



1. Project Data:		Date Posted : 08/16/2001	
PROJ ID: P065471		Appraisal	Actual
Project Name: Uttar Pradesh Fiscal Reform & Public Sector Restructuring	Project Costs (US\$M)	251.3	251.3
Country: India	Loan/Credit (US\$M)	251.3	251.3
Sector(s): Board: PS - Central government administration (57%), General industry and trade sector (26%), Sub-national government administration (7%), Other industry (7%), Power (3%)	Cofinancing (US\$M)		
L/C Number: C3341; L4546			
	Board Approval (FY)		00
Partners involved :	Closing Date	10/30/2000	10/30/2000
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components			
a. Objectives			
To support the launching of a program of fiscal and governance reforms in Uttar Pradesh			
b. Components			
<ul style="list-style-type: none"> • Fiscal reforms • Governance reforms • Poverty and Social Development Monitoring 			
c. Comments on Project Cost, Financing and Dates			
The operation was the first in a series of one -tranche adjustment operations with policy actions in each phase being implemented before Board approval. This approach allowed the Bank to engage the Government on a longer -term basis while providing it the flexibility to withdraw if the follow -on reforms were not forthcoming.			
The Government of Uttar Pradesh formulated its budget on the assumption that the proceeds from this loan /credit would reach the State in its FY 2000 (India's Fiscal Year runs April to March). The loan was disbursed to Uttar Pradesh in June 2000. This necessitated a larger than planned expenditure contraction - although the Central government came partly to the rescue with some short term compensatory financing .			
3. Achievement of Relevant Objectives:			
By design the agreed reform measures were implemented prior to approval and disbursement of the operation so the objectives were achieved. The Government of Uttar Pradesh has continued to implement the reform measures in the second year following the disbursement of the credit /loan as envisaged in the multi-year program. This implementation has been satisfactory overall . A Bank mission led by the Country Director is currently in Uttar Pradesh to assess progress on the milestones for the second structural adjustment loan /credit under this multi-tranche project design.			
4. Significant Outcomes/Impacts:			
It is too early to judge full outcomes/impacts since this was the first year of a multi-year program which is part of a larger overall reform program. However, interim outcomes are satisfactory and a number of indicators confirm that processes are well on way to having a significant impact; for example :			
<ul style="list-style-type: none"> • Growth has accelerated during the past two years . • The fiscal deficit has declined for two consecutive years from 7.5% of GSDP in 1998-99 to an estimated 6.0% of GSDP in 2000-1; a decline of 1.5%. It is estimated that the consolidated fiscal deficit (government and power utility combined) has also declined - by 1% of GSDP- over this period. 			

- Governance reforms explicitly supported under the loan /credit have been more or less successfully implemented.
- An independent monitoring unit for poverty and social impact has been set up under the Chief Secretary's Office. The first round of household data have been collected .

5. Significant Shortcomings (including non-compliance with safeguard policies):

- 1) The slowing down of power sector reforms (covered in a parallel operation) is having an adverse impact on the consolidated fiscal deficit (inclusive of power sector deficit).
- 2) There is slower progress than was originally envisaged in some areas; For example :
 - The implementation of a tax reform measure aimed at curbing under-valuation of sales was held up when traders protested that its implementation would lead to tax payer harassment . This measure is now being revised.
 - Progress in training, acquisition of equipment and hiring of technical assistance for the Poverty and Social Monitoring Component was adversely affected by frequent changes in personnel .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Modest	Modest	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

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

7. Lessons of Broad Applicability:

- Single tranche operations within a medium term fiscal and reform framework with disbursement conditional upon meeting preset milestones can be effective low risk instruments for supporting fiscal reform
- When policy making and reform implementation capacity are weak the comprehensiveness in the policy dialogue needs to be accompanied by selectivity in actions supported by the operation . There is a need to narrow down from the thirty or so milestones to a core set of four or five on which disbursement should be conditional.
- Efforts should be aimed at improving the overall budget process rather than setting up a "budget within a budget". Excessive reporting and audit requirements for specific line items sometimes works to the detriment of the overall improvement in the budget process .
- Up-front agreement on timing of monitoring surveys and specific dissemination activities may be useful .
- The key milestones for adjustment lending should include the consolidated fiscal deficit .

8. Assessment Recommended? Yes No

Why? 1) The adjustment operation was closely linked to other operations (in particular, a parallel operation supporting power sector reforms). An audit could review these linkages and its implications for the efficacy of this operation. 2) It could evaluate the loan/credit milestones which could provide lessons for other operations .

9. Comments on Quality of ICR:

The ICR is of satisfactory rating . However, it could have explained that the Bank was delaying the second follow -on operation on account of slowing down of power sector reforms .