

June 28, 2006

NLTA - Tamil Nadu: Support for Cross-Cutting Reforms (TNSCR)¹**Completion Note****A. Task Objectives**

1. The Tamil Nadu Support for Cross-Cutting Reforms (TNSCR) task's main aim was to assist the Government of Tamil Nadu (GoTN) maintain the momentum for policy reforms that had been built up around a proposed SAL loan in 2004, but which was subsequently cancelled at the last moment due to reversal in key reforms just before the 2004 elections. Second it aimed to help the GoTN build consensus on the need for wide-ranging reforms. The task aimed to do so by assisting the Government develop a sustainable reform program through the Tamil Nadu Equitable Growth Initiative (TNEGI) introduced by the Government in September 2005. This initiative covered poverty reduction and employment generation, accelerated growth and better governance, and fiscal reforms to create fiscal space for development. The TNSCR task aimed to meet this challenge through a non-lending technical assistance work program comprising of three components: policy dialogue with the Government on policy reforms, technical assistance in the GoTN's priority areas, and providing help to the Government to build a constituency for reforms by broadening the policy dialogue to civil society.
2. This completion note summarizes the Activities and Outputs of this task in Section B and the assessment of the work done under this task in Section C.
3. The preparatory work on designing the task began in 2004 after the May elections. This led to the identification of six areas to concentrate activities on during this phase of the knowledge partnership. These were: (i) employment generation; (ii) private sector development; (iii) public expenditure and poverty reduction; iv) improved service delivery v) Agriculture Productivity enhancement; and (vi) Human Development. Under each of these broad areas various sub-tasks were identified for dialogue. The model adopted was of forming stakeholder groups in each of the areas identified under the knowledge partnership. The stakeholder group comprised key government counterparts and civil society participants with an identified World Bank staff as resource person to the stakeholder group. The government completely drove the process of determining priority areas for dialogue in the stakeholders groups.
4. This program, introduced as the TNEGI, was publicly launched on August 3, 2005 by the then Chief Minister and with the World Bank Country Director also speaking as the key development partner. Although some stakeholder activities had commenced even before the official launch, a formal launch was delayed due to the Tsunami in December 2004. As is to be expected from such a wide ranging knowledge partnership, some components moved faster than others determined by political priorities as also the energy of the Government's counterpart. Some did not move at all such as 'Governance and Service Delivery' and some moved at a slower pace. Most activities produced significant outputs. But given the elections this year and preliminary nature of the recommendations it is too early to tell how many of these will be built into policy changes. The next section tries to capture some of the main outputs of the engagement over the two year period 2005/06 to 2006/07.

B. Task Activities and Outputs

¹ Drafted by Mohan Nagarajan, Jayasankar Shivakumar, and Ahmad Ahsan based on inputs from team members.

5. In addition to policy dialogue between Bank staff and Department of Finance and other counterpart Government officials during operational missions, the policy dialogue was formalized through (a) a series of workshop programs; (b) stakeholder dialogues between Government and civil society groups and reports on specific sectors; and (c) providing technical assistance. These are discussed in turn below.

I. Continuing Policy Dialogue on TN's reform program: Workshops

6. The workshop program was launched by the **Dissemination Workshop of the Tamil Nadu Policy Notes**. These policy notes were subsequently published as a report, **"Economic Growth and Poverty Alleviation in Tamil Nadu in 2005"**. In addition workshops were organized in the areas of:

- (i) Poverty Monitoring and Evaluation;
- (ii) Human Development in Tamil Nadu;
- (iii) Agricultural Diversification and Water Resource Management in Tamil Nadu; and
- (iv) Public Expenditure Management

Poverty Monitoring and Evaluation

7. The workshop on Poverty Monitoring and Evaluation in September 4 and 5, 2004 saw the following presentations:

- (i) Presentation on the Poverty and Human Development Monitoring System in Tamil Nadu by Mr. Naresh Gupta (then Member Secretary, State Planning Commission, TN) outlining the data systems available in the state and challenges ahead;
- (ii) Presentation by World Bank on the key poverty challenges in TN to motivate a multi-year knowledge partnership with counterparts;
- (iii) Remarks by UNDP highlighting the need for translating key messages of the Human Development Report into the policy discourse;
- (iv) Presentation on the state of monitoring systems in five states (AP, UP, Karnataka, Kerala and Orissa);
- (v) Presentation by the Bank, illustrating the benefits of randomized evaluations with examples from within and outside India;
- (vi) Presentation by Mr. N. Kumar (Director, Department of Evaluation and Applied Research in TN) describing the state of evaluation research and constraints faced by the Department, particularly in the areas of resources and training.

8. The workshop identified the following areas for engagement with the World Bank: (i) *Poverty Monitoring*: Streamlining government data systems and identifying areas for improving data collection and gaps; (ii) *Reconciliation of Baseline Data*: Looking into definitional issues that result in different estimates from different data bases on key indicators; (iii) *Training and Capacity-Building*: There is a recognized need for training in analysis and evaluation; and (iv) *Strengthening Evaluation*: In addition to capacity-building and training for the Directorate of Evaluation and Applied Research, capacity building explicitly included experimentation, and randomized evaluation.

9. As a next step, another workshop in July 2005 focused on streamlining poverty monitoring systems in Tamil Nadu. The meeting saw the following presentations:

- (i) 'Public Expenditure and Poverty Reduction' by Professor U. Sankar, Madras School of Economics;

- (ii) Mr. K. Venkataraman of Public Expenditure Round Table and Professor Shanthi of Institute of Financial Management and Research spoke of decentralizing service delivery to PRIs and monitoring scheme outcomes through better data collection.
- (iii) The World Bank made a presentation on 'Strengthening of Poverty Monitoring'.
- (iv) The State Planning Commission presented a paper on 'Strengthening of Poverty Monitoring System'.

The team is pleased to note that the Poverty Monitoring and Evaluation activity in Tamil Nadu is now being followed by the Poverty Action Lab of MIT.

Human Development in Tamil Nadu

10. The Government of Tamil Nadu organized a two day workshop in Chennai on May 18th and 19th, 2005 hosted by the State Planning Commission . The first day of the workshop focused on 'Human Development in Tamil Nadu'. The workshop was attended by Senior Government officials, the State Planning Commission, Civil Society, Private Sector, and World Bank staff. The following papers were presented:

- (i) 'Human Development' by the Member Secretary, State Planning Commission
- (ii) 'Human development and Health' by the Secretary, Health, Government of Tamil Nadu
- (iii) World Bank's presentation on the challenges and constraints confronting the Health Sector in Tamil Nadu by Preeti Kudesia.
- (iv) 'Status of primary and elementary education' in Tamil Nadu by Secretary School Education department
- (v) World Bank's study on teacher absenteeism and teacher activity in public classrooms.

Agriculture Diversification and Water Resources Management

11. The second day's discussions centered on Agriculture Diversification and Water Resources Management. This workshop brought together many stakeholders from the private and public sectors as well as farmers, academics and researchers to discuss issues related to agricultural diversification, food safety and water management. Presentations were made by GoTN, the International Food Policy Research Institute and the World Bank.

- (i) Special Secretary, Agriculture Department made a presentation on 'Agriculture Diversification' highlighting declining net area sown, rising trend in fallows, diminishing return from dry land farming, diminishing rainfall, erratic surface water availability, depleting ground water availability.
- (ii) Dr. P.K. Joshi of IFPRI in his presentation 'Agriculture Diversification and Vertical Coordination in India' highlighted areas of concern viz. declining size and fragmentation of land holdings, technology fatigue, excess use of inputs and falling public investment in the agricultural sector.
- (iii) Steven Jaffee of the World Bank made a presentation on 'High Value Food Trade and Standards: From Crisis Response to Strategic Management' on how to expand exports of agriculture produce.
- (iv) Mr. Deenadayalan, Engineer in Chief (Rtd.) WRO, PWD made a presentation on the Hanuman Nadhi pilot in the Hanuman Nadhi River Basin.

- (v) Mr. Srinivasan Raj Rajagopal's, World Bank, made a presentation on 'Agricultural Diversification and Water Management - Tamil Nadu Knowledge Management Partnership' highlighting the need for a river basin management and participatory approach to water resource management.
- (vi) Farmers' representatives made a presentation of irrigation structures and shutters that were in urgent need of rehabilitation. Others also pointed to the need for periodic maintenance to enable water saving.

Public Expenditure Management

12. Workshops were held in the Public Expenditure Management involving the Finance Department, Treasury, Internal Audit, Professor U. Sankar of the Madras School of Economics, Professor Shanthi of the Institute of Financial Management and Research and the Public Expenditure Round Table (PERT). The areas of discussion covered Resource Planning, Financial Management, Public Oversight, and Budget Transparency.

13. An overview of treasury computerization undertaken by GoTN was provided in the first meeting. The main features and capability were described and plans for scaling up. This provided the Finance Department an opportunity to chip in with their MIS requirements that could be incorporated in the computerization design. The workshop guided Treasury officials on the need to interact with three or four major spending departments to get a feel of user requirements in terms of MIS rather than the treasury being a mere accounting tool as is the case. The treasury officials were also encouraged to interact with the E-Governance Technical Committee of the Government to avoid duplication and do a full Security audit. Separately, specialists from the World Bank interacted with the Government's team on the technical aspects of treasury computerization and shared their experience of treasury computerization in other countries.

14. The World Bank presented a note on improving fiscal transparency. The World Bank also shared the approach adopted in South Africa linking financial outlays with expected outputs/outcomes in Departmental budget grant. This would be useful as the Government initiated work on Output/Outcome indicators in four departments (Municipal Administration and Water Supply, Health, Education, and Highways Department).

II. Continuing Policy Dialogue on TN's reform program: Stakeholder Dialogues and Reports

15. In addition to workshops, stakeholder dialogues between GoTN and civil society groups were also organized in public expenditure management, agriculture and health sectors and employment generation. Two important reports on agriculture were partly funded under this activity. The dialogues on employment generation and the recommendations emerging from this stakeholder group have attracted national attention.

16. **Public Expenditure Management.** The World Bank shared with the stakeholder group two notes: (a) strengthening internal audit, and (b) budget formulation and resource allocation. Examples were also shared on Budget management in Chile and internal audit and risk management standards in Canada, South Africa and the U.K.

17. The government shared notes on its goals for Pension reform and some preliminary work identifying output/outcome indicators in the road sector. PERT presented a paper on improving fiscal transparency and a paper of a fiscal code of conduct.

18. The meetings helped to develop agreements on the following:

- (i) There has to be a mid year meeting of the Standing Finance Committee of the Cabinet to consider introduction of new schemes with a competitive mechanism built into the process to govern scheme selection;
- (ii) Creation of incentives for review and evaluation of schemes/projects.
- (iii) Departments must be enabled to retain savings from on going schemes for new initiatives.
- (iv) Unspent recurrent expenditure has to be revalidated at budget year end.
- (v) Need to prepare a fiscal policy note outlining the resource envelope ahead of budget preparation to enable the political executive to undertake strategic choices and resource allocation. The resource allocation should be indicated in the 'budget call' circular inviting department budgetary proposals.
- (vi) GOTN expressed the need for support from the Bank in the area of strengthening the internal audit function.

19. **Health:** The stakeholder dialogue on health identified 5 specific areas (regulation of the private sector, quality assurance in Indian Systems of Medicine, health insurance pilot, hospital management and health facilities accreditation) that the Government wanted to address. Actual work began in December 2005 when Terms of References for each of the 5 analytical pieces were developed and agreed, teams (public, NGO and private sector representation) were identified and draft reports were prepared by March 2006 followed by final reports in April 2006. There was good consultation and dialogue between the public and private sectors in preparation of these reports. The final reports are available with the Health Department. It is too early to assess the impact of this analytical work, given that these have just been completed and a new Government is in place.

20. **Agriculture:** The main outputs are two reports: *India: Taking Agriculture to the Market* and *India's Emergent Horticultural Exports: Addressing SPS and Other Challenges*. These were multi-state activities which included Tamil Nadu as a focus state. The Tamil Nadu specific analysis in both reports included three focus commodities (Bananas, Mango Pulp and Fresh Mangoes). This was done in close collaboration with the Tamil Nadu Directorate of Agricultural Marketing with the guidance of Mr. K. Ganesan, former Commissioner, Agricultural Marketing and Agri-business and the Tamil Nadu Agricultural University in Coimbatore through collaboration with Dr. E. Vadivel, Dean Horticulture for the SPS report. These reports will be officially shared with GoI (Ministries of Agriculture and Commerce) and GoTN for their comments. A formal dissemination event for launching both reports will be held towards the end of the calendar year.

21. At other points of the dialogue, the World Bank shared numerous policy reports and papers with GoTN counterparts based on their requests covering topics such as Agricultural Extension, Agricultural Insurance, Agri business policy and Risk Management and Rural Finance.

22. Separate meetings were held in February 2006 with former Secretary Agriculture, Ms. Leena Nair and Dr.N. Sundaradevan, TIDCO, to discuss issues specific to improving land utilization in marginal

areas. Klaus Deininger from the World Bank participated in these discussions. It was agreed to have a jointly sponsored workshop to have a state-level discussion of the Bank's forthcoming report on land policy and administration soon thereafter and to use this as a basis for more in-depth discussion of opportunities for the Bank to support the Government's efforts in this area, possibly within the framework of existing projects. Discussions helped to identify a number of areas where there is demand for technical assistance from the Bank:

- **Integrated Land Information System:** GoTN is interested in establishing an integrated Land GIS where computerized land record data can be combined with thematic maps of land uses, soil types, hydrological networks, cropping patterns etc to assist in planning, inform policy making and implementation of activities targeted to improve high value agriculture as well as improve utilization of marginal lands. Thematic maps were prepared for the Nilgiris District through aerial surveys for the Hill Area Development Project. It is understood that Anna University has successfully used satellite imagery to develop a number of thematic layers that could possibly satisfy this demand. This is potentially one area where the Bank could provide support through a TA. Further assessment will need to be made of available data and the existing Thematic Maps to ascertain the scope of the work and required level of funding.
- **Assistance to land administration:** The GoTN feels that outdated land records are among the key reasons underlying low levels of access to credit (as well as other government programs) and investment by small farmers, in addition to posing potent obstacles to the functioning of land rental and sales markets, and thus low levels of productivity. To make land records more unambiguous and reduce the transaction costs and risks associated with transferring land among users, the government has made considerable investments (and advances) in computerization of land records. Still, the effort remains deficient in a number of respects, in particular; (i) no systematic verification of the computerized records has been undertaken, implying that these may contain numerous errors; (ii) the spatial framework is completely out of date and an "updating exercise" that was undertaken in the late 1980s was of extremely low quality; (iii) efforts to integrate records and registration, which would be needed to make records more conclusive, have not gone beyond the pilot stage; and (iv) the security of the data, both in terms of preventing unauthorized access (e.g. through biometric identification) and having a central backup, is very low. GoTN representatives shared a number of ongoing initiatives (e.g. the development of a methodology to identify the mistakes and inaccuracies in the existing spatial database) and agreed that this was a high priority agenda where considerable scope for transferring experiences from other states exists. It was agreed to have a jointly sponsored workshop to have a state-level discussion of the Bank's forthcoming report on land policy and administration soon thereafter and to use this as a basis for more in-depth discussion of opportunities for the Bank to support the Government's efforts in this area, possibly within the framework of existing projects.

23. **Employment Generation.** This stakeholder group led by the Member Secretary was by far the most productive group enjoying wide participation from industry apex organizations such as CII and FICCI, industrialists, experts, government officials from line departments and educationists.

24. The first stakeholder meeting was held on July 18, 2005 followed by regular meetings through February 2006 covering different sectors. The focus was on industrial facilitation, identifying new growth areas, training labor in special skills for different sectors and job creation. The industries covered were: (a) textiles and clothing industry; (b) construction; (c) food processing; and (d)

biotechnology. These sectors were identified by stakeholders given Tamil Nadu's relative advantage and employment generation potential.

25. Each of these groups covered a wide spectrum of activities within those sectors and the meetings were well attended generating a series of presentations on the potential of these sectors for job creation. Focus groups were set up to prepare policy options and draft reports incorporating policy recommendations were received by the State Planning Commission in all these areas. The insights were rich and provide a menu of policy options for the Government to consider as it drafts its next five year plan and the annual budget.

III. Providing Technical assistance in high priority reform areas identified by Government.

26. In addition to producing two technical agricultural reports noted just above, TA was provided in the following form.

- (i) Technical Assistance was provided in the area of civil service pensions forecasting and training of state government officials in the software Pensions Reform Options Simulation Toolkit (PROST).
- (ii) A report 'Economic Outlook for the State of Tamil Nadu 2005-06 and 2006-07' was commissioned. The report contained a forecast model for State Gross Domestic Product and inflation.

C. Assessment of TNSCR

27. **The impact of TNSCR has been mixed so far.** It has broken ground in certain areas such as civil society participation in policy dialogue with the Government and has broadened the reform area. Its performance on deepening the reform agenda is less evident. It has produced an impressive list of outputs, has had impact in some areas and in others made problems visible without resolving them. This is a good time to take stock and draw lessons.

28. **TNSCR has successfully broadened the reform program.** It now extends beyond fiscal areas, which were the focus of the SAL, to growth, poverty and governance issues which are supported under TNEGI. The coverage of the six areas viz. (i) Employment Generation; (ii) Private sector development; (iii) Public Expenditure and Poverty Reduction; (iv) Improved Service Delivery; (v) Agriculture Productivity enhancement; and (vi) Human Development makes the reform program as comprehensive as it can get within the political context and lays the foundation for future initiatives aimed at equitable and sustainable growth.

29. **Political support for a policy dialogue based initiative such as the TNEGI was most helpful but also entailed risks.** The leadership and orchestration of the program by the Finance Secretary who later became the Chief Secretary assured the required support of the Chief Minister and the resultant priority given to the program. The Chief Minister herself demonstrated commitment to the initiative: TNEGI was her brain child. However, the preoccupation of top leadership with political challenges, including elections and the tsunami, made the degree of attention paid to TNEGI fluctuate, virtually coming to a halt before the elections. The defeat of the ruling party and the change in Chief Minister and Chief Secretary has now orphaned the initiative though its underlying rationale has never been stronger.

30. **The TNEGI leaders of the six areas on the Government side were empowered and gained most.** A number of exceptionally talented and motivated officials occupied these positions and while some of the officials were subjected to unanticipated transfers just when they were poised to achieve progress, others were shifted when the government changed. Most officials in the leadership role on the Government side felt that the activity gave them the rare luxury of thinking outside the box on policies and programs and to listen to diverse stakeholders rather than confine themselves to a few select advisers. They initiated the program along sound lines. They found the program refreshing and stimulating in identifying constraints and developing solutions. They found Bank counterparts to be constructive and helpful partners and the outputs and outcomes of the exercise useful. Indeed this change in mind sets of the officials and broadening of the dialogue are perhaps the strongest contribution and lasting contribution of TNSCR. While the recent political overhaul of the administration is clearly a set back to progress on reform, the seeds of a new way of conducting business has been sown in the minds of key officials and some other key stakeholders and the benefits would certainly manifest themselves in the medium term.

31. **The TNSCR was helpful in triggering the demand for analytical work though by design it delivered only a few outputs (such as in agriculture and growth) directly.** TNSCR helped in identifying areas, issues and constraints and motivating a search for solutions. By identifying areas, scoping issues, eliciting views of stakeholders and initiating analysis of constraints has set the stage for a deeper analytical agenda. Its sudden end did not allow a serious start on such an agenda. Unlike a SAL, where time deadlines compel conduct and completion of analytical work, this knowledge activity imposed no such pressures. Nor did it bring in significant financial leverage through access to additional funds. So the pace of movement on the analytical agenda could not be influenced by the Bank, except by stirring the enthusiasm of the government team and in some cases exploiting the presence of political pressure for quick results. In the circumstances, in many areas, not surprisingly, progress did not register beyond problem identification and preliminary scoping of remedies.

32. **In terms of participation of stakeholders in policy dialogue, TNSCR achieved a significant breakthrough.** A real start was made in expanding the ownership of policy initiatives among key stakeholders and affected persons. One must note that given Tamil Nadu's past history of designing policies within a closet, this is major achievement. Not only were a range of stakeholders invited to participate on policy issues but a healthy debate was initiated and the value of participation demonstrated. This will have high payoff for the future. True, not all stakeholders were invited; political screening was evident in many cases. But opening the door is itself a major step forward.

33. **TNSCR did not make much impact on government's capacity to manage and implement policy reforms.** True, it empowered and motivated senior official leadership and encouraged mind set change within a group of highly talented officials who had been constrained by years of a political environment hostile to openness, listening and sharing of ideas and experience. However, TNSCR did not last long enough to build sustainable capacity.

34. **In the area of access to global, regional and national experience, TNSCR's impact was below its potential.** This was caused by a multiplicity of factors including the delay in identifying the precise terms of reference for the stakeholder groups, the absence of funding support for analytical work and institution-building and systemic problems within the Bank itself.

Lessons from TNSCR

35. **The critical factors that contributed to progress or lack thereof are listed below, in order of perceived importance:**

- **The most important factor affecting progress was high level support within Government.** The leadership and support given to the activity by the Chief Secretary/Finance Secretary or Development Commissioner was instrumental in carrying forward this initiative. Progress accelerated typically when he provided clear guidance to officers for carrying forward this initiative.
- **The second important factor is the strength and commitment of leadership on the government side.** Of the six area leaders on the government side, most were highly competent and motivated civil servants, with strong commitment and the ability to assess the political space available for reform. Most possessed remarkable ability to appreciate policy issues, participate in policy discussions and drive the policy agenda forward. However, progress in stakeholder dialogue and driving the reform process depended on their perception of the importance placed on civil society dialogue. In some areas such as employment generation, agriculture, where officials appreciated civil society contributions and in other areas (such as public expenditure management, agriculture and health, officials appreciated the technical assistance provided by the Bank progress was faster. Progress was also affected by the insecurity of tenure of officials.
- **The next most important ingredient of progress is the performance of the Bank staff counterpart.** Apart from ability to respond quickly and develop trust with the Government official who leads the exercise, key factors contributing to the effectiveness of the Bank counterpart are: ability (particularly for field staff) to quickly access the right source of global expertise through contacts within networks and guidance from Sector managers and Directors and senior experts within the Bank; willingness (particularly for headquarters staff) to support the reforms government wish to push; capacity to link reform with what is happening in other States on similar areas and fostering inter-State collaboration: tapping synergy between project work and knowledge work on sector or theme, leading to win-win outcomes; use of the Bank's convening power efficiently to expand stakeholder participation and knowledge sharing; and resourcefulness in mobilising funds in time to support quality analytical work.

Suggested Way forward

36. **The closing of the TNSCR also opens up opportunities** to enter the next phase of knowledge partnership with Tamil Nadu with a more appropriate instrument and better management arrangements. **The next phase could be designed around the following principles:**

- For political reasons, the new knowledge instrument should not be treated as a successor to TNSCR but as a new initiative. After eliciting the views of the new Government on its priorities, the Bank should focus its areas of knowledge partnership. There is however a good case for continuing to focus on the six identified areas if the new Government desires.
- The Bank's ongoing project work should be integrated with this knowledge product as the synergies are huge. Simultaneous, a TA package should be prepared to support the knowledge activities.
- The principal counterpart on the Government side could be the Planning Secretary in the Secretariat and the Deputy Chairman in the State Planning Commission; they have the competence, time and motivation to make it a success

- The principal home for the knowledge activity could be the State Planning Commission which has just been reconstituted; even for TNSCR this was considered but the time was not right. Capacity building in the State Planning Commission could be given priority. A small but timely TA project. In the medium run, this will pay off handsomely.
- Leadership of line Department Secretary on each of six areas, with support provided by SPC, is critical. The Department-SPC partnership needs to be designed as a Win-Win one.
- The Chief Minister's endorsement should be got, particularly as he is Chairman of SPC and the Finance Minister's too but the exercise would focus on relationships with official levels and the key outside stakeholders for the present, not political levels.
- The knowledge activity would be designed for a three year timeframe, with an annual exchange of views with Government each year on progress
- The linkages to work on similar issues in other State's be strengthened either by transferring such an item to an all-India knowledge product that deals with it or bring in peer inputs from other States into this activity. Such items may be identified upfront
- Management and staffing arrangements within Bank are improved learning from lessons of TNSCR so that the Team Leader in the field and headquarter are empowered, the Sector staff and PREM staff work synergetically, knowledge support projects and vice-versa, and the Bank's global knowledge is more efficiently harnessed for the benefit of Tamil Nadu.

Attachments

Annex I: Letter from CM on TNEGI

Annex II: Matrix of Activities under TNEGI