible to use satellite estimations at least as a check. The industrial production index, the responsibility of the Ministry of Planning and Program Implementation, shows large month-to-month swings in individual industries that make it difficult to interpret the direction of this increasingly important sector. Hopefully the new index, re-based to 1993-94, will resolve some of these problems.

Finally, in trade, RBI estimates of imports have typically exceeded customs estimates – in 1996-97 and 1997-98, they exceeded by 23-25% (around \$10 billion), but in 1998-99 the gap fell to \$ 5.7 billion (See Annex Table 8.4). Less than a third of this seems to be explainable by the shift of gold and silver imports into customs data following the liberalization of such imports in October 1997.

These examples suggest that major efforts are needed, not only to publish data quickly but to improve its quality and consistency, both internally and with other data sets, supported by analytical work. This would make the large amounts of data being collected more useful to policy-makers and the public. Another, more fundamental problem, on which there is wide agreement, lies at the stage of primary data collection itself, and will need to be corrected in order to create a lasting solution.

with a fair degree of monetary independence from international developments. Nonetheless, monetary policy is likely to be increasingly affected by external objectives and developments. Correspondingly, unless the authorities adopt a free floating regime, RBI's ability to finance the government will be increasingly reduced.

D. Reducing the Fiscal Deficit and Realigning Government to Speed-up Development and Reduce Vulnerability

8.23 **Overview of Fiscal Developments.** *India's General Government deficit (consolidated center and states excluding disinvestment revenues)*⁹ worsened nearly 2%¹⁰ of GDP in 1998-99 (See Figure 8.2), and it had previously been among the world's largest (See Figure 8.3).¹¹ The General Government deficit of 9% of GDP in 1998-99 is the same as the crisis year of 1990-91; the public sector deficit is slightly lower than in 1990-91, but only because of improvement in public enterprise finances (See paras. 8.38 – 8.45) and the oil pool. *The revenue deficit, at 6.2% of GDP, is substantially higher than the crisis year of 1990-91.* For 1999-2000, the Central Budget has targeted fiscal deficit reduction to 4.0% of GDP, but these targets have proved optimistic in the two previous Budgets. In the first seven months of 1999-2000, preliminary figures suggest that revenues are somewhat less than projected and expenditures are more. Even if the Budget targets are reached, *the Center's deficit will be no lower than in 1996-97* (on the same accounting basis). Moreover, the states' and public enterprises' deficits are likely to continue to be high because of the continued effects of the excessive central government wage settlement of 1997-98 on their wage bills and pension costs.

8.24 The high deficits have several adverse effects. They crowd-out private sector borrowing, keep interest rates higher than they would otherwise be, raise risks of macro-economic instability, and crowd-out public development spending within government budgets because of the high interest cost of the large stock of government debt. Hence, the high fiscal deficits represent a risk to the development process and its sustainability. This is especially true given the link between the deficit and the large inefficient, inequitable subsidies (implicit and explicit) and the pattern of public spending and revenue (consumption) deficits. A major reduction in the central and state government deficits, to reduce crowding-out and private sector borrowing costs, by reducing subsidies, by privatization, and by realigning government to focus on infrastructure and basic social sector spending, is critical to India's sustained development.

8.25 **The 1998-99 central government deficit was 6.5% of GDP** excluding disinvestment capital revenues (provisional figure including post-budget revisions in revenues and expenditures, see Table 8.3).¹² This represented a large slippage compared to the Budget target of 5.3%. The deficit was also 0.8% of GDP worse than 1997-98, which in turn was 1.0% of GDP worse than 1996-97. For 1998-99, *the current (revenue) deficit deteriorated to 4.0% of GDP, the worst in the nineties*, continuing the long-run trend of increased government dissaving/borrowing to finance consumption. Of the slippage compared to Budget, revenue shortfalls accounted for 0.6 percentage points of GDP while an expenditure overrun accounted for 0.6 percentage points (See Table 8.3).

⁹ Speaking broadly, capital revenues from disinvestment reduce state assets and are not sustainable; they are more like a financing item than tax revenue.

¹⁰ All the figures in this section have been rounded-off and therefore may not match with the figures in the graphs and tables.

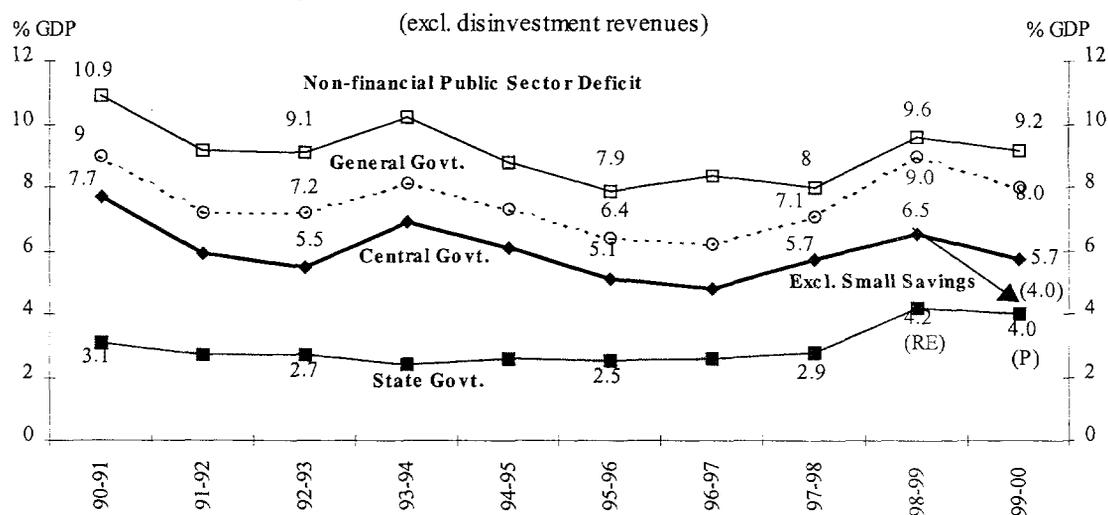
¹¹ Comparison of public sector deficits is complicated by the differing role of public enterprises across countries. Government deficits are more easy to compare, since they include more similar activities across countries, plus government contributions to public enterprise losses that private enterprises would be expected to cover. Different degrees of federalism affect the location of the deficit, but not the size of the General Government deficit. The IMF's *International Financial Statistics* provide easily accessible data on central government deficits (which, for India and other countries where the central government intermediates borrowing by the states, includes much of the state deficits). These data show that India's government deficit averaged 6.2% of GDP between 1986 and 1997, topped only by Brazil, Pakistan, and Nigeria, among countries with over 20 million population. Two of these countries suffered macroeconomic crises recently. See also Figure 8.3 and World Bank 1998a.

¹² All ratios are relative to the new GDP; the deficit was 7.2% of the old GDP in 1998-99.

8.26 Regarding revenues (See Annex Table 8.5),¹³ collection of custom duties fell short of target by 11% because of the slowdown in imports, with petroleum imports' taxes especially reduced by the fall in international oil prices. Excise duties, corporate taxes and income taxes fell short of Budget targets by about 3.3%, reflecting the slow-down in industrial growth. However, compared to 1997-98 realizations, corporate tax collections in 1998-99 rose substantially in rupee terms, despite the on-going recession, suggesting improvements in tax administration (See Chapter 4). The main items in the expenditure overrun were small savings loans to states (0.5% of GDP more than budgeted), "other" spending (0.1%) and subsidies (0.1%). *Non-defense capital spending was only 0.5% of GDP, lower than budgeted but about the same as in 1997-98.*

8.27 **From a longer term perspective**, India's deficit reduction was largely confined to the first two years after the crisis, and much of the reduction came from reductions in capital expenditures. The revenue deficit has increased since 1990-91, from 3.2% to 4.0% of GDP in 1998-99, meaning that the Government is increasingly borrowing to finance consumption. The Central Government responded to the 1991 crisis initially by cutting expenditures on non-food, non-fertilizer subsidies and loans to the states and public enterprises¹⁴ (as percentages of GDP, see Annex Tables 8.5 and 8.6). The jump in the deficit in 1993-94 was mainly corrected by further cuts in capital spending and grants to the states. In addition, wage costs were allowed to decline relative to GDP and the number of central government employees declined about 4% until 1996-97 (See Annex Table 8.7). However, wage costs since then have been pushed up substantially by a pay settlement in 1997-98 that was well in excess of Pay Commission recommendations. In addition the pay settlement rejected the Pay Commission's

Figure 8.2 : Public Sector Deficits 1990-2000



Notes :

1. For Center, the 1998-99 figures are Provisional Actuals (adjusted for actual tax returns and expenditures).
2. General Government Fiscal Deficit = Central Fiscal Deficit (excluding disinvestment revenues), plus State Government Deficit and excludes net lending from the Center to States.
3. Non-financial Public Sector Deficit includes General Government Deficit, oil pool balance and market-financed central public enterprise deficit (on-lending from Central Government to central public enterprises is netted out).

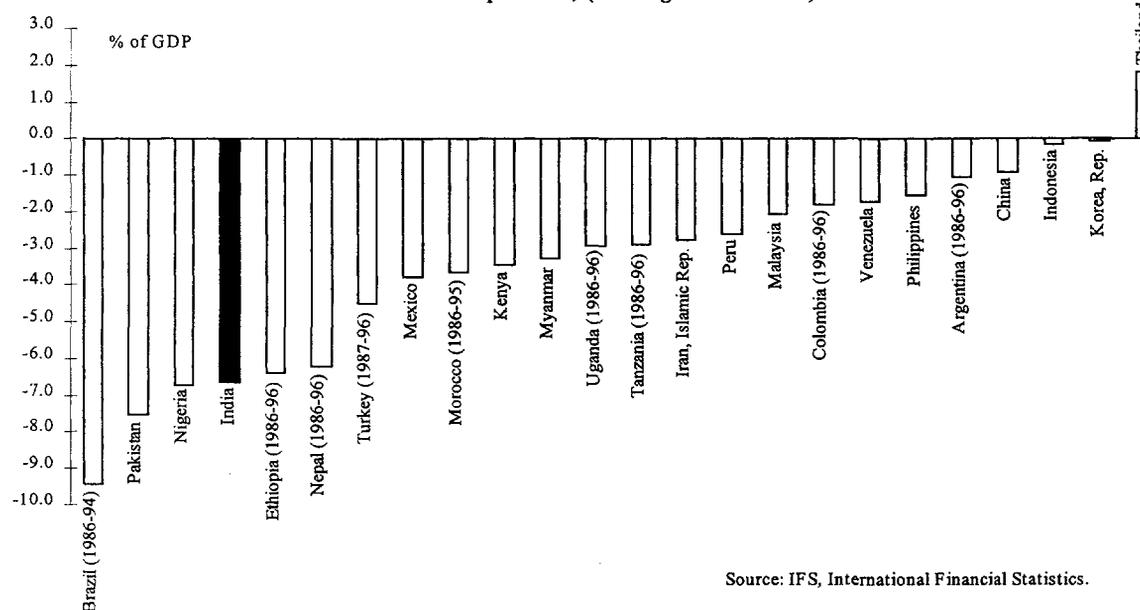
Source : Budget Documents, RBI Bulletins, RBI Annual Report(1998-99).

¹³ Details of revenues and expenditures are only available as revised estimates, not the provisional actuals. Unless otherwise stated, comparisons in this paragraph are between the 1998-99 Budget and the revised estimates.

¹⁴The public enterprises switched to borrowing on their own account, albeit controlled by the Central Government and with an implicit central government guarantee.

recommendations to reduce staff by 30% over 10 years and eliminate positions that had remained unfilled for some time. Between 1991-92 and 1998-99, revenue expenditures remained unchanged around 12.0% of GDP (of which interest payments rose from 4% to 4.3% of GDP). Meanwhile, capital expenditure declined from 1.7% to 0.9% of GDP over the same period.

Figure 8.3: Central Government Surpluses/Deficits Developing Countries Over 20 million Population, (Average 1987-1997)



Source: IFS, International Financial Statistics.

Table 8.3 : Fiscal Slippage 1998-99

	Budget	%	Revised	%	Actuals(P)	%
	Rs. Bln	GDP	Rs. Bln	GDP	Rs. Bln	GDP
Revenue	1620	(9.0)	1577	(8.7)	1505	(8.3)
Tax revenue (net)	1169	(6.5)	1095	(6.1)	1051	(5.8)
Non-tax Revenue	451	(2.5)	481	(2.7)	454	(2.5)
Revenue expenditure	2101	(11.6)	2181	(12.1)	2162	(12.0)
Interest payments	750	(4.2)	773	(4.3)	786	(4.4)
Subsidies	220	(1.2)	247	(1.4)	219	(1.2)
Defense	308	(1.7)	310	(1.7)	306	(1.7)
Capital expenditure	216	(1.2)	169	(0.9)	169	(0.9)
Net lending	263	(1.5)	353	(2.0)	356	(2.0)
Disinvestment in PEs	50	(0.3)	90	(0.5)	59	(0.3)
Gross Fiscal Deficit / a	911	(5.3)	1037	(6.2)	1123	(6.5)

/ a : Refers to World Bank definition

(P) : Refers to Provisional Estimates

Source : World Bank estimates based on Comptroller General and Ministry of Finance data

8.28 Over the last two years, the **Oil Pool Account** (administered by the Oil Coordination Committee, OCC, and excluded from the Central Government accounts)¹⁵ has been a major factor in tightening the

¹⁵ In Annex Table 8.6, the Central fiscal deficit has been defined both without the oil pool deficit (as the Government does), and with the oil pool deficit.

public sector fiscal accounts. The oil pool account represents the Government's obligation to compensate oil companies for the difference between their revenues from domestic sales and the cost of oil internationally; the companies typically finance the difference and, from time-to-time, the Government has retired its debt to them. Domestic oil prices were liberalized in September 1997 by moving them closer to prevailing international prices and providing for future adjustments in line with international prices. Following this policy change, the Oil Pool ran a surplus in 1997-98 and 1998-99, a development that was helped by the drop in world oil prices.¹⁶ However, beginning around the middle of 1999, the Oil Pool once again began to run a (flow) deficit, as a result of the rise in international oil prices and delays in increases in domestic prices, particularly of diesel. On October 5, 1999, the Government raised diesel prices sharply, in an attempt to correct for the potential deficit in the oil pool.

8.29 **The 1999-00 Central Government Budget projects a deficit reduction of 0.9% of GDP, and also includes an accounting change that switches the States' 75% share of small saving deposits (1.2% of GDP in 1999-00) from a loan by the Center to a loan from a "National Small Savings Fund" in the Public Accounts, thereby producing a projected central deficit of 4% of GDP (See Table 8.4).** This Budget target will be difficult to achieve; it is based mainly on a projected rise of nearly 0.7 percentage point of GDP in tax revenues over (actual) realizations in 1998-99 (See Annex Table 8.5). Moreover, *the projected deficit reduction will only get the Center's deficit back to its level in 1996-97 (defined correspondingly, according to the new definition).* And, *although the different accounting treatment of small savings reduces the Central Government's deficit, it has no effect either on the central plus state government (General Government) deficit or the consolidated public sector deficit.* In the absence of improved efforts at raising own tax revenues, most state governments are likely to continue their dependence on the high cost small savings to fund their increasing deficits.¹⁷ Thus, future policy towards small savings will be a very important element in the evolution of states' fiscal deficits (See Box 3.3).

Table 8.4 : Fiscal Deficit in the New Accounting Framework : 1990-00

	<i>(Rs. Billion at Current Prices)</i>									
	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00
									Prov.	BE
									Actuals	
Center (old definition)	446.3	363.4	401.7	602.6	583.9	612.8	667.3	889.4	1122.8	1050.8
Less State's Share of Net Small Savings	70.3	54.8	42.6	50.0	96.8	99.9	106.7	150.6	237.9	250.0
Center (new definition)	376.1	308.6	359.1	552.6	487.2	512.9	560.6	738.8	884.9	800.8
Memo: (% GDP)										
Center (old definition)	7.7	5.4	5.3	6.9	5.6	5.0	4.7	5.7	6.2	5.2
Less State's share of net Small Savings	1.2	0.8	0.6	0.6	0.9	0.8	0.8	1.0	1.3	1.2
Center (new definition)	6.5	4.6	4.7	6.3	4.7	4.2	4.0	4.7	4.9	4.0

Source: Budget Documents, Comptroller General of Accounts, Ministry of Finance

8.30 The 1999-2000 Budget rationalized customs tariffs, leaving the average unweighted tariff roughly constant but reducing the disparities in effective protection (See Chapter 6). It also rationalized excise taxes from 11 rates to 3 rates plus two surcharges (which maintained the highest rates at 30% and 40% respectively), and imposed 10% surcharges on the top two personal income tax rates and the corporate tax rate. It also included a Re.1 per liter cess on high speed diesel (raising Rs. 50 billion), half earmarked for rural and social development, and the other half, plus the Re.1 imposed last fiscal year, to go to central

¹⁶The surplus has been used to pay down most of the accumulated deficit on the account (which confusingly is also sometimes referred to as the deficit of the OCC). The (public) oil companies had financed this accumulated deficit by borrowing until September 1997, when the Central Government issued debt in the amount of the accumulated deficit to the companies.

¹⁷ Although in some sense, the new treatment of small savings is a decentralization measure, as recommended by the Gupta committee, the Budget approach does not deal with the ultimate liability for the debt, or how interest rates will be set, or the disposition of the interest differential (about 2 percentage points) between the earnings of small savers and the higher on-lending rate charged by the Center to the states, which will determine whether the change would be neutral, or benefit the states at some cost to the Center.

and state highways and the railways. The Budget also made some tax changes that benefited mutual funds, housing, and mergers and acquisitions, including allowing carry-forward of allowances for losses.

8.31 Nominal revenue expenditures by the Central Government were projected to rise only 9% on a comparable basis. Non-defense capital expenditure was projected to rise slightly faster than GDP, but would still reach only 0.6% of GDP. Total defense spending (including capital spending) was projected to remain a constant 2.3% of GDP, which is much lower than the 3.1% average for 118 low-and middle-income countries in 1995 (World Bank 1998c). Explicit subsidies were projected to decline by 0.2% of GDP, back to the level of 1997-98, as a result of the rises in PDS prices to the non-poor and fertilizer prices announced in January. However, some of this projected decline was offset by the post-budget rollback of some of the price increases in fertilizer, as is evident from the recent provisional estimates. Finally, it is worth noting that the reported figures for the public sector deficit do not include the recapitalization of the public banks, which has averaged about 0.25% of GDP each year since 1992-93, nor any funds for the Unit Trust of India in 1999-2000. This funding is treated as an exchange of assets in the capital budget, which affects the revenue and expenditure budget only as debt service is paid on the bonds that have been given to the institutions. Finally, an unrecognized contingent liability is the Government's guarantee of most of the foreign exchange risk on the 1998 Resurgent India Bonds (See also footnote 28).

8.32 Post-Budget developments suggest that it may be hard to reach the deficit target. Preliminary estimates through October 1999 suggest that revenues are less and expenditures are sharply higher compared to the same period last year. Some of the increase in the expenditures is due to support and lending for the states in the form of advances of tax revenue in return for fiscal reform in the states. (See Chapter 3 for details on these recent Memoranda of Understanding (MoUs) signed between the Center and select State governments). Also, some unprogrammed expenditures related to Kargil have been incurred.

8.33 **Unsustainable State Finances Keep the General Government Deficit High and Reduce Social and Infrastructure Spending that is Critical to Poverty Reduction.** The states' deficit in 1998-99 widened even more than that of the Center, to 4.2% of GDP (See Annex Table 8.8), and is projected to be as high as the Center's deficit (under the new accounting for small savings) in 1999-2000 (See Figure 8.2). *The states' deficit in 1998-99 was the highest in India's fiscal history. The magnitude of the states' deficit indicates that the states can no longer be neglected from the standpoint of macroeconomic instability.* Much of the state governments' recent and projected deterioration reflects the cascading down of the Central Government's excessive 1997-98 wage increase – the widening of the states' deficit is largely due to the deterioration in the revenue deficit. However, the wage increase has only intensified an underlying problem. But for the one-time transfer of VDIS revenues in 1997-98, the states' deficit would have been higher than in 1990-91.

8.34 The states' fiscal crisis/lack of adjustment reflects their continuation of large, inefficiency-inducing subsidies, implicit and explicit, in power, water, transport and secondary and tertiary education (See also Chapters 2 and 3). User charges are low, collections are weak, and costs are inflated by overstaffing and inefficiencies in the state public enterprises. In power, average revenues are only about 80% of costs (M. Ahluwalia 1998), reflecting low collections¹⁸ and inefficiency-inducing subsidies to agriculture and small consumers. For example, in Uttar Pradesh (UP) the burden of the power subsidies can be seen in a net flow of funds to the UP State Electricity Board (UPSEB) of 5.6% of UP's revenues in 1996-97, and loans – loans that are in perpetuity and on which no interest is being paid – to the UPSEB equivalent to 42% of UP's debt. Regarding the other sectors, the states have also allowed irrigation charges to decline sharply in real terms. States' typical charges for water are far less than the delivery cost. Secondary and university education charges are far less than costs (NIPFP, GOI 1997b).

¹⁸ Low collections reflect power theft, distribution losses and increasing payment delays (see footnote 9, Chapter 5).

8.35 Subsidies encourage inefficiency. For example, they contribute to over-exploitation of ground water, water-logging, and soil erosion. Lack of funds reduces needed operations and maintenance. Because the power tariffs are not related to peak use, they require increased spending on capacity to meet demand and, because the lack of such capacity and lack of maintenance leads to load-shedding and poor quality power, they encourage purchases of generators as well. The fertilizer subsidies encourage use of an inefficient combination of nitrous, potassic and phosphatic fertilizers. *Moreover, the subsidies have not even fulfilled their distribution objectives* and may in fact contribute to inequalities, since they are subject to capture by the better-off. In higher education they go mostly to the better-off (See Kurien). In fertilizer, they may now go largely to the firm, not the farms (See Gulati). Subsidies in rural power may go to better-off farmers who can then sell the water drawn by use of free power to others. Moreover, part of the subsidies are in the form of/ascribed to “non-technical losses” in power and water or to those who are able to define themselves as part of the subsidized group. Finally, the subsidy is also partly paid through higher charges to other producers, who in turn factor it into the costs of the products they sell. Hence the incidence of the subsidies is in fact almost impossible to estimate (See also Box 5.2).

8.36 **The States have also not Improved their Tax Base.** Although state tax revenues have grown about as fast as income (more buoyant than central revenues), the states’ approach to taxes induces inefficiency, and their revenue base is limited, in part because of the states’ unwillingness to tax agricultural incomes,¹⁹ in part due to the difficulties of setting up a value added tax that would be harmonized with the Central Government’s MODVAT (See Box 3.2). The states have thus fallen back on sales taxes and various fees that cascade into higher production costs and weaken India’s international competitiveness, compared to a VAT system.

8.37 Perhaps most importantly, the states’ fiscal crisis severely weakens the fight against poverty, by limiting their social and infrastructure spending. States are responsible for over 90% of economic infrastructure and social service spending under India’s federal system. They have slowed this spending, relative to GDP, as their subsidies have risen, transfers and loans from the Center have declined, and interest costs of their rising deficits have ballooned (See Annex Table 8.8 and Table 8.5) in order to meet what is a relatively hard budget constraint.²⁰ High cost small savings, which are now nearly twice the annual market borrowing for the states, represent one way around the budget constraint; another is state guarantees, which have mounted and which RBI has now proposed be limited (See Chapter 3, Box 3.1 and Box 3.3).

8.38 **Non-financial central public enterprises’** performance has improved since the early 1990s, mainly reflecting developments in petroleum and telecoms; the other enterprises have been allowed to languish. The Central Public Enterprises’ (CPEs) combined deficit has declined to about 1.3% of GDP in 1998-99 and a projected 1.5% in 1999-2000, from about 3.0% in 1990-91 (See Table 8.6).

8.39 This decline reflects two factors: a) the steady fall of public enterprise investment as a percentage of GDP from about 4.8% in 1990-91 to about 3.4% currently and b) the growing importance of the petroleum and telecoms public enterprises that now account for 45% of (Plan) investment by the CPEs and an even larger 68% share in internal resource generation by CPEs (See Annex Table 8.9). These two

¹⁹ India’s Federal Constitution divides the country’s taxing powers. Customs are a central revenue, income and indirect taxes were ceded to the Center when the country was formed with part of the proceeds reverting to the states as determined by the Finance Commissions every 5 years. States can levy (state-level) excise and sales taxes and have the sole constitutional right to tax agriculture.

²⁰ The States’ borrowings are largely limited by the Center’s loans to them and the Center’s allocation of a share of the market borrowings that qualify for the statutory liquidity requirement. Ways and Means advances from RBI must be cleared in 10 days, although some states, notably Bihar, have often exceeded this limit. The borrowing constraint is judicious; in some Latin American countries, state deficits financed through access to the central bank were a major factor in inflation. Although market discipline might provide an incentive for better state performance, it would be difficult to exert in the Indian context because of the central government’s unwillingness to allow a state to go bankrupt, and the large role that public financial institutions would play in the purchase of any state bonds.

groups of enterprises dominate the CPEs and, correspondingly, the CPEs are now financed largely with internally generated funds and go to the market for the remainder.²¹ The declining investment of the other CPEs accounts for most of the decline in CPEs' investment, and even that is increasingly financed through the market in one way or another – central government loans to public enterprises (and support for losses) have dropped sharply as a percentage of GDP.

Table 8.5 : Change in Social & Economic Infrastructure and Interest Spending (1991/92 & 1997/98)

(Change in percentage points of GSDP; Brackets indicate deterioration)

States	Social ¹	Economic ²	Interest Payment
Andhra Pradesh	-(0.4)	0.0	(0.6)
Bihar	1.6 ³	-(0.1)	(1.1)
Gujarat	-(1.0)	-(1.2)	(0.1)
Haryana	-(0.1)	-(0.5)	(0.2)
Karnataka	0.5	-(1.5)	(0.3)
Kerala	0.7	0.3	(0.5)
Maharashtra	-(3.6)	-(0.6)	(0.6)
Madhya Pradesh	0.8	0.1	(0.0)
Orissa	0.2	-(0.7)	(0.7)
Punjab	-(0.3)	-(0.9)	(2.3)
Rajasthan	0.5	-(1.8)	(1.0)
Tamilnadu	-(0.6)	0.6	(0.5)
Uttar Pradesh	0.5	-(0.7)	(1.0)
West Bengal	0.0	1.0	(0.7)
14 States Average	-(0.1)	-(0.4)	(0.7)

¹ Refers to total expenditure on health and education.

² Refers to sum of capital outlay and (gross) loans to power, irrigation and transport.

³ The positive increase reflects a strong rise in current spending in Education in the revised estimate of 1997-98.

Note: 1997-98 is Revised Estimate

Source : RBI Bulletin various issues

Table 8.6 : Finances of Central Public Enterprises : 1990-00

(In Billions of Rupees)

	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00
									RE	BE
A. Net internal resources	107.2	120.1	161.3	188.5	241.5	290.8	252.5	279.7	335.1	386.1
B. Plan expenditure	280.5	294.2	366.6	438.9	485.9	521.8	542.5	549.6	578.0	681.6
C. Overall balance (B-C)	173.3	174.1	205.3	250.4	244.3	231.0	290.0	269.9	242.8	295.4
Memo: % GDPmp										
CPE deficit	3.0	2.6	2.7	2.9	2.4	1.9	2.1	1.7	1.3	1.5
CPE investment	4.8	4.4	4.8	5.0	4.7	4.3	3.8	3.5	3.2	3.4

Source : Budget Documents

8.40 The CPEs had long been sheltered from competition by reservation of products for them and by protection from international competition. The removal of the reservation and the cuts in protection, along with increased autonomy and pressures for performance have led to increased efficiency in some sectors. Pricing has come closer to covering costs, notably with the movements toward international prices in the petroleum sector – fertilizer represents the major remaining central public enterprise

²¹ These figures neglect the Oil Pool Account discussed above.

subsidy.²² Nonetheless, the developments in the petroleum and telecoms public sector enterprises described above partly reflect their residual regulatory advantage. In telecoms, cuts in costs and more realistic pricing have increased access to funding and allowed a substantial improvement in service (See Chapter 4's discussion of the survey of businessmen and M. Ahluwalia 1998).

8.41 Although the return on capital employed in CPEs has been pushed up to about 8% before taxes (GOI, *Public Enterprises Survey*, various issues), it is 3-5% below the interest paid on government bonds, implying a massive implicit economic loss, including a loss of taxes, to the country on the capital invested in public enterprises over the years. Moreover, the high returns in petroleum and telecoms boost the average rate of return of CPEs substantially; manufacturing plants and nearly half of all public enterprises are unprofitable (GOI, *Public Enterprises Survey*, various issues). Of course, the public enterprises' low profitability has been attributed to their attempt to carry out non-economic objectives, often at the behest of the Government. However, the efficiency with which these social activities are carried out, the contribution to the public welfare, and their impact on firms' returns is neither transparent nor well-monitored. And, public enterprises, staffed by *de facto* civil servants cannot easily down-size or close-down when demand for their production falls.

8.42 The need to reduce the burden of the public enterprises and the possibility of realizing capital revenues from their sale has been recognized by all of the recent Governments. Since 1991, Government has been divesting minority stakes in CPEs through the stock market (See Annex Table 8.10), but that process appears to have slowed. The Disinvestment Commission, which was set up in 1996, and whose term has now lapsed, has submitted twelve reports to the Government but, as its reports have pointed out, most of its recommendations have yet to be implemented – in the first eleven reports, strategic sales or trade sales or partial equity sales or closure have been recommended in 41 cases, but only 13 of these recommendations have been even partially implemented (See Annex 8.3 for an analysis of India's progress in privatization).

8.43 The benefits from the sales are thus far largely limited to the capital revenues and the improvements in transparency in making the companies ready for disinvestment. Generally speaking, the new shareholders are passive investors and are not represented on the companies' boards. Moreover, the arrangements for dealing with possible problems in these companies, such as the handling of new injections of funds, are unclear. Experience worldwide suggests that a shift from public to private management will raise efficiency and returns on capital while reducing the burden on the Government by reducing transfers, debt relief and capital injections to the companies, and increasing their tax payments (Galal et al, Megginson et al, World Bank 1995b). This holds true when domestic and international competition exists to protect consumers and stimulate innovation, and it is also true in many sectors once thought to be natural monopolies, such as power generation and distribution.

8.44 Both the 1998 and 1999 Budget speeches declare the Government's intention to move ahead on privatization of CPEs. However, progress has been slow (See Annex 8.3), and continues to be motivated largely by capital revenue considerations, rather than reducing costs and improving quality of goods and services, reflecting political difficulties in full disinvestment. In the run-up to the 1999-2000 Budget, the Government raised disinvestment revenues by encouraging the public oil companies to buy some of each others' capital, an approach that simply transferred funds from the enterprises to the Center.

8.45 Several key issues on privatization face the Government. *One*, the weak enterprises, which can expect little loan/equity support from either the Government or the market, are unable to invest enough, and are thus getting weaker, and hence more difficult to sell off, over time. Delays would mean lower revenues to Government, and more difficult restructuring decisions by the new owners. *Two*, privatization issues are even more serious for state-level public enterprises, since state governments are in even less of a position to continue supporting loss-making units (some states, such as Andhra Pradesh, Gujarat, and Orissa in its power distribution, have made progress in privatization, see Chapter 3). *Three*,

²² See the discussion in Gulati for an analysis of the impact of the subsidy and its incidence.

it is unlikely that public enterprise governance can improve much while Government remains a majority owner – the “Navratna” experiments have not worked (See Box 4.2). Indeed, the experience of firms such as Maruti (49.8% Government, 50.2% Suzuki, 0.2% employees)²³ might make the private sector hesitant to invest in firms where Government has more than a 26% stake (which is enough to block key resolutions), especially when the dominant financial sector institutions, which will also hold shares, are government-owned.

8.46 Reducing the Public Sector Deficit to Reduce the Risk of Macroeconomic Instability and the Crowding-Out of Private Investment, and to Improve the Sustainability of the Growth Rate. The large public sector deficit raises three concerns. One is the so-called “*debt trap*” – high real interest rates associated with large public borrowings will generate a cumulative rise in the ratio of public debt to GDP – a risk pointed out by RBI in various Annual Reports, and most recently in its 1998-99 Report on Currency and Finance (...*the present level of the Government sector debt is not consistent with the medium-term sustainability of fiscal policies...* p. V-13). Prior to the financial reforms that began in the early 1990s, increasing financial repression limited the interest cost of the growing public debt by directing increasing credit to the public sector at low cost, crowding-out credit to the private sector and taxing financial intermediation. With financial liberalization, the true interest cost of the high deficit became clearer – the interest costs of the central and state governments have risen by over 1% of GDP since 1990-91. Nonetheless, up to 1996-97, there was a fall in Government’s debt to GDP ratio, belying the debt trap worries. This reflected the lower average deficit since 1991-92 (even taking into account the higher interest payments), and the fall in the external debt ratio, because declining external borrowing and favorable exchange rate movements more than offset the depreciation of the rupee. However, the ratio of central government debt (including small savings) to GDP now appears to be rising; it has already risen from 58% in 1996-97 to about 60% of GDP in 1997-98 and 1998-99 (See Statistical Appendix Table 4.12), which the Maastricht Treaty in Europe considers a limit for macroeconomic stability. The ratio of total debt servicing (interest plus principal repayments) to current revenues is estimated to have risen from 116% in 1997-98 to 123% in 1998-99, as new debt on harder terms has replaced old debt that was contracted on softer terms. Moreover, governments are extending increasing guarantees, with state guarantees up 23% in the last two years (See RBI 1999b and Chapter 3).

8.47 Investors and rating agencies, since the 1980s debt crisis, have a concern that governments might resort to *inflation or unsustainable foreign borrowing* to finance high fiscal deficits and cut the burden of large domestic fixed interest debt, for one reason or another. India has one of the highest fiscal deficits in the world. In 1991, it suffered a run on its meager international reserves, in the context of a high deficit and despite its closed capital account. More recently, Brazil and Pakistan, two of the three major countries with fiscal deficits as high as India’s (World Bank 1998a), suffered attacks on their fixed exchange rate. As noted above, India has traditionally maintained macro-stability, which along with its large international reserves and limits on capital mobility, limits risks of such attacks. Nonetheless, investors’ concerns will tend to increase the international risk premia and lower the bond ratings that India faces,²⁴ keeping real interest costs up, even if macro-stability is maintained.

8.48 India’s large fiscal deficits and public debt stock also *crowd-out private sector* investment, by raising interest rates above what they otherwise would be and reducing the amount of funds available for

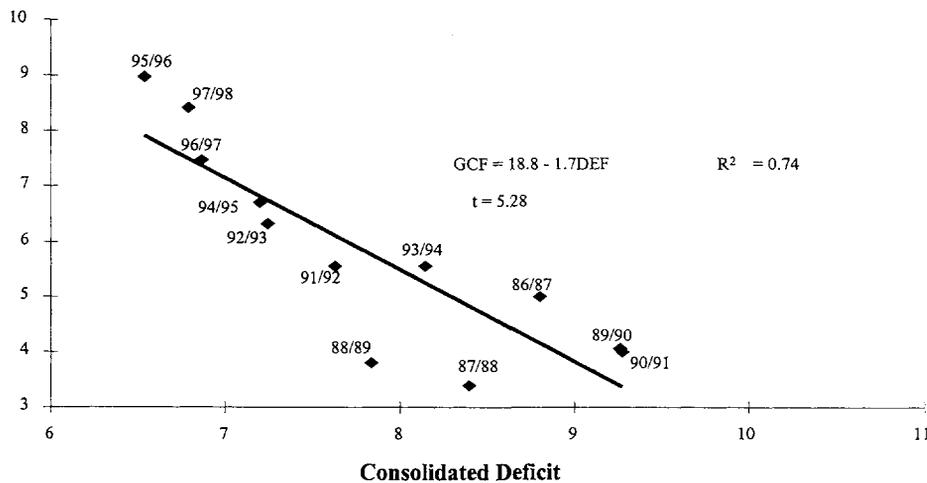
²³ There have been differences in the past between the Government and Suzuki Motor Company over Maruti’s debt-equity structure, the appointment of senior management, and the pace of expansion. Maruti is by far India’s largest car manufacturer, but its pre-eminence in the Indian market is threatened by new and agile entrants from the private sector, both domestic and multinational.

²⁴ Moody’s lowered India’s rating from Baa3 (investment grade) to Ba2 (speculative) in June 1998, following the Budget and the imposition of sanctions on multilateral lending after India and Pakistan’s nuclear explosions. Standard & Poor’s lowered its rating from BB+ (speculative) to BB (speculative) in October 1998 (GOI 1999e, p. 90).

the private sector.^{25,26} A simple regression suggests that the reduction in the consolidated public sector deficit in the early 1990s was accompanied by at least a one-for-one increase in corporate investment (See also World Bank 1998a, pp. 8 and 9; and RBI 1997, pp. 76 and 86), which was the engine of the three high growth years. Of course, these empirical results not only reflect the lower central government deficit after 1992-93, which reduced the ratio of public debt to GDP, but also the liberalization and the large inflow of foreign funds – FIIs, GDRs, and liberalized offshore corporate borrowing in 1994-95 to 1996-97. In 1997-98, however, the rising fiscal deficit has pushed up the debt to GDP ratio, while the escape valve of external flows has become narrower (See Annex Table 8.11), and is likely to remain so given external circumstances. In this environment, even a constant fiscal deficit (as a percentage of GDP) is likely to put more upward pressures on real interest rates and “crowd-out” more private investment than in the past.

8.49 Reducing the Deficit by Cutting Implicit and Explicit Subsidies. Much of the reduction in the deficit could be achieved by reducing the large implicit and explicit subsidies, which the Finance Ministry estimated at 14.4% of GDP in 1994-95. Some progress has been made, notably in petroleum products (a central subject), and to a much lesser extent in power, irrigation, fertilizer (Center and States). However, much more effort is needed, particularly in the states since most of the explicit and even more of the implicit subsidies are in their domain. Without action in the states to reduce subsidies (their deficit now matches that of the Center, see para. 8.29), the General Government deficit will remain a key problem area (See below). As noted, these subsidies and cross-subsidies have had negative effects on efficiency, unclear distributional implications, and have hindered private provision of services (See discussion above, Box 5.2 and M. Ahluwalia 1998).

Figure 8.4 : Gross Capital Formation by Pvt. Corp. Sector and Consolidated Deficit of Gen. Govt. (incl. OCC, excl. disinv.)



²⁵ As noted above, financial repression, such as prevailed in India in the 1980s, crowds out private sector borrowing by fiat, and pushes up the interest rate to the marginal private borrower, without raising the rates that the public sector pays for its funds. Moreover, the increasingly high rates that private borrowers have to pay, in order to ration the increasingly limited amount of credit they receive, stimulate demands for protection from high interest rates through directed credit, reducing the productivity of credit allocation to the private sector and, often, having unclear distributional effects.

²⁶ In addition to this crowding-out in financial markets, public sector production, financed by borrowing, supplies outputs that, in many cases, could be provided more effectively by the private sector, thus reflecting a crowding-out in goods and services markets.

8.50 In addition, the deficit could be lowered by further efforts at *broadening the tax base* and *improving tax administration*, and *civil service reform* (See Chapter 3) and greater reliance on the *private sector*, including privatization that would enhance the productivity of investment, reduce the need for public transfers and guarantees to fund investment and generate higher tax revenues. Gains could also be made through better *expenditure management*, which links spending to well-defined objectives and results (See Chapter 3).

8.51 Realigning Government and Creating Conditions for Reducing the State and Central Deficits. India's sustained development would be furthered by a reduction in the General Government deficit similar to 1992-93, combined with government realignment that relies more on the private sector and focuses on basic human development services, infrastructure, and maintenance of competition and legal and regulatory frameworks to make the market work better. In not doing so as part of the reforms over the 1990s, India has lost an opportunity to grow faster (since private sector investment is more efficient), to reduce poverty faster, and to make higher growth more sustainable.

8.52 Center and State Reforms. Some states, notably Andhra Pradesh, Haryana, and Orissa, are initiating reforms with more realistic user charges, turning over irrigation to water-user groups, and privatization of power distribution in various stages. However, others, such as Punjab and Maharashtra, are unfortunately making unsustainable cuts in user charges and taxes in a bid for political popularity. The Center could play a catalytic role in improving the policy environment in states, by providing leadership in areas like civil service and public sector reform, and improving inter-governmental fiscal relations. The Center is already doing some of this and the 11th Finance Commission has been given a broader-than-usual mandate to "review the state of the Finances of the Union and the states, and suggest ways and means to restore budgetary balance and macroeconomic stability." This is a welcome move away from the past, gap-filling approach, which had discouraged own tax collection efforts by the states, to a more normative approach to tax sharing (an approach raised by the 9th Finance Commission) that would *reduce the disincentives for improved state tax collections* inherent in gap-filling exercises. The Central Government has signed MoUs with 9 States so far, whereby extraordinary short-term advances have been made by the Central Government in return for fiscal reform by the states. The multiple centrally-sponsored schemes could be consolidated to reduce bureaucracy, and at least partly converted into block grants, and the distinction between plan and non-plan expenditures reduced, as has often been recommended. Also, the Finance Minister's recent proposal to move towards a full VAT system would permit states to 'piggy back' on this fairly efficient tax and reduce their distortionary sales taxes. Another *major issue which will require substantial analysis is the states' devolution of revenue and taxing powers to local (panchayat) governments to decentralize services* (See Chapter 3).

8.53 Much more analysis is needed on the "how" of realigning government. *In this context, a study of the possible paths to fiscal adjustment, taking into account the linkages between fiscal deficits, growth, and poverty reduction, and drawing on international experience, would be useful.*

E. Balance of Payments

8.54 India managed to limit the contagion from the East Asian crisis, as did many countries. In India's case, much of the insulation came from the limited short-term external debt of its banks and corporations, and its limited capital account convertibility; portfolio investment also declined much less rapidly in India than in East Asia, and has rebounded back in calendar 1999. Moreover, India's banks are less exposed to losses than East Asian banks, because of their large holdings of government debt (See Chapter 7). The pressures on India's *exchange rate* after the East Asian crisis were adeptly managed by RBI, but the rupee has become somewhat appreciated with the recent decline of the Euro, as well as relative to East Asian competitors in third markets (See footnote 8 and Annex Table 6.7).

8.55 India's vulnerability to balance of payments problems, thus, seems less as compared to East Asian countries, or its neighbor Pakistan. Although it did suffer a balance of payments crisis in 1991, when the capital account was even more closed than today, it has much less short-term exposure than East

Asia did, and very large external reserves. Nonetheless, there are some structural concerns in the balance of payments, notably the dependence on remittances, the large excess of imports over exports that will tend to increase the current account deficit once imports resume their growth, and, above all, the slowdown in exports.

8.56 Generally speaking, the external environment facing India has worsened over the last two years, with the slowing of international trade and capital flows, as well as the sanctions following India's nuclear tests (for a discussion of prospects in 1999-2000, see Chapter 9). The bright spots have been falling oil prices, until recently, and rising demand for software exports. At the same time, the trade reforms, which increased India's gains from international trade and investment (See Annex 8.1), have slowed and in some cases even been reversed (See Chapter 6). Despite these problems, the current account deficit fell to about 1.0% of GDP in 1998-99, from 1.4% in 1997-98, because of the fall in oil prices and the drop in non-customs imports (See Annex Table 8.4), while reserves increased by \$3.9 billion, buoyed by the \$4.2 billion proceeds of the RIBs (See Table 8.7).

8.57 **Merchandise export growth** was negative (-3.9%) in 1998-99 (although turned positive since January 1999). This continues the slowdown in export growth that began in 1996-97. Partly, this decline reflects the slow growth of world trade. However, India has lost market share for the second consecutive year (See Annex Table 6.4). If India had maintained its 1996 share of world exports (0.63% in April-March 1996-97), its exports would have been higher by 1.3% (\$ 0.43 billion).

8.58 **Merchandise imports declined 7.1%** in 1998-99, compared with a 4.6% growth in 1997-98. This decline reflects a) falling oil prices for a second consecutive year – oil imports fell 21.2%, and if oil prices had not fallen, the oil import bill would have been similar to 1997-98; and b) a massive decline in non-customs imports (which include ships, aircraft, oil rigs, and defense equipment), which fell by about \$4 billion or 41.4%. Gold and silver imports, which were liberalized in October 1997, grew by about \$1.7 billion²⁷ or 54.6% (See Annex Table 8.4). Finally non-oil, non-gold customs imports rose only 1.2% (See Annex Table 8.4), reflecting the slow industrial growth, with much of the increase coming from imports related to projects that were moving to completion.

8.59 Computer service exports have been a bright spot after 1997-98. Software exports continued to grow rapidly, although that partly reflects demands from the Y2K problem and the Euro conversion – sustained growth depends on improved telecommunications and access to low cost hardware, as well as continued freedom from red tape. Remittances declined slightly, to about \$10.3 billion.

8.60 The **current account deficit** declined to 1.0% of GDP (\$4.3 billion), reflecting the trade deficit's decline (to 3.0% of GDP) and the continued strong service exports.

8.61 **The capital account**, in 1998-99, ended up with a surplus much larger than the current account deficit despite the sanctions and worldwide loss of confidence in emerging markets. In August 1998, India mobilized \$4.2 billion through the retail sale of RIBs (5 year maturity, 7.75% in US dollars, in units of \$1000, with the guarantee of the Government), to Non-Resident Indians, which boosted reserves. Although the sale was intended not only to offset the sanctions but also to generate resources for infrastructure, the cash reserve and statutory liquidity requirements absorbed about 35% of it, and banks temporarily invested much of the remainder in government debt.²⁸

8.62 Other types of capital inflows slowed, continuing the slowdown that began in 1997-98 (in Table 8.7, RIB proceeds are included in long-term borrowing). The slowdown reflected the tightening

²⁷ After liberalization in October 1997, gold and silver imports were recorded as part of customs imports, as opposed to earlier, when they were imported under the baggage route. The Ministry of Finance's *Economic Survey 1998-99* estimates that about 90% of gold was imported under the customs route in April-October 1998, as opposed to only 15% in April-October 1997.

²⁸ The foreign currency interest rate on the bond was relatively low, especially given the turmoil in world capital markets at the time of sale. However, on proceeds that were used to buy government debt, the Government effectively paid the rupee rate for foreign currency, because of its foreign exchange guarantee.

international capital market facing developing countries, the sanctions on India, the completion of investors' portfolio adjustment to the partial liberalization of India's capital account, and investors' expectations about India's prospects. Of particular concern is the decline in **foreign direct investment** to about \$2.5 billion, down from \$3.6 billion in 1997-98, although this figure is still far higher than in the 1980s and early 1990s.

8.63 **Portfolio capital** outflows occurred in May and June 1998 as foreign institutional investors withdrew \$413 million following the sanctions, the Budget and the downgrading by Moody's.²⁹ Smaller portfolio outflows occurred for most of the rest of 1998 – surprisingly, there was little additional outflow after either the default on Russian bonds or Brazil's devaluation. However, *portfolio inflows turned positive in calendar 1999*, and were as high as \$511 million in March 1999 alone. For 1998-99 as a whole, there was a marginal outflow of \$68 million dollars. *Aid-related flows* slowed as a result of the sanctions. *External commercial borrowings* slowed in gross terms over the year and dropped to almost zero in net terms, with some firms taking advantage of the discount on Indian debt abroad to buy back their bonds; other firms allowed their external commercial borrowing authorizations to lapse because of their potentially high cost.

8.64 The government responded agilely to the pressures on the currency over the year, by allowing the exchange rate to depreciate, selling some reserves to limit the depreciation, and tightening monetary policy.³⁰ Then, in March 1999, the Budget's cuts in taxes on the capital market and the moves toward resolving the Unit Trust's problems brought some capital inflows. It appears that banks also brought back substantial funds at the end of March.

8.65 **Gross foreign exchange reserves** (comprising foreign currency assets, SDRs and reserve position in the Fund) rose by \$3.9 billion during 1998-99 to reach \$30.2 billion (nearly 7.6 months of imports) at end-March 1999; reserves reached \$33.2 billion including gold. In terms of "volatility cover", reserves were about 169% of potential short-term claims – recorded short-term debt, trade credit, and the book value of portfolio investment³¹ (which, when translated into dollars, is worth far less than the book value of the investments, owing to depreciation of the rupee; another shock absorber is the likely decline in the stock market if FIIs choose to liquidate their investments together).³²

8.66 After peaking in 1992-93 at 34.2%, India's **external debt** to GDP ratio has fallen steadily to 22.4% in 1997-98, and has increased marginally to 23% in 1998-99.³³ The debt service ratio has similarly declined. Careful monitoring by the Government and changes in the underlying economic factors have meant that the short-term debt has declined substantially, from over \$8.5 billion (10% of external debt) in 1991 to \$4.3 billion (4.4%) in March 1999. The concessional element in debt is also declining, and was 37.9% at the end of March 1999 (See GOI 1999f for a fuller discussion).

8.67 **Developments in April-October 1999:** Merchandise export growth turned positive in April-October 1999 (10.0% dollar value increase over corresponding period). Merchandise import growth over the same period also turned positive (7.5%) stemming mainly from rising international oil prices leading to a greater than 50% increase in oil imports; non-oil imports rose only marginally (0.3%) (DGCI&S data). Declining FDI inflows (to \$1.09 billion from \$1.43 billion in April-September 1998) continued to remain a concern, but portfolio inflows, at \$1.35 billion, recorded a significant turnaround. Foreign exchange reserves (including gold, Fund reserves and SDRs) rose to \$34.5 billion by October.

²⁹ Standard and Poor's and the Japanese Bond Research Institute also downgraded India's long-term foreign currency rating in October 1998.

³⁰ See footnote 8.

³¹ Total portfolio investment until March 1999 was \$8.7 billion (RBI), not including \$6.8 billion worth of GDRs raised by Indian firms in foreign stock markets. GDR investment would impact India's reserves only if it was converted into the underlying Indian stock, and then repatriated (in dollars).

³² Recent data shows that portfolio investment increased to \$16.8 billion in September 1999.

³³ Data is from the World Bank's Debt Reporting System, and the numbers are slightly different from those of the Government of India.

Table 8.7 : Balance of Payments, 1990-2001
(US\$ billion)

	Actuals									Projected		
	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Total exports of GNFS	23.0	23.3	23.6	27.9	33.0	39.7	41.6	45.1	47.5	50.7	55.3	60.0
Merchandise (FOB)	18.5	18.3	18.9	22.7	26.9	32.3	34.1	35.7	34.3	37.0	40.8	45.0
Non-factor services	4.6	5.0	4.7	5.3	6.1	7.3	7.5	9.4	13.2	13.7	14.5	15.0
Total imports of GNFS	31.5	24.9	27.9	31.5	41.4	51.2	55.7	59.3	58.6	64.9	71.5	79.0
Merchandise (CIF)	27.9	21.1	24.3	26.7	35.9	43.7	48.9	51.2	47.5	53.4	59.0	65.8
Oil Imports	6.0	5.4	6.1	5.8	5.9	7.5	10.0	8.2	6.4	10.8	10.0	10.1
Non-Oil Imports	21.9	15.7	18.2	21.0	30.0	36.1	38.9	43.0	41.1	42.6	49.0	55.7
Non-factor services	3.6	3.8	3.6	4.7	5.5	7.5	6.7	8.1	11.0	11.5	12.5	13.2
Resource balance	-8.5	-1.6	-4.3	-3.5	-8.4	-11.6	-14.1	-14.2	-11.1	-14.1	-16.2	-18.9
Net factor income	-3.8	-3.8	-3.4	-3.3	-3.4	-3.2	-3.3	-3.5	-3.5	-3.1	-3.1	-3.4
Factor receipts	0.4	0.2	0.4	0.4	0.9	1.4	1.1	1.6	1.9	2.2	2.3	2.4
Factor payments	4.1	4.1	3.8	3.7	4.3	4.6	4.4	5.1	5.5	5.2	5.5	5.8
Interest (scheduled) ^a	4.0	3.5	3.5	3.5	4.1	4.3	4.0	4.5	4.8	4.5	4.5	4.6
of which interest payments on NRI	1.3	1.0	0.9	0.9	1.0	1.2	1.6	1.8	1.7	1.8	1.9	2.0
Other factor payments ^b	0.2	0.5	0.3	0.1	0.2	0.3	0.4	0.6	0.7	0.8	0.9	1.2
Net private current transfers	2.1	3.8	3.9	5.3	8.1	8.5	12.4	11.8	10.3	10.6	11.0	11.9
Current receipts	2.1	3.8	3.9	5.3	8.1	8.5	12.4	11.9	10.3	10.6	11.1	12.0
of which workers remittances	1.7	3.5	3.4	4.4	7.5	7.2	11.7	11.7	9.4	9.7	10.0	10.9
Current payments	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1
Current account balance	-10.1	-1.6	-3.9	-1.5	-3.8	-6.3	-5.0	-5.9	-4.3	-6.6	-8.4	-10.4
Official capital grants	0.5	0.5	0.4	0.4	0.4	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Foreign investments	0.1	0.1	0.6	4.2	5.1	4.9	6.1	5.4	2.4	5.5	6.5	6.8
Direct foreign investments	0.1	0.1	0.3	0.6	1.3	2.1	2.8	3.6	2.5	2.5	3.5	3.8
Portfolio investments	0.0	0.0	0.2	3.6	3.8	2.7	3.3	1.8	-0.1	3.0	3.0	3.0
Net long-term borrowing	4.8	3.5	2.6	2.7	1.7	2.4	6.6	5.3	6.1	0.5	0.8	4.8
Disbursements (net of NRI) ^d	7.6	7.5	4.5	6.4	7.3	7.2	10.6	10.3	10.0	8.2	7.5	9.8
Repayments (scheduled) ^{ac}	4.4	4.2	3.8	4.9	5.8	5.9	7.4	6.1	5.6	9.2	8.2	6.5
Other long-term inflows (net) ^{ac}	1.5	0.3	2.0	1.2	0.2	1.1	3.4	1.1	1.7	1.5	1.5	1.5
Other capital flows	1.8	0.1	0.1	2.9	3.3	-3.4	-1.9	-0.9	-0.2	2.5	1.6	-1.3
Net short-term capital	1.1	-0.5	-1.1	-0.8	0.4	0.0	0.8	-0.1	-2.7	n.a.	n.a.	n.a.
Errors and omissions	1.9	1.9	2.0	4.7	3.9	-2.5	-2.0	-0.1	3.4	n.a.	n.a.	n.a.
Capital flows n.e.i. ^d	-1.2	-1.2	-0.9	-1.1	-1.0	-1.0	-0.7	-0.8	-0.8	-0.7	-0.6	-0.6
Changes in net international reserves ^e	3.0	-2.6	0.3	-8.5	-6.8	2.0	-6.2	-4.2	-4.3	-2.2	-0.8	-0.2
IMF (net)	1.2	0.8	1.3	0.2	-1.1	-1.7	-1.0	-0.6	-0.4	-0.3	0.0	0.0
Change in Gross Reserves	1.8	-3.4	-1.0	-8.7	-5.7	3.7	-5.2	-3.6	-3.9	-2.0	-0.8	-0.2
Memorandum items:												
Current Account Balance / GDP	-3.1	-0.6	-1.5	-0.5	-1.1	-1.7	-1.3	-1.4	-1.0	-1.4	-1.7	-1.9
Gross Foreign Exchange Reserves ^f	2.3	5.7	6.7	15.5	21.2	17.4	22.7	26.3	30.2	32.2	33.0	33.2
in months of imports (goods)	1.0	3.3	3.3	6.9	7.1	4.8	5.6	6.2	7.6	7.2	6.7	6.1
External Debt (percent of GDP)	25.9	31.4	34.2	33.8	31.0	25.9	23.5	22.4	23.0	22.0	21.0	20.2
Debt Service (% of total current receipts)	32.1	28.8	27.6	24.8	26.1	27.3	21.7	21.2	17.3	18.3	15.4	14.9

a. World Bank Debt Reporting System (DRS). Includes Resurgent India Bonds for 1998-99 (\$ 4.2 billion).

b. Includes interest on military debt to the FSU, returns on foreign investments and discrepancies between DRS and RBI data.

c. Net flows in NRI deposit schemes, except the non-repatriable NR(NR)D Scheme.

d. Servicing of the Russia debt.

e. (-) = indicates increase in assets.

f. Includes foreign currency assets, SDRs and IMF reserves.

Source: Government of India; RBI; Ministry of Commerce; World Bank Staff estimates.

CHAPTER 9

INDIA'S DEVELOPMENT PROSPECTS

9.1 **Short-run prospects** continue to depend heavily on the agriculture sector, both in terms of GDP growth and inflation. Even if agricultural output remains high, agricultural growth is likely to decline relative to the boom year of 1998-99, when record rabi and total food grain harvests produced a sectoral growth of 7.6%. Other sectors will probably continue trend growth. Industrial growth may pick-up due to the normal winding down of industrial sluggishness and higher consumption from the good agricultural harvests and the state government wage increases of 1998-99. On the other hand, public investment is likely to fall, especially in the states, given their fiscal pressures. Moreover, even if the new Central Government manages to meet its budget targets (which will be difficult owing to the unforeseen defense expenditure), crowding-out is likely to continue to dampen corporate investment. Uncertainty about the pace of reforms and limited profitability of exports will also inhibit corporate investment. And, on the supply side, lack of new reforms over the last few years suggests that a major increase in macroeconomic productivity, similar to that in the mid 1990s (Annex 8.1), is unlikely. Hence, a reasonable projection is that GDP growth in 1999-2000 will be similar to the long run trend (1979-1998) growth of 5.8%, assuming no acceleration of reforms. The large 1998-99 harvests also are likely to limit any price increases, so inflation should remain under control, i.e. under 5% for the wholesale price index as well as for the consumer price index.

9.2 India's balance of payments (BOP) will continue to be comfortable in 1999-2000, in spite of the current account deficit widening slightly, and coverage of imports declining somewhat, to 7.2 months of goods imports from 7.6 months for 1998-99. Export performance deteriorated over 1997 and 1998, with India losing export market share. Although export growth has picked up in 1999, except for the 1999 EXIM policy's reduction of quantitative restrictions, little has been done to improve the incentives for exports or the pressures that will make India internationally competitive – labor market rigidities and small-scale industry reservation remain a burden and higher tariffs and increased anti-dumping actions have probably increased protection for the inefficient. From a longer run perspective, India has not prepared itself to take advantage of an upsurge in world export demand, nor is it ready for the increasing competition that declining protection would engender (quantitative restrictions have to be phased out by 2001), nor the end of the Multi-Fiber Arrangement in 2005. Increases in international oil prices have raised the oil import bill by over 50% in the first seven months of 1999-00. Any increase in growth in the non-agricultural economy will eventually increase demand for imports. And it is unlikely that there will be further declines in the difference between the RBI and Customs imports. Hence, the likely outcome is a widening of the merchandise trade deficit to \$16.4 billion and the current account deficit to 1.4% of GDP or \$6.6 billion (1% of GDP in 1998-99, see Table 8.6).

9.3 On the capital account, increases in portfolio investment and "other" capital inflows (Table 8.6), which appear strong thus far in 1999, will offset a decline in net long-term borrowings after the one-time rise from the Resurgent India Bond. Hence, reserves will continue to increase in 1999-2000, although less than in 1998-99, so that the reserve cover, in terms of imports, is likely to decline slightly. In 1998-99, India financed its current account deficit and increased reserves by \$3.9 billion, largely through its \$4.2 billion Resurgent India Bond (RIB) issue. Other sources of capital were limited, with both public and publicly guaranteed borrowings (other than the RIB) and private borrowings minimal, no major offshore privatizations and a net withdrawal of funds by Foreign Institutional Investors. More worrisome was the decline in direct foreign investment to \$2.5 billion (though this is still a large figure compared to the early 1990s). For 1999-2000, international capital flows may remain low worldwide. Although there has been a substantial pickup in flows into India, this may partly reflect a response to the Budget measures that reduced taxes on the capital market. FDI is likely to continue to remain close to last year's levels. The composition of foreign investment has also shifted toward more volatile portfolio investment. (In 1996-97, \$5.4 billion of foreign investment had 67% FDI, while a similar amount of investment in

1999-2000 is likely to have less than 50% FDI). On the debt side, there seems little reason to expect India's private offshore borrowing to increase. Companies, on comparing the likely relative cost of funds, have been allowing their approvals for external commercial borrowing to lapse. Finally, the effect of the sanctions on new donor projects may begin to slow down disbursements of bilateral and multilateral funds.

9.4 Reserves will continue to be comfortable. By the end of March 1999, foreign exchange reserves were \$30.2 billion, including \$29.5 billion in foreign exchange assets and \$0.7 billion in SDRs and IMF reserves (equivalent to 7.6 months of imports) and rose further to \$31.3 billion by end-September 1999 (including gold, reserves were \$34.5 billion). The size of these reserves relative to India's low short term foreign currency obligations and foreign portfolio investment, along with India's capital controls, limit the risk of a currency crisis.

9.5 **The longer term challenge is faster poverty reduction and development** – the Indian Government's traditional concerns. Although India's growth has been among the fastest in the world and poverty has fallen in the last twenty years, the poor still number over 300 million, more than in all of Sub-Saharan Africa. And, despite the growth, little has changed structurally: trade remains a much smaller percentage of GDP East Asia countries including China, almost 73% of the people living in rural areas, and social indicators, despite improvement, still low. India's human development and per capita consumption has not risen nearly as fast as in East Asia, even taking into account East Asia's recent crisis.

9.6 And if changes do not occur, even current rates of growth may slip. Current rates of investment have supported an average 5.5% growth in the last two years and should be able to do so in the future, provided productivity continues to grow at the same rate in the aggregate. However, the large fiscal deficits continue to worry external investors, crowd out private investment and, within the public sector budgets, displace much needed public development expenditure. The infrastructure gap is increasing, especially considering the additional urban infrastructure needed to keep pace with urbanization and reduce urban environmental problems. Agricultural growth and productivity in agriculture may be slipping, as a result of limited reforms, the focus of public spending on subsidies rather than infrastructure, and environmental issues in some areas. The poorest states are particularly subject to these problems, and in some cases have governance problems – unless they can resolve these problems and speed up their growth, then their large weight in the nation may pull down the overall average reduction in poverty and the rate of development. Hence, reforms are particularly critical in the poorest states, where 40% of the population live and which have lagged in the upswing in growth and the accompanying poverty reduction.

9.7 **A Second Wave of Reforms** will be needed to achieve this poverty-reducing growth and banish the risk of a slowdown including macroeconomic, structural policy reform, governance and institutional concerns, as highlighted in previous chapters and the Executive Summary. That reforms can lead to higher growth is shown in Annex 8.1, where post-1991 reforms supported a significant addition to growth of 1.8% p.a. in the mid 1990s. Reforms leading to higher growth would be accompanied by more favorable BOP indicators, such as higher growth of exports and imports, and more capital inflows, including FDI.

9.8 The last few months of 1999 have heralded changes favorable to the initiation of the second wave of reforms, both at the Center as well as the States. The new Central Government installed in October 1999 has passed important economic legislation, such as opening up insurance and liberalizing foreign exchange regulation. Also, since the Government enjoys a more comfortable majority than the previous one, it is better placed to carry out subsidy cuts, government realignment, and other reform. At the state-level, reforming governments attracted more electoral support than non-reforming governments. If reforms along the lines suggested in this Report as well as in official documents and committee reports are indeed implemented, then India has a real opportunity to speed up sustainable growth and reduce poverty substantially in the new millennium.

ANNEXES

**Annex 4.1: Effectiveness and Efficiency of Financial Management:
Selections from the Reports of the CAG for 1997-98**

1. Unutilized balances of grants or appropriations of Rs. 10 billion, some of which has persisted annually for the past 5 years.
2. "Hasty purchase" of electronic voting machines costing Rs. 735 million, which were lying unutilized for the past 8 years.
3. No tangible improvement resulting from the Rs. 4.1 billion spent during 1992-97 under the "Production and distribution of seeds and crop development scheme" due to use of older varieties and sub-standard seeds.
4. 45% of the Rs. 23 billion under the Member of Parliament Local Area Development Programme remained unutilized. Much of the spending was on inadmissible items or schemes, and without obtaining clearance from the MPs.
5. Large unutilized balances from funds released to State and District governments and other implementing agencies including sums retained in Personal Ledger Accounts, Civil Deposits, etc., in a performance audit of five schemes; large amounts diverted to other schemes and unauthorized items.
6. 90% of the Rs.18.9 billion spent from the National Renewal Fund was on voluntary retirement schemes, making the scheme "a non-starter".
7. Total spending of Rs.30.7 billion on the Main Battle Tank development project against an estimate of Rs. 1.6 billion. A 14 year (and still growing) delay in the completion of the 24 year old project.

Annex 4.2: Budgeting and Expenditure Management: A Suggested Reform Program

Regarding aggregate fiscal discipline

- A multi-year expenditure framework;
- A budget procedure with revenue budgeting and revenue policy setting before expenditure budgeting;
- Removal of the Plan/Non-plan categorization as suggested by several experts;
- Clearly defined expenditure caps, if possible through a Constitutional amendment;
- Creation of a contingency fund under the control of the MoF (different from the Contingency Fund of India) from which genuine unforeseen expenditure increases can be met;
- A budget circular incorporating expenditure ceilings for departments;
- Introduction of zero-base budgeting as announced by the Finance Minister and eventual revision of Demands for Grants by a document giving past outputs and linking realistically costed current and projected outputs to multi-year expenditure estimates. Strict zero-base budgeting as introduced in the United States may not be appropriate in the Indian context especially for development programmes not directly executed by the center. However, the principle of (i) linking past outcomes to current expenditure proposals and (ii) evaluating the social return and/or prioritization of expenditure proposals is important.
- Improved cash management to permit eventual emulation of "just in time" inventory management, through positive and negative incentives to line ministry FAs to improve disbursement forecasts;

Regarding strategic allocation of expenditures

- effective individual accountability and sanctions (or rewards if merited) for overspending or overbudgeting and for underspending;
- development and tracking of program-wise output performance indicators in the budgets as is currently done in annual reports of some departments and ministries;
- positive incentives for efficiency improving reforms rather than pursuit of fortuitous savings;
- enhanced public involvement of stakeholder groups earlier in the budget formulation and post-budget stages;

Regarding effective and efficient service delivery

- Improved control of disbursements to on-spending agencies through the use of contractual positive incentives and negative sanctions (rather than ex ante controls) and a reporting system providing information on both financial expenditure and physical progress;
- Improved internal audit capabilities and strengthening the role of external oversight to enable long term pursuit of management improvements where weaknesses are identified by external audit review;
- Stepped up implementation of computerization of accounts down to the program implementation level;
- The introduction of client satisfaction surveys, conducted by independent central and local agencies for each government program and feedback from client surveys to ministry budget allocations.

Regarding implementation of the reform program

- Setting up of a high powered reform management body to oversee implementation and deal with teething problems.

Annex 4.3: Effectiveness and Efficiency of Tax Administration: Systems Appraisals by the CAG

1. *Implementation of invoice based system for MODVAT credit.* This system, introduced for registered dealers and manufacturers in 1994-95, was evaluated in 1996 for transactions up to September 1995. Among the deficiencies found in administration were: (i) issue of registration certificates to dealers without proper business premises in 12% of cases checked; (ii) No tax recovery action for invoices issued by dealers whose registration had been cancelled; (iii) Incorrect or incomplete invoices or invoices not signed by authorised signatories in over 82% of cases checked; (iv) Undervaluation of goods in invoices in about 15% of cases; (v) MODVAT credit allowed against invalid documents in 15% of cases checked.
2. *MODVAT capital goods scheme:* Improper credit was allowed before capital goods were installed and, in other cases, on goods that did not qualify for capital goods treatment. In 8% of cases checked in 1997, credit was allowed before installation; in 65% of cases MODVAT credit was incorrectly given; in 36% of cases interest on collections not transferred to the treasury was not charged; and the authorities failed to "deface" many invoices on which duty had been claimed, opening the possibility of their being fraudulently used a second time.
3. *100% Export Oriented Units:* This customs duty incentive scheme, introduced in 1980, allows for 100% exemption of customs duties for capital goods imported by units achieving a minimum value addition and exporting all their output. However, the verification of value addition and export compliance was under the Ministry of Commerce, leading to the need for coordination between it and Customs, which, expectedly, did not work efficiently. Consequently, a large number of cases came to light during audit where customs exemptions were granted but where value addition and export stipulations were not met. This example illustrates both the administrative complexity of export incentives and possible limits on export gains that result from them.
4. *Export processing zones:* This scheme was audited in 1997. Of the functioning units examined, 28% failed to achieve their export and value addition obligations even after 5 years. Regarding units that had closed down, 27% failed to meet their export obligations before shutting down, but foregone customs duty was not subsequently recovered. The CAG also conclude that the scheme was unviable and failed to achieve its objectives. While there may be debate about the method of assessment the CAG used, they also point out that no assessment of this scheme had yet been made by the Commerce Ministry.
5. *Income tax summary assessment:* All income and corporation tax returns filed are supposed to be assessed summarily by the administration and a small fraction of summarily assessed returns are then subjected to in-depth scrutiny. The summary assessment scheme was examined by the CAG in 1996-97. They found that the percentage of returns remaining to be summarily assessed at year end increased from 16.5% in 1992-93 to 23.6% in 1994-95 due to the sharp increase in workload per assessing officer. This situation is likely to have since become worse due to the increased volume of filed returns by the growing number of assessees and the wider filing requirements for assessees. Furthermore, the total extra revenue from assessment during these three years amounted to only Rs 62.3 crore, or 0.1% of total tax collections. The CAG also found on test checking about 1% of filed returns, that the department failed to detect numerous errors resulting in a tax loss of Rs 192.3 crore from checked cases alone. Many of these errors were due to the failure of assessing officers to follow prescribed procedures. Consequently, the CAG recommended stepped up efforts to computerize summary assessment and a review of summary assessment procedures.
6. *The presumptive tax for small businesses:* Under this scheme a tax of Rs 1000 was to be paid by specified businesses with turnover of between Rs 300,000 and 500,000. The scheme was examined in 1997 by the Audit. The CAG found that this scheme was not being implemented uniformly, with, in some cases, Commissioners having direct responsibility for the scheme. The major strategy to "attract" taxpayers was via publicity campaigns on which about Rs 1 crore was spent. The result of this was, for example, about Rs 31 crore in tax in 1995-96 from 223,000 taxpayers. This number of taxpayers was far below the target of 15 million taxpayers of the scheme. There were no enforcement actions taken against assessees filing returns under this scheme. The CAG found several cases of taxpayers using the scheme despite being ineligible, due to a large turnover or their status (e.g. professionals). The CAG also found discrepancies between tax figures entered by the computer center and tax payments recorded at the zonal accounting office raising the possibility of misappropriation of taxes paid.
7. *Penalty, interest and prosecution for direct taxes:* The efficiency of assessing officers in levying these extra dues was assessed by the CAG in 1996. The review found: many cases of overpayment, underpayment, non-levy or underassessment of interest; low and declining disposal of penalties initiated; failure by assessing officers to record why they had failed to levy (discretionary) penalties in several cases, despite being required to do so; delays in launching prosecutions of up to 8 years; an acquittal rate in prosecutions of 53%; and incomplete or defective maintenance of records.
8. *Functioning of internal audit in direct tax administration:* Internal audits are conducted by a special wing of the income tax department to catch and correct mistakes in assessment and improve the quality of assessment. The CAG found, in 1997, that these objectives were not being achieved. It also found an absence of audit planning (which is required); poor manpower management and frequent staff transfers contrary to instructions; an outdated audit manual which had not been revised since 1987; and large arrears (77%) in assessing officers following up audit objections. With respect to an earlier appraisal of the internal audit wing conducted in 1989, the CAG concluded that "the current review does not show any improvement in the working of Internal Audit over the last review".

Annex 4.4: A Suggested Reform Program for Central Tax Administration

Basic Organizational Reforms

- Minimum tenure of Chairmen and members of tax Boards
- Autonomy and control over expenditure allocations and personnel matters within their departments.
- Budgets for tax administration with revenue budgets linked to measured revenue and equity performance and capital budgets linked to long range strategic plans in the medium term.
- Legislative amendments to remove the statutory powers of assessing officers and, instead, vesting powers in the Board Chairmen with subordinates having only delegated powers to facilitate further functional specialization, especially at the level of field offices.

Improving performance assessment and accountability

- Improved reporting of administrative data to enable tax administration performance to be assessed.
- A thoroughly revamped system of performance evaluation with performance based pay linked to it and implementation of TRC recommendations for interim rewards.
- Strengthening the role of the CAG by a greater focus on management improvements and strengthening the existing system of legislative review to permit ongoing monitoring of administrative measures to correct weaknesses. Improved cooperation between audit and vigilance agencies and better reporting in these areas.
- Legislation to introduce a tax ombudsman.
- Strengthening the role of the public in providing feedback and monitoring of tax administration.

Procedural and management reforms

- Decreasing opportunities for direct contact between tax officials and taxpayers and making certain procedures, such as the levy of interest and penalty, non-discretionary.
- Refocusing computerization plans of tax departments with external technical assistance and stepping up the pace of introduction by setting up of a high powered change management unit.
- Improving the selection of cases for post clearance checks in customs.
- Introduction of a receipts lottery to increase compliance by small business.
- A review and reform of appeals procedures, including the structure of fees, cost awards and filing of appeals by tax departments.
- Improved cooperation between direct and indirect tax administrations starting with the use of common taxpayer identification numbers.
- Review and strengthening of regulations and codes of conduct governing tax professionals and clearing agent

Annex 5.1

Functional Characteristics of Regulatory Bodies

	Appointment and Removal of Commissioners	Funding	Consultative Process	Appeal of Decisions, Relation to Government Policy.
Telecom Regulatory Authority of India	Appointment by Central Government. Removal: Central Government, following recommendation of dismissal by Supreme Court.	Presently funded through Central Government Budget. Provision to charge fees, establish Telecom Regulatory Authority of India General Fund to meet expenses.	Art. 11: "The Authority shall ensure transparency...". Consultative Review on methodologies and proposals (e.g. recent tariff-setting exercise)	High Court. Central Government can issue policy directives, and can decide whether an issue constitutes policy.
Central Electricity Regulatory Commission	Selection committee established by Central Government. Removal: President of India, following recommendation of dismissal by Supreme Court.	Consolidated Fund of India	Central Advisory Committee. Art. 37: Commission shall ensure transparency.	High Court. Central Government can issue policy directives, and can decide whether an issue constitutes policy.
Orissa Electricity Regulatory Commission (also Haryana and Andhra Pradesh)	Selection committee constituted by State Government. Removal: State Government, following report by judge of High Court of Orissa.	State Consolidated Fund	Commission Advisory Committee. Public tariff hearings. Consultative paper on tariff approach.	High Court for appeal on question of law. State Government can issue policy directives. Central Electricity Authority resolves disputes between OERC and State Government over what constitutes policy.
State Electricity Regulatory Commission, by notification following 1998 Act.	Selection committee appointed by State Government. Removal: Governor, following recommendation of dismissal by High Court.	State Consolidated Fund	State Advisory Committee. Art. 37: Commission shall ensure transparency.	High Court. State Government can issue policy directives, and can decide whether an issue constitutes policy.
Tariff Authority for Major Ports	Appointed and removed by Central Government.	Central Government, through Ministry of Surface Transport	Public tariff hearings, public consultations on tariff principles (although there are no specific legislative clauses relating to this).	Central Government has right to require Authority to charge certain rates. Central Government can suspend Authority on notification in Official Gazette.

Annex 5.2

Responsibilities of Regulatory Bodies

	Pricing	Licensing	Dispute Resolution	Other
Telecom Regulatory Authority of India	Notify tariffs for all telecommunications services. Regulate revenue sharing between service providers, technical aspects of inter-connection.	Recommend need, timing, terms and conditions of new service providers. Recommend revocation of license. Ensure compliance of terms and conditions of license.	Settle disputes between service providers, and between them and consumers.	Ensure effective compliance with universal service obligations. Render advice to Government on telecommunications. Protect consumers' interests. Facilitate competition and efficiency in the sector. Maintain register of interconnect agreements. Monitor quality of service, conduct periodical surveys of this.
Central Electricity Regulatory Commission	Generation: plant owned or controlled by Central Government; or selling to more than one state. Inter-state transmission. Frame guidelines for tariff-setting by SERCs.	Inter-state transmission entities (under the amendment to the 1948 Electricity Supply Act passed in 1998).	Settle disputes between generators and/or transmitters which come under its tariff regulation purview.	Promote competition, efficiency and economy. Associate with environmental agencies to develop environmental regulations for the sector.
Orissa Electricity Regulatory Commission (also Haryana and Andhra Pradesh)	Regulation of prices charged by licensees.	Licensing of entities involved in transmission and distribution of power. Regulation of quality of service of licensees.	Settle disputes between licensees.	Promote efficiency, economy and safety. Promote competition and progressively involve the private sector. Collect relevant data, forecast demand, require licensees to formulate required plans in coordination with others.
State Electricity Regulatory Commission (following 1998 Act)	Determine rates for wholesale, bulk, grid and retail; use of transmission facilities. Regulate power purchase and procurement process of transmission and distribution utilities, for in-state sources.	<i>By notification of State Government:</i> Issue licenses. Regulate workings of licensees, and exit and entry into industry. Require licensees to formulate plans for meeting state electricity needs, including power purchase schemes.	<i>By notification of State Government:</i> Settle disputes between licensees and/or utilities.	Promote competition, efficiency and economy. <i>By notification of State Government:</i> Regulate investment approval in sector. Regulate operation of power system. Set and enforce service and safety standards for sector. Promote privatization. Coordinate with environmental agencies to develop environmental standards.
Tariff Authority for Major Ports	Set tariffs at all Major Ports, including for private licensees at ports.			

Annex 8.1: Analyzing India's GDP Growth and the Role of Reform

One simple way to analyze India's recent GDP growth is Lucas' supply-side model (Lucas). This model of growth explains the current level of GDP by a trend growth rate and allows for any tendency for the economy to return to the trend rate of growth by also including a lagged term. The statistical estimation for the period 1979-80 to 1998-99¹ yields:

$$\text{Log (GDP(T))} = 3.7 + 0.581 \text{ Log (GDP(T-1))} + 0.0234 \text{ (Time Trend)}$$

(t-statistic) (1.99) (2.7) (1.99)

This yields a trend growth rate of 5.75% p.a. for the period 1979-80 to 1998-99.²

After the 1990-91 crisis, India experienced a period of rapid growth. In the Lucas Model, growth would be higher after a recession, given the tendency for the economy to return to trend, so the interesting question is whether the growth was higher than would come from only a normal rebound, and whether there was a fall-back from these years of growth to the old growth path. To investigate this question, a second equation is estimated using an additional time trend for the years 1993-94 to 1996-97. This additional time trend allows the growth rate of GDP to exceed the basic growth path for those years and then allows the growth path to remain above the basic growth path, paralleling it, in 1997-98 and 1998-99.³

$$\text{Log(GDP(T))} = 5.8 + 0.35 \text{ Log (GDP(T-1))} + 0.034 \text{ (Time Trend)} + 0.012 \text{ (Trend '93-94 to '96-97)}$$

(t- statistic) (1.66) (3.04) (2.47)

The additional trend turns out to be strongly significant, adding 1.8% p.a. to growth annually over 1993-94 to 1996-97. In other words, growth was faster than the "normal" rebound from a recession, and the economy shifted upward to a new growth path, parallel to the old, after the rapid growth of 1993-94 to 1996-97.

Looking beyond simple time series analysis of GDP, both higher investment and higher "macroeconomic" productivity account for the jump in growth over 1994-95 to 1996-97, according to the standard Harrod-Domar growth model. India's real rate of gross investment averaged 27.1% of GDP over 1994-95 to 1996-97, about 10% higher than in the previous 5 years and 23% higher than over 1984-85 to 1988-89 (1980-81 base data). The growth rate over 1994-95 to 1996-97 was about 65% higher than in the previous 5 years, and 33% higher than over 1984-85 to 88-89. Hence, part of India's higher growth seems to have come from higher productivity of capital, and labor, in a macroeconomic sense – better use of capacity, better use of resources and more productive new investment. Other investment series suggest the increase in investment was less and, correspondingly, the increase in productivity even greater.⁴

¹ The GDP series with 1993-94 base is used; to estimate GDP in the years before 1993-94, the old GDP figures are multiplied by the ratio of the new to old GDP in 1993-94.

² The equation yields a logarithmic trend growth = $(0.0234/(1-0.58))= 0.05587$, equivalent to 5.75% p.a.

³ The additional time trend takes the value 1, 2, 3, and 4, respectively, for the four years 1993-94 to 1996-97; 0 for all years prior to 1993-94; and 4,4 for 1997-98 and 1998-99. The year 1993-94 is included in the "reform" years to avoid biasing the results toward the impact of reform, as it is known that growth was high in 1994-95 to 1996-97. The reason for the use of the same value for the dummy in 1996-97, 1997-98 and 1998-99 is that reforms slowed, and so the additional impact on the trend growth disappeared; hence, the new growth path parallels the basic growth path, but at a higher level, that is, a higher constant which is modeled by a larger, constant "time dummy".

⁴ India's GDP accounts contain two estimates of investment figures. The ones discussed in the text include inventories and the error in estimating investment in the National Accounts – the difference between direct estimates of investments by type made by the public sector, the private corporate sector, and households (which varies substantially from year to year) and what is implied by estimates of domestic and foreign saving. Estimates of investment either (a) excluding the error, that is, using only investment that can be directly identified by investor

The standard Solow model/total factor productivity calculation provides a more sophisticated accounting for the sources of growth; it also suggests that increased productivity played a major role in the boom. The Solow model is based on the idea of an underlying aggregate production function, or at least constant elasticities of output with respect to capital, labor and other inputs, which may include an augmentation for quality improvement (Jorgensen and Griliches). There are, of course, well known criticisms of this model in terms of the theoretical issue of calculating an aggregate capital stock figure.

India estimates an aggregate capital stock figure through a fairly careful use of the permanent inventory method, that is, applying estimated depreciation rates to the various types of fixed investments (necessarily excluding the statistical error). Labor force growth may be estimated from estimates of (declining) population growth and slowly rising participation rates.⁵ As shown in the following Table, the capital stock grows 4.9% p. a. on average and 6.2% p.a. in the boom years, while labor grows 2.3% p.a. on average and 2% p.a. in the boom years. Use of output elasticities of 0.65/0.75⁶ would suggest, as in the other approaches, a clear increase in the estimated total productivity in the boom years. Further analysis could obviously be done on the role of higher human capital in the labor force. Analysis might also be done of individual sectors; for example, substantial work exists on agriculture (See references cited in World Bank 1999b); I. Ahluwalia analyzes growth in some industrial sub-sectors.

The boom of the mid-1990s thus seems to reflect a clear upward shift using three different approaches to explaining GDP growth, a much larger unexplained “residual” in Solow’s terminology. What might explain this upward shift? Correcting for possible underestimates of labor growth or increased labor quality (education) would not reduce the residual much – increased labor force utilization (an underestimate of labor participation) might add one or two percentage points to labor force growth over the boom period, but that would add only marginally to the part of growth explained by the included factors, given the low output elasticity of labor. The stock of education in the employed labor force

and type of goods, or (b) of fixed investment, that is, excluding estimated changes in inventories, yield similar or lower increases in investment in the boom period and, correspondingly, similar or higher increases in productivity.

	% GDP '94-95 to '96-97	% GDP '89-90 to '93-94	% GDP '84-85 to '88-89	% Increase in the Boom Years versus '89 to '93	% Increase in the Boom Years versus '84 to '88
Investment	27.1	24.7	22.0	9.8	23.0
Investment excl. Estimated Error	25.8	23.5	23.1	10/1	12.2
Fixed Investment	23.6	22.4	21.0	5.4	12.3

Source: National Accounts.

⁵ Recent work (CSO) suggests that participation rates of labor force in the population increased marginally and at a decreasing rate between 1987-88 and 1993-94. This is because positive factors (the labor force is still growing faster than population, because the slowdown in population growth affects the working age population only with a lag, but this difference is narrowing because the slower population growth in the past is now beginning to affect the growth of working age population) slightly outweigh negative factors (there has been a slow shift from rural to urban areas and females in urban areas tend to have lower participation rates than rural areas). This gradual change in participation rates was extrapolated for the period 1980-81 to 1997-98.

⁶ The 65%/75% output elasticity of capital, 35%/25% output elasticity of labor reflects the underlying assumption that aggregate production is characterized by constant returns to scale. Typically it is hard to separate statistically estimates of TFP, non-constant returns to scale and variations in output elasticities. The output elasticities used here appear reasonable by international standards. Indian data suggest that the share of labor is about 38%, which, under well known assumptions, is equal to the output elasticity of labor. Attempts to estimate output elasticities directly with regression equations were not very successful – at least in part reflecting the data characteristics: the “statistically noisy” GDP series, the estimation errors in GDP and investment, and the “smoothness” of a labor force series derived from interpolation between a few points.

changes slowly; it might be increased if more educated females were drawn into the labor force or workers with higher than average education returned to India, but again the impact of this is likely to be small. The higher productivity certainly does not reflect a rise in capacity utilization arising from higher aggregate demand based on government spending – although higher government deficits may account for other, briefer episodes of rapid Indian growth, the government deficit was roughly constant and much lower on average in the boom years than in the previous five years. To some extent the boom is partly explained by better than average harvests, especially in 1996-97; but overall this added less than 0.5% p.a. to output directly. Higher private investment partly explains the higher growth in that it provided an increase in demand, but that begs the question of why investment rose.

Estimates of Growth of Capital, Labor and Total Factor Productivity(TFP)

	1979-80 to 1997-98	1994-95 to 1996-97
Average Growth of Capital Stock ('80-81 prices)	4.9	6.2
Average Growth of Labor Force	2.3	2.0
Average Growth of GDP ('80-81 prices)	5.5	7.5
TFP (residual) with Capital Elasticity = 0.75	1.3	2.4
TFP (residual) with Capital Elasticity = 0.65	1.5	2.8

Source: World Bank estimates.

The impact of reform, perhaps, provides the most consistent explanation of the increase in growth and productivity, an endogenous explanation for the rise in private investment, and an explanation of why the growth slowed. First, the reforms encouraged investment by opening up opportunities for profitable investment and reducing taxes on it. Second, rising foreign direct investment and imports of capital goods, encouraged by deregulation, suggest that not only was there an increase in new vintage capital, but that the new vintage was even more productive than usual. Third, the reforms encouraged a shift of resources toward exports, which increases the productivity of resources. The estimated effective rates of protection in industry suggest that primary inputs in exports are, on average, 47.6% more productive than in import-substituting industry (See Chapter 6). Hence, a switch of resources into exports and out of imports – a rise in the ratio of trade to GDP such as actually occurred – can generate substantial increases in output.⁷ The reforms not only allowed India to take advantage of a booming export market, they led to an increase in India's share in world markets (See Chapter 6). Finally, the reforms encouraged an increase in private construction, that provided more productive employment to many workers.

The same set of explanations applies to the slowing of the boom. Although investment remained fairly high after 1996-97, exports slowed as cuts in protection stopped and world trade slowed. In 1997, India lost its share in world markets for the first time since 1991. Without further reallocation of resources, growth in total productivity slowed. Added to this explanation is the slowing of agriculture in 1997-98, and the development of excess capacity in industries like steel, cement and autos, reflecting large new investments and a slowing of finance from non-bank financial corporations. This excess capacity could not be utilized to increase exports because overseas sales had become unprofitable.

This explanation suggests that a second phase of reforms will be needed to re-stimulate growth. Of course, from a longer term perspective, the gains from reallocating resources will always be exhausted. In the longer term, per capita income growth depends on investment in steadily improving capital goods and improvement in the capacity of the labor force. The comparative experience of East Asia and India suggests that competitive pressure from overseas is an important factor in this process (See Chapter 6).

⁷ Some recent work in the US suggests that, partly, this reflects exporting firms' more efficient use of resources.

Annex 8.2 : Environment, Economic Growth, and Poverty

In India as elsewhere, there exist strong linkages between economic growth and the environment. Growth, associated with large-scale industrialization, spread of transport and communications, and urbanization, exerts pressure on the environment in the form of pollution and depletion of natural resources. Environmental degradation, in turn, adversely affects the economy's capacity to grow, because growth relies on the sustainable productivity of natural resources and the health of the population. 'Sustainable development' is development that does not harm the prospects for maintaining or improving living standards in the future.

There exist strong linkages between poverty and the environment. While the poorest segments of a population generate less pollution than do the rest through higher levels of consumption, energy use, and vehicle ownership, the poor do contribute significantly to rural resource degradation (land, forestry, fisheries) because of their greater use of these resources to meet their need for food, fuel, fodder, and medicines. In addition, the poor bear a disproportionate burden of the costs imposed by environmental degradation, and this contributes to their further impoverishment (UNDP, *Human Development Report 1998*; GOI, *Economic Survey 1998-99*). First, the poor are more vulnerable to the health effects of pollution due to their inadequate nutrition, poor access to health care, and owing to where they live (particularly in urban slums that often have the worst air, water, and solid waste problems). Second, the poor are more immediately affected by degradation of natural resources because of their greater reliance on them to meet basic needs.

India faces the full range of environmental problems, from water pollution, air pollution, and solid and toxic wastes, to soil degradation, deforestation, wetland and biodiversity loss. It was estimated that, in 1995, the total costs arising from such environmental problems amounted to \$ 9.7 billion on average, or 4.5% of GDP (GOI, *State of the Environment Report 1999*). Overall, the most significant problem, as measured by its economic impact, is that of widespread water pollution and lack of sanitation. According to the above-mentioned estimate of environmental damage in India, health costs due to water degradation amounted to \$5.7 billion in 1995. Air pollution is serious in both urban and rural India, although for different reasons. The health impact of *rural indoor* air pollution, attributable to the heavy use of bio-fuels in poorly ventilated houses, exceeds even the health impacts of high levels of *urban ambient* air pollution, attributable to transport, industry, energy, and refuse burning. Overall, in 1996, air pollution was responsible for an estimated 673,000 deaths in India, of which 589,000 were due to indoor pollution (UNDP, *Human Development Report 1998*).

On the resource side, soil degradation is a major problem: out of the total geographical area of 329 million hectares, nearly half can be considered degraded (GOI, *Economic Survey 1998-99*). Forests, in India, are also under pressure: in 1991, only 23.4% of the total geographic area comprised recorded forest area, and only 19.5% comprised actual forest cover (GOI, *Statistical Abstract of India 1997*), as against the target of 33% stipulated by the National Forest Policy, 1988. The biodiversity of India is also under threat as is evident from the fact that the list of threatened species in 1996 included 75 mammals, 73 birds, 16 reptiles, 3 amphibians, and 1236 higher plants (World Bank, *World Development Indicators 1999*).

The above discussion points to the urgent need to act in order to protect the environment. The following steps would help:

- The **negative link between economic growth and the environment** can be weakened by encouraging efficient use of resources across all sectors. Energy subsidies encourage excess fuel and electricity use with associated pollution impacts at all stages of the energy and power chain. Water subsidies encourage excess water use, with resulting groundwater depletion and land water-logging or salinity. Fertilizer and pesticide subsidies lead to excess use and run-off of agricultural chemicals. Reduction of such explicit or implicit subsidies would help to reduce these negative environmental effects, while also improving the financial health of the supplying entities, and encouraging private

sector participation (See Chapter 5). In the industrial sector, a competitive and open investment and trade environment encourages private investors to adopt more efficient, and therefore more environmentally-sound, technologies.

- Regarding the **link between poverty and the environment**, four types of measures are required to mitigate the disproportionate burden of environmental degradation borne by the poor: first, those that allow more efficient resource use by the rural poor, such as research, education, and awareness of more sustainable resource-based production techniques; second, measures that encourage rural non-farm income reduce rural dependence on the resource base through higher and more inclusive growth; third, public health infrastructure investments, particularly in safe drinking water and sanitation (See Chapter 2); and fourth, measures to increase public awareness of the magnitude of the indoor air pollution problem to help stimulate demand in rural and urban households for modern forms of energy and alternative stove or kitchen designs.
- The **environmental policy framework** needs to be strengthened. In most cases, environmental degradation occurs because environmental costs are external to the market, and policies do not exist to internalize those costs. Not only should environmental fines or taxes being paid by polluters (such as polluting firms and vehicle owners) be higher, but certain commodity prices, such as diesel fuel, should be raised to internalize the public health damages associated with its use (See Box below).
- Environmental regulations cannot be effective without proper **enforcement**. However, as is recognized by the *Economic Survey 1998-99*, enforcement is hampered by the weak enforcement capabilities of environmental institutions, and the lack of accurate information on which to base both monitoring and compliance. Furthermore, greater decentralization of the monitoring and compliance functions to the state and local levels, along with greater public participation in protecting the environment, would significantly improve both (See also Box 4.4).

Petrol and Diesel Prices

Distorted relative prices of petrol and diesel have created perverse incentives to encourage diesel use, which have negative economic and environmental implications. In 1997, the ratio of the price of petrol to diesel was 2.4 in India, compared to 1.1 in Canada, 1.5 in Germany, 1.3 in Mexico and 1.7 in Japan (See Table below). The justification for keeping relative diesel prices low has traditionally been that it is used in the agricultural sector for irrigation pumps, and for public and commercial transport. However, it is now known that per liter of use, diesel is more polluting and toxic for human health than petrol. In addition, standards for both diesel fuel and vehicle emissions (especially particulates, sulfur, and aromatics) are lax in India, but an even bigger problem is enforcement. The undesirable effect of the fuel price distortion has been to encourage a rapid growth in urban diesel use. Fiscal measures, such as increasing diesel prices or a differential excise on diesel cars, can correct the bias. For example, in Sweden, a high annual tax on diesel cars was effective in bringing down the number of diesel cars to only 2 % of total cars. Such pricing and taxation measures, combined with an improved vehicle emissions program, could reduce pollution and also add to the exchequer. Recent upward revisions in diesel prices (April and October 1999), maintained despite pressures for rollback the second time, have brought the ratio of petrol to diesel down to 1.73 (Delhi retail price), which though still high, is moving in the right direction.

International Comparisons of Diesel and Petrol Prices

Country	Automotive Diesel for Commercial Use (\$ per liter)			Regular Leaded Gasoline (\$ per liter)			Ratio Petrol Prices/ Diesel Prices		
	1987	1991	1997	1987	1991	1997	1987	1991	1997
India	0.280	0.247	0.289	0.601	0.603	0.690	2.15	2.44	2.39
Thailand	0.245	0.311	0.303	0.318	0.362	-	1.30	1.16	-
Japan*	0.500	0.556	0.518	0.837	0.914	0.863	1.67	1.64	1.67
Mexico*	0.146	0.189	0.294	0.187	0.342	0.388	1.28	1.81	1.32
Germany*	0.454	0.574	0.622	0.536	0.767	0.935	1.18	1.34	1.50
Canada*	0.350	0.492	0.402	0.373	0.507	0.428	1.07	1.03	1.06

* gasoline prices refer to regular unleaded

Source: Energy Prices & Taxes, Quarterly Statistics, Third Quarter 1998, International Energy Agency

Source: Center for Science and Environment, New Delhi; International Energy Agency.

Annex 8.3: India's Progress in privatization 1991 to 1999

The New Industrial Policy announced in July 1991 envisaged disinvestment of a part of government share-holding in selected PSEs with the objective of raising resources, encouraging wider public participation, and improving the performance of PSEs by subjecting them to stock market discipline. Accordingly, during the period March 1991 through March 1998, a part of government share-holding in 39 enterprises out of the 240 non-departmental central public enterprises has been divested (See Annex Table 8.10). As of March 1998, a total amount of Rs.112.57 bn has been realized through 11 rounds of disinvestment (GOI, *Public Enterprises Survey 1997-98*). However, in none of the cases has government share-holding been reduced to less than 51% through disinvestment. In 20 of the 39 cases, disinvestment has been less than 10%, and in 10 cases, it has been less than 5%. Further, the process of sales seems to have slowed down since March 1995, with sales exceeding 2% of government holding numbering only 5 in 1995-96, 7 in 1996-97, and 1 in 1997-98, as opposed to 10 in 1994-95 and a high of 26 in 1991-92. The same trend is also discernible if one examines the disinvestment proceeds, which amounted to only Rs. 3.62 bn in 1995-96, Rs. 4.55 bn in 1996-97, and Rs. 9.06 bn in 1997-98, after a high of Rs. 50.78 bn in 1994-95 (GOI, MOF, *Annual Report 1998-99*). In 1998-99, however, the disinvestment proceeds seem to have picked up once again with the amount realized equal to Rs. 53.71 bn against the budget target of Rs. 50 bn. But the fact is that the greater part of the 1998-99 disinvestment proceeds have come from an equity swap between 3 oil PSEs – IOC, ONGC, and GAIL – a move which had an adverse impact on the market capitalization of these enterprises. The Government was able to raise only about Rs. 11.87 bn through market disinvestment in CONCOR, GAIL, and VSNL. Moreover, the Government failed to act on its Budget 1998-99 promises of disinvestment in IOC (which was slated for February 1999, reportedly due to low prices of the scrip on the secondary market at that time), reducing government shareholding in Indian Airlines to 49% over the next 3 years and to 26% in non-strategic PSEs. Buoyed by its success in 'exceeding' the 1998-99 target, the Government has doubled the disinvestment target to Rs.100 bn for 1999-00. To that end, the Government raised Rs. 0.75 bn through disinvestment in VSNL in September, which brought down its share to 52.97% in that enterprise.

To advise the Government on the extent, mode, and timing of disinvestment in PSEs, the Disinvestment Commission was set up in August 1996. The Commission's role was diluted in January 1998 with removal of its powers to monitor and supervise the overall disinvestment process. The term of the Commission expired on November 30, 1999. The Commission submitted its 12th Report to the Government in August 1999 and, with that, it completed examination of the 58 of the 64 PSEs referred to it by the Government (in the case of the other 6 PSEs, there are jurisdictional problems as they were already under reference to the BIFR before they were referred to the Disinvestment Commission). In its first 11 Reports, which contain recommendations on 53 of the 64 PSEs referred to it, the Commission had suggested trade sales in 8 cases, strategic sales in 24 cases, partial equity sales in 5 cases, closure/sale of assets in 4 cases, and no disinvestment/deferred disinvestment in 12 cases. However, these recommendations were implemented or are being implemented in only 13 cases. The Commission also recommended setting up of a 'Disinvestment Fund' out of the proceeds of share sales, to restructure PSEs and fund voluntary retirements, in order to make disinvestment easier. Though such a Fund was set up in September 1996, it is not operational till date.

The Commission has also made a number of recommendations on corporate governance, notably graded increases in autonomy for PSEs, depending on their performance. Till March 1998, the Government had granted enhanced autonomy to 11 selected PSEs – IOC, IPCL, ONGC, BPCL, HPCL, NTPC, SAIL, VSNL, BHEL, GAIL, and MTNL – referred to as "Navratnas"; it had also granted operational, financial, and managerial autonomy to 97 other profit-making enterprises referred to as "Mini-Ratnas". The Government has also begun to follow up on the Commission's recommendations to include non-official part-time Directors in the Board of Directors, to modify MoUs to allow better evaluation of performance, and to grant greater autonomy in investments. However, The Government has not acted on the Commission's recommendations to provide for election of Directors to represent

minority shareholders and election of employee representatives on the Board of Directors in proportion to employee share-holding, to bring salaries of top management in line with industry, to give greater autonomy to PSEs in determining their product prices, to set up an independent institution – the Pre-investigation Board – to evaluate instances of malfeasance in PSEs, to enable PSEs to set up investors relation group to deal with investor queries, and to make the Public Enterprise Selection Board more broad-based and to allow it greater autonomy in selecting CEOs and other functional directors. Besides, as long as the Government continues to retain over 51% of the capital, the PSE and its employees will remain subject to the legal framework as government employees. This entails constraints which continue to hamper the performance of public enterprises even as removal of reservation and cuts in protection from international competition have led to increased competition for public enterprises.

To address the problem of slow implementation of the recommendations of the Disinvestment Commission, a new Department of Disinvestment, with greater executive powers, was created in December 1999. The new Department is expected to accelerate the privatization process.

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ANNEX TABLES

Annex Table 1.1
Poverty in India 1951 - 1997 (with correction for CPIAL)
(Poverty line = Rs. 49 per capita per month at Oct 73 - Jun 74 rural prices)

NSS Round	Survey Period	Headcount Index			Poverty Gap Index			Squared Poverty Gap Index		
		Rural	Urban	National	Rural	Urban	National	Rural	Urban	National
3	Aug 51-Nov 52	47.37	35.46	45.31	16.05	11.14	15.20	7.53	4.82	7.06
4	Apr 52-Sep 52	43.87	36.71	42.63	14.64	10.91	13.99	6.71	4.41	6.31
5	Dec 52-Mar 53	48.21	40.14	46.80	16.29	13.25	15.76	7.56	5.96	7.28
6	May 53-Sep 53	54.13	42.77	52.15	19.03	13.83	18.12	9.12	6.29	8.62
7	Oct 53-Mar 54	61.29	49.92	59.30	21.95	17.24	21.12	10.26	7.74	9.82
8	Jul 54-Mar 55	64.24	46.19	61.07	25.04	15.76	23.41	12.50	7.02	11.54
9	May 55-Nov 55	51.83	43.92	50.44	18.44	14.65	17.78	8.80	6.40	8.38
10	Dec 55-May 56	48.34	43.15	47.43	15.65	13.34	15.24	6.71	5.41	6.48
11	Aug 56-Feb 57	58.86	51.45	57.55	19.45	18.16	19.22	8.50	8.51	8.50
12	Mar 57-Aug 57	62.11	48.88	59.77	21.69	16.31	20.73	10.01	7.25	9.52
13	Sep 57-May 58	55.16	47.75	53.84	19.01	15.95	18.47	8.78	7.00	8.46
14	Jul 58-Jun 59	53.26	44.76	51.75	17.74	13.75	17.03	7.88	5.87	7.52
15	Jul 59-Jun 60	50.89	49.17	50.58	15.29	15.83	15.39	6.13	6.75	6.24
16	Jul 60-Aug 61	45.40	44.65	45.27	13.60	13.84	13.64	5.53	5.83	5.59
17	Sep 61-Jul 62	47.20	43.55	46.54	13.60	13.79	13.64	5.31	6.05	5.45
18	Feb 63-Jan 64	48.53	44.83	47.85	13.88	13.29	13.77	5.49	5.17	5.43
19	Jul 64-Jun 65	53.66	48.78	52.75	16.08	15.24	15.93	6.60	6.38	6.56
20	Jul 65-Jun 66	57.60	52.90	56.71	17.97	16.82	17.75	7.60	6.98	7.49
21	Jul 66-Jun 67	64.30	52.24	62.00	22.01	16.81	21.02	10.01	7.19	9.47
22	Jul 67-Jun 68	63.67	52.91	61.60	21.80	16.93	20.86	9.85	7.22	9.35
23	Jul 68-Jun 69	59.00	49.29	57.11	18.96	15.54	18.29	8.17	6.54	7.85
24	Jul 69-Jun 70	57.61	47.16	55.56	18.24	14.32	17.47	7.73	5.86	7.36
25	Jul 70-Jun 71	54.84	44.98	52.88	16.55	13.35	15.91	6.80	5.35	6.51
27	Oct 72-Sep 73	55.36	45.67	53.37	17.35	13.46	16.55	7.33	5.26	6.90
28	Oct 73-Jun 74	55.72	47.96	54.10	17.18	13.60	16.43	7.13	5.22	6.73
32	Jul 77-Jun 78	50.60	40.50	48.36	15.03	11.69	14.28	6.06	4.53	5.72
38	Jan 83-Dec 83	45.31	35.65	43.00	12.65	9.52	11.90	4.84	3.56	4.53
42	Jul 86-Jun 87	38.81	34.29	37.69	10.01	9.10	9.79	3.70	3.40	3.63
43	Jul 87-Jun 88	39.23	36.20	38.47	9.28	9.12	9.24	2.98	3.06	3.00
44	Jul 88-Jun 89	39.06	36.60	38.44	9.50	9.54	9.51	3.29	3.29	3.29
45	Jul 89-Jun 90	34.30	33.40	34.07	7.80	8.51	7.98	2.58	3.04	2.69
46	Jul 90-Jun 91	36.43	32.76	35.49	8.64	8.51	8.61	2.93	3.12	2.98
47	Jul 91-Dec 91	37.42	33.23	36.34	8.29	8.24	8.28	2.68	2.90	2.74
48	Jan 92-Dec 92	43.47	33.73	40.93	10.88	8.82	10.35	3.81	3.19	3.65
50	Jul 93-Jun 94	36.66	30.51	35.04	8.39	7.41	8.13	2.79	2.42	2.69
51	Jul 94-Jun 95	39.75	33.50	38.40	8.89	8.38	..	2.90	2.80	..
52	Jul 95-Jun 96	37.46	28.04	35.00	8.31	6.78	..	2.64	2.22	..
53	Jan 97-Dec 97	35.69	29.99	34.40	8.39	7.77	..	2.83	2.73	..

Note: All poverty measures are expressed as percentage.

Source: Datt, 1997 and 1999.

Annex Table 2.1
India: Per Capita Income, Fertility, Infant Mortality and Literacy in Selected Years

State	Indicators	Year					
		1975	1980	1985	1990	1995	1997*
All India	Per Capita Income	-	1808.1	2072.3	2528.9	2980.2	3146.8
	Total Fertility Rate	4.9	4.4	4.3	3.8	3.5	-
	Infant Mortality Rate	140	114	97	80	74	71
	Literacy Rate	-	44	-	52	59	62
Andhra Pradesh	Per Capita Income	-	1544.2	1723.5	1994.6	2362.0	2450.2
	Total Fertility Rate	4.6	3.8	3.7	3.1	2.3	-
	Infant Mortality Rate	123	92	83	70	63	63
	Literacy Rate	-	36	-	44	51	54
Assam	Per Capita Income	-	1407.8	1617.6	1695.4	1800.1	1824.9
	Total Fertility Rate	4.1	4.0	4.1	3.4	2.2	-
	Infant Mortality Rate	144	103	111	76	76	76
	Literacy Rate	-	-	-	53	-	75
Bihar	Per Capita Income	-	1061.4	1227.2	1373.8	1247.5	1289.5
	Total Fertility Rate	-	-	5.4	4.8	4.5	-
	Infant Mortality Rate	-	-	106	75	73	71
	Literacy Rate	-	32	-	38	44	49
Gujarat	Per Capita Income	-	2197.3	2513.4	3050.0	3820.4	4189.2
	Total Fertility Rate	5.1	4.7	3.9	3.4	3.2	-
	Infant Mortality Rate	154	113	98	72	62	62
	Literacy Rate	-	52	-	61	66	68
Haryana	Per Capita Income	-	2647.9	3217.6	3861.9	4033.3	4335.9
	Total Fertility Rate	5.8	5.2	4.6	3.8	3.7	-
	Infant Mortality Rate	114	103	85	69	69	68
	Literacy Rate	-	44	-	56	62	65
Himachal Pradesh	Per Capita Income	-	1868.5	1990.7	2509.0	2650.7	-
	Total Fertility Rate	4.3	4.0	3.6	3.1	2.7	-
	Infant Mortality Rate	115	87	84	68	61	63
	Literacy Rate	-	51	-	64	71	77
Jammu & Kashmir	Per Capita Income	-	-	-	-	-	-
	Total Fertility Rate	4.7	4.4	4.5	-	-	-
	Infant Mortality Rate	68	72	86	70	-	-
	Literacy Rate	-	-	-	-	-	59
Karnataka	Per Capita Income	-	1686.6	1857.8	2297.9	2837.2	2935.9
	Total Fertility Rate	3.7	3.5	3.6	3.2	2.7	-
	Infant Mortality Rate	80	71	69	70	62	53
	Literacy Rate	-	46	-	56	57	58
Kerala	Per Capita Income	-	1693.8	1748.6	2109.0	2620.3	2725.4
	Total Fertility Rate	3.4	3.0	2.4	1.9	1.8	-
	Infant Mortality Rate	54	40	31	17	15	12
	Literacy Rate	-	82	-	90	91	93

(continued)

State	Indicators	Year					
		1975	1980	1985	1990	1995	1997*
Madhya Pradesh	Per Capita Income	-	1507.6	1594.2	1948.8	2079.4	2170.4
	Total Fertility Rate	6.0	5.2	4.6	4.8	4.2	-
	Infant Mortality Rate	151	142	122	111	99	94
	Literacy Rate	-	-	34	44	52	56
Maharashtra	Per Capita Income	-	2675.5	2956.0	3819.2	5101.7	5395.9
	Total Fertility Rate	4.3	3.7	3.5	3.2	2.9	-
	Infant Mortality Rate	92	75	68	58	55	47
	Literacy Rate	-	56	-	65	72	74
Orissa	Per Capita Income	-	1417.2	1566.2	1553.0	1837.3	1851.7
	Total Fertility Rate	4.6	4.1	3.8	3.5	3.3	-
	Infant Mortality Rate	149	143	132	122	103	96
	Literacy Rate	-	41	-	49	-	51
Punjab	Per Capita Income	-	3017.7	3640.3	4161.0	4695.9	4929.4
	Total Fertility Rate	4.7	4.0	3.5	3.2	2.9	-
	Infant Mortality Rate	98	89	71	61	54	51
	Literacy Rate	-	48	-	59	66	67
Rajasthan	Per Capita Income	-	1368.2	1522.5	2172.3	2238.4	2486.5
	Total Fertility Rate	5.4	5.6	5.5	4.5	4.4	-
	Infant Mortality Rate	155	105	108	84	86	85
	Literacy Rate	-	30	-	39	48	55
Tamil Nadu	Per Capita Income	-	1679.8	2054.9	2512.6	3140.5	3249.3
	Total Fertility Rate	3.8	3.4	2.2	2.3	2.2	-
	Infant Mortality Rate	112	93	81	59	54	53
	Literacy Rate	-	54	-	63	66	70
Uttar Pradesh	Per Capita Income	-	1416.4	1541.6	1842.7	1837.8	1932.1
	Total Fertility Rate	6.6	5.9	5.6	5.2	5.0	-
	Infant Mortality Rate	198	159	142	99	86	85
	Literacy Rate	-	33	-	42	50	56
West Bengal	Per Capita Income	-	1913.4	2081.8	2345.5	2944.1	3122.4
	Total Fertility Rate	-	-	3.7	3.4	2.8	-
	Infant Mortality Rate	-	-	74	63	58	55
	Literacy Rate	-	49	-	58	66	72

* For per capita income, the data pertains to the year 1996.

Notes:

1. Per capita income is in 1980-81 rupees; in 1996, per cap income for All India in current prices was Rs. 12182.7 (US \$ 343.8), and in terms of PPP (Purchasing Power Parity) was US \$ 1467.8 (calculated using a conversion factor of 8.3 from the World Development Indicators).
2. Total fertility is the expected number of children a woman would bear in her lifetime with the prevailing age-specific fertility rate.
3. Infant mortality is expressed per thousand live births.
4. Literacy rate is percentage of persons over 7 years of age who can read and write a simple sentence in any language with understanding. 1980 data is collected during 1981; 1990 during 1991; and 1995 during 1995-96.

Source: Registrar General of India, Sample Registration System; National Sample Survey Organization; Central Statistical Organization (CSO); CSO, Working force estimates:1993-94, a methodological note.

Annex Table 3.1
Fiscal Deficit and Debt Stock: 14 Major States
(Percent of State GDP*)

		Average 1985-90	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98 R.E.	1998-99 B.E.	Average 1991-97
Maharashtra	Fiscal deficit	3.2	2.2	2.8	2.1	2.3	2.8	2.9	2.4	3.3	2.5
	Debt	16.7	15.5	14.0	13.2	12.9	12.3	12.9	13.2	15.0	13.4
Punjab	Fiscal deficit	5.8	4.8	4.8	4.8	5.0	3.4	3.2	4.3	4.6	4.3
	Debt	30.9	34.6	36.0	33.9	34.3	34.0	33.3	32.5	35.0	34.1
Haryana	Fiscal deficit	3.0	2.3	2.6	2.3	2.2	3.6	3.3	2.7	5.8	2.7
	Debt	21.8	19.5	20.6	20.1	19.3	20.9	19.4	19.8	23.5	20.0
Gujarat	Fiscal deficit	4.8	6.1	2.9	1.2	2.2	2.9	3.3	3.3	2.4	3.1
	Debt	21.4	23.1	19.5	19.2	16.5	18.3	17.8	17.9	17.2	18.9
West Bengal	Fiscal deficit	2.8	2.8	2.3	3.4	3.3	3.9	4.3	5.6	4.3	3.7
	Debt	21.7	22.2	22.8	22.8	21.9	22.4	23.2	25.1	26.5	22.9
Karnataka	Fiscal deficit	3.4	3.0	4.2	3.3	3.4	2.9	3.4	2.4	2.9	3.2
	Debt	20.7	17.7	18.6	19.1	19.6	19.4	20.0	20.1	19.8	19.2
Kerala	Fiscal deficit	4.7	4.6	3.7	4.2	4.1	4.3	4.6	7.3	4.5	4.7
	Debt	29.3	29.6	29.6	32.0	32.7	33.7	34.2	34.8	29.8	32.4
Tamil Nadu	Fiscal deficit	3.0	3.5	4.1	2.6	2.5	1.9	3.1	3.1	4.7	3.0
	Debt	16.8	17.7	18.0	18.0	18.4	18.6	18.2	18.8	20.0	18.2
Andhra Pradesh	Fiscal deficit	3.2	2.7	3.6	3.4	3.8	3.4	3.5	3.0	2.9	3.3
	Debt	21.5	19.0	20.8	20.6	20.8	21.1	20.9	21.5	22.9	20.7
Madhya Pradesh	Fiscal deficit	3.6	3.0	2.4	2.2	2.9	3.0	3.0	3.2	4.6	2.8
	Debt	23.6	23.3	22.5	21.4	21.5	22.3	22.2	22.6	25.4	22.3
Uttar Pradesh	Fiscal deficit	4.5	4.4	5.2	4.0	4.5	4.3	5.1	8.6	7.2	5.2
	Debt	26.4	27.3	28.4	29.0	29.5	29.7	29.3	30.9	32.4	29.2
Orissa	Fiscal deficit	5.5	6.5	4.9	5.2	5.7	5.8	6.9	6.3	9.4	5.9
	Debt	36.6	37.6	40.5	40.2	39.0	39.0	45.9	45.8	48.9	41.2
Rajasthan	Fiscal deficit	4.7	3.4	4.3	5.2	5.1	6.7	5.3	4.9	6.2	5.0
	Debt	33.5	28.4	27.4	30.5	29.3	31.5	30.1	31.9	33.8	29.9
Bihar	Fiscal deficit	3.8	5.5	4.2	3.6	3.2	3.8	2.0	6.2	8.2	4.1
	Debt	33.1	36.6	38.2	36.8	36.5	40.2	40.0	42.0	38.6	38.6

* The GSDP series for individual States pertains to the old base (1980-81), as it is not available at the new base (1993-94).

Note: 'Debt' refers to the stock of outstanding debt at end-March.

Source: RBI, Supplement to the RBI Bulletin on finances of state governments, various issues; World Bank staff estimates.

Annex Table 4.1: International Comparisons of Selected Governance Indicators

	India		Score	Dev. Coun.	Selected large economies				Southeast Asia		South Asia ^c (excl. India)	Industrial countries		Full Sample			Dev. Coun. Sample Size		
	% rank in sample ^a	% rank in dev. coun. ^b			China	Brazil	Mexico	Poland	South Africa	Indonesia		Thailand	U.K.	U.S.	Sample Ave.	Confidence Int. (95%)		Sample Size	
																lower			upper
I. Governance Indicators, 1995, Scale 0 (lowest) - 6 (highest)																			
Average rank	51	65	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
i) Government Effectiveness and Stability																			
Socioeconomic Conditions (ICRG) ¹	54	71	2.5	2.2	3.5	3.0	2.5	2.5	2.5	2.0	2.5	2.8	5.0	4.0	2.7	2.5	2.9	130	97
Institutional stability(GCR)	31	56	4.3	4.1	4.4	5.2	3.5	4.1	3.5	4.0	3.8	5.0	5.2	5.7	4.8	4.6	5.0	58	32
Government Stability(ICRG) ²	4	5	3.5	4.8	5.5	5.0	5.0	5.0	5.5	4.5	4.5	4.8	5.5	4.5	4.9	4.8	5.0	130	97
ii) Rule of Law and Business Environment																			
Law and Order	58	71	4.0	3.7	5.0	2.0	3.0	5.0	2.0	3.0	5.0	3.0	6.0	6.0	4.1	3.9	4.3	130	97
Property Rights and Rule-based Governance (CPIA) ³	79	79	-	3.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contract Enforceability(BERI) ⁴	40	70	3.0	2.9	3.0	2.4	-	3.0	3.8	2.7	3.5	2.4	5.3	5.3	-	-	-	-	135
Nationalization risk(BERI) ⁵	30	83	3.3	3.2	2.9	2.7	-	3.0	4.5	3.6	3.9	2.6	4.4	5.0	-	-	-	-	-
Infrastructure Quality(BERI) ⁶	40	63	2.6	2.6	2.4	2.3	-	1.5	4.7	2.3	3.0	2.3	4.1	4.8	3.2	2.9	3.4	130	97
Corruption and Irregular Payments	37	43	2.4	2.8	2.5	2.9	2.7	3.6	3.7	1.4	2.0	2.9	5.3	4.6	4.4	-	-	-	-
Corruption, 1998 (higher scale means less)(TI) ⁷	22	22	1.7	-	2.1	2.4	2.0	2.8	3.1	1.2	1.8	2.7	5.2	4.5	4.9	4.4	5.4	85	-
Corruption (ICRG)	74	74	3.0	2.8	2.0	3.0	3.0	5.0	4.0	1.0	2.0	3.0	5.0	4.0	-	-	-	-	97
Irregular Payments (higher scale means less)(GCR) ⁸	16	34	2.5	2.9	3.3	3.2	3.1	2.9	3.9	2.1	2.2	-	5.6	5.3	4.0	3.6	4.3	58	32
iv) General Public Administration																			
Bureaucracy Quality (ICRG) ⁹	82	97	4.5	2.9	3.0	3.0	4.5	4.5	4.5	3.0	3.0	3.0	6.0	6.0	3.6	3.3	3.9	130	-
Strength of civil service (GCR) ¹⁰	59	91	4.5	3.5	3.6	4.3	3.8	3.4	3.4	4.0	4.5	-	5.5	5.3	4.4	4.1	4.6	58	32
Exposure to Political Interference (WCR)	18	30	1.3	1.5	-	1.2	1.4	1.2	1.4	1.6	1.4	-	3.0	2.4	2.0	1.9	2.5	45	17
Accountability of the Public Service (CPIA) ¹¹	71	72	-	2.9	-	-	-	-	-	-	-	-	-	-	2.9	2.7	3.0	136	135
v) Public Finance																			
Quality of Budget and Public Investment Process (CPIA) ¹²	90	91	-	3.1	-	-	-	-	-	-	-	-	-	-	3.1	3.0	3.3	136	135
Efficiency and Equity of Public Expenditures (CPIA) ¹³	78	79	-	3.1	-	-	-	-	-	-	-	-	-	-	3.1	3.0	3.2	136	135
Efficiency and Equity of Revenue Mobilization (CPIA) ¹⁴	71	71	-	3.2	-	-	-	-	-	-	-	-	-	-	3.2	3.1	3.4	136	135
Management of Public Finances (WCY)	33	53	3.1	2.8	3.5	4.5	3.7	2.6	2.7	2.5	1.2	-	4.1	4.6	3.5	3.1	3.8	46	19
II. Outcome Indicators																			
Central Govt Budget Surplus/Deficit (% of GDP)(1997) ^d	21	21	-5.2	-2.4	-1.6	-6.1	-0.2	-2.2	-5.8	1.2	2.4	-4.3	-5.3	-1.6	-2.1	-3.2	-1.1	72	53
Pop. below the poverty line (% below \$1 per day) ¹⁵ (1990-95) ^e	-	-	52.5	-	22.2	23.6	14.9	6.8	23.7	11.8	2.0	22.0	-	-	50.2	33.0	31.1	-	-
Infant Mortality Rate (per 1,000 live births)(1996)	-	32	65	52	33	36	32	12	49	49	34	66	6	7	57	56	78	-	152
Prevalence of child malnutrition(1990-96) ^e	-	-	66.0	-	16.0	7.0	14.0	-	9.0	40.0	13.0	48.8	-	-	23.0	21.0	35.0	-	-
Illiteracy, 1995 (% of adults 15+)	-	28	48.0	32.6	18.5	16.7	10.4	-	18.2	16.2	6.2	51.6	-	-	21.9	30.0	42.9	-	97
Maternal mortality ratio(per 100,000 live births)(1990-96) ^e	-	-	437	-	115	160	110	10	230	390	200	680	9	12	650	250	1000	-	-
Illiteracy rate, adult female (% of females 15+)(1995)	-	26	62.3	39.6	27.3	16.8	12.6	-	18.3	22.0	8.4	62.3	-	-	30.0	40.0	53.0	-	98
Trade, exports and imports (% of GDP, PPP)(1996)	-	3	4.5	28.0	7.1	10.2	26.1	26.5	20.7	13.6	31.3	11.0	46.3	19.4	-	-	-	-	108
Liquid liabilities (M3) as % of GDP(1996)	-	77	49.3	37.8	112.2	27.2	27.9	37.2	57.7	52.5	79.5	40.7	-	61.4	-	-	-	-	112
Average Credit Rating (1997) ¹⁶	-	-	59.0	46.7	68.0	55.8	59.3	65.1	62.7	62.3	66.0	42.4	89.8	91.0	-	-	-	-	-

	India		Dev. Score	Selected large economies					Southeast Asia		South Asia ^c (excl. India)	Industrial countries		Full Sample			Dev. Coun. Sample Size		
	% rank in sample ^a	% rank in dev. coun. ^b		Coun.	China	Brazil	Mexico	Poland	South Africa	Indonesia		Thailand	U.K.	U.S.	Sample Ave.	Confidence Int. (95%) lower		upper	Sample Size
Memo:																			
GNP per capita, PPP (1995)	23	29	1580	3609	3330	6340	7660	6000	7450	3310	6700	1498	19960	28020	6859	5566	8049	132	106
General Govt. Expenditure (% of GDP)	33	61	30.1	27.0	11.7	33.8	14.1	52.2	52.7	17.0	16.2	-	53.7	41.3	41.7	35.9	47.6	45.0	18

* regional averages; Southeast Asia includes Indonesia, Thailand, Malaysia and Philippines; South Asia includes Bangladesh, Maldives, Nepal, Pakistan and Sri Lanka

^apercentile rank excluding South Asia, 100 signifies best

^b low and middle income countries

^cunweighted average

^dre-scaled for Figure 4.1 using the formula: $6 * \frac{[x_i + \text{absolute}(\min(x_i, \dots, x_n))]}{[\max(x_i, \dots, x_n) + \text{absolute}(\min(x_i, \dots, x_n))]}$

^edata are for most recent year available

¹general public satisfaction/dissatisfaction with the government's economic policies; socioeconomic factors are identified which have the greatest political impact for the country being assessed

²government's ability to carry out its declared program(s) and its ability to stay in office

³extent to which private economic activity is facilitated by a rule-based governance structure

⁴degree to which contractual agreements are honored and complications presented by language and mentality differences

⁵measures 'expropriation for no compensation' and 'preferential treatment for nationals'

⁶facilities for and ease of communication between headquarters and the operation, and within the country, and the quality of transportation, BERI

⁷perceptions of degree of corruption as seen by business people

⁸degree of irregular payments in business and official transactions

⁹mechanism for recruitment and training and autonomy of bureaucracy from political pressure and

¹⁰the strength and expertise of the civil service to avoid drastic interruptions in govt. service during political instability

¹¹the degree to which accountability is ensured through audits, inspections etc, conflict of interest regulations for public servants are enforced, civil service promotion and recruitment are merit-based,

¹²degree to which public expenditure and investment priorities are established by systematic and objective criteria; whether systems ensure that expenditures match budget allocations

¹³efficiency of expenditure balance between and within sectors, and between publicly and privately provided services

¹⁴tax structure (degree of distortionary taxes), revenue collection, tax administration

¹⁵at 1985 prices, adjusted for purchasing power parity

¹⁶average of ICRG, Institutional Investors, Euromoney ratings

Sources: World Development Indicators 1998/1999, World Bank; Yearbook of Labour Statistics 1998, International Labour Organisation; ICRG, International Country Risk Guide database; "Structural trends in India's Manufactured Export Performance: International Comparisons, S. Lall; BERI, Business Environment Risk Intelligence database; IRIS, Center for Institutional Reform and the Informal Sector database; WCY, World Competitiveness Yearbook; GCR, Global Competitiveness Report; CPIA, Country Policy Institution Indicators of the World Bank; TI, Transparency International, 1998

Annex Table 4.2
Efficiency of government in delivering services
(percentage of respondents rating services under different categories)

	Very efficient	Efficient	Mostly efficient	Mostly inefficient	Inefficient	Very inefficient	Average Score	Index*
Score	6	5	4	3	2	1	-	-
Central govt. now	1	10	33	33	14	9	3.24	100.0
Central govt.3 yrs ago	0	7	29	39	14	11	3.07	94.8
Regional govt now	6	8	27	31	17	11	3.22	99.4
Regional govt 3 years ago	2	6	25	31	19	17	2.90	89.5
General government in 1996 as per 1996 survey							3.21	99.1
General government in 1986 as per 1996 survey							2.35	72.5

*Index: Average Score of Row as a percentage of Average score for "Central Government now".

Source: World Bank-CII survey of 210 private sector firms, 1999 and World Bank Survey of 53 private sector firms, 1996.

Annex Table 4.3.
Quality, integrity and efficiency of public services delivered by public agencies
(percentage of respondents rating services under different categories)

Rank		Very Good	Good	Slightly Good	Slightly Bad	Bad	Very Bad	Average Score
	Score	6	5	4	3	2	1	-
1	Armed Forces	24	44	23	2	5	2	4.74
2	Telephone	3	41	30	15	9	2	4.08
	(a) Price	6	36	28	15	10	5	3.98 (3.64*)
	(b) Availability	18	46	27	6	2	1	4.69 (2.72*)
3	Judiciary/Courts	8	39	25	9	16	3	4.05
4	Income Tax Department	3	38	28	18	9	4	3.96
5	Water Supply	4	35	31	17	8	5	3.95
6	Education Services/Schools	5	29	31	17	14	4	3.82
7	Customs Service	3	29	28	19	16	5	3.69 (2.85)
8	Electric Power Co	4	32	23	17	15	9	3.66
9	Police	3	25	31	21	12	8	3.62
10	Excise Dept.	2	28	28	17	18	7	3.58
	State Sales Tax Dept	2	28	27	19	17	7	3.58
	Central Govt.	5	26	29	13	15	12	3.57 (3.21)
11	Public Health Care	3	19	29	18	18	13	3.32 (2.00)
	Parliament	5	16	19	21	20	19	3.08
12	Roads, PWD	1	16	15	21	31	16	2.87 (1.98)

Source: World Bank-CII survey of 210 private sector firms, 1999. Average scores in parentheses are from the World Bank Survey of 53 firms, 1996, except for those marked with an asterisk (*).

Table 4.4
Predictability, Responsiveness and Availability of Rules and Regulations
 (percentage of respondent ratings under different categories)

	Strongly Agree	Agree	Slightly Agree	Slightly Disagree	Disagree	Strongly Disagree	Average Score, 1999	Average Score, 1996
Score	6	5	4	3	2	1		
Predictability of government rules and regulations: Now	2	7	46	29	12	4	3.46	3.38
Predictability of government rules and regulations: 3 years ago	2	4	35	33	21	5	3.18	-
Predictability of policy changes in the annual central budget	2	3	45	33	9	8	3.32	NA
Advance information to firms about the changes affecting them	0	18	11	35	25	11	3.00	3.49
Taking into account concerns voiced by business or business associations	2	17	15	47	11	8	3.28	3.66
Easy availability of information on laws and regulations	10	31	32	18	5	4	4.11	NA

Source: World Bank-CII survey of 210 private sector firms, 1999 and World Bank Survey of 53 private sector firms, 1996.

Annex Table 4.5
Efficiency of court system in resolving business disputes
 (percentage of respondent ratings under different categories)

	Strongly Agree	Mostly Agree	Tend to Agree	Tend to Disagree	Mostly Disagree	Strongly disagree	Average Score
Score	6	5	4	3	2	1	-
Fair and Impartial	23	40	15	16	4	2	4.56
Honest/Un-corrupt	13	38	19	18	6	6	4.16
Capable of enforcing decisions	19	19	17	23	17	5	3.85
Consistent	7	26	25	21	15	6	3.71
Affordable	10	16	10	26	24	14	3.20
Quick	5	3	4	18	32	38	2.17
Confident that legal system will uphold contracts and property rights in business disputes:							
Now	20	37	26	8	7	2	4.49
3 years ago	18	34	25	11	8	4	4.31

Source: World Bank-CII survey of 210 private sector firms, 1999.

Annex Table 4.6
Obstacles in the operation and growth of business
(percentage of respondents rating obstacles under different categories)

1999 Rank	Obstacles in the operation and growth of business	None	Moderate + major	Average, 1999 survey	Average, 1996 survey	1996 Rank
1	Inflation	7	68	4.12	3.72	6
2	Labor regulation	12	64	4.03	3.96	4
3	Corruption	7	60	3.97	4.40	3
4	Infrastructure	11	62	3.95	5.09	1
5	Policy instability/uncertainty	6	57	3.95	3.38	8
6	Financing	23	52	3.57	3.69	7
7	Customs administration	14	50	3.52	4.42*	2
8	Customs duties	16	49	3.45	4.42*	2
9	Income tax administration	20	41	3.18	4.42*	2
10	Income taxes	18	39	3.12	4.42*	2
11	Other taxes	17	38	3.12	4.42*	2
12	Environmental regulations	24	40	3.07	3.24	11
13	Foreign currency/exchange regulations	24	35	3.02	3.89	5
14	Import restrictions	33	31	2.77	3.26	10
15	Functioning of judiciary	35	29	2.67	NA	NA
16	Street crime/theft/disorder	29	23	2.65	NA	NA
17	Business Licensing	42	26	2.52	3.30	9
18	Organized crime	34	22	2.52	NA	NA

* : 1996 World bank Survey score for "tax regulation and/or high taxes": 4.42.

Score: None =0, Minor obstacle=2, Moderate=4, Major=6

Source: World Bank-CII survey of 210 private sector firms, 1999 and World Bank Survey of 53 private sector firms, 1996.

Annex Table 4.7
(a) Payment of Bribes
(percentage of respondent ratings in different categories)

	Always	Usually	Frequently	Sometimes	Seldom	Never	Average Score 1999	Average Score 1996
It is common to pay irregular additional payments to get things done	15	19	21	28	6	11	3.24	3.00
Score	1	2	3	4	5	6	-	-
It is known in advance how much the additional payment is	2	17	16	43	16	8	3.30	3.60
Score	6	5	4	3	2	1	-	-
If a firm pays the required "additional payment" the service is usually delivered	12	36	28	18	-	5	4.29	3.47
Score	6	5	4	3	-	2	-	-

(b) Extra unofficial payments to public officials

Electricity/Telephone Connections	16	17	12	21	10	24	3.64
Licenses/Permits	14	15	14	28	16	13	3.56
Income tax Officials	18	13	14	31	10	14	3.44
Customs Officials	16	23	10	22	15	14	3.39
Government Contracts	11	24	15	24	17	9	3.39

(c) Percentage of contract value in additional or unofficial payment to secure government contracts

Percentage of contract value	0	0-1	2-9	10-17	18-25	25+	Average
Percentage of respondents	22	15	54	4	3	2	4.80

Source: World Bank-CII survey of 210 private sector firms, 1999 and World Bank Survey of 53 private sector firms, 1996.

Annex Table 4.8
Summary Evaluation of Budget and Financial Management Practices

	1-Inadequate 5-Adequate 10-Excellent
Budget:	
Comprehensive	7
Based on reliable data and estimates	2
Has medium-term perspective	1
Linked to macroeconomic policy	2
Links planning & resource allocation	7
Capital and recurrent expenditure well integrated	2
Links between policy and resources are transparent	4
Trade-offs within spending constraints	2
Effectively controls spending aggregates	1
Is implemented as initially authorized	5
Is adopted on a timely basis	3
Controls items of expenditure	3
Provides incentives for efficiency	1
Uses performance measures	1
Financial Management:	
Based on accounting standards	7
Efficient cash management	5
Timely disbursement of budgeted funds	3
Accountability for expenditure	1
Internal control systems	3
Audit of expenditure (professional, timely reporting)	7
Budget/Accounting is consistent	8
Procurement is transparent and competitive	7

**Annex Table 4.9
Public Financial Management (PFM): Evaluation of Outputs and Outcomes***

	Aggregate Fiscal Discipline		Strategic Prioritization		Operational Effectiveness and Efficiency	
	PFM Outputs	PFM Outcomes	PFM Outputs	PFM Outcomes	PFM Outputs	PFM Outcomes
Institutional Arrangements	<ul style="list-style-type: none"> • Medium term expenditure framework? NO • Hard budget constraint? NO • Comprehensive budget? LARGELY 	<ul style="list-style-type: none"> • Revenue/ Expenditure target achieved? NO 	<ul style="list-style-type: none"> • Budgetary planning consultative with stakeholders? PARTLY • Strategic targets linked to allocations? PARTLY • Line agency allocation discretion? NO 	<ul style="list-style-type: none"> • Expenditures matched to strategic goals? NO 	<ul style="list-style-type: none"> • Relative line agency autonomy? NO 	<ul style="list-style-type: none"> • Efficient service Delivery? NO
Accountability	<ul style="list-style-type: none"> • Ex post reconciliation of expenditures? YES • Sanctions for agency over-or under-spending? NO 	<ul style="list-style-type: none"> • Limited agency overspending? NO 	<ul style="list-style-type: none"> • Outcomes reported? SOME • Ex post evaluation of results? LIMITED (INSTEAD, EX ANTE CONTROL) • Sanctions applied? NO 	<ul style="list-style-type: none"> • Clear responsibility for mismatch? NO 	<ul style="list-style-type: none"> • Internal and external audit? YES • Personnel policies performance based? NO • Service delivery standards? SOME • Customer satisfaction surveys? FEW 	
Transparency	<ul style="list-style-type: none"> • Publication of budget and fiscal results? YES, PARTLY 		<ul style="list-style-type: none"> • Adequate Stakeholder voice mechanisms? NO 	<ul style="list-style-type: none"> • Outcome performance published? SOME 	<ul style="list-style-type: none"> • Program performance publicized? SOME • Client voice mechanisms? FEW 	

Annex Table 4.10
Variations between Budget/Revised Estimates and Actuals
1991/92 - 1993/94

	1991/92 - 1993/94				1994/95 - 1997/98			
	Average		Variation (%)		Average		Variation (%)	
	Actuals as % of		Actuals as % of		Actuals as % of		Actuals as % of	
	Budget	Revised	Budget	Revised	Budget	Revised	Budget	Revised
Revenue receipts	93.5	97.7	7.4	2.6	100.3	98.9	9.5	2.9
Tax revenue, Gross	93.8	97.8	8.4	2.8	100.8	99.6	7.4	2.6
Nontax Revenue	104.4	99.3	1.8	2.5	100.7	97.6	4.5	1.2
Capital receipts	108.5	94.7	17.0	2.8	104.3	97.6	16.9	6.7
Recoveries of loans	99.1	97.1	6.7	4.7	98.3	91.7	6.0	5.0
Disinvestment	66.2	58.5	94.2	105.5	39.7	93.8	147.4	12.8
Borrowings and other liabilities	115.1	96.6	27.1	2.8	111.4	98.4	16.3	7.5
Total receipts	99.5	96.5	3.3	2.5	101.6	98.5	5.7	3.0
Non-plan expenditure	104.2	99.9	4.8	1.7	103.5	99.3	4.6	0.9
On revenue account	104.8	99.5	2.5	1.4	101.4	99.4	2.4	1.1
On capital account	103.0	102.5	19.0	6.8	117.1	98.4	17.9	1.4
Plan expenditure	100.5	95.5	7.6	3.8	99.3	96.8	5.6	1.1
On revenue account	99.3	92.9	10.1	4.0	97.9	97.0	3.1	1.2
On capital account	102.0	98.0	5.8	5.1	102.0	96.5	12.7	1.2
Total expenditure	103.1	98.5	4.7	0.2	102.2	98.6	3.0	0.9
Revenue expenditure	103.6	98.1	2.5	0.4	100.7	98.9	2.3	1.1
Capital Expenditure	102.2	99.8	11.4	0.9	108.1	97.5	6.2	0.4
Revenue deficit	145.6	100.8	24.4	8.9	107.4	100.6	29.2	12.7
Fiscal Deficit	125.4	102.8	27.3	6.5	113.1	99.3	13.5	5.9

Annex Table 4.11
Revenue Effect of Tax Concessions

(a): Major Deductions from Income Tax under Chapter VI-A and VIII of the Income Tax Act (Company and Non-Company assessees)

	1989-90	1994-95
Tax Loss (%)	19.62	17.74
Effective Tax Rate on Gross Income (%)	18.94	17.86
Effective Tax Rate Loss Due to Chapter VI-A and VIII Deductions (percentage points)	4.62	3.85

(b): Customs exemptions

Exemptions	1992-93		1995-96		1996-97	
	Duty forgone (Rs cr)	New notific- ations	Duty forgone (Rs cr)	New notific- ations	Duty forgone (Rs cr)	New notific- ations
4 export promotion schemes	NA	—	8023	—	9189	—
Other exemption notifications	(total) 5081	415	2019	313	1113&	222
Total (% of collections)	21.5		27.8		23.7&	

Note: Data on income tax concessions for 1990-91 through 1993-94 were either incomplete or not available. Data for all assessees includes other categories of non-company assessees but may be biased due to non-random sampling.

&: Incomplete coverage

Source: All India Income Tax Statistics, various years and Reports of the CAG, 1997, 1998.

Annex Table 4.12
Central Tax Revenue and Buoyancy

(a) Revenue as a percentage of Non-Agricultural GDP at Factor Cost

Average for Financial Years	Gross Tax Revenue	Corporation Tax	Personal Income Tax	Customs Duties	Excise Duties
1989-90 to 1991-92	14.08	1.41	1.36	4.87	6.00
1994-95 to 1998-99RE	12.00	1.84	1.63	3.66	4.37
1999-2000BE	11.62	2.03	1.77	3.31	4.20

(b) Buoyancy of Central Taxes with respect to Non-Agricultural Gross Domestic Product

Average for Financial Years	Gross Tax Revenue	Corporation Tax	Personal Income Tax	Customs Duties	Excise Duties
1989-90 to 1991-92	0.926	1.346	1.050	0.743	0.888
1994-95 to 1998-99RE	0.880	1.324	1.086	0.795	0.702
1999-2000BE	1.313	0.995	1.724	1.260	1.384

Notes: 1. To estimate NAGDP for 1998-99, the rate of real growth in agriculture is assumed to be 5.3% and the rate of real growth of NAGDP is assumed to be 5.8%. Inflation rates are assumed the same.

2. To estimate NAGDP for 1999-2000, the nominal rate of growth is assumed to be higher than nominal GDP growth by the same percent (about 1%) as it was in the previous period.

Source: Budget Documents and Economic Survey, GOI.

Annex Table 4.13
Assessment of Tax Structure and Administration

	Pre-reform	Recent years	Recent to pre-reform Index (Over 100 implies improvement in recent years)*
I. Performance			
Tax Structure			
Revenue adequacy: Level (Tax/NAGDP)	14.08	12.00	88
Trend (NAGDP buoyancy)	0.93	0.88	95
Revenue stability (CV of buoyancy)	0.23	0.31	54
Revenue predictability (actuals/budget ratio)	8.40	7.40	113
Vertical balance: (ratio of centre's revenue adequacy to states')	1.24	1.24	100
Economic neutrality 1 (rates)			
Personal income tax	16.80	11.71	143
Corporation tax	35.43	27.34	130
Excise duties	9.31	8.38	111
Import duties	41	27	143
Aggregate score			131
Economic neutrality 2 (concessions)			
Income tax : Individuals	3.98	2.24	178
Companies	11.17	7.43	150
Import Duties:	21.5	27.8	77
Aggregate score			121
Equity (share of direct taxes)	19.7	29.6	150
Simplicity		Laws are simpler#	#
Certainty (business survey; 1= Very Good; 6 = Very Bad)	3.77	3.61	104
Sectoral balance	Exclusion of agriculture continues unchanged		100
Tax Administration			
Administrative effectiveness:			
Income tax compliance	39.4	49.0	124
Collection arrears (% of collections)	36.8**	47.5	77
Administrative efficiency			
Business survey (1= Very Good; 6 = Very Bad)	NA	3.1	NA
Business survey (Index of ease of dealing with tax departments in 1998-99 compared to three years ago)	100	102.2	102.2
Collection cost to society per rupee of revenue ##	NA	NA	NA
Administrative corruption			
Business survey (% paying bribes "sometimes", "frequently", "usually" or "always" to income tax or customs officials)	NA	74	NA
II. Capacity		Comparing Pre-reform and Current Status	
External constraints			Some improvement, poor
Capacity of supporting institutions (appeals, courts)			Some deterioration, inadequate
Capacity of supporting institutions (tax professionals)			Insufficient information
Policy research capacity			No change, inadequate
Administrative capacity 1(training and skills)			No change, adequate
Administrative capacity 2 (pay and career prospects)			Some deterioration, inadequate
Administrative capacity 3 (automation)			Some improvement, poor
III. Institutions			
Adequacy of external controls			No change, poor
Participation			No change, poor
Institutional flexibility 1 (tax policy inertia)			No change, inadequate
Institutional flexibility 2 (functional and financial autonomy)			No change, poor
Clarity of mission			No change, inadequate
Adequacy of internal controls			No change, poor
Contestability			No change, inadequate
Adequate tax laws			Some improvement, inadequate
Administrative incentives 1 (performance linked budget)			No change, poor
Administrative incentives 2 (performance based remuneration)			Some deterioration, poor
Administrative organization 1(Number of tax agencies)			No change, adequate
Administrative organization 2 (Functional organization)			No change, inadequate
Internal rules			No change, inadequate
Non-compliance penalties			No change, adequate
Error prevention			No change, inadequate

@ Pre-reform: 1989-90 to 1991-92 where data are available; recent years 1994-95 to 1997-98/1998-99 where available. Full details are in the background note.
 *The index is the ratio of recent to pre-reform indicators or its inverse so that a higher value represents improvement. The ratio is calculated before rounding.
 #: While adequate quantitative data are not available, this is suggested by the number of direct tax (second) appeals and judicial references declining over the period for which data are available. Furthermore, while indirect tax appeals data are not always reported, the number of customs and excise exemptions has been substantially reduced which should decrease appeals.
 ** Pertains to the period 1992-93 to 1994-95. Pre-reform figures are not readily available.
 ## Collection costs given in the central budget amount to under 2% of tax collections. However, these figures are incomplete and underestimate true costs (as elaborated on in the background note).

Annex Table 4.14
Facilitation Indicators for Import Containers, Selected Countries (1998)

Country	Dwelling Time in Ports	Custom Clearance Time	Physical Inspection (%)
India	10/25 days	48-120 hours	100%
Pakistan	-	48-120 hours	100%
Argentina	4/5 days	3 hours	30%
Indonesia	-	48-96 hours	100%
Korea	-	48-72 hours	100%
Malaysia	-	8-24 hours	Sample basis
Mexico	-	12-24 hours	Sample basis
Thailand	-	48-72 hours	100%
Singapore	-	15-25 hours	Sample basis < 5%
Poland	7 days	24-48 hours	100%

Annex Table 4.15
Structure of Rural Local Government

State	Village Panchayats	Block Level	District Level
Andhra Pradesh	20244	1100	22
Arunachal Pradesh	1158	79	12
Assam	2486	199	23
Bihar	11653	589	52
Goa	183	—	2
Gujarat	13256	183	19
Haryana	5958	110	16
Himachal Pradesh	2921	72	12
Karnataka	5641	175	20
Kerala	990	152	14
Madhya Pradesh	30922	459	45
Maharashtra	26894	297	29
Manipur	166	9	3
Punjab	11591	136	14
Rajasthan	9185	237	31
Sikkim	148	—	4
Tamil Nadu	12787	387	22
Tripura	525	16	3
Uttar Pradesh	58605	901	66
Union Territories	177	7	7

Note: Meghalaya, Mizoram and Nagaland are not covered by the 73rd Constitutional Amendment. Legislation in conformity with the 73rd Amendment has yet to be taken up in Delhi which, accordingly, has no Panchayats.

Source: Mathur 1999

Annex Table 4.16
Decentralization to Local Government: A Report Card

	Performance	Capacity	Institution Building
Policy Formulation	<ul style="list-style-type: none"> Largely unassessed 	<ul style="list-style-type: none"> Inadequate 	<ul style="list-style-type: none"> Limited autonomy Incomplete functional and fiscal devolution Wide inter-State differences
Accountability	<ul style="list-style-type: none"> Unassessed except in selected cities (Box 1) 	<ul style="list-style-type: none"> Negligible 	<ul style="list-style-type: none"> Inadequate or absent external accountability provisions
Service delivery and Revenue Collection	<ul style="list-style-type: none"> Poor where assessed Some improvement in selected cities (Box 1) 	<ul style="list-style-type: none"> Very Inadequate 	<ul style="list-style-type: none"> Overlapping jurisdictions Limited involvement of civil society except in selected cities (Box 1) and States

Annex Table 4.17
Expenditure and Revenue Decentralization and Financial Autonomy of Rural Local Bodies, 1996-97

State	Local Govt to State Govt Expenditure Ratio (%)	Local Govt to State Govt Own Revenue Ratio (%)	Local Revenue to Local Expenditure Ratio (%)
Punjab	13.1	5.8	52.0
Rajasthan	9.4	5.2	3.1

Source: Oommen (1998) quoted in Mathur (1999).

Annex Table 6.1
Capital Employed per Worker in Domestic Industries Corresponding with
Principal Exports and Imports, 1994-95

I. Principal Exports		
Economic Survey Classification	Corresponding ASI Classification	Capital/Employee (Rs. '000)
Average capital/employee, Exports		132
Labor Intensive		
1. Agricultural and allied products	Food products	105
	Beverages	38
2. Ores and Minerals (excl. coal)	<i>n.c.</i>	
3. Manufactured Goods		
3.1. Textile fabrics and manufactures	Textile Products	74
	Wool and Silk Textiles	26
3.1.1. Cotton yarn, fabrics, made-ups	Cotton Textiles	117
3.2. Coir yarn and manufactures	<i>n.c.</i>	
3.3 Jute manuf. incl. yarn	Jute textiles	30
3.4 Leather and leather manufactures	Leather and leather products	76
3.5 Handicrafts	<i>n.c.</i>	
3.5.1. Gems and Jewellery	<i>n.c.</i>	
3.6 Machinery, transport and metal manuf.	Machinery other than transport	170
	Transport equipment and parts	156
	Metal products	137
Average Capital /employee - labor intensive		93
Capital Intensive		
1. Manufactured Products		
1.1 Chemicals and allied products	Chemicals and chemical products	526
2. Mineral Fuels and Lubricants (incl. coal)	<i>n.c.</i>	
Average Capital /employee - capital intensive		526
II. Principal Imports		
Economic Survey Classification	Corresponding ASI Classification	Capital/Employee (Rs. '000)
Average capital/employee, Imports		362
Labor Intensive		
1. Capital Goods		
1.1 Transport equipment	Transport Equipment and Parts	156
1.2 Manufactures of metals	Metal products	137
1.3 Non-electrical machinery	Machinery other than transport	170
1.4 Electrical machinery	Machinery other than transport	170
Average Capital /employee - labor intensive		158
Capital Intensive		
1. Food and live animals	<i>n.c.</i>	
2. Raw materials and intermediate manuf.		
2.1. Cashewnuts	<i>n.c.</i>	
2.2. Crude rubber	Rubber, petroleum and coal products	403
2.3. Fibres	<i>n.c.</i>	
2.4. Petroleum, oil and lubricants	Rubber, petroleum and coal products	403
2.5. Animals and vegetable oils and fats	<i>n.c.</i>	
2.6. Fertilizer and chemical products	Chemicals and chemical products	526
2.7. Pulp and waste paper	<i>n.c.</i>	
2.8. Paper, paper board and manufactures	Paper and paper products	318
2.9. Non-metallic mineral manufactures	Non-metallic mineral products	276
2.10 Iron and steel	Basic metals and alloys	714
2.11 Non-ferrous metals	Basic metals and alloys	714
Average Capital /employee - capital intensive		479

n.c. = not classified

Notes:

- For the purpose of this exercise, labor intensive industries have been defined as those where Fixed Capital per Employee < Rs. 200, 000.
- The classification of principal exports and imports is from the Economic Survey 1998-99; capital per employee figures are from the ASI for corresponding categories (ASI categories not included in the table above are electricity, other manufacturing industries, repair of capital goods, repair services, wood and wood products, water works, gas and steam, cold storage and non-conventional energy).

Annex Table 6.2
India and China: Selected Trade Indicators, 1987-96

			1987		1991		1996	
	India	China	India	China	India	China	India	China
Structure of Exports (WDI)								
Manufactured Exports								
(% of Merchandise Exports)			66.42	58.25	72.04	75.72	73.55 ^a	84.36
High-Technology Exports								
(% of Merchandise Exports)			6.22	12.38	9.23	13.09	10.09 ^a	21.14
Total Exports (goods & services) in \$ bn (WDI)			16.22	39.17	23.29	65.90	43.86	171.68
	(1969, IFS)	(2.03) (2.31)						
	(1978, IFS)	(6.67) (9.96)						
Trade (% of GDP)	(1980, WDI)	16.62 12.90	15.19	27.09	19.15	29.59	27.09	39.88
Exports per capita (\$ per person) (1980, WB)		16.41 12.92	20.27	33.63	26.87	53.09	44.15	141.17
Selected Exports Commodities,								
Share in World Exports in percent (UNCTAD)								
Total Exports			0.55	1.80	0.55	2.23	0.69	3.10
Fish and Preparations			1.69	3.02	1.71	3.47	2.55	6.49
Rice			8.42	6.03	7.58	3.75	13.77	1.72
Nuts, Coco, Brazil, Cashew			48.80	0.81	39.98	0.46	40.15	0.20
Coffee, Tea, Cocoa, Spices			4.75	2.57	4.23	2.79	3.52	2.04
Coffee			2.13	0.04	1.84	0.01	3.42	0.06
Tea			23.19	18.35	21.07	16.31	16.55	16.45
Spices			16.64	4.94	10.35	7.23	14.95	12.38
Iron Ore, etc., excl. Pyrites			12.66	0.00	7.55	0.00	6.12	0.00
Iron and Steel			0.13	0.59	0.34	1.64	0.76	2.94
Manufactures			0.50	1.42	0.54	2.28	0.65	3.45
Chemicals			0.27	1.10	0.54	1.36	0.67	1.91
Leather, Dressed Fur etc.			7.11	0.90	4.77	1.41	2.82	3.80
Leather etc. Manufactures			13.17	0.37	8.26	1.31	5.35	7.86
Textile Yarn, Fabric etc.			2.10	7.77	2.22	7.60	3.12	8.29
Gold, Silverware, Jewelry			0.74	1.37	2.14	1.80	2.93	6.11
Basic Manufactures			1.28	2.38	1.24	2.81	1.57	3.79
Machines, Transport Equipment			0.10	0.46	0.11	1.15	0.14	1.68
Misc. Manufactured Goods			0.72	3.20	0.85	5.27	1.05	9.51
Clothing			2.13	7.19	2.49	11.12	3.01	16.39
Real Jewelry, Gold, Silver			0.85	1.52	2.44	1.51	3.08	5.89
Precious Metal Jewelry			0.99	1.09	2.84	1.15	3.41	5.66
Jewelry NES			0.03	7.26	0.09	6.20	0.10	20.29
Imitation Jewelry			0.23	0.65	0.22	3.78	1.22	8.61
Textile Fibres			0.57	8.41	0.74	5.59	1.98	2.97
Petroleum and Products			0.40	3.21	0.19	1.77	0.18	1.41
Iron and Steel Scrap			0.03	0.42	0.04	0.17	0.11	0.16
Goods not classified by kind			0.44	5.51	0.35	0.99	0.44	0.17
FDI inflows (% of Gross Fixed Capital Formation)			0.30^b	2.90^b	0.40^c	7.40^c	2.90	17.00
FDI Stock (% of GDP)			0.50^d	1.50^d	0.50^e	4.80^e	2.60	24.70

^a Data for 1995.

^b Annual average, 1986-91.

^c Data for 1992.

^d Data for 1985.

^e Data for 1990.

Source: UNCTAD, Comtrade Database; World Bank, World Development Indicators 1998; United Nations, World Investment Report 1998.

Annex Table 6.3
Coverage Ratio for Non-Tariff Barriers on Indian Imports - Weighted Average

	1988-89	1995-96		1997-98		1998-99		1999-00	
	Method 2	Method 1	Method 2	Method 1	Method 2	Method 1	Method 2	Method 1	Method 2
Average all sectors	95.21	56.80	65.51	62.20	64.03	60.85	62.16	23.25	24.24
Activity Based									
1 Primary	99.96	64.12	74.79	76.06	76.22	73.17	74.95	56.58	57.41
2 Secondary	87.43	42.00	46.11	34.19	39.42	32.06	36.30	23.41	27.71
Industry Based									
1 Food, beverages and tobacco	100.00	74.47	74.47	65.67	66.92	63.06	63.98	46.58	47.95
2 Textiles and leather	100.00	47.06	56.02	48.33	54.88	47.44	53.37	39.30	45.07
3 Wood, cork and products	100.00	41.99	41.99	24.03	34.48	20.00	26.41	2.87	5.74
4 Paper and printing	100.00	39.01	42.27	25.82	30.90	22.03	26.93	17.76	22.54
5 Chemicals, petrol and coal	97.54	32.29	38.09	22.52	30.74	20.77	26.24	12.57	15.45
6 Non-metallic minerals	98.25	76.48	76.48	46.32	50.52	40.41	47.04	19.05	36.28
7 Basic metal industries	53.37	13.21	13.76	14.46	15.05	11.87	15.85	9.03	11.41
8 Metal products and machinery	80.11	37.93	40.70	29.73	34.55	27.93	31.57	21.17	25.03
9 Other Manufacturing	78.48	46.44	53.61	30.56	37.28	27.39	29.76	17.19	21.53
10 Agriculture	100.00	67.10	78.43	80.07	80.23	76.93	78.87	59.00	59.88
11 Mining	99.44	27.71	30.19	27.09	27.09	27.09	27.09	26.97	27.09
Use Based									
1 Consumer Non-durables	100.00	63.98	74.69	74.71	75.65	73.51	74.07	55.33	56.19
2 Consumer durables	84.34	52.75	58.20	40.18	46.77	37.26	41.56	27.03	32.80
3 Intermediate goods	98.45	44.78	47.24	39.21	42.02	37.89	39.71	28.00	33.53
4 Basic goods	70.34	25.17	28.65	19.28	22.72	17.63	23.23	11.56	16.09
5 Capital goods	74.12	22.77	23.97	16.93	20.29	15.97	18.26	12.16	13.81

Notes: 1. In Method 1, Special Import License (SILs) have been given a weight of 50 percent, and all other non-tariff barriers a weight of 100 percent.

2. In Method 2, all non-tariff barriers have been assigned an equal weight of 100 percent.

Source: National Council of Applied Economic Research (NCAER).

Coverage Ratio for Non-Tariff Barriers on Indian Imports - Simple Average

	1988-89	1995-96		1997-98		1998-99		1999-00	
	Method 2	Method 1	Method 2	Method 1	Method 2	Method 1	Method 2	Method 1	Method 2
Average all sectors	91.63	44.47	50.31	39.93	44.76	38.07	41.95	28.31	32.60
Activity Based									
1 Primary	99.79	44.63	54.32	49.52	51.19	49.07	51.00	41.64	44.07
2 Secondary	89.37	44.40	48.43	35.44	41.74	32.91	37.72	22.05	27.23
Industry Based									
1 Food, beverages and tobacco	100.00	74.46	74.46	69.83	70.70	65.42	65.93	42.90	44.57
2 Textiles and leather	100.00	52.88	61.46	51.11	59.25	50.19	57.69	39.99	49.18
3 Wood, cork and products	100.00	55.81	55.81	33.54	50.84	26.64	37.04	5.42	10.85
4 Paper and printing	100.00	39.58	42.50	26.00	30.27	22.23	26.23	16.77	20.58
5 Chemicals, petrol and coal	95.54	35.33	42.77	22.71	33.71	20.04	26.13	11.27	14.55
6 Non-metallic minerals	98.81	76.35	47.03	48.94	38.27	42.47	29.80	11.16	15.33
7 Basic metal industries	53.74	16.13	16.55	17.07	17.52	15.73	20.86	7.79	9.23
8 Metal products and machinery	80.83	35.59	37.81	26.87	31.10	24.97	28.35	18.63	23.12
9 Other Manufacturing	78.49	45.39	51.64	35.13	42.58	34.51	39.26	19.80	26.48
10 Agriculture	100.00	60.15	74.43	69.80	72.30	69.12	72.01	58.05	61.62
11 Mining	99.38	13.60	14.10	8.97	8.97	8.97	8.97	8.84	8.97
Use Based									
1 Consumer Non-durables	100.00	58.60	68.05	60.23	64.91	58.19	62.51	45.27	49.59
2 Consumer durables	88.20	45.29	56.19	39.09	47.50	36.99	43.18	26.68	34.19
3 Intermediate goods	96.84	38.45	35.67	28.87	29.24	26.48	24.08	14.35	18.50
4 Basic goods	79.44	30.52	34.88	20.22	24.39	19.63	25.88	11.41	15.31
5 Capital goods	75.19	26.52	28.28	19.27	22.39	18.33	20.60	13.61	16.17

Notes:

1. In Method 1, Special Import License (SILs) have been given a weight of 50 percent, and all other non-tariff barriers a weight of 100 percent.

2. In Method 2, all non-tariff barriers have been assigned an equal weight of 100 percent.

Source: NCAER.

Annex Table 6.4
India's Share in World Trade, REER, and Tariffs

Year	Merchandise Exports (US\$ billion)		Share in World Merchandise Exports (%)	Average Tariff (%) ^a	REER ^b 1990=100
	India	World			
1985	9.14	1872.00	0.488	-	60.27
1986	9.40	2046.40	0.459	-	70.90
1987	11.30	2401.40	0.470	-	75.82
1988	13.33	2742.00	0.486	-	83.88
1989	15.85	2981.50	0.531	-	92.09
1990	17.98	3395.30	0.529	127.7	102.33
1991	17.66	3489.10	0.506	127.6	124.30
1992	19.56	3730.20	0.524	94.0	139.85
1993	21.55	3877.30	0.556	71.0	139.09
1994	25.08	4260.00	0.589	55.0	135.65
1995	30.76	5122.90	0.601	40.8	142.13
1996	33.05	5352.30	0.618	38.6	138.39
1997	34.25	5534.90	0.619	34.4	130.54
1998	33.05	5450.00	0.606	40.2	138.13

^a Data for fiscal year April-March.

^b Real Effective Exchange Rate, based on IMF's Information Notice System (INS) methodology.

Note: Tariffs before 1990 were in excess of 100%. The mean tariff for 1999-00 is 39.6 %.

Source: World Bank Staff Estimates; IMF, IFS Yearbook 1998 and IFS Bulletins February 1999/April 1999.

Annex Table 6.5
Share in World Exports: India and Selected Countries, 1998

	Value of Exports (\$US billion)			Share in World Exports (%)		
	1996	1997	1998	1996	1997	1998
World	5352.30	5534.90	5450.00	100.00	100.00	100.00
India	33.05	34.25	33.05	0.62	0.62	0.61
China, Mainland	151.20	182.88	183.59	2.82	3.30	3.37
China, Hong Kong	180.75	188.06	173.99	3.38	3.40	3.19
Brazil	47.75	52.99	51.12	0.89	0.96	0.94
Argentina	23.81	26.37	25.23	0.44	0.48	0.46
Korea	129.72	136.16	133.22	2.42	2.46	2.44
Malaysia	78.33	78.74	73.30	1.46	1.42	1.35
Pakistan	9.33	8.73	8.50	0.17	0.16	0.16
Tanzania	0.76	0.72	0.67	0.01	0.01	0.01
Turkey	23.22	26.25	25.94	0.43	0.47	0.48
Kenya	2.07	2.05	1.99			
US	625.07	688.70	682.50	11.68	12.44	12.52
Canada	201.63	214.42	214.33	3.77	3.87	3.93

Source: IMF, IFS, various issues.

Annex Table 6.6
India - Tariff Structure, 1990-99
(In Percent)

Sector	Mean								Import Weighted Average									
	'90-91	'92-93	'93-94	'94-95	'95-96	'96-97	'97-98	'98-99	'99-00	'90-91	'92-93	'93-94	'94-95	'95-96	'96-97	'97-98	'98-99	'99-00
Whole Economy	128 (41)	94 (34)	71 (30)	55 (25)	40.8 (19)	38.6 (19)	34.4 (14.8)	40.2 (15.3)	39.6 (14.0)	87	64	47	33	27.2	24.6	25.4	29.7	30.2
Agricultural Products	106 (48)	59 (49)	39 (39)	31 (30)	25.1 (24.9)	25.6 (21.1)	24.6 (17.7)	29.6 (18.8)	29.2 (16.6)	70	30	25	17	14.9	14.7	14	16.1	17.7
Mining	n.a.	n.a.	71 (24)	48 (25)	30 (15.6)	24.8 (11.9)	24.4 (11.9)	29.4 (12.3)	26.6 (12.1)	n.a.	n.a.	33	31	27.6	22	21.9	19.5	17.7
Consumer goods	142 (33)	92 (42)	76 (36)	59 (33)	45.4 (26)	45.4 (27.1)	39.8 (20.5)	45.9 (20.7)	42.9 (18.9)	164	144	33	48	43.1	39	33.8	39.3	32.4
Intermediate goods	133 (42)	104 (25)	77 (22)	59 (17)	43.7 (13.5)	38.8 (13.2)	34.7 (10.3)	40.7 (11.1)	41.2 (10.5)	117	55	40	31	25	21.9	26.1	31.5	31.9
Capital goods	109 (32)	86 (26)	58 (24)	42 (20)	33.1 (12.4)	33.8 (12.2)	29.7 (9.4)	35.3 (10.2)	35.3 (8.2)	97	76	50	38	28.7	28.8	24.7	30.1	32.2

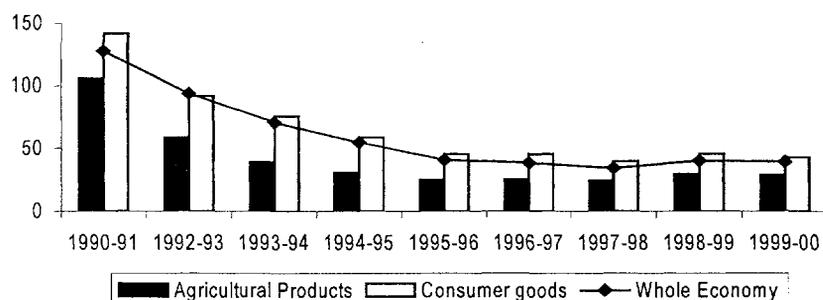
n.a. Not Available.

Notes:

- Standard deviations are in parentheses. In 1990-91 and 1992-93, mining is included in intermediates.
- The total customs duty is calculated as the sum of the basic customs duty, a surcharge of 10% on basic customs duty, and the special additional duty. The special additional duty is levied on the value of imports as well as the basic duty value, the surcharge value, and the additional duty value.
- Figures for 1997-98 include the 3% special duty imposed in September 1997.

Source: World Bank Staff Estimates; the rates are based on the 1997-98, 1998-99, 1999-2000 editions of the Easy Reference Customs Tariff, Academy of Business Studies.

Mean Tariff Rates (%), 1990-99



The Impact of the Four Percent Special Additional Duty, 1999-00

Sector	Customs Duty (%)	Total Customs Duty (%)	Difference (Percentage points)
	(Basic+Surcharge)	(Basic+Surcharge+Special Additional)	
Whole Economy	34	39.6	5.6
Agricultural Products	24.6	29.2	4.6
Mining	21.7	26.6	4.9
Manufacturing	34.7	40.4	5.7
Consumer goods	37.1	42.9	5.8
Intermediate goods	35.7	41.2	5.5
Capital goods	29.4	35.3	5.9

Annex Table 6.7
Real Exchange Rate of India's Main Trading Partners and Competitors 1981-99*
(March Averages)

	Export Share	1999																
		1981	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Apr	May	Jun	Jul	Aug	Sep
India																		
in US\$	-	0.57	1.00	1.05	1.28	1.49	1.38	1.33	1.38	1.38	1.47	1.53	1.55	1.54	1.56	1.58	1.59	1.60
in SDR	-	0.78	1.00	1.05	1.24	1.42	1.31	1.34	1.27	1.18	1.19	1.24	1.24	1.23	1.24	1.27	1.28	1.30
REEF ^b	-	0.58	1.00	1.10	1.45	1.50	1.40	1.48	1.48	1.37	1.38	1.43	1.43	1.42	1.42	1.44	1.47	1.48
India's Main Market																		
USA																		
	17.2	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Japan	13.5	1.10	1.00	0.91	0.89	0.80	0.72	0.64	0.77	0.92	0.95	0.91	0.91	0.93	0.93	0.92	0.87	0.83
Germany	12.8	1.05	1.00	0.98	0.99	0.97	0.99	0.83	0.88	1.02	1.11	1.10	1.12	1.13	1.16	1.16	1.14	1.15
United Kingdom	10.8	0.84	1.00	0.86	0.91	1.08	1.06	0.98	1.03	0.98	0.93	0.95	0.96	0.96	0.97	0.99	0.97	0.96
Belgium	8.3	0.98	1.00	0.95	0.99	0.98	1.01	0.85	0.89	1.04	1.13	1.11	1.14	1.15	1.18	1.19	1.16	1.17
France	6.6	1.00	1.00	0.96	1.00	1.00	1.04	0.91	0.93	1.06	1.14	1.14	1.17	1.18	1.21	1.21	1.18	1.20
Italy	4.6	1.24	1.00	0.94	0.95	1.20	1.24	1.23	1.12	1.21	1.28	1.27	1.30	1.31	1.34	1.35	1.31	1.33
Netherlands	3.3	1.01	1.00	0.96	0.99	0.98	1.01	0.84	0.89	1.04	1.11	1.08	1.11	1.11	1.14	1.15	1.12	1.13
India's Main Competitors																		
China																		
	-	0.45	1.00	1.15	1.18	1.16	1.50	1.26	1.19	1.19	1.23	1.29	1.31	1.31	1.32	1.31	1.32	1.33
Indonesia	-	0.47	1.00	1.02	0.99	0.95	0.94	0.92	0.92	0.93	2.76	1.77	1.73	1.62	1.48	1.42	1.58	1.76
Malaysia	-	0.73	1.00	1.02	0.95	0.97	0.89	0.89	0.86	1.26	1.26	1.27	1.27	1.27	1.26	1.27	1.27	1.27
Philippines	-	0.70	1.00	1.08	0.94	0.88	0.90	0.82	0.76	0.75	1.05	0.98	0.97	0.96	0.96	0.97	0.99	1.01
Thailand	-	0.75	1.00	0.98	0.97	0.96	0.93	0.90	0.88	0.89	1.31	1.19	1.21	1.19	1.19	1.20	1.23	1.29
Korea	-	1.02	1.00	0.98	1.01	1.02	1.00	0.95	0.94	1.06	1.64	1.37	1.35	1.34	1.31	1.34	1.34	1.35
Singapore	-	0.91	1.00	0.94	0.90	0.90	0.86	0.78	0.78	0.81	0.91	1.00	0.99	0.99	0.99	0.98	0.98	0.99
Hong Kong	-	0.90	1.00	0.93	0.87	0.83	0.79	0.74	0.71	0.70	0.67	0.70	0.71	0.71	0.72	0.73	0.74	0.75

* Index of the country's nominal exchange rate vis-à-vis the US\$ divided by the country's CPI vis-à-vis the US CPI.

^b Real effective exchange rate, based on the IMF's Information Notices System (INS) methodology. Trade weights are based on trade flows averaged over 1990-92.

Notes:

1. Increase = depreciation.

2. All data pertains to averages of March, with the exception of data on SDRs which pertains to end-of-month.

Source: IMF, International Financial Statistics, World Bank Staff Estimates.

Annex Table 6.8
Foreign Direct and Portfolio Investment
(US\$ million)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	April - August	
									1998-99	1999-00
Direct Investment										
Foreign Direct Investment	129	315	586	1314	2144	2821	3557	2462	1265	993
Portfolio Investment	4	244	3567	3824	2748	3312	1828	-61	-489	1190
Foreign Institutional Investment	0	1	1665	1503	2009	1926	979	-390	-558	1108
Euro-issues/ GDR	0	240	1520	2082	683	1366	645	270	15	0
Others ^a	4	3	382	239	56	20	204	59	54	82
Total Direct and Portfolio Investment	133	559	4153	5138	4892	6133	5385	2401	776	2183
Memo:										
Foreign Currency Convertible Bonds (FCCB) ^b	0	0	914	34	--	--	--	--	--	--
Floating Rate Notes (FRN)	0	0	0	167	--	--	--	--	--	--

^a Includes NRI portfolio investments, offshore funds, and others.

^b FCCBs is treated as commercial borrowing before conversion into equity.

Source: Reserve Bank of India; Ministry of Finance, Economic Survey, 1996-97.

Annex Table 7.1
India: Structure of Selected Institutions of the Financial System
End March 1998

	No. of Institutions	No. of Offices	Deposits (Rs.bill.)	Loans, Adv. & Inv. (Rs.bill.)	Assets (Rs.bill)	Assets (% total)	Assets (% GDP)
A. BANKING SYSTEM							
1. Reserve Bank of India	1	-	-	-	2623.0	13.0	16.8
1.1 Issue Department	-	-	-	929.46 ^a	1485.5	7.3	9.5
1.2 Banking Department	-	-	651.2	624.5	1137.5	5.6	7.3
2. Commercial Banks	301	64276	6662.3	6205.1	8252.9	40.8	52.8
2.1 Scheduled Comm. Banks ^b	300	64267	6662.3	6205.1	8252.9	40.8	52.8
2.1.1 Public Sector Banks	27	44958	5317.3	4870.1	6491.9	32.1	41.5
2.1.1.1 State Bank Group	8	13204	1736.0	1702.7	2327.5	11.5	14.9
2.1.1.2 Nationalized Banks	19	31754	3581.3	3167.4	4164.4	20.6	26.6
2.1.2 Regional Rural Banks	196	14471	221.1	237.9	297.5	1.5	1.9
2.1.3 Private Sector Banks	34	4661	695.2	620.4	810.6	4.0	5.2
2.1.4 Foreign Banks	42	177	428.7	476.7	652.9	3.2	4.2
2.2 Non-Sched. Comm. Banks ^c	1	9	-	-	-	-	-
B. NON-BANK SYSTEM							
1. Financial Institutions	-	-	-	3089.8	3654.0	18.1	23.4
1.1 IDBI	1	-	-	483.9	599.6	3.0	3.8
1.2 ICICI	1	-	-	366.7	459.2	2.3	2.9
1.3 IFCI	1	-	-	190.2	214.7	1.1	1.4
1.4 LIC & GIC	2	-	-	1085.1	1292.6	6.4	8.3
1.5 SFCs	18	-	-	115.3	145.8	0.7	0.9
1.6 EXIM Bank	1	-	-	45.2	52.3	0.3	0.3
1.7 UTI	1	-	-	550.4	638.1	3.2	4.1
1.8 NABARD	1	-	-	233.0	252.1	1.2	1.6
1.9 HDFC ^d	-	-	-	96.4	99.3	0.5	0.6
2. Non-Banking Sector	13971	-	3571.5 ^e	-	-	-	-
2.1 Non-Fin. Companies	2376	-	2238.7 ^e	-	-	-	-
2.2 Fin. Companies (NBFCs)	10122	-	1166.4 ^e	-	-	-	-
2.3 Misc. and Residual	1473	-	166.5 ^e	-	-	-	-
C. CAPITAL MARKET^f							
C. CAPITAL MARKET ^f	1	-	-	-	5603.3	27.7	35.8
Total:	-	-	-	-	20232.7	100.0	129.4

^a Excludes foreign securities.

^b Deposits, Loans etc. are based on Balance Sheet data, No. of Offices are based on Quarterly Handout (Banking Statistics).

^c Balance sheet data not available for End March 1998.

^d Figures from HDFC balance sheet as at March 31st, 1998.

^e End March 1997.

^f Stock Market Capitalisation, BSE (higher no. of securities, but lower trading volume than NSE, with a stock market cap. of Rs 4815bn at end March 1998).

Source: Reserve Bank of India (RBI); RBI, Report on Currency and Finance 1997-98; RBI, Report on Trends and Progress in Banking 1997-98.

Annex Table 7.2
Indicators of Indian Banking Policy 1968-1999: The Deposit Rate, Loan Ceiling/Minimum Rate,
Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) in Selected Years

Year	Month (end)	Deposit Rate (1 year) (% p.a.)	Loan Ceiling Rate ^b (% p.a.)	Loan Minimum Rate ^b (% p.a.)	CRR (% of deposits)	SLR (% of deposits)
1968	Dec.	n.a.	9.5 ^c	-	3.0	25.0 ^m
1974	Dec.	8.0	^d	12.5	4.0	32.0
1978	Dec.	6.0	15.0 ^e	12.5	6.0 ^j	34.0
1982	Dec.	8.0	19.5 ^f	^g	7.0	35.0
1986	Dec.	8.5	17.5	-	9.0 ^k	37.0
1990	Dec.	9.0	^h	16.0 ^h	15.0	38.5
1991	Dec.	12.0	-	19.0	15.0 ⁱ	38.5
1992	Dec.	not exceeding 12.0	-	19.0	15.0	30.0
1993	Dec.	not exceeding 10.0	-	17.0	14.0	25.0 ^l
1994	Jun.	not exceeding 10.0	-	14.0	14.5	25.0
	Dec.	not exceeding 10.0	-	free ⁱ	15.0	25.0
1995	Jun.	not exceeding 12.0	-	free	15.0	25.0
	Dec.	not exceeding 12.0	-	free	14.0	25.0
1996	Jun.	not exceeding 12.0	-	free	13.0	25.0
	Dec.	free ^a	-	free	11.0	25.0
1997	Jun.	free	-	free	10.0	25.0
	Dec.	free	-	free	10.0	25.0
1998	Jun.	free	-	free	10.0	25.0
	Dec.	free	-	free	11.0	25.0
1999	Jun.	free	-	free	10.0	25.0
	Dec.	free	-	free	9.0	25.0

n.a. Not available.

^a Freed from July 1996.

^b Key lending rates as prescribed by RBI for all commercial banks including SBI.

^c Ceiling on the lending rates of the Indian scheduled banks with DTL (Demand and Time Liabilities) of Rs. 50 cr. and all the foreign scheduled banks was introduced with effect from September 25, 1964.

^d Effective January 21, 1970, the ceiling on the lending rates was withdrawn.

^e Ceiling on the lending rates was re-introduced w.e.f. March 15, 1976 - 16.5%, inclusive of the 7% tax on interest income of banks, for banks with DTL of over Rs. 50 cr., one percentage point higher for banks with DTL between Rs. 25 cr. and Rs. 50 cr., and no ceiling on banks with DTL of less than Rs. 25 cr. Effective March 1, 1978, with abolition of the 7% tax, the maximum lending rate chargeable by banks was reduced to 15% for banks with DTL of over Rs. 25 cr and 16% for those with DTL of less than Rs. 25 cr.

^f Includes the 7% tax on interest income of banks (re-introduced in 1980); effective March 2, 1981, a uniform maximum lending rate for all banks irrespective of their size was fixed.

^g General minimum lending rate was abolished from March 2, 1981; wherever ceiling rates are prescribed, the rate for the preceding advance is treated as floor rate for that category.

^h Effective October 1988 ceiling rate abolished and minimum rate imposed.

ⁱ Freed from October 1994.

^j Incremental CRR of 10 per cent on increase in Net Demand and Time Liabilities (NDTL) over the level as on January 14, 1977; withdrawn with effect from October 31, 1980.

^k Incremental CRR of 10 per cent of NDTL over the level of November 11, 1983; withdrawn in July 1, 1989.

^l Incremental CRR of 10 per cent of NDTL over the level of May 3, 1991; discontinued with effect from April 17, 1992.

^m Legal minimum.

Source: RBI, Report on Currency and Finance, various issues; RBI, RBI Annual Report, various issues.

Annex Table 7.3
Scheduled Commercial Banks Investments and Other Assets (End Fiscal Year)
(Rupees Billion)

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
Selected Assets	1036.3	1225.1	1407.5	1684.8	1963.8	2226.1	2599.0	2995.1	3584.1	4380.9	5041.9	5614.1	6614.2	7216.5
Balances with RBI	110.5	143.8	176.6	213.8	234.6	238.6	341.8	285.4	477.6	600.3	506.7	498.5	577.0	635.5
SLR eligible Investments	305.5	385.8	465.0	546.6	643.7	750.7	902.0	1056.6	1325.2	1492.5	1647.8	1905.1	2187.1	2541.2
Government securities	190.5	248.5	305.2	358.2	422.9	500.0	627.3	759.5	1012.0	1176.9	1322.3	1588.9	1869.6	2227.4
Other approved securities	115.1	137.4	159.9	188.5	220.8	250.7	274.7	297.1	313.2	315.7	325.6	316.2	317.5	313.7
Other assets	59.5	62.4	60.5	77.2	70.9	73.9	99.4	133.4	137.1	172.5	196.8	232.4	278.5	379.8
Other Investments	-	-	-	-	-	-	-	-	-	-	150.4	194.1	330.8	-
Bank credit	560.7	633.1	705.4	847.2	1014.5	1163.0	1255.9	1519.8	1644.2	2115.6	2540.2	2784.0	3240.8	3660.0
Total Liabilities	979.8	1163.9	1337.1	1601.6	1882.4	2155.7	2523.7	2993.3	3507.1	4356.7	4854.7	5625.4	6791.3	8191.5
Liabilities to others	920.3	1099.8	1269.4	1506.7	1799.9	2056.0	2447.6	2865.6	3376.1	4129.3	4629.7	5407.9	6464.4	7716.8
Liabilities to the banking system	50.0	51.2	50.2	59.6	58.5	64.9	70.3	111.5	112.8	153.3	176.5	211.9	322.9	445.7
Borrowings from RBI	9.5	12.9	17.5	35.3	24.0	34.9	5.8	16.2	18.1	74.2	48.5	5.6	4.0	28.9
% of Total Liabilities														
Balances with RBI and														
SLR eligible investments	42.5	45.5	48.0	47.5	46.7	45.9	49.3	44.8	51.4	48.0	44.4	42.7	40.7	38.8
Other Investments	-	-	-	-	-	-	-	-	-	-	3.1	3.5	4.9	-
Bank Credit	57.2	54.4	52.8	52.9	53.9	53.9	49.8	50.8	46.9	48.6	52.3	49.5	47.7	44.7
Memo:														
Total assets	-	-	-	-	-	-	-	-	4351.0	5146.9	5991.5	6729.8	7954.1	9509.0

- Not Available.

Source: RBI, Report on Currency and Finance, various issues; RBI, Report on Trend and Progress of Banking in India, various issues.

Annex Table 7.4
Bank Resources to Small versus Medium and Large Industries (Rupees Billion)

	Outstanding as on						
	Mar-93	Mar-94	Mar-95	Mar-96	Mar-97	Mar-98	Mar-99
1. Gross Bank Credit	1471.4	1568.6	1969.9	2318.6	2589.9	3002.8	3420.1
2. Credit to Industry (medium and large)	586.4	578.7	746.7	930.5	1026.0	1175.3	1305.2
3. Investments in bonds etc.	0.0	0.0	0.0	149.9	194.1	330.8	469.2
4. Resources to industry (medium and large)(2+3)	586.4	578.7	746.7	1080.4	1220.2	1506.1	1774.3
5. Credit to SSI	200.3	226.2	276.4	318.8	359.4	436.0	484.8
6. Investment in Govt. securities in excess of SLR requirements	71.5	230.8	283.5	348.0	472.0	574.9	669.0
Ratios (%):							
i) Credit to Industry (medium and large) / Gross Bank Credit	39.9	36.9	37.9	40.1	39.6	39.1	38.2
ii) Resources to Industry (medium and large) / (Gross Bank Credit + Investments in bonds etc.)	39.9	36.9	37.9	43.8	43.8	45.2	45.6
iii) Credit to SSI / Gross Bank Credit	13.6	14.4	14.0	13.8	13.9	14.5	14.2
iv) Credit to SSI / Resources to Industry (medium and large)	34.2	39.1	37.0	29.5	29.5	28.9	27.3
v) Inv. in Govt securities in excess of SLR requirements / Gross Bank Credit	4.9	14.7	14.4	15.0	18.2	19.1	19.6
vi) (Resources to Industry [medium and large] + Inv in Govt. securities in excess of SLR) / Credit to SSI	328.5	357.9	372.8	448.0	470.8	477.3	504.0
vii) Credit/Deposit ratio	56.6	52.2	54.7	58.6	55.1	53.5	51.7
Memo (%):							
Actual Investment* / Deposit Ratio	39.3	42.1	38.6	38.0	37.7	36.1	35.7
SLR (effective)	35.6	32.5	29.3	28.0	26.5	25.0	25.0

* Investments in Government and approved securities

Source: RBI, Report on Currency and Finance, various issues.

Annex Table 8.1
Domestic Demand, 1981-97
(Percent of GDPmp at 1993/94 Prices)

	1981-91 ^a	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Total Consumption Expenditure	78.3 (4.8)	76.0 (3.7)	76.7 (1.4)	75.7 (3.9)	75.7 (4.9)	75.1 (7.2)	75.0 (7.8)	75.1 (7.5)	76.17 (6.4)
Government Final Consumption	11.1 (7.2)	11.2 (3.3)	11.0 (-0.6)	10.8 (3.3)	11.0 (6.4)	11.0 (7.7)	11.7 (15.1)	12.1 (11.3)	13.77 (19.4)
Private Final Consumption (CSC)	67.2 (4.5)	64.8 (3.8)	65.7 (1.8)	64.8 (4.0)	64.7 (4.7)	64.2 (7.1)	63.3 (6.6)	63.0 (6.8)	62.40 (3.9)
Gross Capital Formation	23.2 (5.9)	24.1 (12.2)	21.4 (-11.0)	22.8 (12.4)	20.8 (-4.5)	23.1 (19.9)	25.5 (19.6)	23.5 (-1.3)	24.10 (7.7)
Gross Fixed Capital Formation	21.1 (6.8)	21.5 (9.9)	20.5 (-4.0)	20.8 (7.0)	20.9 (5.5)	21.6 (11.3)	23.8 (18.9)	23.6 (6.3)	23.60 (5.2)
Public Sector	10.0 (4.3)	2.6 (4.8)	2.7 (2.0)	2.3 (-7.2)	7.8 (252.6)	8.6 (18.5)	7.5 (-6.4)	6.5 (-6.0)	6.77 (8.6)
Private Sector	3.8 (7.7)	3.9 (13.6)	3.5 (-8.1)	3.9 (17.5)	13.1 (247.9)	13.0 (7.0)	16.3 (35.8)	17.0 (12.0)	16.83 (3.9)
Change in Stocks	2.1	2.7	0.9	2.0	-0.2	1.5	1.8 (29.0)	-0.1	0.50
Domestic Demand	101.5 (5.1)	100.1 (5.7)	98.1 (-1.6)	98.5 (5.8)	96.4 2.76	98.2 (9.9)	100.5 (10.6)	98.6 (5.2)	100.27 (6.7)
Memo:									
Gross Domestic Savings	20.5	22.0	21.6	21.8	19.5	20.4	22.4	19.6	20.0
Public Savings	2.7	0.9	1.8	1.4	0.5	1.5	1.9	1.5	1.0
Household Financial	7.6	18.0	16.9	18.1	10.8	11.6	8.2	9.8	10.3
Private Corporate Sector	2.1	2.6	3.0	2.6	3.4	3.4	4.8	4.1	3.8

^a Average of 1981-82 through 1991-92.

Note: Real growth rate in parentheses.

Source: Central Statistical Organization, National Accounts Statistics 1998 and Quick Estimates 1999.

Annex Table 8.2
Key Interest Rates, 1994-99

	Call Money	Treasury Bills ²		YTM (%) of Govt-	Prime	Maximum	IDBI	Bank	Exchange	6-month	Inflation ¹¹
	Rate (Mumbai) ¹	364-day	91-day	Dated Securities (10 yr. Maturity) ³	Lending Rate ⁴	Term Deposit Rate ⁵	Rate ⁷	Rate ⁸	Rate (Rs./₹) ⁹	Forward Premia ¹⁰	
1994-95											
June	6.7	10.0	8.8	-	15.00	10.0	14.5	12.0	31.4	-	11.8
September	15.3	9.4	9.1	-	15.00	10.0	14.5	12.0	31.4	-	8.9
December	9.7	9.8	10.3	-	14.00	10.0	13.5	12.0	31.4	-	11.2
March	13.7	11.9	12.0	-	15.00	11.0	15.0	12.0	31.7	-	10.6
1995-96											
June	14.4	12.6	12.6	-	15.50	12.0	15.5	12.0	31.4	-	9.1
September	12.1	12.9	12.7	-	15.50	12.0	15.5	12.0	33.3	-	8.9
December	16.8	13.0	13.0	-	16.50	12.0	16.0	12.0	35.0	-	6.4
March	16.3	13.1	13.0	-	16.50	12.0 ⁶	16.0	12.0	34.4	22.7	5.1
1996-97											
June	10.9	13.0	12.4	-	16.50	12.0	16.0	12.0	35.0	10.7	4.5
September	8.4	12.6	10.2	-	15.50-16.50	12.0	17.0	12.0	35.7	8.7	6.5
December	8.1	10.3	8.2	-	14.50-15.00	11.0	16.5	12.0	35.8	7.6	7.5
March	3.7	10.1	8.0	-	14.50-15.00	10.0 ⁶	16.5	12.0	35.9	6.7	7.1
1997-98											
June	5.2	9.0	7.0	12.6	13.50-14.50	8.0	15.0	10.0	35.8	3.6	5.7
September	6.7	8.5	6.9	11.9	13.50	8.0	14.5	10.0	36.4	6.0	3.8
December	8.2	8.0	7.2	11.2	12.50-13.00	Free	13.5	9.0	39.2	8.0	4.5
March	8.8	8.0	7.3	12.1	14.00	Free	14.5	10.5	39.5	7.1	5.0
1998-99											
June	-	8.0	7.3	12.1	12.75-13.00	Free	14.0	9.0	42.2	9.7	7.5
September	-	9.6	10.0	12.3	12.75-13.00	Free	14.0	9.0	42.5	7.4	8.5
December	-	10.5	9.6	12.2	12.75-13.00	Free	14.0	9.0	42.6	7.1	6.3
March	-	10.1	8.7	12.0	12.00-13.00	Free	13.5	8.0	42.4	6.6	5.0
1999-00											
June	-	10.3	9.2	-	12.00	Free	13.5	8.0	43.1	5.3	3.1
September	-	10.3	9.5	-	12.00-12.50	Free	13.5	8.0	43.5	5.6	2.5
October	-	10.3	9.5	-	12.00-12.50	Free	13.5	8.0	43.5	5.2	2.6

- Not available.

¹ Call money rate of major commercial banks, average for the month.

² Implicit yield at cut-off price (for the last auction in the month). 364-day Treasury Bills were introduced in April 1992, and are sold through periodic auctions. Since January 1993, 91-day Treasury Bills are being periodically auctioned. Earlier they were sold on tap at 4.6%. 182 day treasury bills were reintroduced in the credit policy of April 29, 1998.

³ Period averages prevailing in the secondary market.

⁴ Relates to 5 major public sector banks. Since October 18, 1994, lending rates of scheduled commercial banks were freed for credit limits of over Rs. 200,000; at 13.5% per annum and upto Rs. 200,000; and at 12% credit limits upto Rs. 25,000.

⁵ Interest rates on domestic term deposits with a maturity of 30 days and upto one year are prescribed at 'not exceeding Bank Rate minus 2 percentage points per annum'. Effective October 22, 1997, banks are free to fix their own interest rates on domestic term deposits of 30 days and over. Minimum period of maturity for term deposits was reduced from 30 days to 15 days in the credit policy of April 29, 1998.

⁶ The deposit rate for March 1996 is the ceiling rate for maturity of 46 days and up to 2 years. Effective July 2, 1996, banks were free to determine term deposit rates for maturity period above one year. The rate for March 1997 is the ceiling rate for maturity of 30 days and up to one year.

⁷ Medium-term lending rate.

⁸ The bank rate was reduced to 11% in April 1997 and 10 percent in June 1997. The rate was further brought down to 9% in the busy season credit policy of October 1997.

On January 16, 1998, the bank rate was increased by a sharp 200 basis points to 11%. The bank rate was reduced to 10.5% on March 18, and to 9% on April 29, 1998.

⁹ Period average rate as given in the International Financial Statistics (IFS).

¹⁰ Relates to the U.S. \$ (% per annum).

¹¹ Wholesale price index, annual increase, point-to-point.

Note : Unless otherwise specified, interest rates/yields are those prevailing at the end of the month.

Source: RBI, RBI Monthly Bulletin, various issues; RBI, RBI Weekly Bulletin; RBI, RBI Annual Report; IMF, IFS.

Annex Table 8.3
Sources of Change in Base Money, 1988-89 to 1997-98
(Rupees Billion)

	'88-89	'89-90	'90-91	'91-92	'92-93	'93-94	'94-95	'95-96	'96-97	'97-98	'98-99
Change in Base Money	95	146	102	117	113	279	306	252	55	264	328
Sources of Change:											
RBI Claims	113	153	177	12	82	-33	102	286	-127	130	143
Net Foreign Exchange Assets, adj. ^a		6	10	46	39	2	3	61	42	105	95
Currency	1	1	1	1	1	2	4	1	4	4	4
Net Non-Monetary Liabilities adj. ^a		-13	-86	59	-9	308	197	-97	136	25	86
Memo:											
Money Base at Year-end.	630	776	878	995	1108	1387	1693	1945	2000	2264	2592

^a Adjustment refers to adjustment of the change in net foreign exchange assets by removing the impact of the change in the value of the Rupee against foreign currencies. Specifically, the increase in the net foreign exchange assets were computed by multiplying the difference in the stock of net foreign exchange assets (RBI), by the exchange rate at the end of the first year. The difference between this figure and the RBI's figure for the change in net foreign exchange assets was added to the RBI's figure for the change in NNML.

Source: RBI; World Bank estimates.

Annex Table 8.4
Imports: Customs and Non-Customs, 1996-97 / 1998-99

	Customs (DGCI&S)								Non-Customs ^b		Total Imports ^c	
	Total		Oil ^a		Gold & Silver ^a		Non-oil, non-gold		\$US bn	Growth (%)	\$US bn	Growth (%)
	\$US bn	Growth (%)	\$US bn	Growth (%)	\$US bn	Growth (%)	\$US bn	Growth (%)				
1996-97												
April-June	9.3	-	2.3	-	-	-	-	-	3.2	-	12.5	-
July-Sep.	8.9	-	2.1	-	-	-	-	-	2.8	-	11.7	-
Oct.-Dec.	9.9	-	2.6	-	-	-	-	-	2.2	-	12.1	-
Jan.-March	11.0	-	2.6	-	-	-	-	-	1.7	-	12.7	-
Apr-March	39.1	-	10.0	-	1.0	-	28.1	-	9.8	-	48.9	-
1997-98												
April-June	10.0	7.7	2.1	-10.5	0.2	-	7.7	-	2.8	-11.4	12.8	6.7
July-Sep.	9.8	9.9	1.9	-11.7	0.2	-	7.7	-	1.9	-31.9	11.7	3.7
Oct.-Dec.	10.6	7.1	2.1	-19.5	0.7	-	7.8	-	2.7	20.1	13.3	10.6
Jan.-March	11.0	0.0	1.6	-37.6	1.5	-	7.9	-	2.4	44.9	13.4	6.6
Apr-March	41.5	6.0	8.2	-18.4	3.2*	-	30.2	-	9.7	-1.2	51.2	6.9
1998-99												
April-June	10.5	5.1	1.3	-35.9	1.4	604.5	7.8	0.7	2.0	-27.6	12.5	-2.2
July-Sep.	10.9	11.5	1.6	-14.3	1.1	336.7	8.2	7.3	1.2	-35.9	12.1	1.9
Oct.-Dec.	10.3	-3.0	1.5	-27.6	1.3	90.9	7.5	-4.4	1.4	-48.8	11.7	-13.6
Jan.-March	10.1	-8.0	1.5	-10.3	1.0	-30.9	7.6	-3.1	1.1	-54.6	11.2	-16.3
Apr-March	41.9	0.9	6.4	-21.2	4.9	54.6	30.5	1.2	5.7	-41.4	47.5	-7.1

* In addition, \$2.7 billion worth of gold and silver was imported through the baggage route.

^a The quarterly figures do not add up to the annual figures owing to the differences in the exchange rate used for the purpose of conversion, and a lag between the revision of quarterly and annual data as reported by the RBI.

^b Difference between Total imports and Customs (DGCI&S).

^c Merchandise imports

Source: DGCI&S; RBI, RBI Monthly Bulletin, March 1999.

Annex Table 8.5
Central Government Finances, 1990-00
(Percent of GDP)

	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	98-99	99-00
									R.E.	Actuals*	B.E.
A. Revenue	9.5	9.9	9.7	8.6	8.8	9.0	9.0	8.6	8.7	8.3	9.0
Tax Revenue (Gross)	9.9	10.1	9.8	8.6	8.9	9.1	9.1	8.9	8.2	8.0	8.7
Corporation Tax	0.9	1.2	1.2	1.1	1.3	1.4	1.3	1.3	1.5	1.4	1.5
Income Tax	0.9	1.0	1.0	1.0	1.2	1.3	1.3	1.3	1.2	1.1	1.3
of which:											
VDIS	-	-	-	-	-	-	-	0.6	-	-	-
Excise Duties	4.2	4.2	4.0	3.6	3.6	3.3	3.2	3.1	2.9	2.9	3.2
Customs	3.6	3.3	3.1	2.5	2.6	2.9	3.0	2.6	2.4	2.3	2.5
Other	0.3	0.4	0.4	0.3	0.2	0.3	0.3	0.7	0.2	0.2	0.2
Less: States' Share	2.5	2.6	2.7	2.5	2.4	2.4	2.5	2.8	2.2	2.2	2.2
Tax Revenue (Net)	7.4	7.5	7.1	6.1	6.5	6.7	6.6	6.1	6.1	5.8	6.5
Non-tax Revenue (Interest Receipts)	2.1	2.4	2.6	2.5	2.3	2.3	2.3	2.4	2.7	2.5	2.5
(Interest Receipts)	1.5	1.6	1.6	1.7	1.5	1.5	1.6	1.6	1.7	1.5	1.6
B. Revenue Expenditure	12.7	12.3	12.1	12.3	11.8	11.5	11.3	11.5	12.1	12.0	11.7
Interest Payments	3.7	4.0	4.1	4.2	4.2	4.1	4.2	4.2	4.3	4.4	4.4
Subsidies	2.1	1.8	1.6	1.5	1.2	1.1	1.1	1.2	1.4	1.2	1.2
Food	0.4	0.4	0.4	0.6	0.5	0.4	0.4	0.5	0.5	0.5	0.4
Fertilizer	0.8	0.8	0.8	0.5	0.6	0.6	0.4	0.5	0.4	0.4	0.4
Others	0.9	0.6	0.4	0.3	0.2	0.1	0.3	0.3	0.5	0.3	0.3
Defense	1.9	1.7	1.6	1.7	1.6	1.5	1.5	1.7	1.7	1.7	1.7
Grants to States	2.3	2.4	2.3	2.4	1.9	1.7	1.6	1.9	1.4	1.4	1.5
Other	2.7	2.5	2.6	2.5	2.8	3.0	2.8	2.5	3.3	3.3	3.0
C. Capital Expenditure	2.1	1.7	1.8	1.5	1.4	1.1	0.9	1.0	0.9	0.9	1.1
Of which:											
Social Services	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1
Economic Services	0.8	0.9	0.6	0.6	0.6	0.4	0.3	0.4	0.4	0.4	0.5
D. Gross Loans	3.6	2.8	2.3	2.5	2.3	2.0	2.1	2.3	2.6	2.5	2.5
Of which:											
to States and UTs	2.5	2.0	1.7	1.7	1.8	2.0	2.1	1.9	2.3	2.2	2.1
E. Recovery of Loans	1.0	0.9	0.8	0.7	0.6	0.5	0.5	0.5	0.6	0.6	0.5
F. Net Lending (D-E)	2.4	1.8	1.3	1.6	1.7	1.5	1.5	1.7	2.0	2.0	1.9
G. Disinvestment in PEs	0.0	0.5	0.3	0.0	0.5	0.0	0.0	0.1	0.5	0.3	0.5
H. Gross Fiscal Deficit (B+C+F-A-G)-GOI old def.	7.7	5.5	5.3	6.9	5.6	5.0	4.7	5.7	5.7	6.2	5.2
I. Gross Fiscal Deficit (H-K)-GOI new def.	6.5	4.6	4.7	6.3	4.7	4.2	4.0	4.7	4.4	4.9	4.0
J. Gross Fiscal Deficit (H+G)- WB def.	7.7	5.9	5.5	6.9	6.1	5.1	4.8	5.7	6.2	6.5	5.7
Memo:											
Net Small Savings (K+L)	1.6	1.0	0.7	1.0	1.6	1.0	1.1	1.6	1.6	1.6	1.6
K. States share	1.2	0.8	0.6	0.6	0.9	0.8	0.8	1.0	1.3	1.3	1.2
L. Center's Share	0.4	0.2	0.2	0.5	0.7	0.2	0.3	0.6	0.3	0.3	0.4
M. Revenue Deficit (B-A+G)	3.2	2.9	2.7	3.7	3.5	2.5	2.3	3.0	3.8	4.0	3.2

* The figures are provisional actuals (adjusted for actual tax returns and expenditures). Components on taxes and expenditures are estimated.

Note: B.E. = Budget Estimates; R.E. = Revised Estimates; VDIS = Voluntary Disclosure of Income Scheme ; GOI = Government of India ;
 WB = World Bank.

Source: Government of India, Budget Documents; Staff estimates.

Annex Table 8.6
Evolution of the Public Sector Deficit¹, 1990-99
(Percent of GDP)

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99 ²	1999-00 B.E.
Central Government										
Fiscal Deficit ³	7.7	5.9	5.5	6.9	6.1	5.1	4.8	5.7	6.5	5.7
Primary Deficit ⁴	4.0	1.9	1.5	2.7	1.9	1.0	0.5	1.5	2.2	1.3
Revenue Deficit ⁵	3.2	2.9	2.7	3.7	3.5	2.5	2.3	3.0	4.0	3.2
State Government										
Fiscal Deficit	3.1	2.7	2.7	2.4	2.6	2.5	2.7	2.9	4.2	4.0
Primary Deficit	1.6	1.1	1.0	0.6	0.7	0.7	0.8	1.2	2.4	2.2
Revenue Deficit	0.8	0.7	0.7	0.5	0.6	0.6	1.1	1.0	2.2	2.2
General Government										
Fiscal Deficit ⁶	9.0	7.2	7.2	8.1	7.3	6.4	6.2	7.1	9.0	8.0
Primary Deficit	4.7	2.5	2.4	3.2	2.3	1.5	1.2	2.3	4.0	2.9
Revenue Deficit	4.0	3.6	3.4	4.2	4.1	3.1	3.4	4.0	6.2	5.4
Non-financial Public Sector										
Fiscal Deficit ⁷	10.9	9.2	9.1	10.2	8.8	7.9	8.4	8.0	9.6	9.2

¹ As defined by the World Bank, unless otherwise specified.

² Provisional actuals (adjusted for actual tax revenue and expenditure) for Center and Revised estimates for the States.

³ Government of India definition of Fiscal Deficit excluding disinvestment revenues.

⁴ Fiscal deficit minus interest payments.

⁵ Excludes disinvestment proceeds from revenues.

⁶ General Government Fiscal Deficit = Central Fiscal deficit (excluding disinvestment revenues), State Government Deficit, and excludes net lending from the Center to States.

⁷ Non-financial Public Sector Deficit includes General Government Deficit, oil pool balance and market-financed central public enterprise deficit (on-lending from Central Government to central public enterprises is netted out).

Source: Government of India, Budget Documents; RBI, Annual Report and Supplement to RBI Bulletin on finances of the state governments, various issues; Staff estimates.

Annex Table 8.7
Central Government Salary Bill and Establishment Strength : 1990-1997
(Rs. Billion at Current Prices)

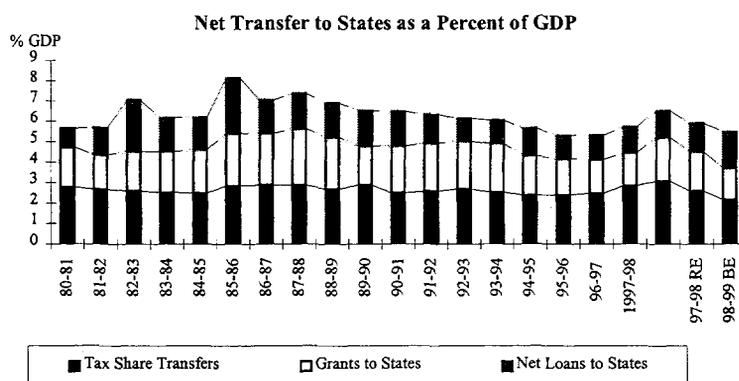
	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
A. Civil Salary and Allowances (as in the Budget)	107.43	114.68	134.62	152.09	165.48	187.84	198.42	266.88
Railway Salaries and Allowances	48.62	54.86	59.17	73.37	79.85	87.51	81.33	108.62
Post and Telecommunications	19.48	21.91	24.35	27.91	30.77	36.48	42.06	48.27
B. Civil Salary and Allowances (excl. Railways and P&T)	39.33	37.91	50.56	50.81	54.86	63.85	75.03	109.99
C. Defence Salary and Allowances	37.85	40.09	45.89	50.62	55.80	63.38	71.59	98.10
Total Salary Bill (A+C)	145.28	154.77	180.51	202.71	221.28	251.22	270.01	364.98
Pensions	5.00	5.52	6.85	8.12	9.34	11.09	14.25	19.50
Memo: %GDP								
Civil Salary and Allowances (as in the Budget)	1.9	1.7	1.8	1.7	1.6	1.5	1.4	1.7
Civil Salary and Allowances (excl. Railways and P&T)	0.7	0.6	0.7	0.6	0.5	0.5	0.5	0.7
Defence Salary and Allowances	0.7	0.6	0.6	0.6	0.5	0.5	0.5	0.6
Total Salary Bill	2.5	2.3	2.4	2.3	2.1	2.1	1.9	2.3
Pensions	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Establishment Strength (in Millions, as on March 1)	4.1	4.1	4.1	4.0	3.8	3.8	3.8	3.9

Note : P&T = Postal and Telegraph.

Source: Government of India, Budget Documents.

Annex Table 8.8
State Government Finances (% GDP*)

	1980-81	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
									R.E.	B.E.
Revenue receipts	11.1	11.6	12.2	11.9	12.0	11.8	11.3	10.8	11.7	10.8
Tax revenue	7.1	7.7	7.9	7.9	7.8	7.8	7.6	8.9	8.2	7.7
State own taxes	4.5	5.2	5.4	5.2	5.3	5.4	5.2	5.0	5.6	5.6
State share in central taxes	2.6	2.5	2.6	2.7	2.5	2.4	2.4	2.5	2.6	2.2
Non-tax revenue	4.0	3.9	4.3	4.0	4.2	4.0	3.6	3.3	3.5	3.1
Of which: Grants from centre	1.8	2.3	2.4	2.3	2.4	1.9	1.7	1.6	1.9	1.5
Revenue expenditure [A+B+C]	10.1	12.4	12.9	12.6	12.5	12.4	11.9	12.0	12.6	12.7
A. Developmental (1+2)	7.1	8.4	8.8	8.3	8.1	7.6	7.3	7.5	7.7	7.1
1. Social services	4.0	4.8	4.7	4.5	4.4	4.3	4.4	4.3	4.7	4.4
2. Economic services	3.1	3.6	4.1	3.8	3.6	3.3	2.9	3.3	3.1	2.7
B. Non-developmental	2.8	3.8	4.0	4.1	4.3	4.7	4.4	4.3	4.6	5.4
Of which: Interest payments	1.0	1.5	1.6	1.7	1.8	1.9	1.8	1.8	2.0	2.0
To centre	0.6	0.9	1.0	1.0	1.1	1.1	1.1	1.1	1.2	1.2
To others	0.4	0.6	0.7	0.7	0.7	0.8	0.7	0.7	0.8	0.8
C. Transfer to local bodies	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.2	0.2
Net current balance	1.0	-0.8	-0.7	-0.7	-0.5	-0.6	-0.6	-1.1	-0.9	-1.9
Capital expenditure [A+B+C]	3.5	2.3	2.0	2.1	1.9	2.0	1.9	1.5	2.0	1.9
A. Developmental (1+2)	2.1	1.5	1.5	1.4	1.4	1.6	1.5	1.2	1.5	1.3
1. Social services	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3
2. Economic services	1.9	1.3	1.2	1.1	1.2	1.4	1.2	1.0	1.2	1.1
B. Non-developmental	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
C. Loans and advances (net)	1.4	0.7	0.5	0.7	0.5	0.3	0.4	0.3	0.5	0.5
Gross fiscal deficit	2.6	3.1	2.7	2.7	2.4	2.6	2.5	2.7	2.9	3.8
Financed by instrument:										
Market loans	0.2	0.4	0.5	0.5	0.5	0.4	0.5	0.5	0.5	0.5
Loans from centre (Net)	0.8	1.7	1.4	1.1	1.1	1.3	1.1	1.2	1.4	1.8
Small savings & Provident funds	0.2	0.5	0.4	0.5	0.5	0.5	0.4	0.4	0.5	0.6
Other	1.3	0.4	0.4	0.6	0.3	0.4	0.5	0.6	0.5	0.9
Memo:										
Primary Deficit	1.5	1.6	1.1	1.0	0.6	0.7	0.7	0.8	0.9	1.8
Total Debt Outstanding	17.6	20.6	20.5	20.2	19.8	17.8	17.4	17.2	18.2	18.6



* Refers to the revised GDP series with 1993-94 as the base. The figures prior to 1993-94 have been rebased using a linking factor.

Note: R.E. = Revised Estimate; B.E. = Budget Estimate.

Source: RBI, Report on Currency and Finance and RBI Bulletin, various issues; World Bank staff estimates.

Annex Table 8.9
India: Finances of Central Public Enterprises
(Rupees Billion)

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99 RE	1999-00 BE
Net Internal Resources (NIR)	107.2	120.1	161.3	188.5	241.5	290.8	252.5	279.7	335.1	386.1
<i>of which :</i>										
Petroleum	27.2	26.3	54.8	45.5	76.6	91.4	56.5	57.4	101.8	107.6
Telecommunications	24.9	26.6	31.8	42.5	53.0	78.3	78.3	101.2	126.6	145.9
Railways	21.6	21.3	28.1	43.4	42.4	44.2	44.0	34.2	34.8	41.6
Chemicals and Fertilisers	4.1	3.1	5.3	7.5	7.8	18.2	16.4	19.8	15.3	13.6
Power	3.5	6.1	2.6	5.6	10.4	11.1	7.9	7.0	6.3	12.0
Plan Expenditure	280.5	294.2	366.6	438.9	485.9	521.8	542.5	549.6	578.0	681.6
<i>of which :</i>										
Petroleum	42.7	41.4	84.6	110.9	109.5	117.5	114.0	115.6	123.8	121.2
Telecommunications	31.1	36.5	50.7	64.7	75.4	98.3	100.8	111.4	134.9	167.9
Overall Balance	-173.3	-174.1	-205.3	-250.4	-244.3	-231.0	-290.0	-269.9	-242.8	-295.5
Financing:	173.3	174.1	205.3	250.4	244.3	231.0	290.0	269.9	242.8	295.5
External (net)	25.5	18.5	37.5	41.4	49.8	41.9	91.8	42.8	43.7	54.5
Domestic	147.8	155.6	167.9	209.0	194.6	189.1	198.2	227.1	199.1	241.0
Budget support	76.0	69.2	65.8	74.5	82.0	64.2	68.4	75.5	75.8	86.4
Loans	24.8	27.4	24.0	40.7	36.1	32.2	29.6	25.5	21.6	28.8
Equity	51.2	41.8	41.7	33.8	45.9	32.0	38.8	50.1	54.2	57.5
Bonds	49.3	57.2	62.9	62.4	72.3	77.9	84.4	94.9	89.2	109.8
Other	22.5	29.2	39.2	72.2	40.2	47.0	45.4	56.6	34.1	44.9
Memo (%):										
CPE deficit / GDP ¹	-3.0	-2.6	-2.7	-2.9	-2.4	-1.9	-2.1	-1.7	-1.3	-1.5
CPE deficit / GDP ²	-2.6	-2.2	-2.1	-1.9	-1.8	-1.5	-1.5	-1.3	-1.2	-1.3
Plan Exp./ GDP	4.8	4.4	4.8	5.0	4.7	4.3	3.8	3.5	3.2	3.4
NIR / GDP	1.9	1.8	2.1	2.1	2.3	2.4	1.8	1.8	1.9	1.9
Budget Support (plan + nonplan) / GDP	1.5	1.2	0.9	0.9	0.9	0.6	0.6	0.6	0.5	0.5
Share of Petroleum and Telecom in Plan Exp.	26.3	26.5	36.9	40.0	38.1	41.3	39.6	41.3	44.8	42.4
Share of Petroleum and Telecom in NIR	48.6	44.1	53.6	46.7	53.6	58.3	53.4	56.7	68.1	65.7
Non-Plan loans to CPEs (Rs. Billion)	10.7	7.6	6.0	7.8	9.1	11.8	14.6	15.8	18.5	17.4

¹ Refers to the deficit of all Central Public Enterprises.

² Refers to the CPE deficit excluding Petroleum and Telecom.

Note: RE = Revised Estimate; BE = Budget Estimate.

Source : Union Budget 1999-2000.

Annex Table 8.10
Year-wise/PSU-wise Details of Shares Disinvested Since 1991-92

S.No.	Name of the PSE	Percent of Central Government Holding (End March)							
		1991	1992	1993	1994	1995	1996	1997	1998
1	Andrew Yule	72.3	62.8	62.8	62.8	62.8	62.8	62.8*	62.8*
2	Bharat Earthmovers Ltd.	100.0	80.0	80.0	80.0	75.0	75.0	60.8	60.8
3	Bharat Electronics Ltd.	100.0	80.0	80.0	80.0	75.9	75.9	75.9	75.9
4	Bharat Heavy Electricals Ltd.	100.0	80.0	79.5	79.5	68.5	67.7	67.7	67.7
5	Bharat Petroleum Corpn. Ltd.	100.0	80.0	70.0	70.0	70.0	66.2	66.2	66.2
6	Bongaigaon Refineries & Petro. Ltd.	100.0	80.0	74.6	74.6	74.6	74.5	74.5	74.5
7	CMC Ltd.	100.0	83.5	83.5	83.5	83.3	83.3	83.3	83.3
8	Cochin Refineries Ltd.	61.1	55.0	55.0	55.0	55.0	55.0	55.0*	55.0*
9	Dredging Corpn. Ltd.	100.0	98.6	98.6	98.6	98.6	98.6	98.6	98.6
10	Fert. & Chem. (Travancore) Ltd.	100.0	98.5	98.3	98.3	98.3	98.3	97.4*	97.4*
11	HMT Ltd.	100.0	95.1	90.3	90.3	90.3	90.3	91.6	91.6
12	Hindustan Cables Ltd.	100.0	96.4	98.0	96.4	96.4	96.0	99.0	99.0
13	Hindustan Copper Ltd.	100.0	100.0	98.9	98.9	98.9	98.9	99.0	98.8
14	Hindustan Organic Chemicals Ltd.	100.0	80.0	80.0	80.0	80.0	80.0	58.6	58.6
15	Hindustan Petroleum Corpn. Ltd.	100.0	80.0	69.9	69.7	63.0	60.1	51.0	51.1
16	Hindustan Photofilms Mfg. Co. Ltd.	100.0	87.5	87.5	87.5	87.5	87.5	90.1	90.1
17	Hindustan Zinc Ltd.	100.0	80.1	75.9	75.9	75.1	75.1	75.9	75.9
18	Indian Petrochemicals Corpn. Ltd.	100.0	80.0	80.0	80.0	80.0	80.0	80.0	60.0
19	Indian Railway Const. Co.Ltd.	100.0	99.7	99.7	99.7	99.7	99.7	99.7	99.7
20	Indian Telephone Industries Ltd.	100.0	80.1	78.2	78.2	78.1	77.0	76.7*	76.7*
21	Madras Refineries Ltd.	84.6	67.7	67.7	67.7	67.7	67.7	53.8*	53.8*
22	Mahanagar Telephone Nigam Ltd.	100.0	80.0	80.0	80.0	67.2	65.7	65.7	56.2
23	Minerals & Metals Trading Corpn.	100.0	99.4	99.4	99.4	99.3	99.3	99.3	99.3
24	National Aluminium Co. Ltd.	100.0	97.3	87.2	87.2	87.2	87.2	87.2	87.2
25	National Fertilizers Ltd.	100.0	97.7	97.7	97.7	97.7	97.7	97.7	97.7
26	National Minerals Dev. Corpn Ltd.	100.0	100.0	98.4	98.4	98.4	98.4	96.4*	96.4*
27	Neyveli Lignite Corporation	100.0	95.4	94.0	94.0	94.0	94.0	94.0	94.0
28	Rashtriya Chemicals & Fertilizers	100.0	94.4	92.5	92.5	92.5	92.5	92.5	93.0
29	Shipping corpn. of India	100.0	81.5	81.5	81.5	80.1	80.1	80.1	80.1
30	State Trading Corpn.	100.0	92.0	91.0	91.0	91.0	91.0	91.0	91.0
31	Steel Authority of India Ltd.	100.0	95.0	89.5	89.5	89.4	88.9	85.8	85.8
32	Videsh Sanchar Nigam Ltd.	100.0	85.0	85.0	85.0	85.0	82.0	67.0	67.0
33	Container Corporation of India	100.0	100.0	100.0	100.0	80.0	76.9	76.9	76.9
34	Indian Oil Corporation	99.9	99.9	99.9	99.9	96.0	91.2	91.1*	91.1*
35	Oil & Natural Gas Corporation	100.0	100.0	100.0	100.0	98.0	96.1	96.1	96.1
36	Engineers India Ltd.	100.0	100.0	100.0	100.0	94.0	94.0	94.0	94.0
37	Gas Authority of India Ltd.	100.0	100.0	100.0	100.0	96.6	96.6	96.6	97.0
38	Indian Tourism & Dev. Corp.	100.0	100.0	100.0	100.0	90.0	90.0	90.0	90.0
39	Kudermukh Iron & Ore Company Ltd.	100.0	100.0	100.0	100.0	99.0	99.0	99.0	99.0

* The balance equity is held by state governments/other collaborators.

Note: 1999 not available.

Source: Public Enterprises Survey, various issues.

Annex Table 8.11
India: Estimated Capital Inflows and Debt Stocks^a, 1991-92 to 1998-99
(US \$ Billion)

	Average Annual Inflows				Debt Outstanding as of			
	1991-92	1994-95	1997-98	1998-99 ^p	March'91	March'94	March'98	March'99
	to	to			March'91	March'94	March'98	March'99
	1993-94	1996-97						
External Debt^c					91.2	94.5	94.3	98.2
Public & Publicly Guaranteed ^b	3.5	-1.4	0.5	1.0	60.9	71.2	71.4	72.4
NRI Foreign Currency & RIB	0.8	-0.6	0.9	4.2	10.2	12.7	12.0	16.1
NRI Rupees ^c	0.6	1.7	1.5	1.1	3.6	5.3	11.9	13.0
Private Medium & Long-Term	0.1	1.9	1.8	-3.7	1.5	1.8	10.3	6.6
Short-Term	-1.6	1.0	-1.7	-0.7	8.5	3.6	5.0	4.3
Non-Debt Flows								
FDI	0.3	2.0	3.6	2.4	-	-	-	-
Portfolio from Foreign Institutional Investors	0.6	1.8	1.8	-0.4	-	-	-	-
GDRs & Offshore	0.7	1.5	0.8	0.3	-	-	-	-
Total Debt and Non-Debt	5.8	7.4	4.7	5.3	-	-	-	-
Memo:								
Errors and Omissions	-0.1	0.2	0.2	0.3	-	-	-	-
Current Account Deficit	1.8	5.0	5.9	4.3	-	-	-	-

- Not available.

^p Projected.

^a Differences in stocks of public and publicly guaranteed debt are not equal to the sums of flows because of exchange rate changes.

^b Includes IMF; excludes NRI foreign currency deposits - beginning in 1992-93, new NRI deposits had no explicit government guarantees.

^c Part of these rupee deposits, which are non-repatriable, are not included in the external debt statistics; therefore, the sub-items may not add-up to the total.

Source: External Debt, World Bank; NRI Deposits and Non-debt Flows, RBI Annual Report 1999.

Annex Table 8.12
Details of Mobilisation in the Primary Market

	1994-95		1995-96		1996-97		1997-98		1998-99 ^P	
	No of Issues	Amount (Rs. bil.)	No of Issues	Amount (Rs. Bil.)						
Non-government Public Limited Companies	1678	264.2	1670	161.2	842	104.2	102	31.4	48	50.1
Public Sector Undertakings (PSU bonds)	15	30.7	22	22.9	16	33.9	19	29.8	8	9.8
Government Companies (Equities + Bonds)	7	8.9	2	10.0	3	6.5	1	0.4	-	-
Banking / Financial Institutions	2	4.3	6	34.7	6	43.5	4	14.8	3	43.5
Total	1702	308.0	1700	228.8	867	188.1	126	76.4	-59	103.4
Memo:										
Euro/FCCB Issues	31	67.4	5	13.0	16	55.9	7	40.1	3	11.5
UTI	18	86.1	34	-63.1	40	-30.4	79	28.8*	84	1.7*
Other Mutual Funds	36	26.6	39	4.8	47	10.1	58	11.3	82	29.2

^P Provisional.

- Not available.

* Net sales value with premium under all domestic schemes, includes re-investment sales.

Note: In case of PSU Bonds, the cumulative data are based on the details as and when made available to RBI by PSUs. PSU bonds include private placements.

Source: Reserve Bank of India.

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STATISTICAL APPENDIX

Table A.1.1 (a)
National Accounts Summary
(Rs. billion at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
GDPfc	3214.86	3845.67	4455.78	5209.77	6027.01	6877.52	7990.77	9434.08	11032.38	12852.59	14266.70
Agriculture and allied	999.72	1234.62	1375.33	1602.66	1871.15	2091.67	2424.38	2840.42	3127.91	3760.91	3921.34
Industry	844.46	1010.05	1207.18	1411.47	1553.66	1798.12	2058.00	2475.42	2997.92	3352.69	3727.24
Mining and Quarrying	83.00	107.87	120.76	138.06	149.98	170.91	197.02	223.94	245.88	272.09	293.77
Manufacturing	523.53	623.16	764.47	883.99	955.52	1100.71	1266.97	1550.16	1920.70	2152.93	2398.63
Construction	174.96	205.42	234.32	284.29	320.35	364.60	404.33	463.69	554.63	629.13	676.63
Electricity	62.98	73.60	87.64	105.13	127.80	161.90	189.68	237.63	276.71	298.54	358.21
Services	1370.68	1601.00	1873.26	2195.64	2602.21	2987.73	3508.39	4118.24	4906.55	5738.99	6618.12
Net Indirect Taxes	389.23	435.33	485.46	582.87	644.63	758.09	778.75	944.34	1147.25	1245.90	1368.82
GDPmp	3604.09	4281.00	4941.23	5792.64	6671.65	7635.61	8769.52	10378.42	12179.63	14098.49	15635.52
Resource Gap (M-X)	85.93	124.93	112.19	151.79	39.01	125.43	110.46	265.23	386.69	500.17	527.20
Imports (g+nfs)	296.23	388.59	465.46	565.11	610.00	808.31	987.25	1301.08	1713.70	1977.25	2203.37
Exports (g+nfs)	210.31	263.66	353.28	413.32	570.99	682.88	876.78	1035.85	1327.01	1477.08	1676.17
Total Expenditure	3690.02	4405.93	5053.42	5944.43	6710.66	7761.04	8879.98	10643.65	12566.32	14598.66	16162.72
Consumption	2899.67	3388.35	3890.36	4517.92	5232.30	5970.39	7058.98	8263.01	9446.53	11334.96	12509.17
General Gov't	437.11	506.54	580.09	661.17	743.36	841.14	962.40	1071.69	1270.24	1440.49	1738.64
Private	2462.56	2881.81	3310.28	3856.75	4488.94	5129.25	6096.58	7191.32	8176.29	9894.47	10770.53
Investment	790.35	1017.58	1163.06	1426.51	1478.36	1790.65	1821.00	2380.64	3119.79	3263.70	3653.55
Fixed Investment	757.96	899.43	1079.03	1301.91	1433.13	1667.82	1834.18	2224.59	2901.13	3270.90	3578.36
Change in Stocks	32.39	118.15	84.04	124.61	45.22	122.82	-13.18	156.05	218.66	-7.20	75.19
Domestic Savings	704.42	892.65	1050.87	1274.72	1439.35	1665.22	1710.54	2115.41	2733.10	2763.53	3126.35
Net Factor Income	-8.59	-15.29	-13.29	-64.36	-81.50	-89.79	-98.35	-100.70	-97.54	-104.27	-107.91
Current Transfers	34.99	38.42	38.01	37.14	92.75	112.11	165.18	254.11	284.63	439.04	439.58
National Savings	730.82	915.78	1075.59	1247.49	1450.60	1687.54	1777.36	2268.83	2920.19	3098.30	3458.02
Foreign Savings	59.53	101.79	87.47	182.00	40.16	112.43	47.88	118.75	209.31	178.53	218.45
GDP per capita (Rs.)	4573.72	5318.02	6011.23	6904.22	7793.98	8756.43	9842.33	11429.98	13138.76	14950.68	16303.98
Per capita private consumption	3125.08	3579.89	4027.10	4596.84	5244.09	5882.16	6842.41	7919.95	8820.16	10492.55	11231.00
Average Exchange Rates:											
Rupees per US \$	12.97	14.48	16.66	17.95	24.52	28.95	31.37	31.40	33.46	35.50	37.16
Rupees per SDR ^a	17.12	19.26	21.37	24.85	33.43	37.14	43.89	45.79	50.48	50.89	51.22
Memo Items:											
Priv. Consumption (CSO)	2547.39	2944.54	3297.88	3778.71	4378.84	4949.20	5672.39	6604.60	7573.84	8862.30	9604.01
Population (mill)	788.00	805.00	822.00	839.00	856.00	872.00	891.00	908.00	927.00	943.00	959.00

Notes: 1. Data prior to 1993-94 is estimated using the old series growth rates.

2. Exports, Imports, Foreign Savings, Net Factor Income and Capital Transfers numbers are used from the BOP.

Source: CSO, National Accounts Statistics 1998, Quick Estimates 1999 and World Bank Staff Estimates.

Table A1.1 (b)
National Accounts Summary
(Rs. billion at 1993-94 prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
GDPfc	5691.12	6297.22	6731.33	7092.20	7150.01	7526.15	7990.77	8610.64	9264.12	9989.78	10491.91
Agriculture and allied	1837.27	2135.04	2173.45	2255.24	2204.29	2337.50	2424.38	2555.22	2560.96	2801.79	2774.18
Industry	1452.54	1587.93	1744.76	1877.59	1864.77	1940.14	2058.00	2249.02	2523.90	2676.09	2834.44
Mining and Quarrying	135.21	155.49	166.86	184.68	191.49	193.68	197.02	215.11	231.08	233.93	240.18
Manufacturing	901.84	981.59	1097.24	1163.54	1121.23	1167.49	1266.97	1400.95	1611.01	1734.43	1851.80
Registered	558.89	618.36	704.19	739.51	722.59	745.31	830.77	938.40	1082.00	1168.36	1261.33
Unregistered	342.95	363.23	393.05	424.03	398.64	422.18	436.20	462.55	529.01	566.07	590.47
Construction	299.93	323.15	339.65	379.22	387.48	400.55	404.33	425.60	460.54	473.82	493.13
Electricity	115.56	127.71	141.01	150.15	164.58	178.41	189.68	207.36	221.27	233.91	249.33
Services	2401.32	2574.25	2813.12	2959.37	3080.95	3248.51	3508.39	3806.40	4179.26	4511.90	4883.29
Net Indirect Taxes	685.10	711.75	738.30	800.28	775.88	829.36	778.75	852.71	958.73	974.55	1018.23
GDPmp	6376.23	7008.97	7469.63	7892.48	7925.89	8355.51	8769.52	9463.35	10222.85	10964.33	11510.14
Terms of Trade Effect	9.68	40.82	32.49	-25.13	-15.50	-15.52	0.00	-23.18	-176.47	-198.41	-124.72
Gross Domestic Income	6385.91	7049.79	7502.12	7867.36	7910.39	8339.99	8769.52	9440.17	10046.38	10765.92	11385.42
Resource Gap (M-X)	217.17	307.30	231.10	203.22	32.41	122.39	110.46	213.26	138.78	190.55	286.13
Imports (g+nfs)	715.35	828.92	824.04	850.12	749.17	888.72	987.25	1159.88	1397.11	1537.61	1717.09
Capacity to import [Exports (g+nfs)]	507.86	562.44	625.43	621.78	701.26	750.82	876.78	923.44	1081.85	1148.65	1306.24
	498.18	521.62	592.94	646.90	716.76	766.33	876.78	946.62	1258.32	1347.07	1430.96
Total Expenditure	6603.08	7357.09	7733.23	8070.58	7942.80	8462.38	8879.98	9653.43	10185.16	10956.47	11671.55
Consumption	5203.11	5696.10	6035.15	6164.75	6246.44	6556.25	7058.98	7470.43	7574.43	8380.22	8897.65
General Gov't	765.33	806.13	851.62	880.13	875.16	904.44	962.40	1036.88	1193.05	1327.85	1585.14
Private	4437.79	4889.98	5183.53	5284.62	5371.28	5651.80	6096.58	6433.55	6381.38	7052.37	7312.51
Investment	1399.97	1660.99	1698.08	1905.83	1696.37	1906.13	1821.00	2183.00	2610.73	2576.25	2773.90
Fixed Investment	1324.24	1417.54	1540.60	1693.32	1625.54	1738.73	1834.18	2041.52	2428.26	2582.38	2716.53
Change in Stocks	75.73	243.45	157.48	212.51	70.82	167.40	-13.18	141.48	182.47	-6.13	57.37
Domestic Savings	1260.52	1490.56	1608.14	1730.65	1703.63	1815.70	1710.54	1918.61	2215.21	2074.06	2257.62
Net Factor Income	-20.75	-32.61	-23.53	-96.83	-100.09	-98.72	-98.35	-89.77	-79.52	-81.08	-84.09
Current Transfers	84.49	81.96	67.29	55.86	113.92	123.26	165.18	226.53	232.05	341.42	342.57
National Savings	1324.27	1539.91	1651.90	1689.69	1717.45	1840.24	1777.36	2055.37	2367.74	2334.40	2516.10
Foreign Savings	153.43	257.96	187.35	244.18	18.59	97.84	43.64	76.50	-13.74	-69.79	27.65
GDP per capita (Rs.)	2463.01	2650.25	2766.02	2863.38	2818.40	2916.65	2984.33	3042.19	3102.78	3162.07	3200.23
Per capita private consumption	5631.71	6074.51	6306.00	6298.72	6274.86	6481.43	6842.41	7085.41	7488.91	7748.65	7925.14
Rupee Deflators (1993-94=100):											
GDPmp	56.52	61.08	66.15	73.39	84.18	91.38	100.00	109.67	119.14	128.59	135.84
Imports(g+nfs)	41.41	46.88	56.49	66.47	81.42	90.95	100.00	112.17	122.66	128.59	128.32
Exports(g+nfs)	42.22	50.55	59.58	63.89	79.66	89.11	100.00	109.43	105.46	109.65	117.14
Total Expenditure	55.88	59.89	65.35	73.66	84.49	91.71	100.00	110.26	123.38	133.24	138.48
Govt. Consumption	57.11	62.84	68.12	75.12	84.94	93.00	100.00	103.36	106.47	108.48	109.68
Priv. Consumption	55.49	58.93	63.86	72.98	83.57	90.75	100.00	111.78	128.13	140.30	147.29
Fixed Investment	57.24	63.45	70.04	76.88	88.16	95.92	100.00	108.97	119.47	126.66	131.73
Total Investment	56.45	61.26	68.49	74.85	87.15	93.94	100.00	109.05	119.50	126.68	131.71

Notes: 1. Data prior to 1993-94 is estimated using the old series growth rates.

2. Exports, Imports, Foreign Savings, Net Factor Income and Capital Transfers numbers are used from the BOP.

Source: CSO, National Accounts Statistics 1998, Quick Estimates 1999 and World Bank Staff Estimates.

Table A1.2 (a)
Gross Domestic Product at Factor Cost - By Industry of Origin
(Rs. billion at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Agricultural Sector	999.72	1234.62	1375.33	1602.66	1871.15	2091.67	2424.38	2840.42	3127.91	3760.91	3921.34
Agriculture	903.26	1125.93	1248.62	1461.85	1722.90	1924.19	2231.48	2612.39	2876.97	3475.01	3595.86
Forestry & Logging	64.17	70.92	81.25	86.01	87.14	91.96	102.16	117.04	123.65	135.35	144.69
Fishing	32.29	37.78	45.46	54.80	61.10	75.52	90.74	110.99	127.29	150.55	180.79
Industry Sector	844.46	1010.05	1207.18	1411.47	1553.66	1798.12	2058.00	2475.42	2997.92	3352.69	3727.24
Mining & Quarrying	83.00	107.87	120.76	138.06	149.98	170.91	197.02	223.94	245.88	272.09	293.77
Manufacturing	523.53	623.16	764.47	883.99	955.52	1100.71	1266.97	1550.16	1920.70	2152.93	2398.63
Registered	329.40	399.38	494.69	568.17	622.27	704.60	830.77	1035.75	1281.75	1443.33	1616.74
Unregistered	194.13	223.78	269.77	315.82	333.25	396.11	436.20	514.41	638.95	709.60	781.89
Electricity, Gas & Water	62.98	73.60	87.64	105.13	127.80	161.90	189.68	237.63	276.71	298.54	358.21
Construction	174.96	205.42	234.32	284.29	320.35	364.60	404.33	463.69	554.63	629.13	676.63
Services Sector	1370.68	1601.00	1873.26	2195.64	2602.21	2987.73	3508.39	4118.24	4906.55	5738.99	6618.12
Transport, Storage & Com.	205.72	246.53	286.31	350.20	423.53	505.21	579.90	686.39	777.93	923.67	1079.03
Railways	43.56	47.51	55.75	64.33	73.42	84.46	96.48	112.03	125.80	132.56	147.49
Other Transport	128.88	157.42	183.84	230.62	284.49	339.45	383.14	448.54	501.58	610.51	719.21
Storage	3.39	3.57	4.15	4.76	5.10	5.59	6.08	7.38	8.45	9.28	9.95
Communication	29.90	38.03	42.57	50.49	60.53	75.72	94.20	118.44	142.10	171.32	202.38
Trade, Hotels etc.	435.19	512.06	599.11	700.72	801.77	937.21	1109.95	1356.12	1648.66	1970.80	2218.10
Banking & Insurance	106.56	128.27	163.82	201.74	282.25	298.66	416.65	500.98	658.85	770.13	879.56
Real Estate etc.	276.69	301.70	334.28	361.92	397.19	435.11	479.18	525.57	574.77	620.98	672.51
Public Admin & Defence	193.60	224.99	260.32	292.42	339.15	391.03	430.94	480.09	565.87	646.42	832.77
Other Services	152.91	187.46	229.42	288.64	358.32	420.49	491.77	569.09	680.47	806.99	936.15
GDP at Factor Cost	3214.86	3845.67	4455.78	5209.77	6027.01	6877.52	7990.77	9434.08	11032.38	12852.59	14266.70

Note: Data prior to 1993-94 is estimated using the old series growth rates.

Source: CSO, National Accounts Statistics 1998, Quick Estimates 1999 and World Bank Staff Estimates.

Table A1.2 (b)
Gross Domestic Product at Factor Cost - By Industry of Origin
(Rs. billion at 1993-94 prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Agricultural Sector	1837.27	2135.04	2173.45	2255.24	2204.29	2337.50	2424.38	2555.22	2560.96	2801.79	2774.18
Agriculture	1671.46	1966.06	1987.37	2069.59	2015.53	2148.85	2231.48	2350.60	2348.42	2574.78	2541.48
Forestry & Logging	105.88	104.25	113.29	110.10	109.32	104.61	102.16	106.52	108.08	111.83	115.71
Fishing	59.93	64.73	72.79	75.55	79.43	84.04	90.74	98.10	104.46	115.18	116.99
Industry Sector	1452.54	1587.93	1744.76	1877.59	1864.77	1940.14	2058.00	2249.02	2523.90	2676.09	2834.44
Mining & Quarrying	135.21	155.49	166.86	184.68	191.49	193.68	197.02	215.11	231.08	233.93	240.18
Manufacturing	901.84	981.59	1097.24	1163.54	1121.23	1167.49	1266.97	1400.95	1611.01	1734.43	1851.80
Registered	558.89	618.36	704.19	739.51	722.59	745.31	830.77	938.40	1082.00	1168.36	1261.33
Unregistered	342.95	363.23	393.05	424.03	398.64	422.18	436.20	462.55	529.01	566.07	590.47
Electricity, Gas & Water	115.56	127.71	141.01	150.15	164.58	178.41	189.68	207.36	221.27	233.91	249.33
Construction	299.93	323.15	339.65	379.22	387.48	400.55	404.33	425.60	460.54	473.82	493.13
Services Sector	2401.32	2574.25	2813.12	2959.37	3080.95	3248.51	3508.39	3806.40	4179.26	4511.90	4883.29
Transport, Storage & Com.	412.91	437.23	474.35	496.53	524.50	549.65	579.90	631.18	687.88	749.56	798.19
Railways	87.09	86.20	89.68	92.67	98.25	97.14	96.48	98.46	106.47	111.89	115.21
Other Transport	260.18	282.24	311.71	326.33	343.87	361.70	383.14	417.06	445.13	478.95	501.44
Storage	5.55	5.39	5.59	5.82	5.75	5.92	6.08	6.21	6.52	6.46	6.55
Communication	60.09	63.39	67.38	71.71	76.63	84.90	94.20	109.45	129.76	152.26	174.99
Trade, Hotels etc.	782.52	839.38	905.64	954.06	962.93	1028.47	1109.95	1275.32	1438.58	1559.54	1643.55
Banking & Insurance	185.60	216.30	257.59	280.17	328.78	347.69	416.65	451.90	513.43	580.94	658.14
Real Estate etc.	391.28	404.54	418.62	435.02	448.82	463.61	479.18	494.19	510.95	524.81	540.00
Public Admin & Defence	335.00	357.03	387.13	391.07	399.42	420.13	430.94	436.20	466.35	487.36	586.31
Other Services	294.01	319.77	369.78	402.53	416.50	438.95	491.77	517.61	562.07	609.69	657.10
GDP at Factor Cost	5691.12	6297.22	6731.33	7092.20	7150.01	7526.15	7990.77	8610.64	9264.12	9989.78	10491.91

Note: Data prior to 1993-94 is estimated using the old series growth rates.

Source: CSO, National Accounts Statistics 1998, Quick Estimates 1999 and World Bank Staff Estimates.

Table A1.2 (c)
Implicit Price Deflators for GDP at Factor Cost
(1993-94=100)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Agricultural Sector	54.41	57.83	63.28	71.06	84.89	89.48	100.00	111.16	122.14	134.23	141.35
Agriculture	54.04	57.27	62.83	70.63	85.48	89.54	100.00	111.14	122.51	134.96	141.49
Forestry & Logging	60.60	68.03	71.72	78.12	79.71	87.91	100.00	109.88	114.41	121.03	125.05
Fishing	53.89	58.36	62.46	72.54	76.92	89.86	100.00	113.14	121.86	130.71	154.53
Industry Sector	58.14	63.61	69.19	75.17	83.32	92.68	100.00	110.07	118.78	125.28	131.50
Mining & Quarrying	61.39	69.37	72.37	74.75	78.33	88.24	100.00	104.10	106.40	116.31	122.31
Manufacturing	58.05	63.49	69.67	75.97	85.22	94.28	100.00	110.65	119.22	124.13	129.53
Registered	58.94	64.59	70.25	76.83	86.12	94.54	100.00	110.37	118.46	123.53	128.18
Unregistered	56.61	61.61	68.64	74.48	83.60	93.83	100.00	111.21	120.78	125.36	132.42
Electricity, Gas & Water	54.50	57.63	62.15	70.02	77.65	90.74	100.00	114.60	125.06	127.63	143.67
Construction	58.33	63.57	68.99	74.97	82.68	91.03	100.00	108.95	120.43	132.78	137.21
Services Sector	57.08	62.19	66.59	74.19	84.46	91.97	100.00	108.19	117.40	127.20	135.53
Transport, Storage & Com.	49.82	56.38	60.36	70.53	80.75	91.91	100.00	108.75	113.09	123.23	135.18
Railways	50.02	55.11	62.16	69.42	74.73	86.94	100.00	113.78	118.16	118.47	128.02
Other Transport	49.53	55.77	58.98	70.67	82.73	93.85	100.00	107.55	112.68	127.47	143.43
Storage	60.99	66.22	74.21	81.74	88.62	94.47	100.00	118.84	129.60	143.65	151.91
Communication	49.75	59.99	63.19	70.42	78.99	89.19	100.00	108.21	109.51	112.52	115.65
Trade, Hotels etc.	55.61	61.00	66.15	73.45	83.26	91.13	100.00	106.34	114.60	126.37	134.96
Banking & Insurance	57.41	59.30	63.60	72.01	85.85	85.90	100.00	110.86	128.32	132.57	133.64
Real Estate etc.	70.72	74.58	79.85	83.20	88.50	93.85	100.00	106.35	112.49	118.32	124.54
Public Admin & Defence	57.79	63.02	67.24	74.78	84.91	93.07	100.00	110.06	121.34	132.64	142.04
Other Services	52.01	58.62	62.04	71.71	86.03	95.80	100.00	109.95	121.06	132.36	142.47
GDP at Factor Cost	56.49	61.07	66.19	73.46	84.29	91.38	100.00	109.56	119.09	128.66	135.98

Source: Derived from Tables 1.2(a) and 1.2(b).

Table A1.3
Gross Savings and Investment
(Rs. billion)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
(At current prices)											
GROSS NATIONAL SAVINGS	730.82	915.78	1075.59	1247.49	1450.60	1687.54	1777.36	2268.83	2920.19	3098.30	3458.02
Households	600.32	751.05	884.12	1042.79	1130.41	1382.29	1434.92	1759.93	2108.61	2300.94	2705.15
Private corporate sector	58.27	83.72	117.24	150.35	201.31	197.60	296.67	350.28	582.63	584.68	588.87
Public sector	72.23	81.01	74.23	54.36	118.88	107.65	45.77	158.62	228.95	212.68	164.00
Foreign Savings	59.53	101.79	87.47	182.00	40.16	112.43	47.88	118.75	209.31	178.53	218.45
GROSS DOMESTIC INVESTMENT	790.35	1017.58	1163.06	1426.51	1478.36	1790.65	1821.00	2380.64	3119.79	3263.70	3653.55
Change in stocks	32.39	118.15	84.04	124.61	45.22	122.82	-13.18	156.05	218.66	-7.20	75.19
GROSS FIXED CAPITAL FORMATION	757.96	899.43	1079.03	1301.91	1433.13	1667.82	1834.18	2224.59	2901.13	3270.90	3578.36
By Type of Asset:											
Construction	373.67	445.11	515.21	627.57	718.42	812.79	871.92	1006.54	1214.78	1332.21	1415.01
Machinery & Equipment	384.29	454.32	563.82	674.34	714.71	855.04	962.26	1218.05	1686.35	1938.69	2163.35
By Sector:											
Public sector	352.04	405.96	446.65	510.95	598.13	612.18	687.90	887.82	912.34	923.97	1068.56
Private sector	376.23	458.03	589.13	738.28	777.66	987.40	1146.28	1336.77	1988.79	2346.93	2509.80
GDPmp at current prices	3604.09	4281.00	4941.23	5792.64	6671.65	7635.61	8769.52	10378.42	12179.63	14098.49	15635.52
(At 1993-94 prices)											
GROSS DOMESTIC INVESTMENT	1399.97	1660.99	1698.08	1905.83	1696.37	1906.13	1821.00	2183.00	2610.73	2576.25	2773.90
Change in Stocks	75.73	243.45	157.48	212.51	70.82	167.40	-13.18	141.48	182.47	-6.13	57.37
GROSS FIXED CAPITAL FORMATION	1324.24	1417.54	1540.60	1693.32	1625.54	1738.73	1834.18	2041.52	2428.26	2582.38	2716.53
By Type of Asset:											
Construction	150.45	164.23	170.69	187.57	191.91	197.49	871.92	922.81	991.26	1003.99	996.25
Machinery & Equipment	1173.79	1253.31	1369.91	1505.75	1433.63	1541.24	962.26	1118.71	1437.00	1578.39	1720.28
By Sector:											
Public sector	186.60	195.39	196.51	206.01	210.12	195.08	687.90	815.01	762.79	717.02	778.90
Private sector	212.95	232.31	268.32	304.90	280.34	329.53	1146.28	1226.51	1665.47	1865.36	1937.63

Notes: 1. Data prior to 1993-94 is estimated using the old series growth rates.

2. Exports, Imports, Foreign Savings, Net Factor Income and Capital Transfers numbers are used from the BOP.

Source: CSO, National Accounts Statistics 1998, Quick Estimates 1999 and World Bank Staff Estimates.

Table A1.4
 Disposable Income and Its Uses
 (Rs. billion at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
GDPmp	3604.09	4281.00	4941.23	5792.64	6671.65	7635.61	8769.52	10378.42	12179.63	14098.49	15635.52
Net Factor Income from abroad	-8.59	-15.29	-13.29	-64.36	-81.50	-89.79	-98.35	-100.70	-97.54	-104.27	-107.91
Other current transfers	34.99	38.42	38.01	37.14	92.75	112.11	165.18	254.11	284.63	439.04	439.58
Disposable income	3630.49	4304.13	4965.95	5765.41	6682.90	7657.93	8836.34	10531.84	12366.72	14433.26	15967.19
Private disposable income	3121.15	3716.58	4311.63	5049.88	5820.66	6709.14	7828.17	9301.53	10867.53	12780.09	14064.55
Public disposable income	509.34	587.55	654.32	715.53	862.24	948.79	1008.17	1230.31	1499.19	1653.17	1902.64
Gross National Savings	730.82	915.78	1075.59	1247.49	1450.60	1687.54	1777.36	2268.83	2920.19	3098.30	3458.02
Private savings	658.59	834.77	1001.36	1193.13	1331.72	1579.89	1731.59	2110.21	2691.24	2885.62	3294.02
Public savings	72.23	81.01	74.23	54.36	118.88	107.65	45.77	158.62	228.95	212.68	164.00
Final Consumption	2899.67	3388.35	3890.36	4517.92	5232.30	5970.39	7058.98	8263.01	9446.53	11334.96	12509.17
Private Consumption	2462.56	2881.81	3310.28	3856.75	4488.94	5129.25	6096.58	7191.32	8176.29	9894.47	10770.53
Public Consumption	437.11	506.54	580.09	661.17	743.36	841.14	962.40	1071.69	1270.24	1440.49	1738.64

Notes: 1. Data prior to 1993-94 is estimated using the old series growth rates.

2. Exports, Imports, Foreign Savings, Net Factor Income and Capital Transfers numbers are used from the BOP.

Source: CSO, *National Accounts Statistics 1998*, Quick Estimates 1999 and World Bank Staff Estimates.

Table A1.5 (a)
Gross Domestic Investment by Industry of Origin
(Rs. billion at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Agricultural Sector	86.19	93.77	104.41	120.77	138.79	170.01	175.71	220.29	264.06	290.44	327.14
Agriculture	78.27	84.56	93.54	108.16	124.93	155.02	158.45	199.93	239.42	262.96	297.00
Forestry & Logging	2.56	2.95	3.81	4.56	4.43	4.51	4.74	5.02	6.26	7.06	7.33
Fishing	5.36	6.26	7.06	8.05	9.43	10.48	12.52	15.34	18.38	20.42	22.81
Industry Sector	333.51	475.41	459.18	549.40	580.56	773.40	851.88	1138.83	1663.95	1633.33	1952.66
Mining & Quarrying	42.16	47.88	63.02	66.24	63.34	65.83	65.34	158.47	116.98	69.53	79.00
Manufacturing	170.86	298.59	248.62	310.95	303.02	484.38	527.68	727.61	1263.37	1256.44	1510.68
Registered	166.92	334.85	241.09	314.73	313.66	531.25	419.32	614.20	1081.04	1057.74	1293.19
Unregistered	51.29	59.46	75.89	85.69	78.64	104.82	108.36	113.41	182.33	198.70	217.49
Electricity, Gas & Water	107.92	117.46	128.37	149.81	196.50	197.42	230.71	223.54	237.76	260.47	309.27
Construction	12.57	11.49	19.17	22.40	17.71	25.77	28.15	29.21	45.84	46.89	53.71
Services Sector	338.46	396.69	495.39	620.06	680.44	736.55	747.62	954.94	999.44	1089.74	1225.55
Transport, Storage & Com.	82.46	109.23	131.78	147.08	165.77	203.41	248.58	306.23	268.74	360.88	403.21
Railways	21.52	26.37	26.43	30.78	33.17	49.19	55.81	49.92	52.10	59.39	53.57
Other Transport	44.09	58.07	73.82	83.45	96.04	97.56	127.17	135.66	165.59	195.96	206.72
Storage	0.79	0.77	0.89	0.70	0.46	0.50	0.99	1.28	0.92	1.04	1.12
Communication	16.07	24.02	30.64	32.15	36.09	56.17	64.61	119.37	50.13	104.49	141.80
Trade, Hotels etc.	18.23	3.16	59.74	93.81	80.10	32.10	57.50	71.55	86.34	87.30	101.13
Banking & Insurance	15.27	21.79	24.42	31.93	51.52	48.92	71.14	121.64	151.33	119.49	124.91
Real Estate etc.	85.43	96.31	111.95	139.73	159.54	184.05	205.33	225.04	242.42	261.16	281.00
Public Admin & Defence	55.14	62.31	55.84	75.21	82.36	95.28	106.44	148.93	159.49	166.80	202.58
Other Services	81.92	103.89	111.65	132.30	141.15	172.79	58.63	81.55	91.12	94.11	112.72
Gross Domestic Investment	758.17	965.88	1058.97	1290.23	1399.80	1679.95	1775.21	2314.06	2927.45	3013.51	3505.35
Memo Items:											
Gross Domestic Investment ^a	796.51	1010.25	1194.41	1543.88	1506.72	1761.06	1963.79	2634.15	3143.40	3616.87	3873.77
Errors & Omissions	-6.17	7.33	-31.34	-117.37	-28.37	29.59	-142.79	-253.51	-23.61	-353.17	-220.22
Gross Domestic Investment (unadjusted) ^b	790.35	1017.58	1163.06	1426.51	1478.36	1790.65	1821.00	2380.64	3119.79	3263.70	3653.55

a. Refers to CSO's savings-based estimate of investment.

b. Refers to Gross Capital Formation unadjusted for errors and omissions, which is CSO's direct estimate of investment based on physical flows.

Note: Data prior to 1993-94 is estimated using the old series growth rates.

Source: CSO, National Accounts Statistics 1998, Quick Estimates 1999 and World Bank Staff Estimates.

Table A1.5 (b)
Gross Domestic Investment by Industry of Origin
(Rs. billion at 1993-94 prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Agricultural Sector	151.15	149.72	151.71	160.78	164.83	185.51	175.71	200.38	219.52	220.52	232.72
Agriculture	139.02	136.88	137.10	144.69	148.94	169.19	158.45	182.14	199.44	199.02	209.95
Forestry & Logging	4.82	4.90	5.87	6.53	5.44	4.90	4.74	4.51	5.05	5.04	4.76
Fishing	7.31	7.95	8.74	9.57	10.45	11.42	12.52	13.73	15.03	16.46	18.01
Industry Sector	459.15	581.37	558.86	629.69	622.30	789.20	851.88	1043.47	1400.37	1302.32	1504.02
Mining & Quarrying	79.57	83.29	97.85	93.01	77.83	72.70	65.34	145.76	98.45	51.89	55.55
Manufacturing	170.86	298.59	248.62	310.95	303.02	484.38	527.68	667.11	1064.59	1010.35	1178.52
Registered	295.34	559.41	350.17	421.94	361.24	578.34	419.32	561.60	909.90	851.50	1012.21
Unregistered	88.00	94.23	111.44	115.33	88.00	113.22	108.36	105.51	154.69	158.85	166.31
Electricity, Gas & Water	186.86	180.54	184.21	196.31	221.23	205.27	230.71	204.24	198.71	202.38	228.02
Construction	21.86	18.95	28.18	29.42	20.22	26.85	28.15	26.36	38.62	37.70	41.93
Services Sector	692.81	816.93	820.24	934.80	828.58	828.20	747.62	880.11	839.16	863.56	922.20
Transport, Storage & Com.	140.79	166.26	180.22	185.03	182.59	211.16	248.58	283.11	233.14	296.63	318.34
Railways	35.67	39.47	34.89	37.48	35.42	51.01	55.81	46.72	45.50	49.33	42.90
Other Transport	75.02	87.35	99.82	103.60	105.67	100.67	127.17	126.93	144.53	163.02	165.70
Storage	1.16	1.02	1.19	0.92	0.44	0.44	0.99	1.19	0.77	0.82	0.83
Communication	28.95	38.41	44.32	43.04	41.06	59.03	64.61	108.27	42.34	83.46	108.91
Trade, Hotels etc.	31.22	-1.56	89.78	135.09	98.09	28.69	57.50	65.34	68.96	66.04	71.71
Banking & Insurance	26.45	34.11	34.44	41.35	58.62	51.06	71.14	112.10	128.03	96.38	97.72
Real Estate etc.	135.69	143.11	156.76	184.55	185.55	200.62	205.33	208.03	200.52	203.53	208.25
Public Admin & Defence	97.39	101.86	82.06	100.76	96.22	102.78	106.44	135.90	131.94	126.69	143.30
Other Services	261.27	373.16	276.98	288.02	207.49	233.90	58.63	75.63	76.57	74.29	82.88
Gross Domestic Investment	1303.10	1548.03	1530.80	1725.27	1615.71	1802.91	1775.21	2123.96	2459.05	2386.40	2658.94
<u>Memo Items:</u>											
Gross Domestic Investment ^a	1409.98	1647.97	1741.88	2057.84	1727.78	1873.86	1963.79	2415.65	2630.49	2855.08	2941.08
Errors & Omissions	-992.12	-1152.20	-1235.04	-1488.99	-1221.45	-1305.16	-142.79	-232.65	-19.76	-278.83	-167.18
Gross Domestic Investment (unadjusted) ^b	1399.97	1660.99	1698.08	1905.83	1696.37	1906.13	1821.00	2183.00	2610.73	2576.25	2773.90

a. Refers to CSO's savings-based estimate of investment.

b. Refers to Gross Capital Formation unadjusted for errors and omissions, which is CSO's direct estimate of investment based on physical flows.

Note: Data prior to 1993-94 is estimated using the old series growth rates.

Source: CSO, National Accounts Statistics 1998, Quick Estimates 1999 and World Bank Staff Estimates.

Table A1.5 (c)
Investment Deflators by Industry of Use
(1993-94=100)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Agricultural Sector	57.03	62.63	68.82	75.11	84.21	91.64	100.00	109.94	120.29	131.71	140.57
Agriculture	56.30	61.78	68.23	74.75	83.88	91.62	100.00	109.77	120.05	132.13	141.46
Forestry & Logging	53.14	60.26	64.94	69.86	81.44	92.13	100.00	111.31	123.96	140.08	153.99
Fishing	73.31	78.74	80.75	84.16	90.25	91.74	100.00	111.73	122.29	124.06	126.65
Industry Sector	72.64	81.77	82.16	87.25	93.29	98.00	100.00	109.14	118.82	125.42	129.83
Mining & Quarrying	52.98	57.48	64.41	71.22	81.38	90.55	100.00	108.72	118.82	133.99	142.21
Manufacturing	100.00	100.00	100.00	100.00	100.00	100.00	100.00	109.07	118.67	124.36	128.18
Registered	56.52	59.86	68.85	74.59	86.83	91.86	100.00	109.37	118.81	124.22	127.76
Unregistered	58.29	63.10	68.10	74.30	89.36	92.58	100.00	107.49	117.87	125.09	130.77
Electricity, Gas & Water	57.76	65.06	69.69	76.32	88.82	96.17	100.00	109.45	119.65	128.70	135.63
Construction	57.50	60.63	68.01	76.12	87.57	95.99	100.00	110.81	118.69	124.38	128.09
Services Sector	48.85	48.56	60.40	66.33	82.12	88.93	100.00	108.50	119.10	126.19	132.89
Transport, Storage & Com.	58.57	65.70	73.12	79.49	90.79	96.33	100.00	108.17	115.27	121.66	126.66
Railways	60.34	66.81	75.76	82.13	93.65	96.42	100.00	106.85	114.51	120.39	124.87
Other Transport	58.77	66.48	73.95	80.56	90.89	96.91	100.00	106.88	114.57	120.21	124.76
Storage	67.89	74.97	74.40	75.62	104.71	111.54	100.00	107.56	119.48	126.83	134.94
Communication	55.51	62.54	69.14	74.70	87.91	95.15	100.00	110.25	118.40	125.20	130.20
Trade, Hotels etc.	58.41	-202.13	66.54	69.44	81.66	111.88	100.00	109.50	125.20	132.19	141.03
Banking & Insurance	57.75	63.89	70.91	77.23	87.88	95.82	100.00	108.51	118.20	123.98	127.82
Real Estate etc.	62.96	67.30	71.42	75.71	85.98	91.74	100.00	108.18	120.90	128.32	134.93
Public Admin & Defence	56.62	61.17	68.05	74.65	85.60	92.70	100.00	109.59	120.88	131.66	141.37
Other Services	31.35	27.84	40.31	45.93	68.02	73.87	100.00	107.83	119.00	126.68	136.00
Gross Domestic Investment	58.18	62.39	69.18	74.78	86.64	93.18	100.00	108.95	119.05	126.28	131.83
Memo Items:											
Gross Domestic Investment ^a	56.49	61.30	68.57	75.02	87.21	93.98	100.00	109.05	119.50	126.68	131.71
Gross Domestic Investment (unadjusted) ^b	56.45	61.26	68.49	74.85	87.15	93.94	100.00	109.05	119.50	126.68	131.71

a. Refers to CSO's savings-based estimate of investment.

b. Refers to Gross Capital Formation unadjusted for errors and omissions, which is CSO's direct estimate of investment based on physical flows.

Source: Derived from Tables 1.5(a) and 1.5(b).

Table A1.6 (a)
Gross Domestic Investment in Public Sector
(Rs. billion at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Agricultural Sector	33.02	34.41	33.53	36.27	36.52	41.73	49.18	60.31	65.80	67.78	76.26
Agriculture	30.56	31.61	29.88	31.92	32.29	37.47	44.67	55.57	59.89	61.12	69.33
Forestry & Logging	2.42	2.78	3.62	4.33	4.20	4.25	4.48	4.74	5.90	6.66	6.92
Fishing	0.04	0.02	0.03	0.02	0.03	0.01	0.03	0.00	0.01	0.00	0.01
Industry Sector	192.84	204.32	235.48	277.65	324.88	309.66	298.88	420.56	458.92	447.16	488.22
Mining & Quarrying	40.96	47.59	62.46	65.04	61.92	63.76	63.36	148.16	110.97	65.70	72.92
Manufacturing	50.73	51.72	54.66	71.45	85.08	82.98	48.92	68.58	126.81	142.15	135.26
Electricity, Gas & Water	98.81	105.62	117.55	137.69	174.10	158.41	178.96	195.88	214.63	231.45	272.03
Construction	2.34	-0.61	0.81	3.47	3.78	4.51	7.64	7.94	6.51	7.86	8.01
Services Sector	110.62	161.93	194.76	216.87	214.03	287.40	359.54	403.28	373.19	423.04	523.21
Transport, Storage & Com.	46.40	61.51	75.93	79.59	92.17	123.72	159.75	159.12	172.53	179.32	195.86
Railways	21.52	26.37	26.43	30.78	33.17	49.19	55.81	49.92	52.11	59.39	53.57
Other Transport	10.12	13.49	21.87	19.74	26.68	24.37	45.80	37.10	33.81	32.20	40.64
Storage	0.46	0.27	0.36	0.46	0.20	0.17	0.64	0.55	0.27	0.43	0.52
Communication	14.30	21.38	27.27	28.61	32.12	49.99	57.50	71.55	86.34	87.30	101.13
Trade, Hotels etc.	-22.61	-2.98	17.48	14.54	-16.67	12.74	34.78	21.29	-38.81	-15.35	16.81
Banking & Insurance	9.49	14.82	16.99	17.98	23.59	18.04	19.72	25.84	32.44	36.36	41.27
Real Estate etc.	6.63	7.49	7.24	6.09	8.56	10.08	10.66	12.65	14.13	16.38	20.20
Public Admin & Defence	55.14	62.31	55.84	75.21	82.36	95.28	106.44	148.93	159.49	166.80	202.58
Other Services	15.56	18.79	21.28	23.46	24.02	27.55	15.89	20.40	21.20	23.92	30.14
Gross Domestic Investment	336.47	400.65	463.77	530.79	575.43	638.80	707.60	884.15	897.91	937.98	1087.69

Note: Data prior to 1993-94 is estimated using the old series growth rates.

Source: CSO, National Accounts Statistics 1998, Quick Estimates 1999 and World Bank Staff Estimates.

Table A1.6 (b)
Gross Domestic Investment in Public Sector
(Rs. billion at 1993-94 prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Agricultural Sector	15.76	14.82	13.01	13.15	11.35	45.73	49.18	53.97	52.55	48.23	48.66
Agriculture	14.58	13.62	11.56	11.54	10.02	41.11	44.67	49.70	47.76	43.47	44.16
Forestry & Logging	1.16	1.19	1.43	1.60	1.32	4.60	4.48	4.26	4.78	4.76	4.50
Fishing	0.02	0.01	0.02	0.01	0.01	0.03	0.03	0.01	0.01	0.00	0.00
Industry Sector	347.32	336.86	353.31	376.81	379.00	332.15	298.88	386.91	384.20	349.57	361.74
Mining & Quarrying	77.40	81.24	97.22	91.38	76.16	70.22	63.36	136.23	93.24	48.86	50.81
Manufacturing	89.74	84.57	78.33	96.04	98.49	90.45	48.92	64.01	109.01	115.07	105.84
Electricity, Gas & Water	172.54	163.41	170.11	181.75	196.71	163.84	178.96	179.37	176.54	179.54	199.15
Construction	7.64	7.64	7.64	7.64	7.64	7.64	7.64	7.30	5.41	6.10	5.94
Services Sector	219.33	282.03	311.56	319.15	268.02	298.09	359.54	370.91	314.19	330.17	383.25
Transport, Storage & Com.	79.42	94.15	104.71	100.64	101.23	128.52	159.75	147.19	143.93	141.96	146.73
Railways	35.67	39.47	34.89	37.48	35.42	51.01	55.81	46.72	45.50	49.33	42.90
Other Transport	17.35	20.18	29.90	24.26	29.12	24.84	45.80	34.61	29.25	26.25	31.74
Storage	0.64	0.32	0.48	0.61	0.16	0.13	0.64	0.52	0.22	0.34	0.38
Communication	25.76	34.19	39.44	38.30	36.54	52.54	57.50	65.34	68.96	66.04	71.71
Trade, Hotels etc.	-39.67	-5.30	26.10	19.63	-20.31	13.60	34.78	19.26	-32.49	-12.06	12.65
Banking & Insurance	16.25	22.91	23.50	22.85	26.38	18.64	19.72	24.11	27.89	29.83	32.92
Real Estate etc.	10.66	11.26	10.17	8.01	9.98	10.85	10.66	11.80	11.79	12.93	15.22
Public Admin & Defence	97.39	101.86	82.06	100.76	96.22	102.78	106.44	135.90	131.94	126.69	143.30
Other Services	55.27	57.14	65.02	67.25	54.52	23.70	15.89	18.78	17.69	18.69	22.31
Gross Domestic Investment	582.41	633.71	677.88	709.11	658.37	675.97	707.60	811.79	750.94	727.97	793.65

Note: Data prior to 1993-94 is estimated using the old series growth rates.

Source: CSO, National Accounts Statistics 1998, Quick Estimates 1999 and World Bank Staff Estimates.

Table A2.1
Balance of Payments
(US\$ million at current prices)

	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
Exports of Goods and Non-Factor Services	18213	21201	23028	23288	23585	27947	32990	39657	41607	45109	47484
Merchandise (fob)	14257	16955	18477	18266	18869	22683	26855	32311	34133	35680	34298
Non-factor Services	3956	4246	4551	5022	4716	5264	6135	7346	7474	9429	13186
Imports of Goods and Non-Factor Services	26843	27934	31485	24879	27917	31468	41437	51213	55696	59297	58565
Merchandise (cif)	23618	24411	27914	21064	24316	26739	35904	43670	48948	51187	47544
Non-factor Services	3225	3523	3571	3815	3601	4729	5533	7543	6748	8110	11021
Trade Balance	-9361	-7456	-9437	-2798	-5447	-4056	-9049	-11359	-14815	-15507	-13246
Nonfactor Services Balance	731	723	980	1207	1115	535	602	-197	726	1319	2165
Resource Balance	-8630	-6733	-8457	-1591	-4332	-3521	-8447	-11556	-14089	-14188	-11081
Net Factor Income	-1056	-798	-3752	-3830	-3423	-3270	-3428	-3205	-3307	-3521	-3544
Factor Service Receipts	397	936	368	221	376	395	886	1429	1073	1561	1935
Factor Service Payments ^a	1453	1734	4120	4051	3799	3665	4314	4634	4380	5082	5479
Net Current Transfers	2654	2281	2069	3783	3872	5265	8093	8506	12367	11830	10280
Transfer Receipts	2670	2297	2083	3798	3884	5287	8112	8539	12435	11875	10341
Transfer Payments	16	16	14	15	12	22	19	33	68	45	61
Current Account Balance	-7032	-5249	-10140	-1638	-3883	-1526	-3782	-6255	-5029	-5879	-4345
Foreign Investment	287	350	103	133	559	4153	5138	4892	6133	5385	2401
Direct Foreign Investment	287	350	97	129	315	586	1314	2144	2821	3557	2462
Portfolio Investment	0	0	6	4	244	3567	3824	2748	3312	1828	-61
Official Grant Aid	406	500	462	460	363	368	416	345	410	379	307
Net Medium & Long-Term Capital	4976	5474	4801	3543	2642	2660	1745	2409	6580	5264	6122
Gross Disbursements	3732	4273	7649	7499	4489	6389	7343	7185	10627	10256	9952
Principal Repayments	1084	1094	4384	4246	3848	4934	5770	5879	7397	6117	5572
Capital Flows NEI	-1374	-1992	1789	100	58	2885	3310	-3399	-1892	-940	-159
Net Short-Term Capital	941	334	1075	-515	-1079	-769	393	49	838	-96	-2714
Others ^b	141	167	1907	1855	2015	4707	3900	-2496	-2003	-77	3357
Capital flows n.e.i. ^c	-2456	-2492	-1193	-1240	-878	-1053	-983	-952	-727	-767	-802
Overall Balance	-2737	-917	-2985	2598	-261	8540	6827	-2008	6202	4209	4326
Net IMF Credit	1306	67	1214	786	1288	187	-1143	-1715	-975	-613	-393
Change in Reserves (Excl. Gold) (- = increase)	1432	850	1771	-3384	-1027	-8727	-5684	3723	-5227	-3596	-3933
Memorandum Items:											
NRI deposits (net) (US\$ million)	2328	2295	1536	290	2001	1205	172	1103	3350	1125	1742
End of Year Gross Reserves (Excl. Gold) (US\$ mill.)	4959	4109	2338	5722	6749	15476	21160	17437	22664	26260	30193
Reserves in Months of Imports	2.5	2.0	1.0	3.3	3.3	6.9	7.1	4.8	5.6	6.2	7.6
Current Account Balance / GDP	-2.4%	-1.8%	-3.1%	-0.6%	-1.5%	-0.5%	-1.1%	-1.7%	-1.3%	-1.4%	-1.0%
Debt Service Ratio ^d	27.9%	28.5%	32.1%	28.8%	27.6%	24.8%	26.1%	27.3%	21.7%	21.2%	17.3%

Note: Interest payments, disbursements and external debt data is from the World Bank Debt Reporting System.

- Includes interest on military debt to FSU and returns on foreign investments.
- Residual item including reserve valuation changes, rupee trade imbalance, etc.
- Corresponds to bilateral balance or servicing of the Russia debt from 1990-91 onwards.
- As proportion of gross current receipts (GNFS exports + factor receipts + current transfer receipts).

Source: Government of India; Reserve Bank of India; Ministry of Commerce; Ministry of Finance, *Economic Survey*, various issues; World Bank Staff estimates.

Table A2.2 (a)
Merchandise Exports
(US\$ million at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
Primary Exports	3161	3243	3883	4324	4132	3874	4916	5214	7257	8035	7665	6850
Fish	411	435	412	535	589	602	813	1126	1010	1129	1208	1039
Rice	261	229	256	257	308	337	410	384	1365	894	907	1474
Cashews	243	191	221	249	276	259	334	397	370	362	379	383
Coffee	202	203	208	140	135	130	174	335	449	402	456	405
Tea	463	421	550	596	494	337	338	311	350	292	505	547
Spices	260	190	170	133	161	136	181	195	237	339	379	384
Iron Ore	427	465	557	584	585	381	438	413	514	481	476	380
Other Primary	893	1110	1508	1829	1584	1692	2227	2052	2961	4137	3355	2237
Manufactured Exports	8928	10727	12730	13821	13733	14663	17322	21417	24538	25434	27348	26817
Chemicals	618	890	1287	1176	1591	1378	1813	2434	2358	2689	2649	2482
Leather Manufactures	964	1051	1170	1449	1276	1278	1300	1611	1730	1606	1631	1620
Textiles	1407	1312	1598	2266	2164	2153	2536	3297	3829	4755	4893	4011
Garments	1403	1452	1936	2235	2211	2394	2586	3282	3674	3753	3877	4446
Gems & Jewellery	2015	3034	3178	2923	2753	3072	3995	4500	5273	4753	5347	5906
Engineering Goods	1141	1558	1967	2157	2246	2458	3023	3486	4389	4052	4436	3805
Petroleum Products	500	349	418	522	417	476	398	439	454	482	353	89
Other Manufactures ^a	879	1081	1176	1092	1074	1453	1672	2367	2830	3344	4161	4460
TOTAL EXPORTS (Commerce) ^b	12089	13970	16613	18145	17865	18537	22238	26631	31795	33469	35013	33667
Statistical Discrepancy	557	287	342	332	401	332	445	224	516	664	667	631
TOTAL EXPORTS (B.O.P.)	12646	14257	16955	18477	18266	18869	22683	26855	32311	34133	35680	34298

a. Including unclassified exports.

b. Net of crude petroleum exports.

Source: Ministry of Commerce (D.G.C.I.S); Reserve Bank of India; Ministry of Finance, *Economic Survey*, various issues; World Bank Staff estimates.

Table A.2.2 (b)
Merchandise Exports
(US\$ million at 1980-81 prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Primary Exports	3097	3218	3983	4496	4365	4527	5714	5273	8166	8157	7417
Fish	354	386	424	480	570	570	679	778	766	860	860
Rice	152	137	165	197	265	227	300	348	1919	981	900
Cashews	228	202	266	305	288	344	404	440	389	387	419
Coffee	317	291	437	339	343	445	447	453	560	480	474
Tea	479	450	487	463	503	390	361	353	373	325	450
Spices	114	122	115	110	115	104	174	136	148	191	188
Iron Ore	461	541	578	530	490	344	431	428	530	457	472
Other Primary	993	1089	1512	2073	1791	2104	2918	2337	3480	4477	3654
Manufactured Exports	8411	9180	10414	11299	12673	14137	15905	18406	23096	25420	27000
Chemicals	542	847	1182	1584	2156	1333	1724	2268	2801	3405	4110
Leather Manufactures	899	957	961	979	956	1070	1151	1412	1527	1186	1459
Textiles	1074	915	1122	1329	1872	2512	2266	2868	3266	5482	5895
Garments	1142	1136	1485	1640	1758	1822	1806	2176	2514	3045	2825
Gems & Jewellery	1602	2081	1908	1573	1645	2081	2639	2982	3625	3562	3877
Engineering Goods	1390	1728	2220	2470	2513	3228	3878	4455	7019	6622	6887
Petroleum Products	985	694	784	917	980	1241	1346	1086	1146	1055	986
Other Manufactures ^a	778	823	752	808	793	850	1095	1158	1199	1063	961
TOTAL EXPORTS (Commerce) ^b	11508	12398	14397	15795	17039	18664	21619	23679	31262	33578	34417
Statistical Discrepancy	530	255	297	289	382	334	433	199	507	666	656
TOTAL EXPORTS (B.O.P.)	12038	12653	14694	16084	17421	18998	22052	23878	31769	34244	35073

a. Including unclassified exports.

b. Net of crude petroleum exports.

Source: Ministry of Commerce (D.G.C.I.S); Reserve Bank of India; Ministry of Finance, Economic Survey, various issues; World Bank Staff estimates.

Table A2.2 (c)
Export Unit Value Indices
(US\$ terms: 1980-81 = 100)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Primary Exports	102.1	100.8	97.5	96.2	94.7	85.6	86.0	98.9	88.9	98.5	103.3
Fish	116.1	112.7	97.2	111.5	103.2	105.6	119.9	144.8	131.8	131.3	140.4
Rice	172.2	167.5	155.6	130.5	116.4	148.7	136.8	110.4	71.1	91.1	100.9
Cashews	106.3	94.6	82.9	81.7	95.6	75.1	82.8	90.2	95.1	93.7	90.4
Coffee	63.7	69.8	47.7	41.4	39.5	29.2	39.0	74.1	80.2	83.6	96.2
Tea	96.8	93.4	113.0	128.9	98.2	86.6	93.5	88.0	93.7	90.0	112.1
Spices	228.1	155.3	147.3	121.4	139.3	130.4	104.0	142.9	160.7	177.1	201.4
Iron Ore	92.7	85.9	96.4	110.2	119.5	110.9	101.5	96.6	97.0	105.2	101.0
Other Primary	90.0	102.0	99.8	88.2	88.4	80.4	76.3	87.8	85.1	92.4	91.8
Manufactured Exports	106.2	116.8	122.2	122.3	108.4	103.7	108.9	116.4	106.2	100.1	101.3
Chemicals	114.0	105.1	108.9	74.3	73.8	103.4	105.2	107.3	84.2	79.0	64.5
Leather Manufactures	107.3	109.8	121.7	147.9	133.4	119.4	112.9	114.0	113.3	135.4	111.8
Textiles	131.1	143.4	142.4	170.6	115.6	85.7	111.9	114.9	117.3	86.7	83.0
Garments	122.9	127.8	130.4	136.3	125.8	131.4	143.1	150.8	146.2	123.3	137.2
Gems & Jewellery	125.8	145.8	166.6	185.9	167.4	147.6	151.4	150.9	145.5	133.4	137.9
Engineering Goods	82.1	90.2	88.6	87.4	89.4	76.2	78.0	78.3	62.5	61.2	64.4
Petroleum Products	50.8	50.3	53.4	57.0	42.5	38.4	29.5	40.5	39.6	45.7	35.8
Other Manufactures ^a	113.1	131.3	156.2	135.2	135.5	171.1	152.7	204.5	236.1	314.7	433.1
TOTAL EXPORTS (Commerce) ^b	105.0	112.7	115.4	114.9	104.9	99.3	102.9	112.5	101.7	99.7	101.7

a. Including unclassified exports.

b. Net of crude petroleum exports.

Source: Ministry of Commerce (D.G.C.I.S); Reserve Bank of India; Ministry of Finance, Economic Survey, various issues; World Bank Staff estimates.

Table A2.3 (a)
Merchandise Imports
(US\$ million at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
Food	1292	1203	714	690	426	702	550	1464	1295	1536	1845	2543
Foodgrains	25	437	227	102	71	334	93	29	24	137	292	233
Edible Oils	709	503	127	182	101	58	53	199	676	825	744	1696
Others	557	263	361	407	254	311	404	1236	595	574	809	614
Other Consumer Goods	600	700	800	851	637	782	680	790	1075	859	1135	1157
P.O.L	3118	3009	3768	6028	5364	6100	5754	5928	7526	10036	8217	6435
Crude Petroleum ^a	2395	1891	2455	3409	3189	3691	3407	3285	3442	5222	4278	3350
Petroleum Products	723	1047	1313	2619	2175	2409	2347	2643	4084	4814	3939	3084
Capital Goods ^b	5064	4803	5288	5836	4256	4532	6243	7638	10330	9923	9796	9122
Intermediate: PRIMARY	2997	3800	4488	4653	3821	4554	4533	4296	5599	6321	6840	6720
Fertilizer Raw Material	243	301	329	348	311	279	194	288	301	226	273	287
Gems	1538	1984	2546	2082	1968	2443	2634	1630	2105	2925	3343	3763
Other	1217	1515	1613	2222	1543	1832	1705	2378	3193	3171	3225	2671
Intermediate: MANUFACTURES	4085	5982	6161	6015	4907	5211	5541	8537	10850	10456	13651	15882
Fertilizer Manufactures	145	340	741	636	645	698	632	764	1381	686	844	787
Iron & Steel	1018	1335	1383	1178	799	779	795	1164	1446	1371	1343	1135
Non-Ferrous Metals	493	536	753	614	341	395	479	718	904	1106	920	671
Others	2429	3771	3284	3588	3112	3339	3635	5974	7120	7294	10543	13288
TOTAL IMPORTS (Commerce) ^a	17156	19497	21219	24073	19411	21882	23301	28654	36675	39132	41484	41858
Statistical Discrepancy	2660	4121	3192	3841	1653	2434	3438	7250	6995	9816	9703	5686
TOTAL IMPORTS ^a	19816	23618	24411	27914	21064	24316	26739	35904	43670	48948	51187	47544

a. Net of crude oil exports.

b. 1987-88 onwards Capital Goods includes Project Goods.

Source: Ministry of Commerce (D.G.C.I.S); Reserve Bank of India; Ministry of Finance, Economic Survey, various issues; World Bank Staff estimates.

Table A2.3 (b)
Merchandise Imports
(US\$ million at 1980-81 prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Food	1710	1968	865	807	446	1015	612	1344	1125	1550	1991
Foodgrains	35	1021	310	126	77	662	165	33	27	272	574
Edible Oils	980	539	160	259	111	51	56	171	522	697	556
Others	695	409	395	422	258	302	391	1140	576	581	861
Other Consumer Goods	513	555	643	647	475	559	482	535	763	639	886
P.O.L.	5944	6734	7272	8287	9409	11757	12131	11679	13483	15319	15277
Crude Petroleum ^a	4630	4651	5089	5405	6264	7660	8128	7825	9033	10264	10236
Petroleum Products	1314	2083	2183	2882	3145	4097	4003	3854	4449	5055	5042
Capital Goods ^b	4203	3702	4142	4314	3081	3146	4304	5027	7132	7168	7432
Intermediate: PRIMARY	2419	2841	3363	3314	2660	3076	3074	2779	3781	4463	5053
Fertilizer Raw Material	161	178	157	174	152	147	121	177	172	117	135
Gems	1262	1511	1965	1521	1408	1676	1795	1060	1437	2088	2507
Other	996	1151	1242	1619	1101	1253	1158	1543	2173	2258	2411
Intermediate: MANUFACTURES	3529	4728	5057	4792	3858	4199	4320	5982	7828	7694	10318
Fertilizer Manufactures	320	472	876	808	830	1116	981	904	1392	710	914
Iron & Steel	874	1275	1162	937	622	581	589	824	1074	1065	1096
Non-Ferrous Metals	540	553	775	599	326	362	436	624	824	1054	922
Others	1795	2428	2244	2448	2080	2140	2314	3630	4539	4864	7385
TOTAL IMPORTS (Commerce) ^a	18318	20528	21342	22161	19929	23751	24924	27346	34112	36833	40957
Statistical Discrepancy	2840	4339	3210	3536	1697	2642	3678	6919	6506	9240	9580
TOTAL IMPORTS ^a	21158	24867	24552	25697	21626	26392	28602	34265	40618	46073	50537

a. Net of crude oil exports.

b. 1987-88 onwards Capital Goods includes Project Goods.

Source: Ministry of Commerce (D.G.C.I.S); Reserve Bank of India; Ministry of Finance, *Economic Survey*, various issues; World Bank Staff estimates.

Table A2.3 (c)
 Import Unit Value Indices
 (US\$ Terms: 1980-81 = 100)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Food	75.5	61.1	82.6	85.5	95.5	69.2	89.9	109.0	115.1	99.1	92.7
Foodgrains	72.0	42.8	73.1	80.3	91.9	50.4	56.0	89.3	90.1	50.3	50.8
Edible Oils	72.4	93.4	79.3	70.2	90.9	114.0	94.5	116.5	129.4	118.4	133.8
Others	80.2	64.5	91.4	96.5	98.6	102.8	103.5	108.4	103.3	98.8	94.0
Other Consumer Goods	117.1	126.1	124.5	131.5	134.3	140.0	141.0	147.7	140.8	134.6	128.1
P.O.L	52.5	44.7	51.8	72.7	57.0	51.9	47.4	50.8	55.8	65.5	53.8
Crude Petroleum	51.7	40.7	48.2	63.1	50.9	48.2	41.9	42.0	38.1	50.9	41.8
Petroleum Products	55.0	50.3	60.1	90.9	69.1	58.8	58.6	68.6	91.8	95.2	78.1
Capital Goods	120.5	129.7	127.7	135.3	138.1	144.1	145.0	151.9	144.8	138.4	131.8
Intermediate: PRIMARY	123.9	133.8	133.4	140.4	143.6	148.1	147.5	154.6	148.1	141.6	135.4
Fertilizer Raw Material	150.7	168.7	209.6	199.8	204.7	190.1	160.8	163.3	175.4	192.5	202.2
Gems	121.9	131.3	129.6	136.9	139.8	145.8	146.8	153.7	146.5	140.1	133.4
Other	122.2	131.6	129.9	137.3	140.2	146.2	147.2	154.2	147.0	140.5	133.7
Intermediate: MANUFACTURES	115.7	126.5	121.8	125.5	127.2	124.1	128.3	142.7	138.6	135.9	132.3
Fertilizer Manufactures	45.3	72.0	84.6	78.6	77.7	62.5	64.4	84.5	99.2	96.5	92.3
Iron & Steel	116.5	104.7	119.0	125.8	128.4	133.9	134.8	141.2	134.6	128.7	122.5
Non-Ferrous Metals	91.3	96.9	97.1	102.5	104.6	109.1	109.9	115.1	109.7	104.9	99.8
Others	135.3	155.3	146.3	146.5	149.6	156.0	157.1	164.6	156.9	149.9	142.8
TOTAL IMPORTS (Commerce)	93.7	95.0	99.4	108.6	97.4	92.1	93.5	104.8	107.5	106.2	101.3

Source: Ministry of Commerce (D.G.C.I.S); Reserve Bank of India; Ministry of Finance, *Economic Survey*, various issues; World Bank Staff estimates.

Table A2.4
Invisibles on Current Account
(US\$ million)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
GROSS RECEIPTS	6741	7023	7479	7002	9041	8976	10946	15133	17314	20982	22865	25462
Non-Factor Services	3571	3956	4246	4551	5022	4716	5264	6135	7346	7474	9429	13186
of which:												
Transport	680	898	907	983	939	982	1433	1696	2011	1953	1836	1925
Travel	1431	1419	1433	1456	1977	2098	2222	2365	2713	2878	2914	2993
Others	1460	1639	1906	2112	2106	1636	1609	2074	2622	2643	4679	8268
Factor Income	446	397	936	368	221	376	395	886	1429	1073	1561	1935
Current Transfers ^a	2724	2670	2297	2083	3798	3884	5287	8112	8539	12435	11875	10341
GROSS PAYMENTS	4161	4694	5273	7705	7881	7412	8416	9866	12210	11196	13237	16561
Non-Factor Services	3027	3225	3523	3571	3815	3601	4729	5533	7543	6748	8110	11021
of which:												
Transport ^b	870	1027	1115	1093	1289	1485	1765	1863	2169	2394	2522	2680
Travel	376	405	403	392	465	385	497	818	1167	858	1437	1743
Others	1781	1793	2005	2086	2061	1731	2467	2852	4207	3496	4151	6598
Factor Income	1108	1453	1734	4120	4051	3799	3665	4314	4634	4380	5082	5479
Current Transfers	26	16	16	14	15	12	22	19	33	68	45	61
NET RECEIPTS	2580	2329	2206	-703	1160	1564	2530	5267	5104	9786	9628	8901
Non-Factor Services	544	731	723	980	1207	1115	535	602	-197	726	1319	2165
of which:												
Transport	-190	-129	-208	-110	-350	-503	-332	-167	-158	-441	-686	-755
Travel	1055	1014	1030	1064	1512	1713	1725	1547	1546	2020	1477	1250
Others	-321	-154	-99	26	45	-95	-858	-778	-1585	-853	528	1670
Factor Income	-662	-1056	-798	-3752	-3830	-3423	-3270	-3428	-3205	-3307	-3521	-3544
Current Transfers	2698	2654	2281	2069	3783	3872	5265	8093	8506	12367	11830	10280

a. Excluding foreign grants, and including the Bhopal settlement in 1988-89.

b. Excluding freight included in c.i.f value of merchandise imports.

Source: Ministry of Commerce (D.G.C.I.S); Reserve Bank of India; Ministry of Finance, *Economic Survey*, various issues; World Bank Staff estimates.

Table A2.5
Decomposition of Recent Export Growth
(US\$ million at current prices - annual averages)

	1985-86 to 90-91	1991-92 to 98-99	Increase	Contribution to Growth (%)
<u>Manufactured Exports</u>	9717	21409	11692	82.5
Consumption goods	6227	12689	6462	45.6
Leather	997	1506	509	3.6
Gems (gross)	2333	4450	2116	14.9
Garments	1490	3278	1788	12.6
Textiles	1406	3455	2048	14.4
Investment goods ^a	1415	3487	2072	14.6
Intermediate goods	2076	5233	3158	22.3
Chemicals	806	2174	1369	9.7
Petroleum Prod.	421	388	-33	-0.2
Others ^b	849	2670	1822	12.8
<u>Primary Exports</u>	3507	5993	2486	17.5
Fish	425	939	515	3.6
Rice	220	760	540	3.8
Cashews	224	345	121	0.9
Coffee	200	311	110	0.8
Tea	499	397	-102	-0.7
Spices	200	252	52	0.4
Iron Ore	489	459	-30	-0.2
Other Primary	1251	2531	1280	9.0
TOTAL EXPORTS (Customs) ^c	13225	27402	14177	100.0
Discrepancy	478	485	7	
TOTAL EXPORTS (BOP) ^c	13703	27887	14184	
Memo:				
Gems (Net) ^d	630	1849	1218	

a. Refers to engineering goods.

b. Including unclassified exports.

c. Total exports, f.o.b., net of crude oil.

d. Exports less imports of gems and jewellery.

Source: Ministry of Commerce, (D.G.C.I.S.); Reserve Bank of India.

Table A3.1(a)
External Debt Summary: Debt Outstanding and Disbursed
(US\$ million at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
A. Public & Publicly Guar. LT	44174	50073	64789	71062	73355	77921	83906	87480	80346	78049	79402	85206
1. Official Creditors	30356	31180	43648	48383	49446	52987	55856	61997	57112	54541	52165	54168
a. Multilateral	16588	18061	19664	21768	23964	26130	27826	31486	30048	29332	29391	30521
aa. of which IBRD	4661	5590	6615	7685	8459	9067	9870	11120	9849	8768	8138	7993
ab. of which IDA	11615	12019	12521	13312	14203	15339	15978	17666	17499	17616	17912	18562
b. Bilateral	13768	13119	23984	26615	25482	26857	28029	30511	27065	25209	22775	23647
2. Private Creditors	13818	18893	21140	22679	23909	24934	28050	25483	23234	23509	27236	31038
a. Commercial Banks	10459	12899	14694	16130	16025	17006	18727	14588	13412	16061	18758	20950
b. Suppliers Credits	715	632	539	434	455	817	1211	1017	875	1197	946	956
c. Bonds (including IDB)	1214	1785	2412	2638	4102	4021	3832	3740	3257	1364	3407	6002
d. Other Private	1430	3576	3496	3477	3328	3090	4281	6139	5691	4887	4126	3130
B. Private Non-Guaranteed LT	1652	1473	1551	1488	1545	1205	1770	6427	6618	7382	9208	8409
C. Total LT DOD (A+B)	45827	51546	66340	72550	74901	79126	85676	93907	86964	85431	88610	93615
D. Use of IMF Credit	4023	2573	1566	2623	3451	4799	5040	4312	2374	1313	664	288
E. Short-Term Debt	5673	6358	7501	8544	7070	6340	3626	4264	5049	6726	5046	4329
F. Total External Debt (C+D+E)	55522	60477	75407	83717	85421	90264	94342	102483	94387	93470	94320	98232
<u>Memo items:</u>												
Total NRI Deposits	8616	10482	12368	13953	12676	14258	14498	14661	13894	14785	14105	14543
Rupee Debt to FSU	..	..	11021	12847	10420	10616	10084	9624	8233	7511	5874	4731
External Debt (% of GDP)	20.0	20.5	25.4	25.9	31.4	34.2	33.8	31.0	25.9	23.5	22.4	22.9

.. Not available.

Source: World Bank, DRS data.

Table A3.1(b)
External Debt Summary: Disbursements
(US\$ million at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
A. Public & Publicly Guar. LT	6921	10155	7009	6376	6896	7105	7361	6685	5961	5897	7193	9801
1. Official Creditors	3618	3635	3553	3572	4364	4160	3645	3334	2828	3040	3708	4464
a. Multilateral	2269	2625	2105	2210	2758	2424	2084	2230	1942	2234	2021	2040
aa. IBRD	1295	1716	1445	1219	1231	852	1216	741	589	686	542	534
ab. IDA	917	755	566	762	953	1186	669	966	729	906	830	866
b. Bilateral	1349	1010	1447	1361	1606	1736	1561	1104	886	806	1687	2424
2. Private Creditors	3303	6520	3457	2804	2532	2945	3716	3351	3133	2857	3485	5336
a. Commercial banks	2968	3361	2623	1983	504	2145	1545	870	1719	1698	903	1961
b. Suppliers Credits	5	16	3	7	78	415	466	213	71	449	2	141
c. Bonds (including IDB)	116	679	705	427	1619	0	0	0	86	275	2109	2775
d. Other Private	213	2463	126	387	332	384	1705	2267	1258	436	471	459
B. Private Non-Guaranteed LT	348	175	240	214	309	254	1060	867	1179	785	1886	500
C. Total LT Disbursements (A+B)	7269	10330	7249	6590	7204	7358	8421	7552	7140	6682	9079	10301
D. IMF	0	0	0	1754	1233	1623	323	0	0	0	0	0
E. Net Short-Term Capital	727	685	1143	1043	-1474	-730	-2714	638	785	1677	838	0
F. Total Disbursements (C+D+E)	7269	10330	7249	8344	8437	8982	8744	7552	7140	6682	9079	10301

Source: World Bank, DRS data.

Table A3.1(c)
External Debt Summary: Principal Repayments
(US\$ million at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
A. Public & Publicly Guar. LT	1604	1665	1569	2332	2569	2947	3538	5021	6764	6405	6645	6285
1. Official Creditors	1120	990	1064	1238	1469	1618	1890	2365	3876	2856	4114	3487
a. Multilateral	508	397	467	609	703	838	1000	1102	1513	1218	1217	1295
aa. of which IBRD	430	303	352	472	527	634	758	827	943	840	820	842
ab. of which IDA	69	81	98	114	141	155	174	194	226	234	250	288
b. Bilateral	612	593	597	629	766	780	890	1263	2364	1638	2897	2192
2. Private Creditors	485	675	505	1094	1101	1329	1647	2656	2888	3549	2531	2797
a. Commercial Banks	284	363	213	250	293	438	666	1054	1796	1484	1160	836
b. Suppliers Credits	98	96	98	113	58	73	111	472	143	131	240	150
d. Bonds (including IDB)	6	14	27	280	239	206	338	404	311	1242	2	264
e. Other Private	97	202	167	452	511	612	532	726	637	692	1130	1548
B. Private Non-Guaranteed LT	290	280	322	318	273	306	495	123	156	240	293	292
C. Total LT Repayments (A+B)	1894	1944	1891	2651	2842	3253	4033	5144	6920	6645	6938	6576
D. IMF Repayments	1082	1210	1008	726	460	334	134	1174	1719	972	613	390
E. Total LT Repayments (C+D)	2976	3155	2899	3376	3302	3587	4167	6318	8639	7618	7551	6966

Source: World Bank, DRS data.

Table A3.1(d)
External Debt Summary: Net Flows
(US\$ million at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
A. Public & Publicly Guar. LT	5316	8490	5440	4044	4327	4158	3823	1664	-803	-508	548	3516
1. Official Creditors	2498	2645	2489	2334	2895	2542	1755	969	-1048	184	-406	977
a. Multilateral	1761	2228	1638	1601	2055	1586	1084	1128	429	1016	804	745
aa. of which IBRD	865	1414	1093	747	704	218	458	-86	-354	-154	-278	-308
ab. of which IDA	848	675	468	648	812	1031	495	772	503	672	580	578
b. Bilateral	737	417	850	732	840	956	671	-159	-1478	-832	-1210	232
2. Private Creditors	2818	5845	2952	1710	1431	1616	2069	695	245	-692	954	2539
a. Commercial Banks	2684	2999	2410	1733	211	1707	879	-184	-77	214	-257	1125
b. Suppliers Credits	-93	-80	-95	-106	20	342	355	-259	-72	318	-238	-9
c. Bonds (including IDB)	110	665	678	147	1380	-206	-338	-404	-225	-967	2107	2511
d. Other Private	117	2261	-41	-65	-179	-228	1173	1541	621	-256	-659	-1089
B. Private Non-Guaranteed LT	59	-104	-82	-104	36	-52	565	744	1023	545	1593	208
C. Total LT Repayments (A+B)	5375	8386	5358	3939	4362	4105	4388	2408	220	37	2141	3725
D. Net IMF Credit	-1082	-1210	-1008	1028	773	1289	189	-1174	-1719	-972	-613	-390
E. Net Short Debt Flows	727	685	1143	1043	-1474	-730	-2714	638	785	1677	838	0
F. Total Net Flows (C+D+E)	4293	7175	4350	4968	5135	5395	4577	1234	-1499	-936	1528	3335
<u>Memo item:</u>												
Total NRI Net Flows	1992	2328	2295	1536	290	2001	1205	172	1103	3350	1125	1742

Source: Derived from Tables 3.1(b) and 3.1(c).

Table A3.1(e)
External Debt Summary: Interest Payments
(US\$ million at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
A. Public & Publicly Guar. LT	1837	1993	3162	3647	3403	3317	3400	3702	3813	3584	4292	4300
1. Official Creditors	810	940	1351	1497	1512	1631	1674	1846	1867	1680	1599	1553
a. Multilateral	479	581	640	738	796	899	940	1014	1061	966	907	887
aa. of which IBRD	378	474	529	615	643	709	721	768	770	674	590	536
ab. of which IDA	98	98	90	97	101	109	114	121	131	130	131	135
b. Bilateral	331	360	711	759	717	732	733	832	806	714	693	667
2. Private Creditors	1027	1053	1811	2150	1891	1685	1727	1856	1946	1904	2692	2746
a. Commercial Banks	778	787	1518	1751	1426	1200	1206	1159	1263	886	2212	2297
b. Suppliers Credits	67	61	53	43	31	31	55	108	68	65	90	61
c. Bonds (including IDB)	79	104	143	182	196	230	258	221	183	572	99	118
d. Other Private	103	100	96	174	238	224	208	368	432	381	291	270
B. Private Non-Guaranteed LT	147	127	140	135	126	123	139	391	531	426	173	467
C. Total LT Interest (A+B)	1985	2120	3302	3782	3529	3440	3539	4093	4344	4010	4465	4767
D. IMF Service Charges	297	233	184	134	203	271	271	228	182	87	50	25
E. Interest Paid on ST Debt	429	437	570	899	826	399	367	312	385	268	349	327
F. Total Interest Paid (C+D+E)	2710	2790	4056	4815	4559	4110	4178	4633	4911	4365	4864	5118
<u>Memo item:</u>												
Total NRI Interest Payments	715	609	1076	1282	1036	918	905	1046	1247	1627	1807	1719

Source: World Bank, DRS data.

Table A3.2
External Reserves
(US\$ million)

	Foreign Exchange	SDRs	Reserve Position in the Fund	Reserves excluding Gold	Gold ^a	Reserves including Gold	Use of IMF Credit	Net Reserves
1980-81	5850	603	405	6858	370	7228	327	6901
1981-82	3582	473	405	4460	335	4795	964	3831
1982-83	4281	291	393	4965	324	5289	2876	2413
1983-84	5099	230	518	5847	320	6167	4150	2017
1984-85	5482	145	483	6110	325	6435	3932	2503
1985-86	5972	131	554	6657	417	7074	4290	2784
1986-87	5924	179	626	6729	471	7200	4291	2909
1987-88	5618	97	676	6391	508	6899	3653	3246
1988-89	4226	103	630	4959	473	5432	2364	3068
1989-90	3368	107	634	4109	487	4596	1493	3103
1990-91	2236	102	--	2338	3496	5834	2623	3211
1991-92	5631	90	1	5722	3499	9221	3451	5770
1992-93	6434	18	297	6749	3380	10129	4798	5331
1993-94	15068	108	300	15476	4078	19554	5040	14514
1994-95	20809	19	332	21160	4370	25530	4312	21218
1995-96	17044	82	311	17436	4561	21997	2374	19623
1996-97	22367	2	295	22664	4054	26718	1313	25405
1997-98	25975	1	284	26260	3391	29651	664	28987
1998-99	29522	8	663	30193	2417	32610	563	32047
End of the Month								
1995								
March	20809	19	332	21160	3810	24970	4312	20658
June	19601	95	334	20030	3778	23808	3933	19875
September	19064	49	320	19433	3713	23146	3377	19768
December	17467	139	316	17922	3614	21536	2923	18612
1996								
March	17044	82	311	17436	3810	21246	2374	18872
June	17526	128	307	17961	3778	21739	2079	19660
September	18433	57	306	18796	3713	22509	1755	20754
December	19742	122	306	20170	3614	23784	1560	22224
1997								
March	22367	2	295	22664	3386	26050	1313	24737
June	25404	3	295	25702	3300	29002	1144	27858
September	25697	30	290	26017	3129	29146	946	28200
December	24324	77	287	24688	2880	27568	796	26772
1998								
March	25975	1	284	26260	2497	28757	664	28093
June	23933	81	283	24297	2472	26769	563	26206
September	26184	14	292	26490	2405	28895	480	28415
December	26958	83	300	27341	2492	29833	401	29432
1999								
March	29522	8	663	30193	2417	32610	288	32322
June	30559	8	653	31212	2307	33519	206	33313

-- Not available.

Note: IMF Credit refers to Use of IMF credit within the General Resources Account (GRA) excluding Trust Fund, Structural Adjustment Facility (SAF), and Enhanced Structural Adjustment Facility (ESAF) loans.

a. Valued at 35 SDR's per fine troy ounce.

Source: IMF, *International Financial Statistics*, various issues.

Table A4.1
Central Government Finances Summary
(Rs billion at current prices)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99 B.E.	1998-99 R.E.	1999-00 B.E.
Revenue ^a	660.30	741.28	754.53	910.83	1101.30	1262.79	1339.02	1619.94	1576.65	1828.40
Tax Revenue	500.69	540.44	534.49	674.54	819.39	937.01	956.73	1168.57	1095.37	1323.65
Customs	222.57	237.76	221.93	267.89	357.57	428.51	401.93	481.48	426.00	503.69
Union Excise ^b	160.17	163.67	172.24	210.64	221.76	234.63	255.16	307.82	285.35	363.57
Income Tax ^b	16.27	18.31	13.46	34.68	43.16	47.15	52.76	69.84	69.02	99.23
Corporate Tax	78.53	88.99	100.60	138.22	164.87	185.67	200.16	265.50	271.00	308.50
Other	23.15	31.71	26.26	23.11	32.03	41.05	46.72	43.93	44.00	48.66
Non-Tax Revenue	159.61	200.84	220.04	236.29	281.91	325.78	382.29	451.37	481.28	504.75
Interest Receipts	109.33	124.87	150.62	157.97	184.19	221.06	253.23	279.54	305.45	330.34
Other	19.90	56.36	69.90	27.54	94.10	100.92	119.94	121.83	85.83	74.41
Expenditure ^c	1053.93	1162.62	1356.62	1543.94	1717.70	1934.67	2237.50	2580.19	2704.08	2729.17
Non-Plan Expenditure	804.53	859.58	981.91	1133.61	1319.01	1474.73	1729.91	1959.25	2135.41	2070.04
Interest Payments	265.63	310.35	366.95	440.49	500.31	594.78	656.37	750.00	772.48	880.00
Defense	163.47	175.82	218.45	232.45	268.56	295.05	352.78	412.00	412.00	456.94
Subsidies	122.53	119.95	126.82	129.32	133.72	163.64	194.87	220.25	246.83	238.38
Other Non-Plan Expenditure	252.90	253.47	269.69	331.35	416.42	421.26	525.89	577.00	704.10	494.72
Plan Expenditure	309.61	366.60	436.62	473.78	463.74	535.34	590.77	720.02	683.71	770.00
Less: Recovery of Loans	60.21	63.56	61.91	63.45	65.05	75.40	83.18	99.08	115.04	110.87
Disinvestment of PSEs	30.38	19.61	-0.48	50.78	3.62	3.80	9.12	50.00	90.00	100.00
Gross Fiscal Deficit ^d	363.41	401.74	602.57	582.33	612.79	668.10	889.38	910.26	1037.44	1049.56
<u>Financed by:</u>										
Reserve Bank of India (net) ^e	59.04	21.75	2.60	21.30	198.55	19.34	n.a.	37.95	n.a.	n.a.
Marketable Securities (net) ^f	114.22	181.80	381.14	188.80	319.23	289.52	301.38f	258.24	344.25f	344.25f
Other Domestic Borrowing (net)	135.94	144.99	168.09	320.77	91.83	329.36	878.47	590.70	1028.34	1041.11
External Borrowing (net)	54.21	53.19	50.74	51.46	3.18	29.87	10.91	23.37	9.10	8.45
<u>Memo:</u>										
GDPmp	6671.65	7635.61	8769.52	10378.42	12179.63	14098.49	15635.52	17883.72	17755.56	20025.00
Fiscal Deficit / GDP	5.4	5.3	6.9	5.6	5.0	4.7	5.7	5.1	5.8	5.2
Revenue / GDP	9.9	9.7	8.6	8.8	9.0	9.0	8.6	9.1	8.9	9.1
Expenditure / GDP	15.8	15.2	15.5	14.9	14.1	13.7	14.3	14.4	15.2	13.6

BE = Budget estimates; RE = Revised estimates.

Notes :

a. Including sale of public assets (disinvestment).

b. Net of states' share.

c. Net of loan recoveries.

d. GOI changed its definition of Gross Fiscal Deficit (excl. the states share of small savings) from 1999-00. For the sake of consistency the change is not refl

e. Monetized deficit (equal to net RBI credit to Central Government).

f. T-Bills and dated securities, excluding those issued to RBI.

g. Includes RBI (net) figure.

Source: Ministry of Finance, Union budget documents and World Bank Staff Estimates..

Table A4.2
Budgetary Classification of Central Government Finances
(Rs. billion at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99 B.E.	1998-99 R.E.	1999-00 B.E.
Revenue receipts	370.37	435.91	499.96	549.54	660.30	741.28	754.53	910.83	1101.30	1262.79	1339.02	1619.94	1576.65	1828.40
Tax revenue	280.15	337.51	383.49	429.78	500.69	540.44	534.49	674.54	819.39	937.01	956.73	1168.57	1095.37	1323.65
Non-tax revenue	90.22	98.40	116.47	119.76	159.61	200.84	220.04	236.29	281.91	325.78	382.29	451.37	481.28	504.75
of which: Interest from states	31.58	37.70	44.24	51.74	65.22	77.54	95.53	111.83	130.02	151.63	180.32	183.59	212.83	0.00
Revenue expenditure (A+B+C+D)	461.75	541.06	642.07	735.15	823.08	927.02	1081.69	1221.11	1398.62	1589.34	1803.52	2100.63	2181.39	2369.88
A. Developmental	114.25	140.36	184.15	196.01	198.17	208.60	243.68	301.50	355.92	399.53	460.09	544.65	592.23	589.27
1. Social services	19.35	22.43	24.99	27.53	30.57	34.30	40.97	47.43	66.29	84.23	105.64	139.63	135.77	147.06
2. Economic services	94.90	117.93	159.17	168.48	167.60	174.30	202.71	254.07	289.63	315.30	354.45	405.03	456.45	442.21
B. Non-developmental	244.59	287.69	335.47	391.00	450.34	521.58	613.17	708.20	816.78	942.77	1100.88	1257.23	1313.68	1445.01
Defence services	88.60	95.58	101.94	108.74	114.42	121.09	149.77	164.26	188.41	209.97	261.75	308.40	310.13	334.64
Interest payments	112.36	142.61	177.57	214.71	265.63	310.35	366.95	440.49	500.31	594.78	656.37	750.00	772.48	880.00
C. Grants-in-aid and contributions	93.49	102.08	109.36	134.39	159.53	180.54	211.11	204.83	218.28	238.17	232.27	287.84	263.11	323.23
of which: Grants to states	91.36	100.15	86.44	132.02	157.00	178.30	208.30	200.47	212.87	231.57	297.38	275.30	249.41	308.66
D. Revenue expenditure of UTs	9.43	10.92	13.09	13.75	15.05	16.30	13.73	6.59	7.63	8.86	10.28	10.91	12.37	12.37
Net current balance	-91.38	-105.15	-142.11	-185.61	-162.78	-185.74	-327.16	-310.28	-297.32	-326.55	-464.50	-480.69	-604.74	-541.48
Capital expenditure (A+B+C+D)	179.07	204.08	237.18	260.88	231.01	235.60	274.93	322.82	319.09	345.35	434.00	479.57	522.69	608.08
A. Developmental	56.67	60.03	70.95	69.23	58.26	73.82	55.60	73.96	50.49	46.82	73.33	114.21	80.33	105.08
1. Social services	2.80	3.51	3.21	2.47	2.39	2.59	3.32	7.26	5.48	6.58	6.04	10.51	10.14	11.48
2. Economic services	53.86	56.52	67.74	66.77	55.87	71.23	52.28	66.70	45.01	40.24	67.28	103.71	70.19	141.70
B. Non-developmental	33.39	40.76	45.27	49.56	52.32	58.88	73.92	72.51	88.26	93.29	99.74	115.43	111.84	135.65
of which: Defence services	31.08	37.83	42.22	45.52	49.05	54.73	68.67	68.19	80.15	85.08	91.04	103.60	101.87	122.30
C. Capital expenditure of UTs	2.88	1.76	1.87	2.68	3.42	3.50	2.78	2.44	2.24	1.84	2.19	3.10	3.03	3.27
D. Loans and advances (net)	86.13	101.53	119.09	139.40	117.01	99.41	142.63	173.91	178.10	203.40	258.74	246.82	327.50	364.08
to States & UTs	58.51	67.30	79.55	98.69	94.18	86.97	100.72	143.13	148.37	175.71	233.36	212.11	301.90	326.64
to Others	27.62	34.23	39.55	40.71	22.83	12.44	41.92	30.78	29.73	27.68	25.39	34.71	25.60	37.44
Disinvestment of equity in PSEs	0.00	0.00	0.00	0.00	30.38	19.61	-0.48	50.78	3.62	3.80	9.12	50.00	90.00	100.00
Gross fiscal deficit (GOI Defn.)	270.45	309.22	379.30	446.50	363.41	401.74	602.57	582.33	612.79	668.10	889.38	910.26	1037.44	1049.56
<u>Financed by instruments</u>														
Market loans	58.62	84.18	74.04	80.01	75.10	36.76	289.28	203.26	330.87	200.12	324.99	559.31	649.11	672.18
Small savings	39.11	58.35	85.75	91.04	66.40	57.17	91.00	165.78	127.90	152.57	244.97	216.40	290.00	330.00
Provident funds	52.74	71.12	90.86	89.37	79.56	87.55	93.58	102.65	75.56	84.97	88.63	148.45	145.88	164.60
External loans	28.93	24.60	25.95	31.81	54.21	53.19	50.74	51.46	3.18	29.87	10.91	23.37	9.10	8.45
Treasury bills	56.52	62.44	109.11	117.69	68.87	117.73	119.82	-2.68	114.63	127.28	651.98	0.00	0.00	0.00
Other	34.53	8.53	-6.41	36.58	19.27	49.33	-41.85	61.86	-39.35	73.28	-432.10	-37.27	-56.65	-125.67

BE = Budget estimates; RE = Revised estimates.

Note : GOI changed its definition of Gross Fiscal Deficit (excl. the states share of small savings) from 1999-00. For the sake of consistency the year 1999-00 does not reflect this change

Source : Ministry of Finance, Union budget documents; Department of Expenditure, Finance Accounts; World Bank Staff Estimates.

Table A4.3
Budgetary Classification of State Government Finances
(Rs. billion at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98 B.E.	1997-98 R.E.	1998-99 B.E.
Revenue receipts	448.00	507.09	568.08	673.19	813.59	911.04	1050.65	1222.82	1373.45	1528.62	1718.35	1830.97	1947.92
Tax revenue	289.20	330.70	392.27	448.80	529.53	603.90	686.66	805.75	931.63	1061.63	1249.10	1285.21	1395.56
Direct tax	19.85	24.13	30.06	33.75	39.59	42.28	49.73	70.05	81.10	84.30	105.58	101.19	120.96
Indirect tax	173.37	199.88	229.89	269.70	317.98	356.40	414.51	487.29	557.55	626.72	740.98	748.40	882.97
State share in central taxes	95.98	106.69	132.32	145.35	171.97	205.22	222.42	248.40	292.98	350.61	435.48	408.54	391.63
Non-tax revenue	158.80	176.38	175.81	224.39	284.06	307.14	363.99	417.07	441.82	466.99	469.25	545.76	552.36
of which: Grants from centre	91.36	100.15	86.44	132.02	157.00	178.30	208.30	200.47	212.87	231.57	230.27	302.41	275.30
Revenue expenditure [A+B+C]	451.54	522.96	602.53	717.73	861.86	962.05	1093.76	1284.40	1450.04	1689.50	1915.51	1967.19	2294.95
A. Developmental (1+2)	318.20	362.37	407.81	488.55	585.05	634.65	708.38	786.37	892.76	1061.54	1112.44	1210.92	1289.85
1. Social services	177.06	205.74	240.17	279.62	310.92	345.65	389.61	449.02	536.07	603.28	682.82	729.78	800.99
2. Economic services	141.14	156.63	167.64	208.92	274.13	288.99	318.78	337.36	356.69	458.26	429.61	481.13	488.86
B. Non-developmental	128.44	155.06	188.69	221.34	266.66	315.06	373.67	484.99	541.97	608.64	775.98	724.56	968.92
of which: Interest payments	48.98	59.33	71.86	86.55	109.44	132.10	158.00	192.02	219.32	255.76	310.89	312.35	364.17
To centre	31.58	37.70	44.24	51.74	65.22	77.54	95.53	111.83	130.02	151.63	180.32	183.59	212.83
To others	17.40	21.63	27.62	34.81	44.23	54.56	62.47	80.19	89.30	104.13	130.57	128.77	151.34
C. Other expenditure ^a	4.91	5.53	6.03	7.84	10.16	12.35	11.71	13.03	15.31	19.32	27.10	31.71	36.18
Net current balance	-3.55	-15.87	-34.45	-44.54	-48.27	-51.01	-43.11	-61.58	-76.59	-160.88	-197.16	-136.22	-347.03
Capital expenditure [A+B+C]	101.31	98.66	117.52	134.78	132.49	157.77	167.84	206.19	232.25	213.31	303.57	314.13	339.36
A. Developmental (1+2)	64.29	68.53	77.28	89.61	98.61	103.44	120.51	169.31	178.37	168.27	216.20	229.75	235.58
1. Social services	10.74	11.28	11.71	12.57	16.47	16.64	18.31	23.04	26.21	29.73	44.63	41.52	46.04
2. Economic services	53.55	57.25	65.57	77.03	82.14	86.80	102.21	146.27	152.16	138.55	171.58	188.24	189.54
B. Non-developmental	2.26	2.25	2.36	2.63	2.34	3.10	3.99	4.20	6.57	7.12	8.80	9.83	10.59
C. Loans and advances (net)	34.77	27.88	37.88	42.55	31.54	51.22	43.33	32.68	47.30	37.91	78.56	74.55	93.20
Gross fiscal deficit	104.85	114.53	151.96	179.32	180.77	208.78	210.95	267.77	308.84	374.19	500.73	450.35	686.40
<u>Financed by instrument:</u>													
Market loans	18.01	22.46	25.95	25.60	33.10	38.50	42.28	41.05	64.04	65.19	76.15	77.27	89.36
Loans from centre (Net)	58.31	67.07	79.30	98.39	93.75	86.60	99.01	137.61	139.98	167.40	175.08	213.66	323.80
Small savings & Provident funds	16.28	20.01	23.07	30.69	29.09	36.22	43.30	47.79	49.02	53.75	73.94	77.48	111.23
Other	12.26	4.98	23.65	24.63	24.82	47.45	26.36	41.33	55.81	87.85	175.56	81.94	162.02

Note: BE = Budget estimates; RE = Revised estimates.

a. Other expenditure include compensation and assignments to local bodies and panchayat raj institutions and reserve with the finance department.

Source: Ministry of Finance, Union budget documents; Reserve Bank of India, RBI bulletins on state finances, World Bank Staff Estimates.

Table A4.4
Budgetary Classification of General Government Finances
(Rs. billion at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98 /a/	1998-99 B.E.
Revenue receipts	695.43	805.15	937.36	1038.97	1251.67	1396.48	1501.35	1821.35	2131.86	2408.21	2689.51	3079.73
Tax revenue	569.35	668.21	775.76	878.58	1030.22	1144.34	1221.15	1480.29	1751.02	1998.63	2241.94	2564.13
Non tax revenue	126.08	136.94	161.60	160.39	221.45	252.13	280.20	341.06	380.84	409.58	447.57	515.59
Revenue expenditure [A+B+C+D]	790.35	926.17	1113.92	1269.12	1462.73	1633.23	1871.62	2193.21	2505.77	2895.64	3371.20	3907.45
A. Developmental	432.44	502.73	591.96	684.56	783.22	843.24	952.06	1087.87	1248.68	1461.07	1671.01	1834.50
1. Social services	196.40	228.17	265.15	307.16	341.49	379.95	430.58	496.45	602.36	687.51	835.42	940.62
2. Economic services	236.04	274.55	326.80	377.40	441.72	463.29	521.48	591.42	646.32	773.56	835.59	893.89
B. Non-developmental	341.45	405.05	479.92	560.60	651.78	759.10	891.30	1081.36	1228.73	1399.78	1647.37	2013.33
C. Revenue disbursements of UTs	9.43	10.92	13.09	13.75	15.05	16.30	13.73	6.59	7.63	8.86	10.28	10.91
D. Other expenditure ^b	7.04	7.46	28.95	10.21	12.68	14.59	14.53	17.39	20.72	25.92	42.54	48.71
Net current balance	-94.93	-121.02	-176.56	-230.15	-211.05	-236.75	-370.28	-371.87	-373.91	-487.43	-681.69	-827.72
Capital expenditure [A+B+C+D]	222.07	235.66	275.40	297.27	269.76	306.77	343.76	391.40	411.37	391.26	524.19	615.67
A. Developmental (1+2)	120.95	128.56	148.23	158.84	156.87	177.26	176.11	243.28	228.86	215.09	303.08	349.79
1. Social services	13.54	14.79	14.92	15.04	18.86	19.23	21.63	30.30	31.69	36.31	47.56	56.54
2. Economic services	107.41	113.76	133.31	143.80	138.00	158.03	154.49	212.97	197.17	178.79	255.52	293.25
B. Non-Developmental	35.65	43.01	47.63	52.19	54.67	61.98	77.90	76.71	94.84	100.41	109.57	126.02
C. Loans and advances (net)	62.59	62.33	77.67	83.56	54.79	64.03	86.96	68.98	85.43	73.91	109.36	136.75
D. Capital disbursements of UTs	2.88	1.76	1.87	2.68	3.42	3.50	2.78	2.44	2.24	1.84	2.19	3.10
Disinvestment of equities in PSEs.	0.00	0.00	0.00	0.00	30.38	19.61	-0.48	50.78	3.62	3.80	9.12	50.00
Gross fiscal deficit	316.99	356.68	451.96	527.42	450.43	523.91	714.51	712.49	781.65	874.89	1196.76	1393.39
Financed by Instrument:												
Market Loans	76.63	106.64	99.99	105.61	108.20	75.26	331.56	244.31	394.91	265.31	402.26	648.67
Small Savings	39.11	58.35	85.75	91.04	66.40	57.17	91.00	165.78	127.90	152.57	244.97	216.40
Provident Funds	69.02	91.13	113.93	120.06	108.65	123.77	136.88	150.44	124.58	138.72	166.11	259.68
External Loans	28.93	24.60	25.95	31.81	54.21	53.19	50.74	51.46	3.18	29.87	10.91	23.37
Treasury Bills	56.52	62.44	109.11	117.69	68.87	117.73	119.82	-2.68	114.63	127.28	651.98	0.00
Other	46.79	13.52	17.24	61.21	44.09	96.79	-15.49	103.19	16.46	161.13	-279.47	245.28

BE = Budget estimates; RE = Revised estimates.

Notes :

a. Actuals for centre and revised estimates for states.

b. Other expenditure include compensation and assignments to local bodies and panchayat raj institutions and reserve with the finance department.

Source: Union Budget Documents; RBI bulletin on state finances; World Bank Staff Estimates.

Table A4.5
Tax Revenue - Center and States
(Rs. billion at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98 ^a	1998-99 B.E.	1998-99 R.E.	1999-00 B.E.
Central Government														
A. Gross tax revenue	376.66	444.74	516.36	575.76	673.61	746.37	757.44	922.94	1112.37	1287.62	1392.21	1577.11	1487.00	1768.60
Corporation tax	34.33	44.07	47.29	53.35	78.53	88.99	100.60	138.22	164.87	185.67	200.16	265.50	271.00	308.50
Taxes on income	31.92	42.41	50.04	53.71	67.31	78.88	91.15	120.25	156.03	182.31	263.78	209.30	214.00	269.10
Customs	137.02	158.05	180.36	206.44	222.57	237.76	221.93	267.89	357.57	428.51	401.93	481.48	426.00	503.69
Union Excise Duties	164.26	188.41	224.06	245.14	281.10	308.32	316.97	373.47	401.87	450.08	479.62	576.90	532.00	638.65
Other	9.13	11.80	14.61	17.12	24.10	32.42	26.79	23.11	32.03	41.05	46.72	43.93	44.00	48.66
B. States Share of Tax Revenue	95.98	106.69	132.32	145.35	171.97	205.22	222.42	248.40	292.98	350.61	435.48	408.54	408.54	391.63
Income Tax	25.89	27.49	39.22	41.21	51.04	60.57	77.69	85.57	112.87	135.16	211.02	139.46	144.98	169.87
Estate Duty	0.06	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Union Excise Duties	70.03	79.19	93.10	104.14	120.93	144.65	144.73	162.83	180.11	215.45	224.46	269.08	246.65	275.08
C. Assignments of UT taxes to local bodies	0.53	0.54	0.55	0.63	0.95	0.71	0.53	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tax Revenue (net) [A-B-C]	280.15	337.51	383.49	429.78	500.69	540.44	534.49	674.54	819.39	937.01	956.73	1168.57	1095.37	1323.65
State Government														
States own Tax Revenue	193.22	224.01	259.95	303.45	357.56	398.68	464.24	557.35	638.65	711.02	849.59	1003.93	...	...
Direct Tax	19.85	24.13	30.06	33.75	39.59	42.28	49.73	70.05	81.10	84.30	101.19	120.96	...	...
Taxes on income	2.70	3.12	4.53	6.34	6.45	6.02	6.50	7.17	8.35	10.11	10.80	12.35	...	...
Land revenue	4.48	5.94	6.90	6.07	6.36	6.17	7.32	11.41	13.26	10.74	13.49	16.56	...	...
Stamps and registration fees	12.54	14.86	18.45	21.12	26.54	29.78	35.55	50.91	58.98	62.67	76.15	91.19	...	...
Other	0.13	0.21	0.19	0.22	0.24	0.31	0.36	0.56	0.52	0.79	0.75	0.86	...	...
Indirect Tax	173.37	199.88	229.89	269.70	317.98	356.40	414.51	487.29	557.55	626.72	748.40	882.97	...	...
Sales Tax	111.85	131.22	150.60	176.67	210.64	233.49	276.38	331.54	354.77	439.27	513.75	596.44	...	...
State excise	28.67	30.81	38.64	47.95	54.39	62.65	71.06	77.47	85.16	88.05	113.38	136.29	...	...
Taxes on Vehicles	11.75	12.90	14.15	15.66	18.37	21.94	25.83	30.81	37.26	41.17	49.45	58.41	...	...
Other	21.09	24.96	26.49	29.41	34.58	38.32	41.25	47.47	80.35	58.22	71.82	91.83	...	...
State's Share of Central Taxes	95.98	106.69	132.32	145.35	171.97	205.22	222.42	248.40	292.98	350.61	435.62	391.63	...	...
Tax revenue retained by states	289.20	330.70	392.27	448.80	529.53	603.90	686.66	805.75	931.63	1061.63	1285.21	1395.56	...	...

... Not available.

a. Actuals for Central Government and Revised Estimates for States.

Source: Ministry of Finance, Union budget documents; Reserve Bank of India, RBI bulletins on state finances; World Bank Staff Estimates.

Table A4.6
Non-Tax Revenue - Center and States
(Rs. billion at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98 ^a	1998-99 B.E.	1998-99 R.E.	1999-00 B.E.
Central Government														
Non-tax revenue	90.22	98.40	116.47	119.76	159.61	200.84	220.04	236.29	281.91	325.78	382.29	451.37	481.28	504.75
Interest receipts	57.55	69.81	84.66	87.30	109.33	124.87	150.62	157.97	184.19	221.06	253.23	279.54	305.45	330.34
from state governments	31.58	37.70	44.24	51.74	65.22	77.54	95.53	111.83	130.02	151.63	178.07	212.83	218.70	258.99
Dividends and profits	6.05	4.75	7.16	7.74	10.58	24.93	24.48	27.16	32.48	38.54	51.81	73.73	75.37	94.83
Other general services	3.37	3.95	4.05	5.06	5.72	10.14	10.46	11.87	12.42	13.00	16.61	16.37	19.62	18.51
Social services	0.60	0.80	0.57	0.65	0.90	0.79	1.01	0.95	1.09	1.26	1.45	1.55	1.60	1.61
Economic services	12.73	8.93	5.45	8.60	21.46	17.86	13.26	18.60	32.45	33.17	43.09	63.42	65.15	45.36
Grants-in-aid and contributions	4.92	6.00	7.54	5.86	9.47	9.19	9.93	10.38	11.38	11.90	10.18	10.54	8.12	7.15
Other	5.00	4.16	7.04	4.55	2.15	13.06	10.28	9.36	7.90	6.85	5.92	6.22	5.97	6.95
State Government														
States own Non-tax revenue	67.44	76.24	89.37	92.37	127.06	128.84	155.69	216.60	228.95	235.43	243.35	277.05	...	...
Interest receipts	19.47	23.87	26.34	24.03	53.20	39.38	47.25	53.65	57.92	81.71	71.45	68.80	...	...
General services	7.54	9.51	11.40	19.13	17.28	18.44	29.47	72.22	77.18	53.28	61.49	69.08	...	...
Social services	5.04	5.73	6.76	5.86	7.74	8.48	9.12	9.65	10.95	12.00	14.11	15.46	...	...
Economic services	35.12	36.64	44.59	43.01	48.39	61.48	69.21	80.35	81.86	86.77	95.14	122.49	...	...
Forestry and wild life	10.67	10.08	11.96	11.37	12.71	12.72	14.94	16.40	16.57	15.94	16.82	19.34	...	...
Industries	9.11	12.08	14.31	12.23	15.37	23.17	25.09	30.51	35.67	37.41	41.91	52.26	...	...
Other Economic Services	15.33	14.48	18.32	19.41	20.31	25.59	29.19	33.44	29.62	33.42	36.42	50.89	...	...
Other	0.28	0.49	0.28	0.34	0.45	1.06	0.63	0.74	1.03	1.67	1.16	1.22	...	...
Grants from centre	91.36	100.15	86.44	132.02	157.00	178.30	208.30	200.47	212.87	231.57	302.41	275.30	...	...
Non-tax revenue retained by states	158.80	176.38	175.81	224.39	284.06	307.14	363.99	417.07	441.82	466.99	545.76	552.36	...	...

... Not available.

Note: BE = Budget estimates; RE = Revised estimates.

Source: Ministry of Finance, Union budget documents; Reserve Bank of India, RBI bulletins on state finances; World Bank Staff Estimates.

Table A4.7
Revenue Expenditure of the Central Government
(Rs. billion at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99 B.E.	1998-99 R.E.	1999-00 B.E.
Revenue expenditure (A+B+C+D)	461.75	541.06	642.07	735.15	823.08	927.02	1081.69	1221.11	1398.62	1589.34	1803.52	2100.63	2181.39	2369.88
A. Developmental	114.25	140.36	184.15	196.01	198.17	208.60	243.68	301.50	355.92	399.53	460.09	544.65	592.23	589.27
1. Social services	19.35	22.43	24.99	27.53	30.57	34.30	40.97	47.43	66.29	84.23	105.64	139.63	135.77	147.06
Education, Sports, Art and Culture	10.13	11.12	11.41	12.74	13.72	14.97	18.37	22.30	29.70	33.14	44.39	56.78	60.36	61.20
Health and Family welfare	2.67	3.11	3.48	3.97	4.50	5.59	6.47	7.82	8.33	10.54	13.36	20.01	18.70	23.01
Information and Broadcasting	2.10	2.36	3.23	3.60	4.43	4.61	4.15	5.08	5.49	6.36	7.41	8.48	9.72	10.15
Water supply and Sanitation	0.13	0.51	0.78	0.93	0.64	0.63	0.84	0.84	3.80	3.17	4.80	6.06	5.88	6.61
Labour and labour welfare	1.64	2.43	2.64	2.78	3.00	3.29	5.11	4.14	4.88	5.50	5.59	7.52	7.20	8.75
Social security and welfare	1.92	1.96	2.36	2.25	2.81	3.44	3.71	4.47	8.73	10.41	10.74	17.66	13.22	15.23
Other	0.76	0.94	1.09	1.27	1.47	1.77	2.33	2.77	5.36	15.10	19.35	23.12	20.69	22.11
2. Economic services	94.90	117.93	159.17	168.48	167.60	174.30	202.71	254.07	289.63	315.30	354.45	405.03	456.45	442.21
Agriculture and allied services	5.55	7.45	7.75	22.92	19.25	21.26	11.11	16.92	13.45	13.67	19.52	26.48	23.87	29.99
Fertilizer Subsidy	21.64	32.01	45.42	43.89	51.85	61.36	51.94	57.69	67.35	75.78	99.18	99.83	113.88	132.50
Food Subsidy	20.00	22.00	24.76	24.50	28.50	28.00	55.37	51.00	53.77	60.66	75.00	90.00	87.00	82.00
Export Subsidy	9.62	13.86	20.14	27.42	17.58	8.18	6.65	6.58	3.18	3.97	4.20	5.00	5.75	6.30
Irrigation and Flood Control	0.76	0.85	0.81	0.89	1.20	1.07	1.68	1.35	1.64	1.99	2.16	2.80	2.72	2.80
Rural Development	3.13	3.61	3.70	3.77	3.57	4.06	16.25	41.56	56.29	44.35	49.02	53.73	51.62	49.69
Special Areas Programmes	0.06	0.05	0.07	0.12	0.19	0.17	0.20	7.92	7.87	8.13	9.42	11.27	9.72	12.64
Energy	3.94	5.59	6.90	7.49	5.37	2.67	5.48	3.97	5.48	7.42	141.06	13.29	12.36	15.22
Industry and Minerals	13.57	12.20	17.96	12.26	12.03	17.98	17.93	12.88	17.20	29.82	21.75	20.94	23.54	21.26
Transport and Communications	6.06	6.79	15.62	8.05	9.19	9.68	14.45	17.80	20.44	22.59	28.85	13.07	37.63	36.60
Science, Technology and Environment	7.57	9.34	10.40	11.27	12.87	13.68	15.86	17.20	18.76	21.92	26.27	30.46	30.06	33.27
General Economic Services	2.99	4.18	5.62	5.90	6.00	6.20	5.78	19.19	24.20	25.00	-121.99	38.16	58.30	19.95
B. Non-developmental	244.59	287.69	335.47	391.00	450.34	521.58	613.17	708.20	816.78	942.77	1100.88	1257.23	1313.68	1445.01
Defence services	88.60	95.58	101.94	108.74	114.42	121.09	149.77	164.26	188.41	209.97	261.75	308.40	310.13	334.64
Interest payments	112.36	142.61	177.57	214.71	265.63	310.35	366.95	440.49	500.31	594.78	656.37	750.00	772.48	880.00
on Internal Debt	55.14	69.13	82.73	96.22	109.09	129.89	154.83	193.91	233.64	264.97	314.29	382.60	394.39	459.72
on External Debt	9.77	12.42	14.94	17.78	25.69	34.51	37.92	41.10	39.02	52.28	41.46	41.92	42.73	41.84
on Small Savings, P.Fs. etc.	44.90	58.01	75.73	96.37	124.20	138.83	168.42	198.91	220.64	268.39	290.19	293.40	305.41	363.89
Other	2.56	3.06	4.17	4.34	6.66	7.12	5.78	6.57	7.01	9.13	10.43	32.08	29.95	14.56
Administrative Services	15.32	17.91	20.71	25.24	27.98	37.83	38.27	42.14	48.48	58.20	72.00	82.24	86.11	87.96
Fiscal Services	10.94	11.00	12.78	12.12	17.69	20.48	21.37	23.55	25.90	25.49	33.32	35.04	35.72	32.12
Pensions and misc. services	17.37	20.60	22.46	30.19	24.63	31.84	36.80	37.76	53.67	54.34	77.44	81.55	109.24	110.29
C. Grants-in-aid and contributions	93.49	102.08	109.36	134.39	159.53	180.54	211.11	204.83	218.28	238.17	232.27	287.84	263.11	323.23
Grants to State Governments	91.36	100.15	86.44	132.02	157.00	178.30	208.30	200.47	212.87	231.57	297.38	275.30	249.41	308.66
a. Non Plan	19.80	24.11	2.69	42.19	45.16	31.77	27.22	24.79	58.62	60.95	89.81	63.57	40.78	76.96
b. State Plan Schemes	34.43	35.59	36.00	38.78	56.51	79.76	102.39	107.93	86.71	104.10	140.39	124.13	132.73	136.13
c. Central and Centrally sponsored schemes	37.14	40.46	47.75	51.05	55.32	66.78	78.69	67.75	67.54	66.51	67.18	87.60	75.90	95.56
Grants to UTs. and Others	2.13	1.93	22.92	2.37	2.53	2.24	2.81	4.36	5.42	6.60	10.83	12.53	13.70	14.57
D. Revenue Disbursements of UTs (net)	9.43	10.92	13.09	13.75	15.05	16.30	13.73	6.59	7.63	8.86	10.28	10.91	12.37	12.37
Memo Items:														
Total Subsidies	59.80	77.32	104.74	121.58	122.53	119.95	126.82	129.32	133.72	163.64	194.87	220.25	246.83	238.38
Major Subsidies	51.26	67.87	90.32	95.81	97.93	94.15	107.64	115.27	124.30	140.41	182.38	198.83	210.63	224.40
Other Subsidies	8.54	9.45	14.42	25.77	24.60	25.80	19.18	14.05	9.42	23.23	12.49	21.42	36.20	13.98
Rural Employment Programme of which: Jawahar Rojgar Yojana	14.10	12.44	21.00	20.00	18.17	25.46	39.06	46.75	46.42	34.95	38.58	40.85	40.50	37.95
	0.00	0.00	20.96	20.00	18.17	25.26	33.06	35.35	28.73	16.55	19.53	20.95	20.60	20.95

Note: BE = Budget estimates; RE = Revised estimates.

Source: Ministry of Finance, Union budget documents; Department of Expenditure, Finance Accounts; World Bank Staff Estimates.

Table A4.8
Revenue Expenditure of State Governments
(Rs. billion at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98 B.E.	1997-98 R.E.	1998-99 B.E.
Revenue expenditure (A+B+C)	451.54	522.96	602.53	717.73	861.86	962.05	1093.76	1284.40	1450.04	1689.50	1915.51	1967.19	2294.95
A. Developmental (1+2)	318.20	362.37	407.81	488.55	585.05	634.65	708.38	786.37	892.76	1061.54	1112.44	1210.92	1289.85
1. Social services	177.06	205.74	240.17	279.62	310.92	345.65	389.61	449.02	536.07	603.28	682.82	729.78	800.99
Education, Sports, Art and Culture.	90.10	109.43	135.71	155.28	170.77	192.61	215.94	249.77	289.11	330.64	370.37	389.22	441.51
Health and Family Welfare.	30.53	34.77	39.64	45.86	50.54	56.62	66.69	74.29	84.79	94.30	108.17	112.87	126.76
Water supply and Sanitation	13.22	13.94	14.77	16.38	18.45	20.95	24.24	29.80	31.41	36.68	41.78	46.79	50.15
Welfare of SC, ST and BCs	11.84	13.18	14.69	17.90	20.71	23.01	25.70	30.12	33.95	38.96	49.19	51.59	53.17
Social security and welfare	8.23	9.70	11.07	13.62	14.77	16.63	18.65	21.44	45.83	26.97	54.84	37.27	39.24
Other	23.13	24.72	24.29	30.59	35.68	35.83	38.38	43.60	50.98	75.72	58.48	92.05	90.17
2. Economic services	141.14	156.63	167.64	208.92	274.13	288.99	318.78	337.36	356.69	458.26	429.61	481.13	488.86
Agriculture and Allied Services	38.98	42.65	48.29	62.67	69.81	84.34	88.93	90.64	99.32	108.31	112.78	119.17	129.14
Crop Husbandry	9.59	11.06	12.65	16.97	20.82	29.37	29.12	28.88	27.36	30.85	31.84	33.17	34.84
Food Storage and Warehousing	1.20	1.23	1.56	1.88	2.38	4.16	3.81	4.36	8.39	7.41	7.28	8.97	8.50
Forestry and Wild Life	8.69	9.46	10.28	11.75	13.42	14.90	15.74	17.22	18.75	21.37	23.15	24.30	29.67
Other	19.50	20.90	23.80	32.06	33.19	35.91	40.25	40.19	44.82	48.68	50.51	52.73	56.13
Rural Development	32.20	36.54	28.27	46.75	52.87	63.62	72.77	67.79	65.70	75.28	101.49	106.28	112.63
Special Areas Programmes	2.35	3.09	3.54	3.57	4.11	3.96	4.88	4.96	5.76	6.97	10.02	10.38	10.46
Irrigation and Flood Control	27.75	33.19	33.94	34.56	41.40	48.68	54.28	64.44	71.47	79.79	81.95	83.00	88.27
Energy	9.14	7.74	10.92	9.89	50.30	26.15	31.68	29.89	31.83	95.52	25.91	60.44	34.59
Industry and Minerals	7.33	8.69	12.17	11.65	12.71	13.56	14.18	16.85	19.60	21.55	21.89	23.92	22.43
Transport and Communications	16.01	17.35	19.22	23.36	27.59	31.28	35.12	37.55	44.44	49.25	50.00	51.78	58.88
Science, Technology and Environm	0.24	0.23	0.26	0.29	0.36	0.39	0.53	0.53	0.54	0.75	1.16	0.96	1.68
General Economic Services	7.14	7.15	11.02	16.18	14.98	17.01	16.40	22.68	17.83	20.83	24.41	25.19	30.79
B. Non-Developmental	128.44	155.06	188.69	221.34	266.66	315.06	373.67	484.99	541.97	608.64	775.98	724.56	968.92
Interest Payments	48.98	59.33	71.86	86.55	109.44	132.10	158.00	192.02	219.32	255.76	310.89	312.35	364.17
On loans from the centre	31.58	37.70	44.24	51.74	65.22	77.54	95.53	111.83	130.02	151.63	178.07	212.83	218.70
On the Internal Debt	8.95	10.42	13.41	15.68	21.70	24.67	27.77	31.41	42.60	48.68	58.45	69.40	83.23
On Small Savings, PFs.	7.63	10.58	12.70	17.03	21.17	24.73	30.87	31.27	38.88	40.69	54.10	58.25	68.12
Other	4.51	5.41	6.34	7.76	1.36	11.71	11.28	28.86	18.49	27.95	18.02	1.12	-0.01
Administrative Services	44.18	50.31	59.74	70.18	78.10	93.44	104.73	116.64	133.91	149.50	220.33	178.43	321.22
Pensions and Miscellaneous Services	17.58	23.92	29.31	35.93	44.79	52.72	69.99	119.27	128.34	135.15	170.18	149.51	195.13
Other	13.99	16.72	22.96	23.01	34.33	30.24	33.51	45.72	49.74	55.03	58.33	69.48	70.98
C. Other expenditure ^a	4.91	5.53	6.03	7.84	10.16	12.35	11.71	13.03	15.31	19.32	27.10	31.71	36.18

Note: BE = Budget estimates; RE = Revised estimates.

a. Other expenditure include compensation and assignments to local bodies and panchayat raj institutions and reserve with the finance department.

Source: Reserve Bank of India, RBI bulletins on state finances; World Bank Staff Estimates..

Table A4.9
Capital Expenditure: Center and States
(Rs. billion at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98 ^a	1998-99 B.E.	1998-99 R.E.	1999-00 B.E.
Central Government														
Capital expenditure [A+B+C+D]	179.07	204.08	237.18	260.88	231.01	235.60	274.93	322.82	319.09	345.35	434.00	479.57	522.69	608.08
A. Developmental (1+2)	56.67	60.03	70.95	69.23	58.26	73.82	55.60	73.96	50.49	46.82	73.33	114.21	80.33	105.08
1. Social services	2.80	3.51	3.21	2.47	2.39	2.59	3.32	7.26	5.48	6.58	6.04	10.51	10.14	11.48
Education, Sports, Art etc	0.05	0.13	0.08	0.06	0.04	0.05	0.06	2.25	0.14	0.13	0.13	0.22	0.14	0.23
Health and Family welfare	0.19	0.15	0.20	0.00	0.20	0.07	0.03	0.69	0.12	0.55	0.26	0.28	0.26	0.20
Housing	0.75	0.99	0.98	1.11	1.26	1.78	1.87	1.86	2.37	2.40	2.98	4.15	4.28	6.14
Information and Broadcasting	1.74	1.71	1.78	1.06	0.35	0.07	0.24	0.25	0.47	0.53	0.50	0.74	0.54	0.93
Other	0.08	0.52	0.18	0.24	0.53	0.62	1.12	2.23	2.39	2.97	2.18	5.11	4.91	3.99
2. Economic services	53.86	56.52	67.74	66.77	55.87	71.23	52.28	66.70	45.01	40.24	67.28	103.71	70.19	141.70
Agriculture and allied	0.54	0.55	0.45	0.45	0.49	0.47	0.48	2.83	3.60	3.34	3.35	4.68	3.33	2.45
Energy	18.46	19.05	26.07	27.09	19.91	16.21	17.69	22.68	20.58	11.05	19.16	21.18	21.58	21.37
Industry and Minerals	14.07	13.10	11.52	7.71	6.70	8.82	9.87	8.04	6.32	4.49	7.22	7.12	6.42	8.31
Transport & Communications	18.40	21.51	26.15	26.45	24.72	33.81	19.45	22.14	20.61	27.19	37.68	49.11	42.10	51.14
General Economic Services	0.65	0.00	1.26	2.52	2.57	9.07	1.58	6.86	-10.68	-10.76	-2.90	16.86	-7.13	51.97
Other	1.75	2.31	2.28	2.56	1.48	2.85	3.21	4.14	4.59	4.93	2.77	4.76	3.88	6.46
B. Non-developmental	33.39	40.76	45.27	49.56	52.32	58.88	73.92	72.51	88.26	93.29	99.74	115.43	111.84	135.65
Defence Services	31.08	37.83	42.22	45.52	49.05	54.73	68.67	68.19	80.15	85.08	91.04	103.60	101.87	122.30
Other	2.32	2.93	3.05	4.04	3.27	4.14	5.24	4.32	8.11	8.20	8.71	11.84	9.97	13.35
C. Capital Expenditure of UTs	2.88	1.76	1.87	2.68	3.42	3.50	2.78	2.44	2.24	1.84	2.19	3.10	3.03	3.27
D. Loans and Advances (Net)	86.13	101.53	119.09	139.40	117.01	99.41	142.63	173.91	178.10	203.40	258.74	246.82	327.50	364.08
To State Governments & UTs	58.51	67.30	79.55	98.69	94.18	86.97	100.72	143.13	148.37	175.71	233.36	212.11	301.90	326.64
To Others	27.62	34.23	39.55	40.71	22.83	12.44	41.92	30.78	29.73	27.68	25.39	34.71	25.60	37.44
State Government														
Capital expenditure [A+B+C]	101.31	98.66	117.52	134.78	132.49	157.77	167.84	206.19	232.25	213.31	314.13	339.36	...	...
A. Developmental (1+2)	64.29	68.53	77.28	89.61	98.61	103.44	120.51	169.31	178.37	168.27	229.75	235.58	...	...
1. Social Services	10.74	11.28	11.71	12.57	16.47	16.64	18.31	23.04	26.21	29.73	41.52	46.04	...	...
Education, Sports, Art etc	1.29	1.68	2.64	2.84	2.78	3.02	3.14	3.97	4.54	5.04	6.65	5.22	...	...
Health and Family welfare	1.88	2.04	1.84	2.37	2.76	2.63	2.80	3.24	3.68	3.99	5.89	6.79	...	...
Water supply and Sanitation	4.00	4.04	3.37	3.54	4.99	5.49	6.77	8.94	8.96	10.26	12.98	17.92	...	...
Housing	2.11	1.90	1.99	1.82	2.09	1.88	2.01	2.65	3.59	3.07	5.12	5.06	...	...
Other	1.45	1.63	1.87	2.00	3.86	3.62	3.57	4.24	5.43	7.36	10.88	11.04	...	...
2. Economic Services	53.55	57.25	65.57	77.03	82.14	86.80	102.21	146.27	152.16	138.55	188.24	189.54	...	...
Agriculture and allied	2.17	2.69	5.91	6.11	8.32	7.85	7.26	8.82	7.86	3.06	12.94	14.45	...	...
Irrigation and Flood control	29.66	32.66	32.91	36.56	38.52	42.93	49.68	58.62	65.87	68.98	83.86	83.13	...	...
Transport	9.43	10.27	11.59	13.42	13.92	15.90	20.47	24.20	28.91	34.02	40.71	50.14	...	...
Other	12.28	11.63	15.16	20.94	21.38	20.13	24.80	54.64	49.53	32.50	50.72	41.81	...	...
B. Non-developmental	2.26	2.25	2.36	2.63	2.34	3.10	3.99	4.20	6.57	7.12	9.83	10.59	...	...
C. Loans and advances(Net)	34.77	27.88	37.88	42.55	31.54	51.22	43.33	32.68	47.30	37.91	74.55	93.20	...	...

... Not available.

Note: BE = Budget estimates; RE = Revised estimates.

a. Actuals for the center and revised estimates for the states. Actuals for the center and revised estimates for the states.

Source: Ministry of Finance, Union budget documents; Reserve Bank of India, RBI bulletins on state finances; World Bank Staff Estimates.

Table A4.10
Transfers between Center and States
(Rs. billion at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99 B.E.	1998-99 R.E.	1999-00 B.E.
States' share in central taxes	95.98	106.69	132.32	145.35	171.97	205.22	222.42	248.40	292.98	350.61	435.48	408.54	391.63	444.95
Union excise duties	70.03	79.19	93.10	104.14	120.93	144.65	144.73	162.83	180.11	215.45	224.46	269.08	246.65	275.08
Income tax	25.89	27.49	39.22	41.21	51.04	60.57	77.69	85.57	112.87	135.16	211.02	139.46	144.98	169.87
Estate duty	0.06	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Grants to States	91.36	100.15	86.44	132.02	157.00	178.30	208.30	200.47	212.87	231.57	297.38	275.30	249.41	308.66
Non-plan grants	19.80	24.11	2.69	42.19	45.16	31.77	27.22	24.79	58.62	60.95	89.81	63.57	40.78	76.96
State plan schemes	34.43	35.59	36.00	38.78	56.51	79.76	102.39	107.93	86.71	104.10	140.39	124.13	132.73	136.13
Central and Centrally sponsored schemes	37.14	40.46	47.75	51.05	55.32	66.78	78.69	67.75	67.54	66.51	67.18	87.60	75.90	95.56
Loans to States & UTs	86.98	99.15	109.16	135.66	123.30	121.41	139.85	188.04	192.96	230.50	293.68	291.17	384.03	413.75
Loan Repayments by States and UTs	28.47	31.85	29.62	36.97	29.12	34.44	39.13	44.91	44.58	54.79	60.32	79.06	82.13	87.11
Interest Payments by States	31.58	37.70	44.24	51.74	65.22	77.54	95.53	111.83	130.02	151.63	178.07	212.83	218.70	258.99
NET TRANSFER (Center to States)	214.28	236.43	254.07	324.32	357.93	392.94	435.91	480.17	524.20	606.26	788.15	683.12	724.24	821.26

Note: BE = Budget estimates; RE = Revised estimates.

Source: Union budget documents; RBI bulletins on state finances; Finance Accounts; World Bank Staff Estimates.

Table A4.11
Explicit Subsidies in the Central Government Budget
(Rs. billion at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99 B.E.	1998-99 R.E.	1999-00 B.E.
A. Major Subsidies	51.26	67.87	90.32	95.81	97.93	94.15	107.64	115.27	124.30	140.41	182.38	198.83	210.63	224.40
1. Food	20.00	22.00	24.76	24.50	28.50	28.00	55.37	51.00	53.77	60.66	75.00	90.00	87.00	82.00
2. Indegenious Fertilizers	20.50	30.00	37.71	37.30	35.00	48.00	38.00	40.75	43.00	47.43	66.00	60.00	73.60	80.00
3. Imported Fertilizers	1.14	2.01	7.71	6.59	13.00	9.96	7.62	11.66	19.35	11.63	7.22	9.83	2.38	7.50
4. Other Fertilizer Subsidy	0.00	0.00	0.00	0.00	3.85	3.40	6.32	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5. Export Promotion and Market Development.	9.62	13.86	20.14	27.42	17.58	8.18	6.65	6.58	3.18	3.97	4.20	5.00	5.75	6.30
6. Sale of decontrolled fertilise with concession to farmers	...	...	...	...	...	...	...	5.28	5.00	16.72	25.96	30.00	37.90	45.00
B. Debt relief to farmers	...	...	...	15.02	14.25	15.00	5.00	3.41	3.41	0.00	0.00	0.00	0.00	0.00
C. Other Subsidies	8.54	9.45	14.42	10.75	10.35	10.81	14.18	10.64	11.77	23.23	12.49	21.42	36.20	13.98
7. Railways	1.74	2.07	2.33	2.83	3.12	3.53	4.12	4.20	4.18	4.66	5.26	6.28	6.18	7.10
8. Mill-made cloth	0.23	0.27	0.10	0.10	0.15	0.15	0.16	0.00	0.01	0.00	0.00	0.00	0.00	0.00
9. Handloom Cloth	1.24	1.46	1.81	1.85	1.87	1.61	1.74	1.48	1.43	0.98	0.64	0.46	0.42	0.40
10. Import/Export of Sugar, Edible Oils etc.	0.05	0.40	0.00	..	0.00	0.00	0.00	0.00	1.00	0.00	0.20	0.30	1.05	0.50
11. Interest Subsidies	3.93	4.06	8.81	3.79	3.16	1.13	1.13	0.76	0.34	12.22	0.78	0.39	14.36	0.73
12. Other Subsidies	1.35	1.19	1.37	2.18	2.05	0.99	1.86	4.20	4.81	5.44	5.61	13.99	14.19	5.25
TOTAL - Subsidies	59.80	77.32	104.74	121.58	122.53	119.95	126.82	129.32	133.72	163.64	194.87	220.25	246.83	238.38

... Not available.

Note: BE = Budget estimates; RE = Revised estimates.

Source: Ministry of Finance, Union Budget Documents.

Table 4.12
Outstanding Debt of Central Government

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98*	1998-99*
	(Rs. Billion at current prices)								
1. To Reserve Bank of India	884.44	943.48	965.23	967.83	989.13	1187.68	1227.73	1362.95	
a. Treasury bills	49.80	61.59	167.17	244.43	252.35	350.11	451.42	6.27	
b. CG Securities	174.50	171.47	86.43	33.11	34.47	152.24	66.66	319.77	
c. Special securities	671.02	720.46	720.46	720.46	720.46	720.46	720.46	1028.65	
d. Other liabilities	-10.88	-10.04	-8.83	-30.17	-18.15	-35.13	-10.81	8.26	
2. To commercial banks	388.13	460.46	531.12	795.85	945.88	1090.50	1314.39	1562.12	
a. Treasury bills	0.10	0.11	3.06	0.72	0.00	0.00	0.00	0.00	
b. CG Securities	388.03	460.35	528.06	795.13	945.88	1090.50	1314.39	1562.12	
To Banking system	1272.57	1403.94	1496.35	1763.68	1935.01	2278.18	2542.12	2925.07	
3. To Private Sector	673.32	829.72	1134.96	1573.72	1952.69	2083.98	2444.52	2894.06	
a. Small savings	501.00	557.55	601.28	672.85	817.10	917.86	1039.28	1253.61	
b. Others	1056.76	1215.65	1498.91	1868.71	2124.72	2353.80	2632.97	3004.31	
4. External debt (DRS)	914.26	1215.43	1553.92	1670.83	1880.87	1904.48	1940.95	2245.32	2443.29
5. Total Outstanding Debt	3744.59	4392.57	5150.46	5976.07	6757.70	7454.31	8155.32	9427.40	10642.94
	(% of GDPmp)								
Reserve Bank of India	15.3	14.1	12.6	11.0	9.5	9.8	8.7	8.7	
Commercial banks	6.7	6.9	7.0	9.1	9.1	9.0	9.3	10.0	
Small savings	8.6	8.4	7.9	7.7	7.9	7.5	7.4	8.0	
Others	18.2	18.2	19.6	21.3	20.5	19.3	18.7	19.2	
External Debt (from DRS)	15.8	18.2	20.4	19.1	18.1	15.6	13.8	14.4	
Total outstanding debt	64.6	65.8	67.5	68.1	65.1	61.2	57.8	60.3	59.0
	(% of total outstanding debt)								
Reserve Bank of India	28.1	26.6	24.0	20.3	18.4	19.6	18.2	17.6	
Commercial banks	12.3	13.0	13.2	16.7	17.6	18.0	19.5	20.2	
Small savings	15.9	15.7	15.0	14.1	15.2	15.1	15.4	16.2	
Others	33.6	34.3	37.3	39.1	39.4	38.8	39.0	38.8	
External Debt (from DRS)	15.8	18.2	20.4	19.1	18.1	15.6	13.8	14.4	
Total outstanding debt	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Memo Items:									
External debt (US\$ billion) from DRS	46.60	46.95	49.76	53.26	59.71	55.48	54.11	56.84	57.58
External debt from DRS (Rs. Billion)	914.26	1215.43	1553.92	1670.83	1880.87	1904.48	1940.95	2245.32	2443.29
External Debt (from budget)	315.25	369.48	422.69	473.45	509.28	512.49	542.39	553.32	559.60

a. Provisional.

Note: End of year stocks are used to calculate outstanding debt and External Debt as shown in the central budget.

Source: RBI, Report on Currency and Finance, various issues; Ministry of Finance, Union Budget & Indian Economic Statistics (Public Finance); Ministry of Finance, Economic Survey, various issues; World Bank Staff estimates.

Table A4.13
Outstanding Debt of State Government
(Rs. billion at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97 ^a	1997-98 ^a
1. To Reserve Bank of India	9.90	14.14	16.70	20.90	17.50	19.26	25.17	25.65	25.81	19.52	20.00
2. To commercial banks	75.37	89.92	100.83	125.32	182.01	246.77	250.33	263.53	273.79	330.00	392.20
a. SG Securities	69.47	85.02	103.49	122.90	150.12	171.82	195.09	227.97	301.34	363.21	431.66
b. Others	5.90	4.90	-2.66	2.42	31.89	74.95	55.24	35.56	-27.55	-33.21	-39.47
To Banking System (1)+(2)	85.27	104.06	117.53	146.22	199.51	266.03	275.50	289.18	299.60	349.52	412.20
3. To Private Sector	130.75	164.07	201.30	237.11	254.24	252.46	328.78	448.73	557.86	649.49	763.53
a. Provident Fund	95.83	115.85	138.91	169.61	198.70	234.92	278.22	326.01	375.02	437.24	511.18
b. Others	34.92	48.22	62.39	67.50	55.54	17.54	50.56	122.72	182.84	212.25	252.35
4. To Central Govt. (a-b-c)	483.69	542.06	623.41	719.56	809.63	903.29	996.49	1107.36	1264.80	1455.69	1672.20
a. Loans from Center	495.34	562.22	641.39	741.17	834.90	924.12	1019.45	1167.05	1315.06	1505.69	1722.20
b. States' holding of Trs. Bill	8.88	17.38	15.18	18.80	24.95	20.83	22.96	59.69	50.26	50.00	50.00
c. States' holding of CG Sec.	2.77	2.78	2.80	2.81	0.32	0.00	0.00	0.00	0.00	0.00	0.00
5. Total outstanding debt	699.71	810.20	942.24	1102.89	1263.38	1421.78	1600.77	1845.27	2122.26	2454.70	2847.93

n.a. Not available.

Note: End of year stocks are used to calculate outstanding debt.

a. Provisional.

Source: RBI, Report on Currency and Finance, various issues; Ministry of Finance, Union Budget & Indian Economic Statistics (Public Finance); Ministry of Finance, Economic Survey, various issues; World Bank Staff estimates.

Table A4.14
Outstanding Debt of Central and State Governments
(Rs. billion at current prices)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97 ^a	1997-98 ^a
1. To Reserve Bank of India	526.87	596.14	736.83	905.34	960.98	984.49	993.00	1014.78	1213.49	1247.25	1382.95
a. Center	516.97	582.00	720.13	884.44	943.48	965.23	967.83	989.13	1187.68	1227.73	1362.95
b. State	9.90	14.14	16.70	20.90	17.50	19.26	25.17	25.65	25.81	19.52	20.00
2. To commercial banks	316.83	377.58	434.68	513.45	642.47	777.89	1046.18	1209.41	1364.29	1644.39	1954.32
a. Center	241.46	287.66	333.85	388.13	460.46	531.12	795.85	945.88	1090.50	1314.39	1562.12
b. State	75.37	89.92	100.83	125.32	182.01	246.77	250.33	263.53	273.79	330.00	392.20
To Banking System (1)+(2)	843.70	973.72	1171.51	1418.79	1603.45	1762.38	2039.18	2224.19	2577.78	2891.64	3337.27
3. To Private Sector	1072.40	1294.35	1509.86	1751.65	1976.89	2311.00	2824.41	3271.17	3729.00	4221.74	4921.45
a. Small savings	283.58	338.33	417.91	501.00	557.55	601.28	672.85	817.10	917.86	1039.28	1253.61
b. Others	788.82	956.02	1091.95	1250.65	1419.34	1709.72	2151.57	2454.07	2811.14	3182.46	3667.84
4. External Debt	232.23	257.46	283.43	315.25	369.48	422.69	473.45	509.28	512.49	542.39	552.42
5. Total outstanding debt	2148.33	2525.53	2964.80	3485.69	3949.83	4496.07	5337.04	6004.64	6819.26	7655.77	8811.14
Loans to States from Center	495.34	562.22	641.39	741.17	834.90	924.12	1019.45	1167.05	1315.06	1505.69	1722.20

Note: End of year stocks are used to calculate outstanding debt and External Debt as shown in the central budget.

a. Provisional.

Source: RBI, Report on Currency and Finance, various issues; Ministry of Finance, Union Budget & Indian Economic Statistics (Public Finance); Ministry of Finance, Economic Survey, various issues; World Bank Staff estimates.

Table A4.15(a)
Projected and Actual Plan Outlays by Sectors
(Rs. billion)

	Eighth Plan						Annual Plans	
	(92-93 - 96-97) Projected	92-93 Actuals	93-94 Actuals	94-95 Actuals	95-96 Actuals	96-97 Revised	97-98 Revised	98-99 Proj.
A Agriculture & Allied Programs	636.43	105.91	126.60	157.12	154.60	165.41	172.24	97.46
Agriculture	224.67	42.16	42.64	53.50	50.85	63.26	62.22	38.64
Rural Development	344.25	50.91	70.33	87.17	99.67	97.89	101.63	58.82
Special Area Program	67.50	12.84	13.64	16.45	4.08	4.26	8.40	0.00
B Irrigation & Flood Control	325.25	47.05	53.71	61.04	72.45	85.58	106.38	3.75
Minor Irrigation	59.77	9.95	10.48	11.85	...	...	...	...
Major Irrigation	224.15	30.47	35.71	41.59	...	...	...	...
Flood Control	16.23	3.30	3.66	3.08	...	...	...	...
Command Area Development	25.10	3.33	3.85	4.52	...	...	...	...
C Industry and Minerals	469.22	74.44	84.81	90.88	108.08	122.80	125.22	115.51
Village & Small Scale	63.34	9.95	11.52	15.12	17.94	16.68	17.28	9.92
Large & Medium Industries	405.88	64.49	73.29	75.76	90.14	106.12	107.95	105.59
D Energy	1155.61	202.90	269.09	274.82	268.93	296.15	325.69	300.82
Power	795.89	121.57	147.73	163.46	165.11	165.32	187.37	109.06
Petroleum	240.00	56.98	95.89	86.44	81.24	105.28	109.15	147.33
Coal	105.07	22.77	22.93	22.39	19.48	19.32	23.29	37.17
E Transport	559.26	106.63	119.77	120.97	137.67	188.96	186.40	161.86
Railways	272.02	61.62	59.01	54.72	63.35	83.00	84.03	95.00
Roads & Road Transport	169.52	28.48	32.49	38.44	...	...	...	...
Ports & Shipping ^a	76.14	7.28	16.20	13.13	...	...	...	...
Civil Aviation	40.83	8.82	11.46	14.44	...	...	...	...
F Communication & Broadcasting	289.66	51.51	62.02	72.74	86.26	100.77	111.44	148.78
G Science & Technology	90.42	9.30	11.53	14.07	17.65	19.35	21.18	27.66
H Social Services	751.55	113.23	140.16	174.09	208.48	278.65	309.39	183.10
Education	196.00	26.19	31.47	35.66	53.56	73.46	82.08	45.67
Health & Family Welfare	140.76	22.22	26.13	33.11	36.73	41.47	49.04	36.84
Housing & Urban Development	105.50	14.42	21.47	20.81	28.92	56.16	61.21	39.05
Water Supply & Sanitation	167.11	22.84	27.20	32.60	...	...	...	...
Other Social Services	142.19	27.55	33.89	51.92	...	...	...	...
I Others	63.60	17.56	13.11	15.94	19.68	34.21	38.34	12.94
J TOTAL	4341.00	728.52	880.81	981.67	1073.80	1291.89	1396.26	1051.87

... Not available.

Note: The Plan totals are at base year prices for projections and at current prices for actuals.

a. Covers Major and Minor ports, Shipping, Lighthouses and Inland Water.

Source: Planning Commission.

Table A4.15(b)
 Projected and Actual Plan Outlays by Sectors
 (Annual averages at constant 1980-81 prices - Rs. billion)

	Eighth Plan								
	(92-93 - 96-97) Projected	92-93 Actuals	93-94 Actuals	94-95 Actuals	95-96 Actuals	96-97 Revised	97-98 Proj.	97-98 Revised	98-99 Proj.
A Agriculture & Allied Programs	46.0	38.3	42.5	49.5	44.7	43.6	43.9	41.2	21.2
Agriculture	16.2	15.2	14.3	16.9	14.7	16.7	15.9	14.9	8.4
Rural Development	24.9	18.4	23.6	27.5	28.8	25.8	23.7	24.3	12.8
Special Area Program	4.9	4.6	4.6	5.2	1.2	1.1	4.3	2.0	0.0
B Irrigation & Flood Control	23.5	17.0	18.0	19.2	20.9	22.6	17.9	25.4	0.8
Minor Irrigation	4.3	3.6	3.5	3.7	...	...	0.0	...	...
Major Irrigation	16.2	11.0	12.0	13.1	...	...	0.0	...	...
Flood Control	1.2	1.2	1.2	1.0	...	...	0.0	...	...
Command Area Development	1.8	1.2	1.3	1.4	...	...	0.0	...	...
C Industry and Minerals	33.9	26.9	28.4	28.6	31.2	32.4	33.2	30.0	25.1
Village & Small Scale	4.6	3.6	3.9	4.8	5.2	4.4	4.5	4.1	2.2
Large & Medium Industries	29.3	23.3	24.6	23.9	26.0	28.0	28.7	25.8	23.0
D Energy	83.5	73.3	90.2	86.6	77.7	78.1	84.3	77.9	65.4
Power	57.5	43.9	49.5	51.5	47.7	43.6	46.9	44.8	23.7
Petroleum	17.4	20.6	32.2	27.2	23.5	27.8	28.6	26.1	32.0
Coal	7.6	8.2	7.7	7.1	5.6	5.1	7.7	5.6	8.1
E Transport	40.4	38.5	40.2	38.1	39.8	49.8	43.3	44.6	35.2
Railways	19.7	22.3	19.8	17.2	18.3	21.9	18.4	20.1	20.7
Roads & Road Transport	12.3	10.3	10.9	12.1	...	...	0.0	...	...
Ports & Shipping ^a	5.5	2.6	5.4	4.1	...	...	0.0	...	...
Civil Aviation	3.0	3.2	3.8	4.5	...	...	0.0	...	...
F Communication & Broadcasting	20.9	18.6	20.8	22.9	24.9	26.6	19.9	26.7	32.4
G Science & Technology	6.5	3.4	3.9	4.4	5.1	5.1	4.2	5.1	6.0
H Social Services	54.3	40.9	47.0	54.8	60.2	73.5	53.6	74.0	39.8
Education	14.2	9.5	10.6	11.2	15.5	19.4	12.8	19.6	9.9
Health & Family Welfare	10.2	8.0	8.8	10.4	10.6	10.9	9.0	11.7	8.0
Housing & Urban Development	7.6	5.2	7.2	6.6	8.4	14.8	8.7	14.6	8.5
Water Supply & Sanitation	12.1	8.3	9.1	10.3	...	...	0.0	...	...
Other Social Services	10.3	10.0	11.4	16.4	...	...	0.0	...	...
I Others	4.6	6.3	4.4	5.0	5.7	9.0	7.4	9.2	2.8
J TOTAL	313.8	263.4	295.4	309.3	310.2	340.6	307.6	334.0	228.7
Memo Item: Investment Deflator	276.6	276.6	298.2	317.4	346.2	379.3	418.1	418.1	459.9

... Not available.

a. Covers Major and Minor ports, Shipping, Lighthouses and Inland Water.

Source: Planning Commission.

Table A4.15(c)
Projected and Actual Plan Outlays by Sectors
(percentage distribution and achievement rates)

	Seventh Plan (85-86 - 89-90)		Annual Plans		Eighth Plan (92-93 - 96-97)	Eighth Plan					97-98 Achieve- ment ^b
	% share ^a	Achieve- ment ^b	Achieve- ment ^b	Achieve- ment ^b	% share ^a	Achieve- ment ^b					
A Agriculture & Allied Programs	12.4	111.1	93.4	90.1	14.7	101.6	112.6	113.4	88.3	82.2	93.8
Agriculture	5.8	95.3	89.6	86.1	5.2	89.5	84.0	92.9	79.8	86.7	93.4
Rural Development	4.9	134.2	96.5	93.2	7.9	112.2	143.8	132.3	105.9	90.0	102.4
Special Area Program	1.6	97.0	95.1	93.4	1.6	108.8	107.2	109.1	23.8	21.8	47.2
B Irrigation & Flood Control	9.4	76.6	96.7	90.1	7.5	95.4	101.0	98.0	102.3	104.5	142.3
Minor Irrigation	1.6	89.2	94.5	87.1	1.4	91.4	89.4	91.6			
Major Irrigation	6.4	74.7	99.3	91.8	5.2	97.4	105.9	101.7			
Flood Control	0.5	78.2	84.3	91.6	0.4	91.7	94.2	85.0			
Command Area Development	0.9	67.2	91.0	81.9	0.6	93.0	99.7	93.0			
C Industry and Minerals	12.3	103.1	75.4	76.2	10.8	75.3	79.6	75.1	78.9	80.8	90.2
Village & Small Scale	1.5	92.5	89.2	79.3	1.5	86.0	92.3	110.2	103.3	81.5	92.5
Large & Medium Industries	10.8	104.7	73.6	75.7	9.3	73.9	77.9	70.7	75.3	80.6	89.9
D Energy	30.6	87.9	90.6	92.6	26.6	86.1	105.9	83.5	74.9	76.7	92.4
Power	19.0	86.6	91.3	106.1	18.3	81.4	91.7	93.5	82.0	76.9	95.5
Petroleum	7.2	97.7	94.7	67.9	5.5	94.1	146.9	70.5	65.4	80.5	91.4
Coal	4.1	75.4	81.1	67.8	2.4	94.7	88.5	77.3	64.2	55.0	72.6
E Transport	12.8	101.6	86.8	93.9	12.9	90.7	94.5	81.5	84.7	95.3	103.0
Railways	6.9	105.1	97.9	101.3	6.3	108.1	96.0	74.5	81.3	98.4	109.2
Roads & Road Transport	4.0	92.2	97.9	91.2	3.9	97.8	103.5	104.1			
Ports & Shipping ^c	1.3	88.3	37.5	62.0	1.8	35.5	73.3	64.3			
Civil Aviation	0.4	196.3	61.7	124.2	0.9	84.0	101.2	84.0			
F Communication & Broadcasting	3.4	126.8	92.2	92.3	6.7	105.3	117.7	109.4	109.9	110.5	133.9
G Science & Technology	1.4	96.2	85.0	84.7	2.1	93.8	107.9	100.4	112.8	101.2	121.4
H Social Services	16.4	88.1	100.3	91.5	17.3	88.1	101.2	106.0	105.9	113.5	138.1
Education	3.5	94.4	93.3	91.2	4.5	88.9	99.1	92.1	111.6	125.4	153.5
Health & Family Welfare	3.6	82.7	104.6	100.7	3.2	96.3	105.1	107.5	103.7	100.8	130.6
Housing & Urban Development	2.4	89.6	128.2	77.3	2.4	71.7	99.0	85.2	98.6	141.2	168.7
Water Supply & Sanitation	3.6	85.2	95.9	89.3	3.8	96.6	106.6	104.0			
Other Social Services	3.3	89.4	90.8	96.6	3.3	85.6	97.7	133.2			
I Others	1.3	187.3	86.1	70.2	1.5	119.6	82.9	73.8	69.7	101.5	124.7
J TOTAL	100.0	96.1	90.2	89.5	100.0	90.2	101.2	92.1	87.8	91.7	108.6

Note: Derived from Table 4.15(b).

a. Percentage share in total plan outlay.

b. Actual outlay as a percentage of target outlay for the Plan.

c. Covers Major and Minor ports, Shipping, Lighthouses and Inland Water.

Source: Planning Commission.

Table A5.1
Money Supply and Sources of Change, 1985-86 - 1998-99
(Rs. billion)

	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
BROAD MONEY SUPPLY (M3)	2002.41	2309.48	2658.28	3170.49	3668.25	4344.07	5314.26	6040.07	7018.48	8272.09	9743.28
Narrow Money Supply (M1)	711.01	810.58	928.92	1144.06	1240.66	1507.78	1922.57	2148.35	2406.15	2674.81	3041.98
Currency with Public	380.71	463.00	530.48	610.98	682.73	823.01	1006.81	1182.58	1320.87	1460.04	1701.19
Deposit Money (total)	323.40	341.60	391.70	524.23	544.80	659.52	881.93	932.33	1053.34	1179.36	1302.67
Time Deposits with Banks	1291.40	1498.90	1729.36	2026.43	2427.59	2836.29	3391.69	3891.72	4612.33	5597.28	6701.30
SOURCES OF CHANGE											
Net Bank Domestic Credit	2300.36	2688.57	3119.62	3462.56	3963.73	4416.92	5151.42	6024.26	6649.27	7633.30	8736.14
To Government	973.73	1171.53	1401.93	1582.63	1762.38	2039.18	2224.19	2577.78	2886.20	3305.92	3866.72
From Reserve Bank of India (RBI)	596.15	736.83	888.48	940.16	984.49	993.00	1014.78	1213.49	1241.81	1351.60	1525.39
From Other Banks	377.58	434.70	513.45	642.47	777.89	1046.18	1209.41	1364.29	1644.39	1954.32	2341.33
To Commercial Sector	1326.63	1517.04	1717.69	1879.93	2201.35	2377.74	2927.23	3446.48	3763.07	4327.38	4869.42
From Reserve Bank of India	55.24	63.49	63.42	72.60	62.20	64.45	65.93	68.55	62.47	81.86	122.26
From Other Banks	1271.39	1453.55	1654.27	1807.33	2139.15	2313.29	2861.30	3377.93	3700.60	4245.52	4747.16
Net Foreign Exchange Assets of Banking Sector	68.00	66.51	105.81	212.26	244.43	546.12	790.32	821.41	1054.96	1265.69	1486.33
Government's Currency Liabilities to the Public	14.75	15.55	16.21	17.04	18.24	19.90	23.79	25.03	29.18	33.52	37.05
Net Non-Monetary Liabilities of Reserve Bank of India	380.70	461.15	583.36	521.37	558.15	638.87	651.27	830.63	714.93	660.42	516.24
of Reserve Bank of India	169.36	175.36	270.22	274.15	282.46	260.37	293.58	322.96	351.83	432.82	604.64
of Other Banks	211.34	285.79	313.14	247.22	275.69	378.50	357.69	507.67	363.10	227.60	-88.40
Broad Money Supply (M3)	2002.41	2309.48	2658.28	3170.49	3668.25	4344.07	5314.26	6040.07	7018.48	8272.09	9743.28
GDP at market prices	4281.00	4941.23	5792.64	6671.65	7635.61	8769.52	10378.42	12179.63	14098.49	15635.52	18048.59

Note: 1998-99 figures are as of March 31 on the basis of the closure of government accounts.

Source: Ministry of Finance, Economic Survey, various issues; Reserve Bank of India, RBI Bulletin (Weekly Statistical Supplement).

Table A5.2
Base Money Supply and Sources of Change, 1985-86 - 1998-99
(Rs. billion)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
TOTAL BASE MONEY SUPPLY	534.90	629.59	775.91	877.79	995.05	1107.79	1386.71	1692.82	1944.57	1999.85	2264.02	2592.20
Currency with Public	335.59	380.71	463.00	530.48	610.98	682.73	823.01	1006.81	1182.58	1320.87	1460.04	1701.19
Other Deposits with RBI	3.97	6.94	5.98	6.74	8.85	13.13	25.25	33.83	33.44	31.94	35.41	38.12
Cash with Banks	15.63	19.72	19.86	22.34	26.40	30.53	30.94	40.00	43.11	51.30	50.51	55.86
Bank Deposits with RBI	179.71	222.22	287.07	318.23	348.82	381.40	507.51	612.18	685.44	595.74	718.06	797.03
SOURCES OF CHANGE												
RBI Claims	609.18	722.18	875.03	1051.97	1063.78	1145.54	1112.96	1215.41	1501.59	1374.33	1504.42	1647.65
On Government (net)	526.87	596.15	736.83	888.48	940.16	984.49	993.00	1014.78	1213.49	1241.81	1351.60	1525.39
On Banks	44.41	70.79	74.71	100.07	51.02	98.85	55.51	134.70	219.55	70.05	70.96	0.00
On Commercial Sector	37.90	55.24	63.49	63.42	72.60	62.20	64.45	65.93	68.55	62.47	81.86	122.26
Net Foreign Exchange Assets of RBI	54.17	62.02	60.69	79.83	188.38	226.47	514.22	747.20	740.92	948.17	1158.90	1379.54
Government's Currency Liabilities to the Public	13.80	14.75	15.55	16.21	17.04	18.24	19.90	23.79	25.03	29.18	33.52	37.05
Net Non-Monetary Liabilities of Reserve Bank of India	142.25	169.36	175.36	270.22	274.15	282.46	260.37	293.58	322.96	351.83	432.82	604.64

Note: 1998-99 figures are as of March 31 on the basis of the closure of government accounts.

Source: Ministry of Finance, *Economic Survey*, various issues; Reserve Bank of India, RBI Bulletin (Weekly Statistical Supplement).

Table A5.3
Selected Monetary Policy Instruments

Year & Month	Bank Rate	Minimum Cash Reserve ^a Ratio	Statutory Liquidity ^b Ratio
1985 June 8	10	9.0	36.5
July 6	10	9.0	37.0
1987 February 28	10	9.5	37.0
April 25	10	9.5	37.5
October 24	10	10.0	37.5
1988 January 2	10	10.0	38.0
July 2	10	10.5	38.0
July 30	10	11.0	38.0
1989 July 1	10	15.0	38.0
1990 September 22	10	15.0	38.5
1991 July 4	11	15.0	38.5
October 9	12	15.0	38.5
1992 April 1	12	15.0	30.0
1993 April 17	12	14.5	30.0
May 15	12	14.0	30.0
September 17	12	14.0	25.0
1994 June 11	12	14.5	25.0
July 9	12	14.8	25.0
August 6	12	15.0	25.0
1995 November 11	12	14.5	25.0
December 9	12	14.0	25.0
1996 April 27	12	13.5	25.0
May 11	12	13.0	25.0
July 6	12	12.0	25.0
October 26	12	11.5	25.0
November 9	12	11.0	25.0
1997 January 4	12	10.5	25.0
January 18	12	10.0	25.0
April 16	11	10.0	25.0
June 26	10	10.0	25.0
October 22	9	10.0	25.0
October 25	9	9.8	25.0
November 22	9	9.5	25.0
December 6	9	10.0	25.0
1998 January 17	11	10.5	25.0
March 18	11	10.5	25.0
March 28	11	10.3	25.0
April 2	10	10.3	25.0
April 11	10	10.0	25.0
April 29	9	10.0	25.0
1999 March 1	8	10.5	25.0
May 8	8	10.0	25.0

Note: Dates given are those on which the announced measures take effect.

- a. Minimum cash reserves to be deposited with the RBI as % of net demand and time liabilities (NDTL).
b. The ratio of liquid assets, exclusive of those under (a), to aggregate demand and time liabilities upto March 28, 1985 and net demand and time liabilities with effect from March 29, 1985.

Sources: Reserve Bank of India, Report of the Committee to Review the Working of the Monetary System, 1985; Reserve Bank of India, Annual Report, various issues.

Table A5.4
Structure of Short-term and Long-term Interest Rates
(percent per annum)

	1980-81	1985-86	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
A. SHORT-TERM RATES											
Reserve Bank Rate	9.0	10.0	10.0	12.0	12.0	12.0	12.0	12.0	12.0	10.5	8.0
Treasury Bills:											
91-day ^a	4.6	4.6	4.6	4.6	8.8-10.7	7.1-11.1	7.2-11.9	11.4-13.0	6.9-12.97	5.7-7.3	7.16-10.05
182-day			10.0-10.1	8.8-10.1	7.8-8.4						
364-day					9.9-10.3	10.0-11.4	9.4-11.9	12.1-13.2	10.1-13.1	8.0-9.4	7.97-10.72
Call Money Rate (Bombay)	7.1	10.0	11.5	19.6	14.4	7.0	9.4	17.7	7.8	8.7	0.0
Commercial Bank Rates:											
Maximum Deposit Rate ^b	10.0	11.0	11.0	13.0	11.0	10.0	11.0	12.0	10.0	Free	Free
Minimum Lending Rate	13.5	n.a.	16.0	19.0	17.0	14.0	Free	Free	Free	Free	Free
B. LONG-TERM RATES											
I.D.B.I. Prime Lending Rate	14.0	14.0	14.0-15.0	18.0-20.0	17.0-19.0	14.5-17.5	15.0	16.0-19.0	16.2	13.3	13.5
Company Deposit Rates: ^c											
Private Sector Companies ^d											
(i) 1 year	9.0-13.5	10.0-15.0	10.5-14.0	10.5-15.0	12.0-15.0	12.0-14.0	13.0-14.0	12.0-15.0	13.0-15.0	9.5-15.0	11.00-15.00
(ii) 2 years	10.0-14.5	12.0-15.0	12.0-14.0	12.0-15.0	13.0-15.0	13.0-14.0	14.0-15.0	13.0-15.0	14.0-15.0	10.5-15.0	12.00-15.00
(iii) 3 years	13.0-15.5	13.0-15.0	13.5-14.0	14.0-15.0	15.0	14.0	14.0-15.0	14.0-15.0	15.0	11.5-15.0	11.50-15.00
Public Sector Companies											
(i) 1 year	11.0	11.5-12.0	10.5-12.0	10.5-15.0	13.0	12.0-15.0	12.0-15.0	13.0-15.0	13.0-15.0	13.0-15.0	9.00-15.00
(ii) 2 years	12.0	12.0-13.0	11.5-13.0	11.5-15.0	14.0	13.0-15.0	13.0-15.0	14.0-15.0	13.0-15.0	14.0-15.0	10.00-15.00
(iii) 3 years	13.5	13.5-14.5	13.0-14.0	13.0-15.0	15.0	14.0-15.0	14.0-15.0	15.0	14.0-15.0	15.0	11.00-15.00
Average Yield - Ordinary Shares	5.9	3.2	2.6	2.1	1.7	2.2	1.8	3.1	4.2	5.2	6.5
Redemption Yield - Government of India Securities											
(i) Short-term (1-5 years)	4.7-6.0	5.4-9.8	7.0-21.7	8.4-26.3	9.1-23.8	11.9-12.9	9.8-11.8	6.0-14.3	5.2-16.2	5.5-17.7	4.45-17.13
(ii) Medium-term (5-15 years)	5.8-6.8	6.5-9.5	9.4-12.7	9.5-13.4	9.5-14.8	12.7-13.3	11.3-13.9	5.8-14.1	5.8-14.4	5.2-14.0	5.75-13.74
(iii) Long-term (above 15 years)	6.4-7.5	8.4-11.5	10.9-12.0	9.9-12.4	8.8-12.5	12.9-13.4	11.8-13.5	11.8-13.0	9.0-14.2	9.0-13.2	7.00-13.04

Note: Data for 1998-99 is preliminary.

a. Effective 8 January, 1993, a new auction system for 91-day Treasury Bills was introduced.

b. Effective 22 April, 1992, a single 'maximum deposit rate' has been for deposits of various maturities.

Earlier different rates were prescribed for different deposit maturities.

c. Deposits accepted from the public.

d. Well-established private sector companies.

Source: Reserve Bank of India, *Report on Currency and Finance*, various issues.

Table A5.5
Sectoral Deployment of Gross Bank Credit
(Rs billion - change during year)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	Apr-Oct	
												97-98	98-99
Gross Bank Credit	76.91	154.68	169.43	153.48	79.86	211.34	97.18	401.28	348.75	271.31	412.92	33.46	126.38
Public Food Procurement Credit	-29.14	-14.21	12.37	25.00	1.64	20.73	41.64	13.68	-24.84	-21.94	48.88	26.16	42.43
Gross Non-Food Credit	106.05	168.89	157.06	128.48	78.22	190.61	55.54	387.60	373.59	293.25	364.04	7.30	83.95
Priority Sectors	40.20	51.49	61.64	25.32	25.10	44.07	40.48	102.81	91.68	115.51	146.27	33.55	39.24
Agriculture	14.39	19.41	25.76	2.24	14.07	18.06	12.45	27.75	30.61	43.98	34.27	14.76	17.50
Small Scale Industries	17.12	23.15	24.08	16.38	9.69	18.76	25.91	50.21	42.46	40.60	75.64	3.95	5.92
Other Priority Sectors	8.69	8.93	11.80	6.70	1.34	7.25	2.12	24.85	18.61	30.93	36.36	14.84	15.82
Industry (Medium & Large)	37.97	70.32	60.87	62.46	25.82	115.46	-7.71	168.07	183.81	95.51	149.26	-11.42	22.93
Wholesale Trade (other than food procurement)	5.18	11.69	7.05	4.38	2.44	8.15	3.61	24.19	22.31	3.60	8.77	-9.52	-0.61
Other Sectors	22.70	35.39	27.60	36.32	24.86	22.93	19.16	92.53	75.79	78.63	59.74	-5.31	22.39
Export Credit (included in Gross Non-Food Credit)	7.71	22.24	21.04	9.41	11.08	50.62	17.30	79.65	45.39	4.18	39.39	-11.66	-10.56
Priority Sector advances as percent of net bank credit ^a	44.10	43.20	42.40	39.20	38.70	35.10	35.30	33.30	32.10	0.65	0.29		

a. In the last month of each period, advances include Participation Certificates.

Source: Ministry of Finance, Economic Survey, various issues.

Table A6.1
Production of Major Crops

	1980-81	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
Total Foodgrains	129.6	140.4	169.9	171.0	176.4	168.4	179.5	184.3	191.5	180.4	199.4	192.4	202.5
Kharif	77.6	74.6	95.6	101.0	99.4	91.6	101.5	100.4	101.1	95.1	103.9	101.1	102.6
Rabi	51.9	65.8	74.3	70.0	77.0	76.8	78.0	83.9	90.4	85.3	95.5	91.3	99.9
Total Cereals	119.0	129.4	156.1	158.2	162.1	156.4	166.6	170.9	177.5	168.1	185.2	179.4	186.7
Kharif	73.9	70.2	90.0	95.5	94.0	87.2	95.8	95.0	96.4	90.5	98.4	96.8	96.6
Rabi	45.1	59.2	66.1	62.7	68.1	69.2	70.8	75.9	81.1	77.6	86.8	82.6	90.1
Rice	53.6	56.9	70.5	73.6	74.3	74.7	72.9	80.3	81.8	77.0	81.7	82.3	84.7
Kharif	50.1	49.0	63.4	65.9	66.3	66.4	65.3	70.7	72.6	67.9	71.3	71.6	71.8
Rabi	3.5	7.8	7.1	7.7	8.0	8.3	7.6	9.6	9.2	9.1	10.4	10.7	12.9
Wheat	36.3	46.2	54.1	49.8	55.1	55.7	57.2	59.8	65.8	62.1	69.4	65.9	71.0
Barley (Jowar)	10.4	12.2	10.2	12.9	11.7	8.1	12.8	11.4	9.0	9.3	10.9	8.0	8.5
Kharif	7.5	8.6	7.1	9.2	8.3	5.7	9.4	7.3	5.9	5.6	7.0	5.0	5.3
Rabi	2.9	3.6	3.1	3.7	3.4	2.4	3.4	4.1	3.1	3.7	3.9	3.0	3.2
Maize	7.0	5.7	8.2	9.7	9.0	8.1	10.0	9.6	8.9	9.5	10.8	10.9	10.8
Bajra	5.3	3.3	7.8	6.6	6.9	4.7	8.9	5.0	7.2	5.4	7.9	7.7	6.9
Total Pulses	10.6	11.0	13.8	12.8	14.3	12.0	12.8	13.3	14.0	12.3	14.2	13.1	15.9
Kharif	3.8	4.4	5.6	5.5	5.4	4.4	5.6	5.4	4.7	4.6	5.5	4.4	6.1
Rabi	6.8	6.6	8.2	7.3	8.9	7.6	7.2	7.9	9.4	7.7	8.7	8.7	9.8
Gram	4.3	3.6	5.1	4.2	5.4	4.1	4.4	5.0	6.4	5.0	5.6	6.1	6.6
Tur	2.0	2.3	2.7	2.7	2.4	2.1	2.3	2.7	2.1	2.3	2.7	1.9	2.7
Total Oilseeds ^a	9.4	12.6	18.0	16.9	18.6	18.6	20.1	21.5	21.3	22.1	24.4	22.0	25.7
Kharif	5.0	6.4	10.5	9.6	9.8	9.3	12.0	12.3	11.9	13.1	14.4	14.5	16.3
Rabi	4.4	6.2	7.5	7.3	8.8	9.3	8.1	9.2	9.4	9.0	10.0	7.5	9.4
Groundnut	5.0	5.8	9.7	8.1	7.5	7.1	8.6	7.8	8.1	7.6	8.6	7.8	9.0
Kharif	3.7	4.2	7.5	6.1	5.1	5.0	6.7	5.7	6.1	6.1	6.9	6.1	7.1
Rabi	1.3	1.7	2.2	2.0	2.4	2.1	1.9	2.1	2.0	1.5	1.7	1.7	1.9
Rapeseed & Mustard	2.3	3.4	4.4	4.1	5.2	5.9	4.8	5.3	5.8	6.0	6.7	4.7	6.1
Sugarcane	154.2	196.7	203.0	225.6	241.0	254.0	228.0	229.7	275.5	281.1	277.6	276.3	290.7
Cotton	7.0	6.4	8.7	11.4	9.8	9.7	11.4	10.7	11.9	12.9	14.2	11.1	12.8
Jute & Mesta	8.2	6.8	7.9	8.3	9.2	10.3	8.6	8.4	9.1	8.8	11.1	11.1	9.8
Jute	6.5	5.8	6.7	7.1	7.9	8.9	7.5	7.3	8.0	7.7	10.0	10.0	8.9
Mesta	1.7	1.0	1.2	1.2	1.3	1.4	1.1	1.1	1.1	1.1	1.2	1.1	0.9
Potato	9.7	14.1	14.9	14.8	15.2	16.4	15.2	17.4	17.4	18.8	24.2	17.6	22.2

Note: Units of measurement of all commodities is million tonnes, except in the case of cotton, jute and mesta where production is in terms of millions of bales. Figures for 1997-98 are provisional.

a. Includes groundnuts, rapeseeds and mustard, sesame, linseed, castorseed, nigerseed, safflower, sunflower and soybean.

Source: Ministry of Finance, *Economic Survey*, various issues.

Table A6.2
Irrigated Area Under Different Crops
(million hectares)

	1980-81	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
Total Foodgrains	37.8	40.1	40.4	41.8	40.5	43.9	44.3	44.9	45.8	46.9	48.3	49.9	49.7
Total Cereals	35.8	38.4	38.3	39.5	38.4	41.8	41.9	42.3	43.4	44.4	45.6	46.8	46.7
Rice	16.4	17.7	17.7	18.1	17.0	19.1	19.4	19.4	20.2	20.1	20.7	21.4	21.5
Jowar	0.8	0.7	0.7	0.8	0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Bajra	0.6	0.6	0.6	0.7	0.8	0.6	0.7	0.5	0.7	0.6	0.7	0.6	0.6
Maize	1.2	1.0	1.1	1.3	1.2	1.2	1.2	1.2	1.3	1.3	1.4	1.3	1.4
Wheat	15.6	17.5	17.3	17.7	17.8	19.1	18.8	19.5	19.6	20.8	21.4	22.0	21.7
Barley	0.9	0.6	0.7	0.6	0.6	0.6	0.5	0.5	0.6	0.6	0.5	0.6	0.5
Total Pulses	2.0	1.8	2.1	2.3	2.0	2.2	2.3	2.6	2.4	2.5	2.6	3.1	3.1
Other Crops													
Oilseeds ^a	2.3	3.5	3.4	3.4	4.3	5.0	5.2	5.8	6.8	6.4	6.5	6.8	7.3
Cotton	2.1	1.9	2.3	2.2	2.1	2.4	2.6	2.5	2.6	2.7	2.6	2.7	3.1
Sugarcane	2.4	2.6	2.6	2.8	3.0	3.0	3.1	3.4	3.6	3.5	3.3	3.6	3.9

a. Oilseeds include groundnuts, rapeseed and mustard, linseed, sesame, and others.

Source: Ministry of Finance, Economic Survey, various issues.

Table A6.3
Yield Per Hectare of Major Crops
(kgs. per hectare)

	1980-81	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-98
Total Foodgrains	1023	1173	1331	1349	1380	1382	1457	1501	1548	1491	1614	1551	1611
Kharif	933	996	1166	1241	1231	1174	1302	1324	1341	1292	1379	1362	1387
Rabi	1195	1468	1628	1544	1635	1751	1725	1787	1864	1799	1980	1832	1931
Total Cereals	1142	1315	1493	1530	1571	1574	1654	1701	1763	1703	1831	1772	1836
Kharif	1015	1082	1270	1366	1357	1305	1440	1465	1486	1428	1523	1519	1518
Rabi	1434	1763	1964	1875	2010	2126	2068	2132	2260	2195	2376	2201	2365
Rice	1336	1465	1689	1745	1740	1751	1744	1888	1911	1797	1882	1895	1905
Kharif	1303	1368	1627	1677	1670	1676	1676	1807	1841	1721	1793	1810	1792
Rabi	2071	2640	2548	2678	2671	2720	2720	2816	2731	2678	2856	2770	2935
Wheat	1630	2002	2244	2121	2281	2394	2327	2380	2559	2483	2679	2470	2596
Barley (Jowar)	660	762	697	869	814	655	982	898	779	823	956	727	833
Kharif	737	892	789	1053	969	757	1230	1065	988	996	1214	933	1021
Rabi	520	568	550	604	582	496	632	704	555	650	696	528	639
Maize	1159	1029	1395	1632	1518	1376	1676	1602	1448	1595	1720	1721	1785
Bajra	458	378	646	610	658	465	836	521	700	577	788	792	732
Total Pulses	473	515	598	549	578	533	573	598	610	552	635	572	661
Kharif	361	435	504	480	471	393	495	492	351	448	512	415	586
Rabi	571	587	686	616	672	672	654	701	589	640	747	706	718
Gram	657	629	753	652	712	739	684	783	853	700	813	812	790
Tur	689	685	779	763	673	588	652	762	644	670	756	563	750
Total Oilseeds ^a	532	629	824	742	771	719	797	799	843	851	926	840	948
Kharif	492	559	805	691	698	604	804	759	797	835	902	937	996
Rabi	588	720	851	822	872	886	786	860	910	876	963	699	877
Groundnut	736	855	1132	930	904	818	1049	941	1027	1007	1138	1078	1176
Kharif	629	737	1066	824	751	687	969	813	913	928	1076	997	1083
Rabi	1444	1425	1442	1532	1611	1501	1473	1624	1650	1529	1490	1512	1471
Rapeseed & Mustard	560	748	906	831	904	895	776	847	950	916	1017	667	894
Sugarcane	57844	60000	61000	65000	65000	66000	64000	67000	71000	68000	66000	70000	69288
Cotton	152	168	202	252	225	216	257	249	257	242	265	213	240
Jute & Mesta	1130	1274	1540	1646	1634	1662	1658	1713	1760	1712	1818	1795	1730
Jute	1245	1496	1748	1879	1833	1837	1857	1907	1949	1875	1998	1960	1812
Mesta	828	680	909	956	988	1019	955	1008	1023	1078	1030	1019	992
Potato	13256	16000	16000	16000	16000	16000	15000	17000	16000	17000	19000	14600	17800

Note: Figures for 1997-98 are provisional.

a. Includes groundnuts, rapeseeds and mustard, sesame, linseed, castorseed, nigerseed, safflower, sunflower and soybean.

Source: Ministry of Finance, Economic Survey, various issues.

Table A6.4
 Net Availability, Procurement and Public Distribution of Foodgrains
 (million tonnes)

	1980-81	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Net Production	113.4	125.5	122.8	148.7	149.7	154.3	147.3	157.5	161.2	167.6	157.9	174.5	168.0
Net Imports	0.7	-0.2	3.8	1.2	1.3	-0.1	-0.4	3.1	1.1	0.4	-1.2	1.0	2.2
Change in Government Stocks	-0.2	-9.5	-4.6	2.6	6.2	-4.4	-1.5	10.8	7.5	-1.8	-8.5	-1.7	6.2
Net Availability	114.3	134.8	130.8	147.2	144.8	158.6	148.4	149.8	154.8	169.8	165.2	177.2	164.0
Procurement	13.0	15.7	14.1	18.9	24.0	19.6	17.9	28.1	26.0	22.6	19.6	22.5	25.4
Public Distribution	13.0	18.7	18.6	16.4	16.0	20.8	18.8	16.4	14.0	15.3	18.3	17.5	20.0

Note: Production figures relate to agricultural year. Figures for procurement and public distribution relate to calendar years.

Source: Ministry of Finance, Economic Survey, various issues.

Table A6.5a
New Index of Industrial Production
(1993-94=100)

	Weight							1997-98	1998-99
		1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	over 1996-97	over 1997-98
General Index	100.0	100.0	108.4	122.3	129.1	137.6	143.1	6.6	4.0
Mining and Quarrying	10.5	100.0	107.6	117.9	115.6	122.4	120.3	5.9	-1.7
Electricity Generated	10.2	100.0	108.5	117.3	122.0	130.0	138.4	6.6	6.5
Manufacturing Index	79.4	100.0	108.5	123.5	131.8	140.6	146.7	6.7	4.3
Food products	9.1	100.0	121.6	129.8	134.3	133.8	134.6		
Beverages, tobacco, etc.	2.4	100.0	103.0	116.7	132.4	158.1	178.3	19.4	12.8
Cotton textiles	5.5	100.0	99.1	109.5	122.7	125.6	115.9	2.4	-7.7
Jute textiles	2.3	0.0	114.5	131.3	145.1	172.0	176.8	18.5	2.8
Textile products	0.6	100.0	95.1	102.4	97.8	114.3	106.0	16.9	-7.3
Wood & wood products	2.5	100.0	98.5	133.7	146.3	158.7	153.1	8.5	-3.5
Paper & paper products	2.7	100.0	99.3	123.2	131.9	128.5	121.0	-2.6	-5.8
Leather & leather products	2.7	100.0	108.6	125.5	136.9	146.4	169.7	6.9	15.9
Rubber, plastic & petroleum prod.	1.1	100.0	86.8	99.1	108.4	110.8	119.8	2.2	8.1
Chemical & chemical products	5.7	100.0	107.7	116.1	118.4	124.6	138.7	5.2	11.3
Non-metallic mineral products	14.0	100.0	105.3	117.2	122.7	140.5	149.4	14.5	6.3
Basic metal & alloy products	4.4	100.0	108.0	131.7	141.9	161.4	174.5	13.7	8.1
Metal products	7.5	100.0	113.1	131.0	139.8	143.5	140.5	2.6	-2.1
Machinery & machine tools	2.8	100.0	104.7	100.6	110.9	120.2	141.4	8.4	17.6
Transport equipment	9.6	100.0	112.8	134.7	141.7	149.5	151.7	5.5	1.5
Miscellaneous products	4.0	100.0	113.2	132.8	149.9	153.8	177.6	2.6	15.5

Note: Figures for 1997-98 are provisional.

Source: CSO, IIP Division.

Table A6.5b
Index of Industrial Production
(1980-81=100, Old Series)

	Weight												1996-97	1997-98
		1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	over 1995-96	over 1996-97
General Index	100.0	166.4	180.9	196.4	212.6	213.9	218.9	232.0	253.8	284.5	304.7	317.5	7.1	4.2
Mining and Quarrying	11.5	184.6	199.1	211.6	221.2	222.5	223.7	231.5	248.9	267.3	268.1	281.2	0.3	4.9
Electricity Generated	11.4	181.0	198.2	219.7	236.8	257.0	269.9	290.0	314.7	340.1	353.4	377.4	3.9	6.8
Manufacturing Index	77.1	161.5	175.6	190.7	207.8	206.2	210.7	223.5	245.4	278.8	303.0	313.9	8.7	3.6
Food products	5.3	139.0	148.5	150.9	169.8	178.0	175.3	160.0	181.6	207.0	214.1	208.9		
Beverages, tobacco, etc.	1.6	84.9	92.1	103.0	104.8	107.3	113.7	137.8	134.8	160.9	184.6	193.4	14.7	4.8
Cotton textiles	12.3	111.2	107.8	112.3	126.6	139.0	150.1	160.5	155.8	173.1	191.7	202.2	10.7	5.5
Jute textiles	2.0	91.0	101.9	97.4	101.6	90.8	87.0	103.2	91.4	93.6	95.8	104.1	2.3	8.7
Textile products	0.8	91.7	134.2	151.7	103.2	97.2	75.8	73.4	78.6	89.7	95.5	88.9	6.5	-6.9
Wood & wood products	0.5	161.7	171.7	176.0	197.2	185.0	190.5	199.3	205.5	240.8	232.9	208.9	-3.3	-10.3
Paper & paper products	3.2	166.3	171.3	181.5	198.0	203.0	210.9	224.8	258.1	286.7	311.4	335.3	8.6	7.7
Leather & leather products	0.5	185.5	177.4	188.3	194.3	181.3	187.7	204.3	211.9	227.3	231.9	229.3	2.0	-1.1
Rubber, plastic & petroleum prod.	4.0	155.1	168.3	173.5	174.0	172.0	174.6	176.4	193.2	211.1	215.8	236.9	2.2	9.8
Chemical & chemical products	12.5	200.9	233.4	247.6	254.1	261.2	276.9	297.9	307.4	332.3	348.0	357.0	4.7	2.6
Non-metallic mineral products	3.0	158.1	184.6	189.9	193.1	205.2	208.9	218.5	236.0	264.5	286.2	320.9	8.2	12.1
Basic metal & alloy products	9.8	135.6	144.9	143.7	158.8	167.8	168.4	224.2	214.6	225.7	303.6	316.0	34.5	4.1
Metal products	2.3	129.6	133.5	142.6	143.1	133.1	124.6	126.5	148.8	173.8	177.1	178.7	1.9	0.9
Machinery & machine tools	6.2	139.2	161.2	171.9	186.9	183.3	181.1	189.2	228.2	274.3	279.5	281.2	1.9	0.6
Electrical machinery	5.8	335.2	346.0	459.2	563.6	493.7	483.6	460.1	460.1	460.1	460.1	460.1	0.0	0.0
Transport equipment	6.4	151.9	171.3	181.1	192.5	191.1	200.6	211.2	239.1	297.9	354.5	329.7	19.0	-7.0
Miscellaneous products	0.9	272.1	306.3	333.2	321.8	269.9	281.3	267.0	269.7	300.7	283.2	299.4	-5.8	5.7

Note: Figures for 1997-98 are provisional.

Source: CSO, IIP Division.

Table A6.6
Production, Imports and Consumption of Fertilizers
(000' nutrient tons)

(Apr-Mar)	Nitrogenous ^a			Phosphatic ^b			Potassic		Total		
	Production	Imports	Consumption	Production	Imports	Consumption	Imports	Consumption	Production	Imports	Consumption
1980-81	2163.9	1510.2	3678.1	841.5	452.1	1213.6	796.8	623.9	3005.4	2759.1	5515.6
1981-82	3143.3	1055.1	4068.7	950.0	343.2	1322.9	643.8	676.2	4093.3	2042.1	6067.8
1982-83	3429.7	424.6	4242.5	983.7	63.4	1432.7	643.7	726.3	4413.4	1131.7	6401.5
1983-84	3491.5	656.1	5204.4	1064.1	142.6	1730.3	556.4	775.4	4555.6	1355.1	7710.1
1984-85	3917.3	2008.6	5486.1	1317.9	745.2	1886.4	871.0	838.5	5235.2	3624.8	8211.0
1985-86	4328.0	1680.0	5661.0	1428.0	816.0	2005.0	903.0	808.0	5756.0	3399.0	8474.0
1986-87	5410.0	1103.0	5716.0	1660.0	255.0	2079.0	952.0	850.0	7070.0	2310.0	8645.0
1987-88	5466.0	175.0	5717.0	1665.0	0.0	2187.0	809.0	880.0	7131.0	984.0	8784.0
1988-89	6712.0	219.0	7251.0	2252.0	407.0	2721.0	982.0	1068.0	8964.0	1608.0	11040.0
1989-90	6747.0	523.0	7386.0	1796.0	..	3014.0	1280.0	1168.0	8543.0	3114.0	11568.0
1990-91	6993.0	414.0	7997.0	2052.0	1311.0	3221.0	1328.0	1328.0	9045.0	2758.0	12546.0
1991-92	7301.0	566.0	8046.0	2562.0	1016.0	3321.0	1236.0	1361.0	9863.0	2769.0	12728.0
1992-93	7430.0	1160.0	8426.0	2306.0	967.0	2842.0	1082.0	884.0	9736.0	2988.0	12152.0
1993-94	7231.0	1564.0	8789.0	1816.0	687.0	2669.0	880.0	908.0	9047.0	3166.0	12366.0
1994-95	7948.0	1476.0 ^d	9507.0	2493.0	722.0 ^d	2932.0	1109.0 ^d	1125.0	10438.0	2965.0 ^d	13564.0
1995-96	8777.0	1938.0	9823.0	2558.0	380.0	2898.0	1423.0	1156.0	11335.0	3955.0	13877.0
1996-97	8599.0	1155.0	10302.0	2556.0	246.0	2977.0	613.0	1029.0	11155.0	1975.0	14308.0
1997-98 ^c	10086.0	1362.0	10900.0	2976.0	672.0	3915.0	1140.0	1373.0	13062.0	3174.0	16188.0
1998-99 ^c	10426.0	549.0	12273.0	2998.0	748.0	4411.0	832.0	1487.0	13424.0	2165.0	18171.0

-- Not available.

a. Excludes nitrogen meant for non-agricultural purposes.

b. Excludes data in respect of bonemeal and rockphosphate.

c. Anticipated.

d. Incorporates import of Urea in nutrient terms, the only controlled fertiliser imported on Government account.

Source: The Fertilizer Association of India, *Fertilizer Statistics*, various issues; Ministry of Finance, *Economic Survey*, various issues.

Table A6.7
Indian Railways: Freight and Passenger Traffic

Year	Revenue Earning Freight Traffic			Passenger Traffic					
	Originating tonnage (mln.tons)	Net tons-kilometers (million)	Average lead (kilometers)	Non-Suburban			Suburban ^a		
				Passenger originating (million)	Passenger-kilometers (million)	Average lead (kilometers)	Passenger originating (million)	Passenger-kilometers (million)	Average lead (kilometers)
1980-81	195.9	147652	754	1613	167472	103.9	2000	41086	20.5
1981-82	221.2	164253	743	1640	176822	107.8	2064	43965	21.3
1982-83	228.8	167781	733	1626	181142	111.4	2029	45789	22.6
1983-84	230.1	168849	734	1491	180808	121.3	1834	42127	23.0
1984-85	236.4	172632	730	1449	182318	125.8	1884	44264	23.5
1985-86	258.5	196600	760	1549	195175	126.0	1884	45439	24.1
1986-87	277.8	214100	771	1610	208057	129.0	1970	48411	24.6
1987-88	290.2	222528	767	1637	217632	133.0	2171	51859	23.9
1988-89	302.1	222374	736	1495	211819	141.6	2022	52023	25.7
1989-90	310.0	229602	741	1544	226045	76.9	2129	54933	25.8
1990-91	318.4	235785	741	1599	236066	147.6	2281	59724	26.2
1991-92	338.0	250238	740	1637	251174	153.4	2436	63543	26.1
1992-93	350.1	252388	721	1467	239655	163.3	2298	60547	26.4
1993-94	358.7	252411	704	1406	233200	165.9	2318	63147	27.2
1994-95	373.0	259810	697	1451	243798	168.0	2359	63275	26.8
1995-96	390.7	270489	692	1534	268708	175.2	2527	73651	29.1
1996-97	409.0	277567	679	1575	280470	178.1	2641	77104	29.2
1997-98	429.4	284249	662	1691	301053	178.0	2727	79475	29.1
1998-99	424.0	282374	666	1767	312668	176.9	2827	82915	29.3

Note: Figures for 1998-99 are revised estimates.

a. Passengers booked between stations within the suburban areas of Bombay; from 1988/89 onwards suburban passenger traffic include Metro Railway, Calcutta.

Source: Ministry of Railways, Railway Budget.

Table A6.8
Petroleum Summary
Commodity Balance of Petroleum and Petroleum Products
(million tons)

	1980-81	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97 ^a	1997-98 ^a	1997-98 ^a
A. CRUDE PETROLEUM															
1. Refinery Throughput	25.8	42.9	45.7	47.7	48.8	51.9	51.8	51.4	53.5	54.3	56.5	58.7	62.9	65.1	0.0
2. Domestic Production	10.5	30.2	30.5	30.4	32.0	34.1	33.0	30.4	27.0	27.0	32.2	35.2	32.9	33.9	0.0
(a) On-shore	5.5	9.4	9.9	10.2	10.9	12.4	11.8	11.4	11.2	11.6	12.0	11.9	11.4	11.5	0.0
(b) Off-shore	5.0	20.8	20.6	20.2	21.1	21.7	21.2	19.0	15.8	15.4	20.2	23.3	21.5	22.4	0.0
3. Imports	16.2	15.1	15.5	18.0	17.8	19.5	20.7	24.0	29.2	30.8	27.3	27.3	33.9	34.4	0.0
4. Exports	--	0.5	--	--	--	--	--	--	--	--	--	--	--	--	0.0
5. Net Imports (3-4)	16.2	14.6	15.5	18.0	17.8	19.5	20.7	24.0	29.2	30.8	27.3	27.3	33.9	34.4	0.0
B. PRODUCTS															
1. Domestic Consumption ^b	30.9	40.8	43.4	46.4	50.1	54.1	55.0	57.0	58.9	60.8	67.4	74.7	79.2	84.5	0.0
of which:															
(a) Naphtha	2.3	3.1	3.2	2.9	3.4	3.4	3.4	3.5	3.4	3.2	3.4	3.7	4.0	4.7	0.0
(b) Kerosene	4.2	6.2	6.6	7.2	7.7	8.2	8.4	8.4	8.5	8.7	9.0	9.3	9.6	9.9	0.0
(c) High Speed Diesel	10.3	14.9	16.0	17.7	18.8	20.7	21.1	22.7	24.3	25.9	28.3	32.3	35.0	36.2	0.0
(d) Fuel oils	7.5	7.9	7.9	8.1	8.5	8.8	9.0	9.2	9.3	9.1	9.9	10.7	10.8	11.0	0.0
2. Domestic Production	24.1	39.9	42.8	44.7	45.7	48.7	48.6	48.3	50.4	51.1	52.9	55.1	59.0	61.3	0.0
(a) Naphtha	2.1	5.0	5.6	5.5	5.4	5.2	4.9	4.5	4.6	4.7	5.7	6.0	6.1	6.1	0.0
(b) Kerosene	2.4	4.0	4.9	5.1	5.2	5.7	5.5	5.3	5.2	5.3	5.3	5.3	6.2	6.7	0.0
(c) High Speed Diesel	7.4	14.6	15.5	16.3	16.7	17.7	17.2	17.4	18.3	18.8	19.6	20.7	22.2	23.4	0.0
(d) Fuel oils	6.1	8.0	8.0	8.5	8.9	9.0	9.4	9.6	10.4	10.3	9.8	9.6	10.3	11.1	0.0
3. Imports	7.3	3.9	3.1	3.9	6.5	6.6	8.7	9.4	11.3	12.1	14.0	20.3	20.3	19.5	0.0
4. Exports ^c	--	2.0	2.5	3.4	2.3	2.6	2.6	2.9	3.7	4.0	3.3	3.4	3.2	2.9	0.0
5. Net Imports	7.3	1.9	0.6	0.5	4.2	4.0	6.1	6.5	7.6	8.1	10.7	-3.4	17.1	16.6	0.0

-- Not available.

a. Provisional.

b. Excludes refinery fuel consumption.

c. Excludes supplies of POL products to Nepal.

Source: Ministry of Finance, Economic Survey, various issues.

Table A6.9
Generation, Consumption and Capacity of Electricity
(000 GWH)

	1980-81	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97 ^a	1997-98 ^a
A. GENERATION OF ELECTRICITY BY SOURCE AND REGION												
1. Thermal ^b												
Northern	13.69	37.74	41.24	48.82	52.13	60.44	66.17	71.45	72.45	81.76	85.99	88.30
Western	25.37	61.80	63.39	73.08	76.95	84.33	88.50	96.27	102.92	115.75	120.97	127.78
Southern	9.22	28.07	30.53	34.03	35.76	40.39	44.31	51.03	54.80	65.19	71.24	75.47
Eastern	12.53	20.77	21.40	21.55	20.39	22.40	24.56	28.36	30.54	34.67	37.62	42.53
North-Eastern	0.50	1.24	1.15	1.22	1.31	1.19	1.23	1.08	1.42	1.95	2.10	2.02
All-India	61.30	149.61	157.71	178.70	186.55	208.75	224.77	248.19	262.13	299.32	317.92	336.10
2. Hydro												
Northern	15.08	20.86	23.57	25.01	27.16	27.21	25.45	24.34	30.24	29.26	29.01	30.96
Western	7.81	5.06	7.54	6.87	8.31	8.16	7.27	8.72	10.30	7.55	7.84	8.29
Southern	20.28	17.35	21.64	24.54	29.17	29.63	30.70	30.72	35.05	28.43	25.14	28.81
Eastern	2.96	3.19	3.76	4.11	5.34	5.87	4.52	4.48	5.26	5.51	4.97	4.40
North-Eastern	0.41	0.97	1.36	1.58	1.66	1.89	1.93	2.20	1.86	1.83	1.94	2.02
All-India	46.54	47.44	57.87	62.12	71.64	72.76	69.87	70.46	82.71	72.58	68.90	74.48
3. Nuclear												
Northern	1.23	1.39	1.87	1.73	2.16	1.66	2.77	1.50	1.34	2.75	2.82	3.91
Western	1.77	1.61	1.90	1.55	1.90	1.71	1.97	2.43	1.88	3.82	4.26	4.24
Southern	..	2.04	2.05	1.35	2.07	2.16	1.98	1.39	2.43	1.41	1.99	1.89
All-India	3.00	5.04	5.82	4.63	6.14	5.53	6.72	5.32	5.65	7.98	9.07	10.04
4. Utilities- All India (1 + 2 + 3)	110.84	202.09	221.40	245.44	264.33	287.03	301.36	323.97	350.49	379.88	395.89	420.62
5. Self-Generation in Industry and Railways	8.42	16.89	19.91	23.23	25.11	28.60	31.35	32.28	35.07	38.16	40.99	43.75
6. Total- All India (4 + 5)	119.26	218.98	241.31	268.66	289.44	315.63	332.71	356.25	385.56	418.04	436.88	464.37
B. CONSUMPTION OF ELECTRICITY BY SECTORS												
1. Mining & Manufacturing ^c	55.35	82.97	92.05	100.40	105.38	110.62	116.17	121.38	129.83	137.13	140.87	
2. Transport	2.31	3.62	3.77	4.07	4.11	4.52	5.07	5.62	5.89	6.22	6.62	
3. Domestic	9.25	22.12	24.77	29.58	31.98	35.85	39.72	43.34	47.92	51.74	55.27	
4. Agriculture	14.49	35.27	38.88	44.06	50.32	58.56	63.33	70.70	79.30	85.73	84.02	
5. Others	8.30	15.42	17.02	17.01	19.74	21.42	22.38	24.41	26.40	28.65	30.16	
6. Total	89.70	159.40	176.49	195.12	211.53	230.97	246.67	265.45	289.34	309.47	316.94	
C. INSTALLED CAPACITY (000' MW)												
<u>Utilities</u>												
Thermal	17.6	35.6	39.7	43.8	45.8	48.1	50.7	54.3	58.1	60.1	61.0	64.0
Hydro	11.8	17.3	17.8	18.3	18.8	19.2	19.6	20.4	20.8	21.0	21.7	22.0
Nuclear	0.9	1.3	1.5	1.5	1.5	1.8	2.0	2.0	2.2	2.2	2.2	2.2
Total	30.3	54.2	59.0	63.6	66.1	69.1	72.3	76.7	81.1	83.3	84.9	88.2
Non-Utilities	3.1	6.3	7.5	8.2	8.6	9.3	10.1	10.2	11.1	11.9	12.1	12.9

a. Provisional Data.

b. Includes steam, diesel, wind and gas.

c. Includes industrial power from utilities plus net generation in the non-utilities.

Source: Central Electricity Authority, Power Data Bank & Information Directorate.

Table A6.10
New Index Numbers of Wholesale Prices - by Years
(Base 1981-82=100)

	Weights	87-88	88-89	89-90	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	percent change ^a
TOTAL FOOD ARTICLES	17.386	161.1	177.1	179.3	200.6	241.1	271.0	284.4	312.7	335.7	375.1	388.0	440.9	13.6
Food Grains	7.917	141.3	161.8	165.4	179.2	216.4	242.4	260.8	293.2	313.0	353.8	362.7	392.7	8.3
Other Food	9.469	177.7	189.9	190.9	218.5	261.8	294.9	304.2	329.0	354.7	392.8	409.1	481.3	17.6
INDUSTRIAL RAW MAT.	14.909	142.8	140.3	145.3	166.6	191.7	192.2	211.8	248.7	267.3	273.9	283.0	307.0	8.5
Non-Food Articles	10.081	163.0	160.2	166.0	194.2	229.2	228.7	249.1	299.0	321.7	329.8	340.5	376.4	10.5
Minerals	4.828	100.5	98.5	102.2	109.0	113.5	116.1	133.9	143.6	157.5	157.3	162.9	162.1	-0.5
FUEL, POWER & LUB.	10.663	143.3	151.2	156.6	175.8	199.0	227.1	262.4	280.4	285.4	324.2	365.7	381.3	4.3
MANUF. PRODUCTS	57.042	138.5	151.5	168.6	182.8	203.4	225.6	243.2	268.8	293.1	305.0	317.5	332.0	4.6
Food Products	10.143	140.5	147.8	165.4	181.7	206.3	223.8	246.7	270.5	278.8	297.3	321.3	344.6	7.3
Beverage & Tobacco	2.149	155.0	180.7	207.7	242.1	265.7	293.7	306.6	342.1	373.9	392.9	442.0	482.7	9.2
Textiles	11.545	126.6	139.6	158.2	171.2	188.3	200.7	219.9	256.8	294.6	304.1	310.3	320.3	3.2
Chemicals and Chemical Products	7.355	131.9	135.8	140.0	147.9	168.4	192.6	207.8	232.6	249.9	259.3	269.3	281.8	4.6
Basic metals and Products	7.632	149.7	176.4	205.6	219.9	234.8	256.6	276.6	300.5	329.0	339.6	348.8	353.1	1.2
Machinery and Machine Tools	6.268	132.3	150.8	166.2	180.2	208.3	230.6	237.9	262.8	282.8	295.0	299.4	304.7	1.8
Transport Eqpt.	2.705	135.5	148.9	166.2	181.3	202.5	218.1	223.8	238.5	254.5	265.9	274.9	285.8	4.0
ALL COMMODITIES	100.0	143.5	154.2	165.7	182.7	207.8	228.7	247.8	274.7	295.8	314.6	329.8	352.4	6.9
<u>Memo Items:</u>														
Administered Prices:														
Petroleum crude and natural gas	4.3	93.5	89.1	91.8	99.6	101.0	102.7	120.7	129.1	130.2	132.1	138.1	135.8	-1.7
Petroleum products (Mineral oils)	6.7	126.3	129.2	129.7	154.7	179.6	204.1	223.6	235.0	235.2	270.1	301.0	306.8	1.9
Coal mining	1.3	183.0	212.3	231.8	232.8	249.9	301.2	346.4	364.0	368.1	416.8	489.0	503.3	2.9
Electricity	2.7	166.7	176.6	187.7	200.9	222.8	249.0	318.3	352.6	369.7	413.2	466.5	506.4	8.6
Urea N-content	1.0	111.5	99.6	99.0	99.0	125.2	127.4	126.6	148.6	153.6	155.2	169.8	173.0	1.9
Decontrolled Prices:														
Iron and Steel	2.4	143.4	163.8	188.8	201.5	212.6	233.0	252.7	270.5	290.8	305.5	315.8	319.5	1.2
Fertilizers	1.7	107.6	98.9	99.1	99.1	123.9	160.8	181.6	196.6	210.7	211.9	223.5	227.4	1.7
Super phosphate	0.1	123.0	110.7	119.6	119.6	150.1	278.7	350.7	343.1	367.1	375.9	379.4	386.5	1.9
Ammonium phosphate	0.1	100.3	96.5	96.5	96.5	121.1	232.8	304.4	304.4	304.4	304.4	304.4	344.0	13.0
Lubricants	0.5	123.9	148.3	152.2	182.1	226.5	275.5	330.0	337.9	342.6	385.6	401.9	420.9	4.7

Note: This WPI series based 1981-82 was introduced as of July 1989. Data for 1998-99 are provisional.

a. Refers to percent change in fiscal year 1998-99 over 1997-98.

Source: Ministry of Industry, Office of the Economic Adviser.

Table A6.11
Consumer Price Index Numbers for Industrial Workers, Urban Non-Manual
Employees and Agricultural Laborers

Year (April-March)	Industrial Workers		Urban Non-Manual	Agricultural
	Food Index (1982=100)	General Index (1982=100)	Employees (1984-85=100)	Laborers ^{a,b} General Index (1960-61=100)
1989-90	177.0	173.0	145.0	746.0
1990-91	199.0	193.0	161.0	803.0
1991-92	230.0	219.0	183.0	958.0
1992-93	254.0	240.0	202.0	1076.0
1993-94	272.0	258.0	216.0	1114.0
1994-95	297.0	279.0	232.0	1204.0
1995-96	337.0	313.0	259.0	234.0
1996-97	369.0	342.0	283.0	256.0
1997-98	388.0	366.0	302.0	269.0
1998-99	..	414.0	337.0	294.0
Average of weeks				
1996				
March	339	319	264	1395.9
June	361	333	274	247.0
September	372	344	274	259.0
December	380	350	289	263.0
1997				
March	373	351	291	262.0
June	376	355	295	259.0
September	383	361	301	263.0
December	396	372	307	265.0
1998				
March	401	380	312	284.0
June	432	399	326	282.0
September	456	420	340	297.0
December	..	429	345	305.0
1999				
March	..	414	340	296.0
Percentage Change in Index over the corresponding month of previous year				
1996				
March	9.0	8.9	8.2	7.4
June	9.1	8.8	7.9	--
September	7.8	8.5	5.0	--
December	10.5	10.4	10.3	--
1997				
March	10.0	10.0	10.2	--
June	4.2	6.6	7.7	4.9
September	3.0	4.9	9.9	1.5
December	4.2	6.3	6.2	0.8
1998				
March	7.5	8.3	7.2	8.4
June	14.9	12.4	10.5	8.9
September	19.1	16.3	13.0	12.9
December	--	15.3	12.4	15.1
1998				
March	--	8.9	9.0	4.2

-- Not available.

a. Indices relate to Agricultural Years (June-July)

b. Earlier base of 1960-61 was discontinued w.e.f November 1987.

Source: Ministry of Labor, Labor Bureau, Simla; Central Statistical Organization; Ministry of Finance,
Economic Survey, various issues; CMIE, Monthly Review of the Indian Economy.