

ICR Review
Operations Evaluation Department

1. Project Data: Date Posted : 06/18/2003

PROJ ID : P073113	Appraisal	Actual
Project Name : Andhra Pradesh Structural Adjustment Loan	Project Costs 125 (US\$M)	125
Country : India	Loan /Credit (US\$M)	
Sector (s): Board: PS - Sub-national government administration	US\$M) 125 Cofinancing (US\$M)	125
(75%), General industry and trade sector (12%), Power (9%), Crops (2%), Housing finance and real estate markets (2%)		
L/C Number : C3616; L4651		
	Board Approval (FY)	02
Partners involved :	Closing Date	09/30/2002 09/30/2002

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2. Project Objectives and Components

a. Objectives

(1) Reduce the debt burden and restore sustainability to public finances, improve resource mobilization, and restructure public spending toward priority development areas; (2) Strengthen public financial management capacity and institutions, improve the realism and credibility of the budget, enhance fiscal transparency and accountability, and introduce greater efficiency to operational management; (3) Strengthen anti-corruption efforts, civil service reform, electronic governance, public enterprise reform, and poverty monitoring .

b. Components

Fiscal Reform : (1) Budget execution 2001/02 consistent with Medium Term Fiscal Framework (MTFF) targets (1.3% primary deficit, 5.0% fiscal deficit, 5.6% consolidated fiscal deficit); (2) Budget execution 2002/03 consistent with Annual Fiscal Framework targets; (3) Fiscal Reform Strategy Paper published; (4) Tax reforms initiated or implemented.
Public Expenditure Management Reform : (1) Hard budget ceilings set for each line department for 2002/03; (2) Adequate provisioning made for government guarantees; (3) Periodic advance releases of spending authority to line departments; (4) Pension payments computerized and start made on computerization of salaries .
Governance and Public Management Reform : (1) Conduct civil service census and continue hiring freeze; (2)

Cabinet approval of anti-corruption policy paper; (3) Implementation of anti-corruption drive in the power sector; (4) Closure or privatization of 11 SOEs; (5) Submission of Right of Information Bill to the Cabinet; (6) Implementation of E-governance initiative.

c. Comments on Project Cost, Financing and Dates

3. Achievement of Relevant Objectives:

(1) Reduce the debt burden and restore sustainability to public finances, improve resource mobilization, and restructure public spending toward priority development areas : Budget execution for 2001/02 met or exceeded MTFE targets; preliminary data on 2002/03 Budget Execution indicate that goals for the fiscal deficit and the consolidated deficit (which includes power sector financing requirement) were met; Fiscal Reform Strategy was published.

(2) Strengthen public financial management capacity and institutions, improve the realism and credibility of the budget, enhance fiscal transparency and accountability, and introduce greater efficiency to operational management : Implementation of the MTFE has improved budget management and facilitated establishment of hard budget ceilings for line departments at the start of the budgetary process; full provisioning was made against the default of selected guarantees, and initial provisioning for other guarantees; the new budgetary process improved managers' ability to make the release of budgetary funds more rational and predictable; internal audit was strengthened; transparency of budgetary receipts and expenditures was increased; pension payments were computerized and progress has been made on computerization of salaries .

(3) Strengthen anti -corruption efforts, civil service reform, electronic governance, public enterprise reform, and poverty monitoring : The de facto freeze on hiring has continued, and a civil service census was conducted; progress was made in improving the accountability and billing efficiency of the power sector; SOE reforms exceeded project goals; a Right to Information bill was drafted and submitted to the Cabinet; a blueprint for electronic access to government was launched in August, 2001, and the system now electronically processes over 50,000 transactions per day.

4. Significant Outcomes/Impacts:

Substantial progress was made in implementing an improved budget management process
The primary fiscal deficit fell from 2.12% of GSDP in 2000-01 to an estimated 0.78% in 2002-03; during the same period, the power sector financing requirement declined from 2.65% of GSDP to an estimated 1.07%

The added flexibility and rationalization enabled by the new budgetary system permitted the redeployment of 20,000 staff and the streamlining of budget documentation
Utilization of the new budgetary system reduced the use of overdrafts (borrowing for budgetary expenditures)

from the Reserve Bank of India by a factor of around 15

Since 1997, the number of civil servants has dropped by around 2% per year

15 SOEs were closed (10 liquidated, 2 privatized, and 3 restructured) during the project

5. Significant Shortcomings (including non-compliance with safeguard policies):
 A major component of power sector losses has been subsidies to agricultural users and lack of metering to these users. The ICR acknowledges (p. 6) that progress in this area has been slow, and that this "structural problem" will continue to have adverse effects on overall power sector finances
 Spending on primary health and education fell short of MTF targets (1.9% of GSDP against a target of 2.2%)
 The planned introduction of a VAT has not yet been accomplished, and other expected tax reform progress has not yet occurred
 Progress in anticorruption policy and some areas of civil service reform has been disappointing, although recent developments appear to be more encouraging
 As noted in the previous section, there has been progress over the last 3 years in reducing the primary deficit and the power sector financing requirement . This progress could, ceteris paribus , lead to a decline in the debt burden as projected in the PR, however there is uncertainty over its magnitude and timing, especially in the power sector.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Moderately Satisfactory	The project achieved most major objectives, but with significant shortcomings, as listed above in section 5.
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Likely	Non-evaluable	The sustainability of progress in reducing the consolidated fiscal deficit and restoring the sustainability of public finances is dependent on continued progress in the power sector, which is highly uncertain.
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE:

NOTE ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

Because a financially weak power sector can undermine hard -won progress in improving other areas of fiscal and public expenditure management, a project that aims to restore the sustainability of public finances should be implemented in parallel with effective measures to ensure power sector deficit reduction
 The project confirms that efforts to fundamentally alter the structure and functions of government are unlikely to achieve much success without substantial government commitment

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

The ICR is satisfactory, presents a great deal of evidence, and is admirably frank . However, up-to-date budgetary and power sector data--critical to project evaluation--were not included in the document (they only became available

- after the ICR had been finalized).
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