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ON A

LOAN/CREDIT

IN THE AMOUNT OF US\$251.3 MILLION

TO

INDIA

FOR THE

UTTAR PRADESH FISCAL REFORM & PUBLIC SECTOR RESTRUCTURING

06/21/2001

**Poverty Reduction and Economic Management Unit**  
**South Asia Region**

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective April 30, 2001)

Currency Unit = Rupees (Rs.)  
Rs.1 = US\$ 0.02134  
US\$ 1 = Rs.46.86

## FISCAL YEAR

April 1 March 31

## ABBREVIATIONS AND ACRONYMS

C&AG	Comptroller & Auditor General
DECRG	Development Research Group
GSDP	Gross State Domestic Profit
HIPCs	Heavily Indebted Poor Countries
HPDE	High Priority Development Expenditures
ICR	Implementation Completion Report
MTEF	Medium-Term Expenditure Framework
O&M	Operation and Maintenance
PRIs	Panchayat Raj Institutions
PSMS	Poverty and Social Impact Monitoring System
SMEs	Small and Medium-scale Enterprises
TTD	Trade Tax Department
UP	Uttar Pradesh
UPFRPSR	Uttar Pradesh Fiscal Reform and Public Sector Restructuring
VAT	Value Added Tax

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**INDIA  
UTTAR PRADESH FISCAL REFORM & PUBLIC SECTOR RESTRUCTURING**

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<i>Project ID:</i> P065471	<i>Project Name:</i> UTTAR PRADESH FISCAL REFORM & PUBLIC SECTOR RESTRUCTURING
<i>Team Leader:</i> Manuela V. Ferro	<i>TL Unit:</i> SASPR
<i>ICR Type:</i> Core ICR	<i>Report Date:</i> June 21, 2001

## 1. Project Data

*Name:* UTTAR PRADESH FISCAL REFORM & PUBLIC SECTOR RESTRUCTURING    *L/C/TF Number:* IDA-33410;  
SCL-45460  
*Country/Department:* INDIA    *Region:* South Asia Regional Office  
*Sector/subsector:* BY - Other Public Sector Management

### KEY DATES

<i>PCD:</i> 10/22/1999	<i>Effective:</i> 05/23/2000	<i>Original</i>	<i>Revised/Actual</i>
<i>Appraisal:</i> 11/04/1999	<i>MTR:</i>		05/23/2000
<i>Approval:</i> 04/25/2000	<i>Closing:</i> 10/30/2000		10/30/2000

*Borrower/Implementing Agency:* Government of India/Government of Uttar Pradesh; Government of India/Office of the Chief Secretary and Departments of Finance; Government of India/Planning; Government of India/Personnel and Administrative Reforms

*Other Partners:*

STAFF	Current	At Appraisal
<i>Vice President:</i>	Mieko Nishimizu	Mieko Nishimizu
<i>Country Manager:</i>	Edwin Lim	Edwin Lim
<i>Sector Manager:</i>	Roberto Zagha	Roberto Zagha
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<i>ICR Primary Author:</i>		

## 2. Principal Performance Ratings

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, M=Modest, N=Negligible)

*Outcome:* S  
*Sustainability:* L  
*Institutional Development Impact:* M  
*Bank Performance:* S  
*Borrower Performance:* S

*Quality at Entry:* QAG (if available) ICR  
S  
*Project at Risk at Any Time:*

### 3. Assessment of Development Objective and Design, and of Quality at Entry

#### 3.1 Original Objective:

**Background.** Around 8 % of the world's poor live in Uttar Pradesh (UP). With around 160 million inhabitants, UP is India's most populous state and one of the poorest. By the mid-1990s, while India's growth had accelerated, economic and social development in UP was falling behind. Per capita income in UP, US\$230 in 1997, was the third lowest amongst the country's 28 states, ahead only of the states of Bihar and Orissa and only 65% of India's average. In other (non-income) dimensions of poverty, such as literacy and infant mortality rates, UP was also well behind most other Indian states, ranking second to fourth from last out of the 14 major states.

Uttar Pradesh plays an important role in Indian national politics and the state provides over 15 % of the members of the national Parliament. UP is a politically unstable state, which over the past decade has been ruled by short-lived, coalition governments (nine between 1988 and 1998). Some of the political instability is linked to the deep social stratification of UP's population, and efforts on the part of various groups, particularly those from lower social strata, to use political power to improve economic and social well-being.

**World Bank Assistance Strategy to Uttar Pradesh.** The Bank has assisted the State of UP with technical and financial assistance since the mid-1990s. Early dialogue focused mostly on the power sector. Largely as a result of the state's political instability, the state government did not seek to deepen and broaden this dialogue until the late 1990s. After a decade of frequent changes in government, a coalition government led by the BJP took office in late 1997. A core of reform-minded officials assumed key positions in the administration and invited the Bank to collaborate in the formulation and implementation of economic reforms to enable UP to extricate itself out of the mediocre performance of the past decade. The Bank recognized this as an opportunity to support the turnaround of the state, with benefits not only for the people of UP, but potential demonstration effects for all of India.

Support to reforming states was at the heart of the 1998 Bank's Country Assistance Strategy to India. The Indian constitution gives the states considerable autonomy to define their development policies, including those influencing education, health, power, agriculture and irrigation, water, road transport, and urban services. The 1999 Country Assistance Strategy Progress Report highlighted the need to devote substantial attention and resources to Uttar Pradesh and to develop a multi-year, policy-based lending program, with the overarching goal of reducing poverty. [World Bank, *India: Country Assistance Strategy – Progress Report*, January 27, 1999.]

An innovative aspect of the Bank's involvement in UP was the development of a State Assistance Strategy for Uttar Pradesh, which outlined the objectives and the content of the Bank's program of assistance to the state. [World Bank, *India: Uttar Pradesh State Assistance Strategy – Revitalizing Government to Reduce Poverty*, October 1999.] According to the strategy, Bank assistance would be based on four main principles: (i) support should be large enough to have an impact on this poor, heavily populated state; (ii) the Bank would assist the Government of Uttar Pradesh in developing, articulating, and implementing its own policies; (iii) Bank support would be integrated: different lending and non-lending instruments would be used to develop an integrated and cohesive package of assistance to the state; and (iv) Bank support would be sequenced, to take into account the difficult initial conditions in UP and the possibility of delays in reform implementation. The design and sequencing of lending instruments were selected to manage risks, while encouraging and supporting reforms in UP.

**Program and Loan/Credit Design:** The UP reform program was based on collaborative, GoUP and World Bank technical work. In 1998, the GoUP initiated a public debate with the issuance of a White Paper highlighting the state's fiscal stress, potential debt trap and deteriorating economic performance. At the same time, the Government approached the Bank for assistance in formulating and implementing an economic restructuring program to lift itself out of the crisis. A World Bank economic report, *India-Uttar Pradesh: From Crisis to Renewed Growth*, later published in Hindi by the GoUP, identified three factors as holding down growth and poverty reduction in UP. First, inadequate infrastructure in general, but in particular shortages and unreliability in power supply, affected investment and growth in agriculture and industry adversely. Second, due to years of inadequate and ineffective spending on education and health, development of human resources lagged,

contributing to low living standards and lowering both productivity and incentives for private investment in the state. Third, a decline in the quality of governance had raised transactions costs in the economy, and negatively affected the business environment and the perception of businesses and external donors about investing in the future of Uttar Pradesh. The report portrayed UP as being caught in a vicious circle, with low growth not only holding living standards down, but also reducing GoUP's revenue yields, and the fiscal crisis preventing the state from investing enough to provide the foundation for higher growth and improved social indicators. Governance and fiscal reforms, complemented with reforms and investments in infrastructure (such as power) and the social sectors, were identified as the core of the Government's reform program.

Key reforms in the power sector, including the necessary reform legislation and the unbundling of the state power monopoly into generation, transmission and distribution companies, were a key trigger for the Bank's strategy of assistance to UP. The GoUP passed the reform legislation and unbundled the State Electricity Board in January 2000 and brought to an end a 11-day strike by 88,000 power sector employees, without any concessions on policy matters, thereby advancing in this important sector.

Both the 1998 Report and the loan/credit documentation rightly recognized that World Bank assistance to UP was *high-risk*, but also *high-return*. The main risks emanate from low administrative capacity, political instability, uncertainty surrounding the pace of reform in the power sector and resumption of economic growth. The potential benefits include a potentially strong impact on poverty and on India's fiscal correction, both direct and indirectly through the demonstration effect that success of reforms in UP would have on other states. The Uttar Pradesh Fiscal Reform and Public Sector Restructuring credit/loan was the first of a potential series of 3 to 4 adjustment operations aimed at supporting the GoUP's multi-year reform program to break out of this vicious circle. This would provide some degree of assurance about the level of financial assistance the Bank could provide to support the multi-year reform program. However, due to the absence of a track record and the uncertainties of the political situation, policy actions within each phase were designed to be implemented before Board approval of each operation. This approach created the conditions for a long-term engagement, while providing the Bank with a very clear exit strategy.

**Loan/Credit Objectives:** The agenda of reforms and the goals supported by the Uttar Pradesh Fiscal Reform and Public Sector Restructuring credit/loan are comprehensive and appropriate. The objective of the first operation was to support the launch of a program of needed fiscal and governance reforms. It also supported the establishment of a poverty and social monitoring system. The medium-term objectives of the reform program are listed below in Table 1; the specific reform measures supported by the UPFRPSR credit/loan are listed in Annex 8 (Overview of Fiscal Reform and Public Sector Restructuring Program, 1999-2004).

**Table 1. Goals of the Fiscal Reform and Public Sector Restructuring Program in Uttar Pradesh, 1999-2004**

Reform Areas	Stated 1999-2004 Program Goals
<b>I. FISCAL REFORMS</b>	
Achieve <b>Fiscal Sustainability</b>	Achieve substantial reduction in fiscal deficit and create sufficient fiscal space for adequate levels of development outlays and a gradual decline in the debt-to-GSDP and interest-to-revenue ratios.
Improve <b>Expenditure Management</b> and Composition of Public Spending to enhance Development Impact	Improved budget compliance and fiscal discipline; Improved poverty targeting and developmental impact of government spending; Expenditure composition linked to policy priorities.  Increase in the rate of recovery of recurring cost of canal irrigation – from less than 20% currently to 50% by 2003-04.
Reform <b>Tax System</b> to Improve Efficiency in Resource Allocation and Enhance Tax payer Compliance	Improved voluntary tax compliance; Reduced transactions costs for private business operating in UP; Increase in the State's Own Tax Revenue – from 5.4% GSDP in 1998-99 to 7.6% by 2003-04.
<b>II. GOVERNANCE REFORMS</b>	
Reform the <b>Civil Service</b> to Enhance Efficiency, Effectiveness and Productivity and Reduce Overhead Costs	Substantial reduction in the number of departments towards international norms; Significant improvement in the ratio of front-line staff vis-à-vis support and administrative staff; Significant increase in the number of functions that are privatized and/or commercialized; Improved staffing in key skill categories.
Implement <b>Anti-Corruption and Deregulation</b> Strategies to Reduce Corruption and Maladministration, as well as Administrative Burden on the State	Increased awareness and utilization of Lok Ayukta function by the public and Vigilance Establishment by civil service; Radical reduction (more than 50%) in average investigation time; Improved sanction and conviction rate; Stakeholder surveys indicate decreasing perceptions of corruption.
Implement <b>Fiscal Decentralization</b> to Enhance Beneficiary and Stakeholder Participation and Income Accountability	Enhanced beneficiary & stakeholder participation in overseeing government performance; Improved quality of social services and infrastructure maintenance in the rural areas; Increased public accountability.
Reform <b>Public Enterprises</b> and Privatize to Reduce Scope of Government, Reduce Fiscal Burden and Improve Economic Performance	Reduction in fiscal drain due to public enterprises; Release of assets to private owners; Reorientation of government role.
Modernize <b>Financial Management</b> & Control Architecture and Enhance Accountability to Promote a more Honest, Efficient and Answerable Government	Improved quality of financial information available to the public; Improved and timely information for financial management; Computerized performance recording and result-based management; Effective legislative scrutiny over financial management by the Executive.
<b>III. POVERTY AND SOCIAL DEVELOPMENT</b>	
	Track progress at reducing poverty and improving living conditions using a range of indicators; measure the impacts of key reform measures on poor, vulnerable, and socially-excluded; based on this information, identify factors responsible for adverse outcomes and design appropriate mitigation measures, also improve impacts of policies on the poor.

Over the medium term, the objectives of the *fiscal* reforms are to improve fiscal balances and to create additional fiscal space for well-targeted public expenditures in priority programs, including quantitative and qualitative improvement in social sector and infrastructure spending, and relieving infrastructure bottlenecks, particularly power shortages and the road network, in order to accelerate economic growth and expand employment opportunities. The *public sector restructuring* reforms are intended to improve the quality of service delivery by reorienting the role of government, by reforming the civil service, by reducing corruption through improved transparency, deregulation and strengthening of anti-corruption institutions, by closing down, reforming or privatizing public enterprises, and by improving financial management and accountability. Information collected through the Poverty and Social Monitoring System would aid in identifying the emerging outcomes in the program that impact on the poor, and suggest areas for mid-course correction or intensified efforts.

The overall reform program was explicitly linked to poverty reduction and based on indicators proposed by the Government of UP. The *Poverty and Social Monitoring System* was developed with three broad objectives:

(i) to measure progress at reducing poverty and improving living conditions over the course of the state's reform period, with a particular focus on identifying any adverse impacts linked to reform initiatives; (ii) to support better performance in the delivery of basic services; and (iii) to keep the public informed regarding the progress and outcomes of reform measures. Poverty and social impact indicators (see Annex 11) focus on consumption and income measures, employment rates, health and education indicators, participation in government programs, awareness of health programs and social rights, access to and quality of facilities and services. While supported by the UPFRPSR Credit/Loan, the Poverty and Social Monitoring System was not designed to monitor the outcomes of specific actions implemented under the loan. It was recognized that it is impossible to establish causality between reforms and outcomes. Instead, the system would aid in the tracking of key indicators reflecting overall progress in UP's development and would be anchored in local institutions.

**3.2 Revised Objective:**

Not applicable

**3.3 Original Components:**

Not applicable

**3.4 Revised Components:**

Not applicable

**3.5 Quality at Entry:**

No applicable

## **4. Achievement of Objective and Outputs**

**4.1 Outcome/achievement of objective:**

The objectives of Bank assistance under the UPFRPSR Credit/Loan were achieved. Performance in the three areas supported by the UPFRPSR Credit/Loan was satisfactory. All the agreed reform measures were implemented prior to approval and disbursement of the operation, by design; the GoUP also has continued to implement the reform measures in the second year, following disbursement of the credit/loan, as originally envisaged in the multi-year program. No reform measures explicitly supported by the operation were reversed. As envisaged, the operation also has helped the GoUP launch a medium-term program of fiscal and governance reforms. While there have been shortcomings in program implementation since disbursement took place, these have been relatively few and mostly in the nature of slower than desired pace of progress. *[For a more detailed review of component implementation, please see attached Aide Mémoire of the ICR mission, as well as the Matrix of Reform Output/Process/Outcome Indicators on Fiscal, Governance, and Poverty and Social Impact indicators attached as Annex I.]* There are indications that the UPFRPSR operation has also had a broader impact in the form of helping the Government of India to strengthen rules-based mechanisms of resource transfers to encourage improved fiscal management at the state level.

The fiscal and governance reforms initiated in 1999-00 and supported by the UPFRPSR Credit/Loan have led already to an improvement in the state's fiscal performance and first steps in reversing the situation of deteriorating governance have been taken. The trend of fiscal deterioration and widening budget deficits, witnessed especially during 1996-99, has been arrested and begun to be reversed. Reforms were further advanced in 2000-01. The fiscal deficit of GoUP has declined for two consecutive years, from a peak of 7.5% of GSDP in 1998-99 to an estimated 6.0% in 2000-01 *[refers to the estimated fiscal deficit of undivided UP in 2000-01, i.e., including the newly created state of Uttaranchal, consisting of about 5% of the population and 6% of income of the erstwhile Uttar Pradesh]*, i.e., achieving a correction of 1.5 percentage points over two years. *[In order to maintain consistency with the historical series and the ratios quoted in the Medium-Term Fiscal Framework of the reform program, all ratios to GSDP in this ICR have been calculated with respect to the 1980-81 GSDP series, and not the 1993-94-base GSDP series.]* The consolidated fiscal deficit (of the government and power utility combined) is estimated to have declined by 1 percentage point of GSDP in the same period.

It is difficult to assess the specific impact of this operation on economic performance and poverty reduction, as it was part of a wider reform agenda and supported only the first year of implementation of a multi-year program. Economic growth has accelerated during 1999-00 and 2000-01, compared to the average performance in the 1990s. However, causality between the measures supported by this operation and aggregate economic performance cannot be argued. A large part of the growth acceleration is likely to be explained by factors unrelated to the implementation of reforms, such as improved agricultural output thanks to good rainfall.

#### *4.2 Outputs by components:*

**Fiscal Reforms.** Substantial progress was achieved in this first stage of the multi-year program, as evidenced by UP's improved fiscal outcomes in 1999/00 and estimates for 2000/01. According to audited accounts published by the Comptroller & Auditor General (C&AG) of India for the year 1999-00, the majority of key fiscal indicators in UP recorded significant improvement (Table 2). The targeted fiscal correction – a planned reduction in the overall fiscal deficit by 0.5% of GSDP- was more than accomplished, with the overall deficit declining from 7.5% of GSDP in 1998-99, to 6.4% of GSDP in 1999-00.

Part of the correction, however, was dictated by a financing shortfall that became known only towards the end of the 1999-00 fiscal year and led to a larger-than-expected expenditure contraction. The GoUP Budget for 1999-00 was formulated assuming that the proceeds of the UPFRPSR Credit/Loan would reach UP in that fiscal year (India's fiscal year starts April 1 and ends March 31); it later became clear that this was not a realistic assumption, and indeed the proceeds of the operation reached UP only in June 2000; while GoI was expected to make up for the temporary cash crunch with some compensatory short-term financing, such compensation fell short of expectations as the fiscal year came to a close.

The quality of fiscal correction has been good during 1999-2001, both compared to other Indian states and to UP's own past. Expenditure composition has started to improve, as envisaged under the operation. However, deeper improvements in the composition and quality of public expenditures will take more than one year to materialize and will require deeper public expenditure management reforms in UP, which were envisaged under the multi-year program of reforms.

The ratio of Revenue Deficit to Revenue Receipts, an indicator currently being used by GoI to monitor the fiscal performance of states, has declined steadily over the first 2 years of the reform program, from a peak level of 47% in 1998-99. It declined to 29% in 1999-00 and an estimated 17% in 2000-01. The Budget for 2001-02, presented by the GoUP in March 2001, projects this ratio to decline further to 9% in the coming year.

**Table 2: UP Government Finances, 1995-2000/01**

Percentage of GSDP /a	1995-98 Average	1998/99	1999/00 Target	1999/00 Actual	2000/01 Target	2000/01 Estimated
Revenue	13.9	11.6	13.5	13.1	14.8	15.8
State's Own Revenue	6.7	6.2	6.9	6.6	7.3	7.3
Tax	5.4	5.4	6.2	5.8	6.5	6.3
Non-Tax	1.2	0.8	0.7	0.7	0.9	0.9
Central Resources	7.2	5.5	6.6	6.5	7.5	8.5
Mandated Tax Share	5.3	3.9	4.4	4.6	4.7	5.9
Grants	2.0	1.5	2.2	1.9	2.8	2.6
Expenditure and Net Lending	21.0	19.1	20.5	19.5	20.8	21.8
<i>of which :</i>						
Interest	3.3	4.0	4.2	4.1	4.2	4.9
Salaries	4.4	4.6	4.6	4.5	4.6	4.8
Pensions	0.9	1.2	1.3	1.3	1.2	1.3
Major Non-Merit Subsidies (explicit)	2.9	1.4	1.2	1.5	1.0	1.5
High Priority O&M	0.9	0.5	0.7	0.8	0.9	0.9
Capital Outlays	1.2	1.4	1.4	1.6	1.7	1.8
Revenue Deficit	-4.9	-5.4	-4.5	-4.1	-2.8	-3.0
Overall Fiscal Deficit	-7.2	-7.5	-7.0	-6.4	-6.0	-6.0
Non - Power Deficit	-6.4	-6.7	-6.0	-5.8	-4.6	-4.6

**Memo items:**

Debt stock	507.68	603.36	604.04	715.69	717.20
Debt Stock / GSDP	34.7%	37.3%	37.4%	40.3%	41.7%
GSDP Annual Real Growth /b	3.3%	3.3%	5.7%	3.6%	4.7%
Interest / Revenue	34.6%	30.8%	31.0%	28.2%	31.0%
Revenue Deficit / Revenue Receipts	46.7%	33.3%	31.2%	19.0%	18.9%

/a The denominator has been adjusted downwards in 2000-01, to account for the creation of Uttaranchal state in November 2000.

/b GSDP is 1980-81 base, except for years 1999/00 and 2000/01 (1993-94 based series)

Source: Government of Uttar Pradesh.

There have also been significant improvements in budgetary and accounting practices in UP. As part of the first phase of the program, the GoUP put an end to the practice of spending departments or project directors to deposit unspent funds into "personal ledger accounts" at the end of the year, a practice that led to overstatement of expenditures and deficit financing, and weakened expenditure management and control. The Government also reclassified expenditure on operation and maintenance of roads and canal irrigation systems, to exclude payments to "workcharged" employees, so that the true non-wage O&M could be monitored. Initial steps have been taken to move towards regularly monitoring the consolidated deficit of the public sector, such as agreeing on a ceiling for guarantees issued to state-owned enterprises for their borrowing from the market (with the exception of only guarantees that may be required to support the financial restructuring of the power sector). Although the Non-Power Deficit was monitored and targeted in the initial years of the program, due to the uncertainty surrounding the fiscal costs of power sector restructuring, subsequent steps in the program envisaged monitoring the Overall Deficit. In particular, the key medium-term targets were set in terms of reducing the overall fiscal deficit, including budget support to power (see Annex 8, Overview of Fiscal Reform and Public Sector Restructuring Program, 1999-2004).

*Revenues.* Revenue performance improved, although by less than targeted. As a result of the reforms

implemented in tax policy and administration, the state's tax-to-GSDP ratio, which had stagnated at 5.4% of GSDP during 1996-99, increased to 5.8% in 1999-00. It increased further to an estimated 6.3% in 2000-01. Overall, the tax revenues raised by the GoUP increased by about 15% in real terms in 1999-00, compared to an average of 13.5% for all the major states. Sales tax revenue increased by 12% in real terms in 1999-00, and by about 15% in the first 9 months of 2000-01.

The GoUP eliminated sales tax holidays and deferral schemes for new investment and introduced uniform floor rates, in compliance with the agreement reached among all states and GoI in January 2000. Sales tax rates have been further rationalized in UP during January 2001, reducing the total number of rates from 11 main and 6 special rates to 8 main and 4 special rates. The GoUP is implementing this program of rate rationalization in a phased manner, based on advice from a professional tax policy consultant. While the pace of progress towards reducing the number of rates to 5 (plus at most 2 special rates) has been slower than envisaged under the program, progress has nevertheless been steady and in the right direction.

Administrative improvements in Trade Tax have been significant under this operation. A computerized system for administering this tax has been tested for acceptance and is being piloted in 3 selected zones. The annual turnover limit for self-assessment has been raised and as a result, 92% of the tax payers are now covered by the scheme of self-assessment. Deterrence against tax evasion has been strengthened as a result of criminal proceedings initiated by the Trade Tax Department (TTD) against fraudulent practices. The process and intermediate output indicators (Annex 9) suggest that constant and consistent pressure against tax evasion has led to increased compliance, especially among manufacturers within UP.

The rise in the tax ratio has thus been achieved through a combination of rate rationalization and administrative improvements aimed at reducing evasion and improving compliance. However, while much of the emphasis of administrative reforms has been focused so far on curtailing tax evasion by strengthening deterrence, greater emphasis should be placed on lowering compliance costs and lowering the statutory tax burden. The fact that significant increases in tax collections were sought in the short-run limited the scope for greater tax rate rationalization and other reforms that, while likely to yield higher revenues in the medium run with a lesser distortionary impact than current policies, risked yielding lower revenues in the short run.

There was one tax reform measure aimed at curbing under-valuation of goods brought into UP from outside, initiated in 1999-00, whose implementation was held up in 2000-01. Following opposition from wholesale traders in the state, on the grounds that this measure would increase the scope for taxpayer harassment, the GoUP is now considering a modified plan and a phased implementation.

*Expenditure.* The main thrust of restructuring expenditure composition in 1999-00 and 2000-01 consisted of (i) containment of salary bill and pensions; (ii) containment and reduction of subsidies; and (iii) enhancement and protection against budget cuts of High Priority Development Expenditures (HPDE). While attempts to contain salaries and pension payments and to protect HPDE have been generally satisfactory, with relatively minor shortfalls, attempts to reduce subsidies have had only limited success. Transfers to the power sector were lower than expected, mostly as a result of a slow down in the pace of reform in the sector.

Salary (of regular staff) and pension payments were contained at 5.8% of GSDP in 1999-00, at the same level as the previous year and in line with the program target. However, the ratio rose to an estimated 6.1% in 2000-01, a slippage of 0.3 percentage point compared to the program target. This was the combined result of two factors: (i) the impact of the separation of the state of Uttaranchal, including transitional costs and (ii) the impact of accepting the demand of school teachers for enhancement in their pay package. The first factor was beyond the state's control; even though a separate state was created in November 2000, the bulk of the salary bill continued to be borne by the mother entity for almost the whole fiscal year due to delays in transferring staff to the new state. The second factor was a slippage on the part of the GoUP, resulting from yielding to political pressures during a year when the state was perceived to be relatively cash rich due to unexpectedly large transfers from GoI, resulting from the award of the Eleventh Finance Commission.

Although some implicit subsidies have been reduced through higher user charge hikes, the attempt to cap

explicit budgetary subsidies to higher and secondary education (i.e. grants to government aided private institutions) at their 1998-99 level has not been successful. One of the main reasons why the Finance Department could not succeed in imposing a hard budget constraint on government aided privately managed educational institutions is that such institutions are highly constrained in the fees that they can charge. However, available information is insufficient to demonstrate that such caps would have been desirable. Whether to contain this subsidy and what level to do so requires a better understanding of the education market, of potential fiscal and social impacts of deregulation of the fee structure and of institutional issues in the sector.

In spite of the financing shortfall in 1999-00, the GoUP managed to protect a large part of the expenditures on high priority social services (97% of target) and physical infrastructure (89%). *[High priority social sector spending refers to elementary education, health excluding medical education subsidy, anti-poverty programs, devolution to rural local bodies and separation payments to workers in public enterprises that have been closed. High priority infrastructure spending refers to capital outlays and non-wage O&M in roads and irrigation.]* This is an improvement in the funding of such programs relative to the past, when the impact of a resource shortage fell disproportionately on many of these developmental components of the budget. The main shortfall, as mentioned above, was on support to the power sector. A Special Audit of High Priority Development Expenditures agreed upon as part of the UPFRPSR operation was carried out by the Comptroller and Auditor General of India (C&AG) and delivered to the Bank on June 20, 2001.

The UPFRPSR Credit/Loan may have placed too strong an emphasis on the definition and requirement of a special audit of High Priority Development Expenditures within the budget. This was due partly to the fact that concerns about UP's poor governance led to strong safeguards against financial and fiduciary misuse. *[According to the minutes of the Operations Committee review for this operation (held shortly after fiduciary problems emerged on Bank operations in Russia), the Bank team was advised to strengthen fiduciary safeguards in the UPFRPSR Credit/Loan.]* However, these financial safeguards must be balanced against the need to strengthen the state's own budgetary procedures. While the effort to protect and enhance HPDE enabled the GoUP to begin improving its expenditure composition from the first year of the program, the level of detail adopted in specifying these expenditures and auditing them contradicts efforts to develop an effective government budget system. It has tended to create a "budget within a budget". Concerns about transparency and audit/certification of specific subsets of expenditure could be better addressed through improving the government's general financial reporting and audit, rather than through a special audit conducted at the Bank's request. This issue arises also in Heavily Indebted Poor Countries, which often also have poor budget processes. *[International Monetary Fund and International Development Association, Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries (HIPC)s, March 27, 2001.]* In India, there is also the further complication that a "special audit" carries the connotation of going after some specific misappropriation or corruption scandal.

Since 1999 the Department of Finance has continued to encourage fiscal responsibility and discipline in the state government. The Finance Minister has personally attended a series of public consultations held in major towns all over UP, to discuss ways to cut wasteful public spending and improve revenue performance. In the recent Budget for 2001-02, presented to the UP Legislature on March 23, 2001, the Finance Minister has announced the establishment of a Resource and Expenditure Commission to lead a comprehensive review and rationalization of spending programs and to strengthen resource mobilization efforts.

**Governance Reforms.** Governance reforms explicitly supported under the operation were satisfactorily implemented. While governance reforms, by their very nature, take considerably longer than a year or two to bear fruit, there are nevertheless a number of achievements that are creditable, especially given the initial conditions of UP. The target of abolishing 10,000 vacant positions was met in 1999-00; subsequently, the GoUP went beyond this target and a further 5,000 were abolished during the first half of 2000-01. The first phase of GoUP's public enterprise reform and privatization policy has been implemented; 20 public enterprise units have been closed since the program was initiated; about 11,000 employees have left with VRS packages. Transparency of information and accessibility to official forms have improved significantly, with 16 major departments, 31 agencies and 17 educational institutions/universities hosting interactive websites where official forms can be downloaded and complaints may be communicated online.

However, progress in program implementation (beyond the reforms supported under the UPFRPSR loan/credit) has been slower than expected, partly as a result of weak implementation capacity and the ambitious scope and pace of the governance agenda. No governance reform measures were reversed after approval of the operation, and the GoUP has continued to implement reforms in 2000-01, partly with support from the Bank's Technical Assistance operation to India. Certain aspects of governance reforms, such as Civil Service Reform, have only been initiated, and will need to be furthered if they are to bear fruit. There have been visible gains in (i) public access to information and official forms through the Internet and (ii) activation and strengthening of accountability and anti-corruption institutions.

Progress in dealing with the problem of transfers has been limited. Although a consultative mechanism was established and the annual Transfer Policy was placed on the web, as part of the program, premature transfers remained high during 1999-00 and early 2000-01. The situation improved after September 2000. However, in the absence of effective systemic safeguards, the danger remains that transfers may once again become problematic with a change in political leadership.

By the very nature of the problem, it is difficult to say whether corruption has declined or not. However, the GoUP has started stepping up publicly its fight against corruption. The number of corruption related cases in which prosecution was approved increased to 375 during April-December 2000, compared to around 100 in the same period of the previous year. There were 44 "trap" cases during the year 2000, involving 49 officials who were caught red handed, for the first time in many years. The budget allocations for the Vigilance Establishment and the Lok Ayukta (Ombudsman) has begun to increase. The role and functions of Lok Ayukta are being given wide publicity. The GoUP has formally tabled pending reports of the Lok Ayukta in the State Assembly. Heads of departments have been designated as Chief Vigilance Officers in an attempt to strengthen accountability for corruption free services.

Attrition-based downsizing has resulted in a reported 2.5% reduction in the size of the civil service in UP. However, the database on actual civil servants remains weak, so the reliability of quantitative measurements and targets is limited; it is expected to become more reliable once payroll computerization and a civil service census (expected within the coming year) are completed. Shortcomings in achieving targeted milestones under the governance components of the multi-year program include: (i) delayed progress in conducting a reliable Civil Service Census and inter-departmental functional review to achieve major rationalization in the number, size and structure of departments; and (ii) delay in publicizing an Anti-Corruption Strategy that uses the results of the 3 surveys conducted in 1999-00 on public perceptions about corruption and service quality.

UP is the first Indian state to formally adopt a strategy for strengthening financial management and accountability. It is ahead of most Indian states in treasury modernization, which lays the foundation for modernization of the state's accounting and financial reporting. The treasury payment system has been computerized; and most of the expenditure data is available in the system. The computerized payroll statements, payment of salaries into employees' bank accounts directly by the Treasuries, and handling of all payroll-related functions by the Treasury is expected to roll-out by June/July 2001. Progress on the public financial accountability and management improvement program has been highly satisfactory in certain aspects, such as (i) adoption of strategy, (ii) modernization of the treasury payments system and improved financial information for management, (iii) strengthening legislative oversight (the Public Accounts Committee, which became dysfunctional during 1990-97, has been reactivated) and (iv) internal audit. Progress has been slower than expected in the case of (a) building implementation capacity in the Controller's Office (with a full-time Controller and qualified finance/accounts professionals), (b) improving response to external audit and (c) preparing of departmental annual reports.

**Poverty & Social Impact Monitoring.** As envisaged under the UPFRPSR operation, an independent monitoring unit has been set up, originally under the Chief Secretary's office. Progress to date in further implementing the UP PSMS has been good in some respects and slower than expected in others. There has been progress in (i) strengthening of capacity of the Directorate of Economics and Statistics and (ii) implementing a

household survey, initiated by DES in 1999-00 and completed in 2000-01 – attached to the state-sample NSS 55th round – being used to develop a baseline of key poverty and social indicators. Analysis of these data are currently underway and a joint GoUP/ World Bank report presenting and disseminating key findings is expected to be produced shortly.

In other areas, however, progress has been slower than anticipated. Training, acquisition of equipment, and hiring of specialized technical assistance has progressed more slowly than expected. The independent monitoring capacity also has been transferred from the Chief Secretary's office to the Department of Planning, which, while useful in terms of better linkages with the Directorate of Economics and Statistics (which is under Planning), nonetheless makes coordination across government departments more difficult. Slower-than-envisaged implementation has been due mostly to weak implementation capacity (also affected by frequent transfers of key government officials) and difficulties in coordinating across different departments of government. In the future, given that the baseline (1999-00) has been established, emphasis will need to be put on setting up additional periodic surveys and district-level monitoring efforts to track changes in baseline indicators.

The UP poverty and social monitoring system was designed with a great deal of flexibility. The presumption was that key decisions (e.g. on launching periodic monitoring surveys) would be finalized once the previous step neared completion (e.g. completing and discussing a baseline survey). Given the magnitude of the exercise involved in establishing the baseline, relatively less emphasis was placed on defining explicitly the periodicity and subsequent data collection and dissemination activities. In retrospect, the specifics of the monitoring system, in particular the periodicity, timetable, and institutional arrangements for the key data collection and dissemination activities that form the structure of the system should have been agreed upon at the outset.

*4.3 Net Present Value/Economic rate of return:*

Not applicable

*4.4 Financial rate of return:*

Not applicable

*4.5 Institutional development impact:*

Not applicable

## **5. Major Factors Affecting Implementation and Outcome**

*5.1 Factors outside the control of government or implementing agency:*

Not applicable

*5.2 Factors generally subject to government control:*

Not applicable

*5.3 Factors generally subject to implementing agency control:*

Ownership of the program by the political executive helped implementation of the reforms supported by the operation. As evidence of political ownership of the reform program, the 5 key policy papers that underpin the program were all approved by the Cabinet and tabled in the State Legislature in March 2000. Substantive fiscal correction in the first year of the reform program, i.e., in 1999-00, as reflected in the official "revised estimates" published in March 2000, provided additional evidence of government commitment to the reform program. Beyond the specific reforms supported by the operation, however, the pace of implementation has been negatively affected by changes in key personnel. For instance, a change at the top of the bureaucracy (necessitated by a promotion and transfer to the GoI of the former Chief Secretary and Principal Secretary of Finance), about half way in the second year of the program, had a significant negative impact on the pace of implementation of governance reforms. In particular, the Governance Reform Task Force, that used to oversee the progress of all the different components of the governance program, became temporarily inactive during the transition period, resulting in a certain loss of

momentum. This risk was anticipated in the design of the operation.

A second factor which affects overall program implementation is the nature and pace of progress with power sector reforms. While the reforms envisaged as part of UP's fiscal and governance reform program have succeeded in reducing the state government's budget deficit, slow progress with power sector reforms during 2000-01, which translates into higher quasi-fiscal pressures, has compromised some of the gains made in the strictly fiscal area. Power sector reform in UP will be a long-haul endeavor, and as experience worldwide -- in developing and developed countries alike -- demonstrates, the road ahead poses an enormous challenge, given the very poor state of the sector, its size, the very strong trade-union movement, the low level of income of a majority of electricity consumers, and the political economy of the sector in UP.

Finally, the separation of the hill districts into a separate state of Uttaranchal, with effect from November 2000, has necessitated the formulation of a revised Fiscal Framework for the reform program by the new state of Uttar Pradesh minus Uttaranchal.

#### **Linkages with other operations**

The Uttar Pradesh Fiscal Reform and Public Sector Restructuring credit/loan was a fundamental vehicle, but not the only one, for World Bank support to UP (Table 3). A UP Power Sector Reform Project is assisting the state to restructure the power sector. Recent assistance to UP includes five projects for US\$700 million, one Economic Report, and a forthcoming Poverty Assessment, which will highlight outstanding analytical issues and guide the Bank in subsequent phases of our program of support. Investment projects under implementation include the sectors of elementary education, primary and secondary health care, agriculture, forestry and rural drinking water. Substantial financing for technical assistance is also being provided through the all-India Technical Assistance for Economic Reforms Project, which is supporting governance and fiscal reforms in UP. Lending volumes in future years will depend on the pace at which GoUP implements reforms as well as the successful implementation of the projects being proposed.

Some important synergies have been achieved as a result of the Bank's comprehensive strategy of assistance to UP through a diverse set of instruments. For instance, the publication of an overarching Policy Paper on Civil Service Reforms has created an enabling environment to support the reform and re-engineering of business processes in the Irrigation Department, as part of a program of reforms in the Water Sector.

**Table 3: Related Bank Loans**

Loan/Credit	Purpose	Year of Approval	Status
<i>Preceding operations</i>			
UP Rural Water	Deliver sustainable health and hygiene benefits to the rural population and promote long-term sustainability of the rural water supply and sanitation sector.	1996	Ongoing
UP Forestry	Development of the forestry sector.	1997	Ongoing
UP DASP (Credit)	Increase agricultural productivity, to promote private sector development, and to improve rural infrastructure.	1998	Ongoing
UP DASP (Loan)		1998	Ongoing
UP Sodic Lands II	Increase agricultural productivity in ten districts of Uttar Pradesh.	1998	Ongoing
UP Health Systems Development	Establish an appropriately managed Health Care System.	2000	Ongoing
UP Power Sector Restructuring	To support the initiation of the power sector reform process.	2000	Ongoing
<i>Multi-State Projects</i>			
Cataract Blindness Control Project	Improve the National Program for the Control of Blindness' (NPCB's) quality of service and expand its treatment capacity.	1994	Ongoing
Coal Environ. & Social MitigationMak	e coal production more environmentally and socially sustainable.	1996	Ongoing
DPEP II	Extend the District Primary Education Program (DPEP) into about 50 to 60 new districts chosen from UP and the seven states already participating in the First District Primary Education Project (DPEP I).	1996	Ongoing
TA for States Roads	Reform provision, financing and maintenance of road infrastructure.	1996	Ongoing
Tuberculosis Control	Revise strategy for Tuberculosis control with the goal of reducing mortality, morbidity, and disability	1997	Ongoing
Rural Women's Development	Strengthen processes that promote economic development of women and create an environment for social change.	1997	Ongoing
Women & Child Development	Improve the nutrition and health of pre-school-aged children and women, by increasing the quality, impact, and cost-effectiveness of the Integrated Child Development Services (ICDS) program	1998	Ongoing
Watershed Management Hills II	Improve productive potential in five states, using evolving watershed treatment technologies and community participatory approaches.	1999	Ongoing

5.4 Costs and financing:  
Not applicable

## 6. Sustainability

### 6.1 Rationale for sustainability rating:

In spite of leadership changes (there have been two changes of Chief Ministers in UP since 1999), there are encouraging signs that several of the reforms supported by the Uttar Pradesh Fiscal Reform and Public Sector Restructuring credit/loan will be sustained and in some areas furthered. GoUP has displayed a strong and continued commitment to strengthen fiscal discipline and reduce the budget deficit. The Budget for 2001-02, presented on March 22, 2001, suggests continued commitment to improve economic performance and fiscal health of the state -- through concerted revenue enhancement efforts, institutional reforms and targeted investments in major sectors, and improved expenditure management.

However, medium-term sustainability of reforms is uncertain. Slow progress in power sector reforms, if continued, could further increase actual and contingent liabilities on UP's budget. It could reverse the gains achieved so far in fiscal consolidation. Progress in governance reforms in late 2000 and early 2001 has also been slower than expected.

Sustainability of the reform process depends on greater political consensus and public support for the program. The first major challenge to the sustainability of reforms in UP lies in achieving adequate progress in structural reforms in key sectors that have a major impact on governance and fiscal performance, such as power sector reforms. A second challenge is to communicate effectively to the public and muster support from those who stand to gain from the success of reforms in UP. Such consensus and support are uncertain at the present time. It should be noted, however, that this first operation provides a higher level of readiness to take up further reforms. This is an achievement in itself, whose benefits will persist over a number of years in UP, with demonstration effects for other states.

6.2 *Transition arrangement to regular operations:*  
Not applicable

## 7. Bank and Borrower Performance

### Bank

#### 7.1 *Lending:*

**Identification: *Highly Satisfactory.*** The project concept is consistent with the Bank's Country Assistance Strategy in India, viz.: to focus part of the Bank's resources on states that demonstrate willingness to implement the reforms needed to improve economic performance and reduce poverty. It identified the window of opportunity provided by reform minded administrations both at the national and state levels and encouraged a high degree of leadership and participation by state officials and stakeholders in development of the reform package. The Bank also correctly identified the need for fiscal and governance reforms, along with power sector reform, as the twin backbones of its strategy of assistance to Uttar Pradesh. The choice of instrument, namely a one-tranche adjustment operation with measures implemented upfront –within the context of the broader state assistance strategy – was appropriate given the absence of a track record in UP and the uncertainties of the political situation. This approach allowed the Bank to adjust the level and nature of support to the pace of reform in UP.

Recent research by the Bank's Development Research Group (DECRG) in collaboration with the Confederation of Indian Industry suggests that the costs of doing business in UP are considerably higher than in other states in India. These costs are likely to be relatively higher for small and medium-scale enterprises (SMEs), thus hampering their job creation potential and growth in the state. While the reform program needed to be selective in choosing high priority areas for action, it was relatively weaker on this front and could have included specific measures to improve the business environment and lower transactions costs for SMEs, for instance in connection with the deregulation agenda.

**Preparation and Appraisal: *Satisfactory.*** The Bank's performance was satisfactory with respect to operationalizing the technical aspects of the program and identifying a Matrix of Benchmarks/Policy Actions that underpins the multi-year fiscal and governance reform program. The Bank team displayed flexibility in arriving at a package of measures that was fully owned by the state government, while providing it with relevant cross-country expertise.

However, the matrix of benchmarks and policy actions included an excessive number of measures, in particular processing steps. Such a large number of measures or benchmarks, some of which of lesser importance, led to the efforts of the reformers in the state as well as of Bank staff to get spread too thinly. A more strategic design, with a greater focus on a smaller set of higher-payoff reform actions could allow for a more concentrated, deeper dialogue on strategic reform areas. This is particularly important in the case of UP, where administrative capacity is weak. Setting priorities (and sequencing) is difficult, especially when a rapid and visible turnaround is desired, as was the case in UP. Still, realism about the government's implementation capacity -- both technical and

political -- requires that priorities be set. The measures that have had the most impact in bringing about the desired outcomes include: (i) nominal rupee ceilings on the non-power fiscal deficit and on salary and pension payments in the first year; (ii) protection of high-priority developmental expenditures; (iii) rationalization of sales tax rates and tax holidays, (iv) amendment of the Motor Vehicles Tax Act to enable annual rate revisions, (v) adoption and publication of Policy Paper on Civil Service Reform, (vi) establishment of a Divestment Commission and an institutional framework for implementing the program of public enterprise reform and privatization and (viii) adoption and publication of a Strategy Paper on strengthening Financial Management and Accountability.

7.2 *Supervision:*  
Not applicable

7.3 *Overall Bank performance:*  
**Satisfactory** based on the ratings for lending and outcomes.

#### **Borrower**

7.4 *Preparation:*

**Highly Satisfactory.** Identifying the key constraints to growth and poverty reduction in UP, designing the multi-year reform program, and implementing the first set of reforms of this program required intense engagement from the Government of UP, and support from the Government of India. Preparatory work involved extensive collaboration from state government officials and academics in UP, starting with the 1998 GoUP White Paper and the 1998 Economic Report produced in November 1998. Collaboration with the central government has developed more recently, especially in the context of the UP Development Report being prepared by the Planning Commission in New Delhi. Stronger support and leadership through example from the central government would be needed to achieve significant progress in some areas, such as Civil Service Reform, where the states are served by all-India cadres of senior bureaucrats.

7.5 *Government implementation performance:*  
Not applicable

7.6 *Implementing Agency:*

**Satisfactory.** All the key reform actions supported by the UPFRPSR Credit/Loan were implemented prior to Board approval. While there have been delays in follow-up actions with respect to some of the actions, there has been no reversal of policy.

7.7 *Overall Borrower performance:*  
**Satisfactory** based on the ratings for project preparation, implementation and outcomes.

## **8. Lessons Learned**

- *Programmatic adjustment lending to selected states of India can be an effective instrument for supporting fiscal reforms at the state level.* Reforms will take several years to be effective and support needs to be flexible enough to withstand the uncertainties of the political environment, but consistent enough to build broad ownership for reforms. Support to the reform program can thus be modulated to the nature and pace of reform implementation. The successful implementation of the UPFRPSR Credit/Loan underscores the importance of setting the single tranche operation within a medium-term fiscal and reform framework.

- *When policy formulation and reform implementation capacity is weak, as in the case of UP, a more strategic design can lead to a more focused but deeper dialogue.* The UPFRPSR Credit/Loan involved a very large number of measures and in particular processing steps. This may have been partly a result of the perception that Uttar Pradesh had serious problems of economic management and to push as many elements of reform as possible through the window of opportunity offered by the government's open

recognition of governance and fiscal crisis. However, as a result, dialogue in all reform fronts could not be deepened and pursued equally and implementation of further institutional reforms, in particular in the governance and poverty monitoring areas, slowed. Setting priorities (and sequencing) is difficult, especially when a rapid and visible turnaround is desired. Still, realism about the government's implementation capacity -- both technical and political -- requires that priorities be set and that comprehensiveness in the policy dialogue be accompanied with selectivity in actions supported by the operation.

- *Detailed listing and auditing of a subset of line items within the expenditure budget, identified as High Priority Development Expenditures, tends to create a 'budget within a budget'. A better approach would encourage reprioritization within the budget, in the context of an improved budget process, whilst avoiding micro-management.* While the effort to protect and enhance HPDE enabled GoUP to begin improving its expenditure composition, the level of detail adopted in specifying these expenditures and auditing them contradicts efforts to develop an effective government budget system. Since expenditure is fungible, reprioritizing within the budget requires that the entire expenditure profile be analyzed and accounted for. Concerns about transparency and audit/certification of specific subsets of expenditure could be better addressed through improving the government's general financial reporting and audit, rather than through a special audit conducted at the Bank's request.

- *In establishing an effective poverty and social monitoring system, emphasis should be placed from the outset on: (i) institutionalizing a system of periodic collection and analysis of data; and (ii) fostering demand for the use of such data, both within and outside the government.* In UP, the poverty and social monitoring system was designed with a great deal of flexibility and much of the effort in the initial 18 months was focused on creating capacity and collecting, entering, and analyzing the first round of household data. The presumption was that decisions regarding the use of the data and the periodicity of monitoring would be taken once the baseline survey was completed. As a result, however, ownership and interest in sustaining this system remains narrow, and circumscribed to a relatively narrow circle, centered around the Planning Department (responsible for generating these data).

## **9. Partner Comments**

*(a) Borrower/implementing agency:*



सत्यमेव जयते

R. Bannaji,  
Joint Secretary (PF.1)  
Tel: 3014811  
Fax: 3011022

D.O.No: 1(27)/Review/UPFR/2000

GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
DEPARTMENT OF EXPENDITURE

नई दिल्ली/New Delhi, the 30th April, 2001

*06/ST*

Sir,

I am directed to communicate the views of Department of Expenditure, Ministry of Finance, Government of India on the Uttar Pradesh Fiscal Reforms and Public Sector Restructuring Loan/Credit. These views of the Government of India form its perspective as a borrower.

I remain,

Yours faithfully,

(R. Bannaji)

Mr. Edwin R. Lim,  
Country Director - India,  
The World Bank,  
70, Lodi Estate,  
New Delhi - 110003.  
Fax No: 4619393

RECEIVED  
30 APR 2001

BY: \_\_\_\_\_

The Uttar Pradesh Fiscal Reforms and Public Sector Restructuring (UPFRPSR) Loan/Credit

## **Implementation Completion Report – Borrower’s Perspective – Government of India**

1.0 The Government of India’s perspective on the UPFRPSR will be dealt with in two parts. The first would refer to GOI’s views on the general World Bank structure of such loans/credit. The second will specifically refer to the UPFRPSR.

2.0 Assistance for Loan/Credit for Fiscal Reforms should not be a one off assistance. There should be some commitment upfront to assistance over the medium term of course subject to the state achieving key milestones set *a priori*. This would enable both the States and the Bank to negotiate progress of actions in a more realistic time frame.

3.0 Normally, the Bank and the States agree upon a significant number of milestones in different areas such as fiscal improvement through better tax compliance, expenditure prioritization, civil service reforms like a transfer policy, etc. Yet out of the twenty or thirty milestones, there is an urgent need to cull out one or at most two key milestones in each sector, which are key-critical. For any subsequent tranching releases from the Bank, the attainment of these milestones should be non-negotiable once the loan/credit is approved. Regardless of whether the State concerned achieves all other milestones, subsequent disbursements must be a function of these 4 or 5 critical milestones, alone.

4.0 The critical milestones mentioned above must directly impact upon the Fiscal betterment of States on a sustainable basis. Mere policy papers however necessary cannot and should not constitute a necessary and sufficient condition for loan/credit disbursement.

5.0 In the current context of States it is vitally necessary to integrate the Power Sector Reforms within the general rubric of Fiscal Reforms. Also off budget borrowing of States should be integrated in their debt profile. Power Sector loans/credit cannot be a stand-alone credit, divorced from the general fiscal correction of the States and their need for budgetary support. The cases of Andhra Pradesh Power Reforms Loan/credit, the Orissa Power Sector Reforms Loan/credit, are examples in point.

6.0 The UPFRPSR does suffer from most of the general infirmities mentioned above. Though the State has performed credibly in fiscal consolidation alone, a contrary picture emerges once the Power Sector deficit is factored in. The bottom line is that the consolidated fiscal stance of the State has worsened since the program loan. Secondly, many of the policy papers, such as those on Civil Service Reforms have been long on promises and short on performance. A holistic view needs to be taken as to what and how much the State of Uttar Pradesh has gained out of the credit/loan.

*[The original is on file]*



S.N.Shukla I.A.S.  
Principal Secretary

083292  
No 544 / 72 EAPD/2001  
Planning &  
Department of Externally Aided Projects  
Govt. of Uttar Pradesh  
Yojna Bhavan, Lucknow-226001  
Dated : 19-05-2001

Dear Mr. Ravishankar,

Please refer to your letter dated May 7, 2001 in which you desired a formal copy of evaluation of the U.P. Fiscal Reform & Public Sector Restructuring Project. In this connection Secretary, Externally Aided Project Department has already sent to you the evaluation report through an e-mail on April 30, 2001. Hereby signed a copy of the same is being sent to you for your kind information and necessary action.

Special audit report of High Priority Development Expenditure (HPDE) from C&AG will be sent shortly to you.

Encl. As above

With best wishes,

Sincerely yours

  
(S.N.Shukla)

Mr. V.J.Ravishankar,  
Senior Economist, The World Bank  
70, Lodi Estate,  
New Delhi

Cc to:- Mr. Adarsh Kishore, Additional Secretary, Department of Economic Affairs, Ministry of Finance, Govt. of India, North block, New Delhi with all above enclosures.

# EVALUATION OF GOVERNMENT OF UTTAR PRADESH ON UP FISCAL REFORMS AND PUBLIC SECTOR RESTRUCTURING LOAN

1. The Government of Uttar Pradesh has formulated a comprehensive medium term strategy to stabilize the financial position of the state and reverse the trend of declining economic performance and persistence of poverty. The comprehensive strategy includes governance and civil service reforms, fiscal policy reform, public enterprise reform, financial management reform, power sector restructuring, as well as reforms in other key infrastructure sectors, such as Roads and Irrigation and social sectors such as education and health. The aim of the comprehensive reform strategy is to achieve fiscal sustainability and create an enabling environment for improved economic performance and more rapid poverty reduction, so that over the medium term, Uttar Pradesh can reach the top half among Indian states in terms of physical, social, and human indicators.

2. Recognizing the needs for sustainability of recent improvements, the State Government has decided to launch a medium-term fiscal reform strategy to achieve the following objectives: (a) to ensure a decline in debt: GSDP and debt repayment : revenue ratios, so that these ratios are on a declining trend by 2004-05, (b) to improve the composition of public expenditure giving greater thrust to development expenditure and (c) to reform taxation with a view to improving the efficiency of resource allocation. In order to stabilize the level of its debt and debt service ratios over the medium-term, the Government of U.P recognized the need to eliminate the primary deficit (the gap between revenue and non-interest expenditure) and turn it into a surplus by 2003-04. The gross adjustment have so far been greater, because the state had to meet the *upfront cost of reforms* (including the cost of restructuring power and other PEs) and increase its spending on infrastructure and human resources, while at the same time reducing the deficit.

## Fiscal Reforms

### Fiscal correction

*Long-Term Objectives: of fiscal correction is to achieve fiscal sustainability over the medium-term through growth oriented revenue and expenditure measures. The following achievement has been made :*

- ◆ **Cabinet Approval obtained and Policy Paper on Fiscal Reforms tabled in the State Legislative Assembly in March,2000**
- ◆ **Contingency Plan to manage potential revenue and financing shortfalls finalised in January 2000 for 1999-2000. Contingency Plan for 2000-01 has also been finalised in January 2001**
- ◆ **Ceiling on Debt and Guarantees. in the fiscal deficit target for 1999-00 has been overfulfilled.**
- ◆ **Fiscal Deficit – in Rupees and as % GSDP-** The gross fiscal deficit reduced from Rs. 116.31 bn (6.8% of GSDP) in 1998-99 to Rs 110.97 bn (5.9% of GSDP). The adjusted fiscal deficit reduced from Rs. 109.60 bn (6.4% GSDP) to Rs. 108.73 bn (5.8% GSDP). The

non-power deficit in 1998-99 was Rs. 98.43 bn (5.7%GSDP) and in 1999-00 Rs. 97.85 bn (5.2% GSDP).

◆ **Revenue Deficit – in Rs. and as % GSDP-** Revenue deficit came down to Rs.72.52 bn (3.9% GSDP) to Rs.86 .97 bn (5.1% GSDP).

◆ **Interest and Total Debt Servicing – as % Total State Revenue -** Interest /Revenue is 31.4% compared to the fiscal framework target of 30.8%. Debt servicing /Revenue ratio is 40.1% against the targeted benchmark of 39.5%)

**Interest as % Revenue Expenditure -** The interest payments constituted 22.8% of the total revenue expenditure during 1999-00 as against the target of 22.08%.

◆ **Fiscal Deficit – in Rupees and as % GSDP-** The gross fiscal deficit reduced from Rs. 116.31 bn (6.8% of GSDP) in 1998-99 to Rs 110.97 bn (5.9% of GSDP). The adjusted fiscal deficit reduced from Rs. 109.60 bn (6.4% GSDP) to Rs. 108.73 bn (5.8% GSDP). The non-power deficit in 1998-99 was Rs. 98.43 bn (5.7%GSDP) and in 1999-00 Rs. 97.85 bn (5.2% GSDP).

◆ **Revenue Deficit – in Rs. and as % GSDP-** Revenue deficit came down to Rs.72.52 bn (3.9% GSDP) to Rs.86 .97 bn (5.1% GSDP).

◆ **Interest and Total Debt Servicing – as % Total State Revenue -** Interest /Revenue is 31.4% compared to the fiscal framework target of 30.8%. Debt servicing /Revenue ratio is 40.1% against the targeted benchmark of 39.5%)

**Interest as % Revenue Expenditure -** The interest payments constituted 22.8% of the total revenue expenditure during 1999-00 as against the target of 22.08%.

### **Expenditure Measures**

*Long-Term Objectives is to improve expenditure management, efficiency of public resource allocation and the composition of public spending so as to enhance its developmental impact. The following achievement has been made :*

- ◆ High Priority Developmental Expenditure was enhanced from Rs 100 bn in 99-00, wherein social sector was protected up to 97% and physical infrastructure up to 89%, to Rs 124 bn in 2000-01.
- ◆ Strategy for Medium-Term Expenditure framework (MTEF) has been adopted
- ◆ Computerization of treasury transactions in 2000-01 is completed
- ◆ Pension & Provident Fund Reforms initiated in 2001-02.
- ◆ Full computerization of budgeting, accounting and expenditure management by 2002-03

### **Revenue Measures**

*Long-Term Objectives is to enhance the state's own revenue base, create a fair, simple and high compliance tax system and improve cost recovery from publicly provided private and semi-private goods and services. The following achievement has been made :*

- ◆ **Reduction in the number of Trade Tax rates from 17 to 12 implemented.**
- ◆ **Measures to strengthen anti-evasion efforts taken.**
- ◆ **Survey for identification of potential taxpayers who are outside the tax net conducted.**
- ◆ **Introduction of New Entry Tax extended on tobacco and non-levy sugar.**
- ◆ **Phasing out of Tax Holidays.**
- ◆ **Reorganization, modernization and computerization of Trade Tax Administration .**
- ◆ **Increase in user charges for higher education and hospital care-** Total revenue from user charges increased from Rs. 717 crores in 1998-99 to Rs. 1033 crores in 1999-00. Revenue from user charges in education increased from Rs. 101 crores to Rs. 138 over the same period.
- ◆ **Value of "recorded" goods imported by road and recorded on form 31 compared to previous period,** rose from Rs. 4545 crores in September 1999 to Rs. 4767 in September 2000, or by 4.9%. Cumulative total value up to September 2000 was Rs. 26685 crores compared to Rs. 25120 crores up to September 1999, an increase of 6.2%.
- ◆ **Total monthly collections from Trade Tax, with and without petroleum products** (Trade tax collection, including Entry Tax was Rs. 345 crores excluding petrol/diesel, and Rs. 453 including petrol/diesel, or increases of about 28% over the previous year. Total cumulative trade tax collected up to September 2000 was Rs. Rs. 1905 crores, excluding petrol/diesel (increase of 20% over previous year) and Rs. 2703 crores including petrol/diesel (increase of 22% over previous year).
- ◆ **Number of taxable dealers who file declarations** - Number of 'registered' dealers increased by 3% from 190,398 in 1999-00 to 196,024 in 2000-01.
- ◆ **Net Recoverable Arrears – in Rupees and as ratio of total taxes due** (Net recoverable arrears (provincial) were Rs. 1000 crores in August 2000.
- ◆ **Annual number of cases under appeal and value under dispute** - In 1999-00, there were 115,780 appeals (60,586 past and 55,194 new appeals). There were 64,133 disputed appeals amounting to Rs. 3324 crores. The number of pending appeals were 51,647 and amounted to Rs. 960 crores.
- ◆ **Proportion of staff in Trade Tax Department assigned to enforcement** (In 1999-00, of a total of 1206 officers and 1419 employee in the Trade Tax Departments, 42% and 22% respectively were involved in enforcement work.
- ◆ **Number of staff in Trade Tax Department using computers in daily work** (During July-September 2000-01, 17.0% of officers and 0.09% of employees were using computers compared to 0.5% and 3.03% over the previous quarter (April-June 2000-01).
- ◆ **Improved voluntary tax compliance**
- ◆ **Reduced transactions costs for private business operating in UP**
- ◆ **Increase in the State's Own Tax Revenue – from 5.4% GSDP in 1998-99 to 7.6% by 2003-04;**
- ◆ **Increase in the rate of cost recovery from canal irrigation – from less than 20% currently to 50% by 2003-04**

The ground, as per the aforementioned indicators has been covered under difficult circumstances such as bifurcation of the State and elections to rural/urban local bodies. Even though the power sector reforms will eventually reduce the burden on the budget of the state, the present requirement of power sector reforms constitutes a substantial portion of the fiscal deficit. There is an urgent need to ensure adequate assistance to the state Government by the Government of India and the World bank, to enable the GoUP to support the power sector restructuring. Too little or too late assistance will jeopardize the success of the reform program.

The GoUP has decided to constitute a Resource and Expenditure Commission which will not only look into

the issues related to the whole gamut of resource raising but also expenditure reprioritization and expenditure management. The Finance minister UP has announced this while presenting the budget for the year 2001-02. The Commission will review schemes and programs and will recommend phasing out of those schemes which have outlived their utility. In this context, the Commission will also advise the government on developing and implementing a Medium term Expenditure framework.

We are well on our way to a fairer and simpler tax system. Our efforts at computerization are aimed at introduction of VAT by 2004 .

## **Governance Reform**

In the area of civil service reform, the Government faces three critical challenges. It must enhance productivity of the civil service and ensure that every employee is performing socially relevant tasks. At the same time, affordability must be adhered to. Thirdly, it must enforce procedures for rewarding merit, disciplining malfeasance and misconduct and strengthen accountability and performance quality. The fiscal consequence of implementing the 5th pay commission's recommendation was only partially neutralized by rightsizing by 1% in 99-00 and by another 1.6% in 2000-01. The abolition of approximately 15000 vacant positions has impacted positively on the fiscal position. We will be in a better position to assess the exact number once the treasury operations are fully computerized.

The introduction of a new work culture both at the managerial and the cutting edge level is proposed through a full fledged functional review with the objective to rationalize and restructure departments. The recommendations of the Deregulation committee and similar such Committees have been reviewed by the Core Group constituted in the Administrative Reforms Department. A Technical working Group will supervise the Consultant appointed for collating and finalizing a set of recommendations from all the aforementioned committees. We have received a measure of success in creating apex positions in the Social sector and the Urban development sectors. Similar structures exist in the agriculture and Industrial development sectors.

Training for all is the declared national policy and under this we have refurbished our training institutions. Information Technology and computer skills have been given a priority.

Our transfer policy subserves the basic dictum of the best man in the right place. We will enhance meritocracy by ensuring stable tenures.

## **Civil Service Reform**

Policy planning cells established in the 53 Major departments and intra-departmental reviews initiated. Approximately 38 functional reviews have been completed and submitted to relevant secretaries. The cells are meeting every three months. We have done the following:

- ◆ Technical working group has been established.
- ◆ Phased rationalization of departments to begin from October, 2001 and be completed by December, 2004. Number of departments rationalization will be carefully monitored to ensure implementation does not slip.
- ◆ Rationalization of organizational structure, business process, staffing, and products and services for remaining departments, starting with PWD, Irrigation, Forestry, Health and Trade Tax to be completed by December, 2002.
- ◆ Significant increase in the number of functions that are privatized and/or commercialized consistent

with best practice in Indian states and elsewhere.

### **Ensure A Global Annual Reduction In Civil Service Size by at least 2% for Next Five Years.**

- ◆ TOR for a TA proposal for reviewing civil service terms and conditions as part of functional review and Human Resource Management have been finalized.
- ◆ Approximately 15000 posts abolished to date in financial year 2000-01.
- ◆ Exercise for identifying alternatives to the practice of compensatory/compassionate employment is under process.
- ◆ Size of civil service downsized by 1% during financial year 1999-2000 and estimated 1.6% for financial year 2000-01.
- ◆ Over 60 divisions abolished in PWD and Irrigation. Approximately 5000 staff awaiting transfer for surplus labor pool in Department of Administrative Reforms for redeployment.
- ◆ Major reduction in casual and work charged employees by financial year 2004.

### **Improve Human Resource Management**

- ◆ Computerized human resource database being developed, so GoUP can immediately produce accurate and timely information on the size and composition of the civil service.
- ◆ Annual Transfer Policy published in May, 2000.
- ◆ Activity being taken up in Functional Review and Human Resource Management to study Annual Confidential Report (ACR) process to improve its effectiveness.
- ◆ Government order to allocate 1% of annual departmental wage bill for training issued.

### **ANTI CORRUPTION AND DEREGULATION STRATEGY**

The key objective of the Government is to reduce wastage of public resources and increase transparency and accountability. The series of surveys were extremely useful as it provided an insight in to perceptions of general public as well as government officials and businesses. This insight has been incorporated in our anti corruption strategy which has been adopted by the Government. It will be publicized soon.. Deregulation and internal reviews by Policy Planning cells are now a regular feature in the departments. Strengthening of key accountability institutions has commenced.

The introduction of Information technology to make Government totally accessible to the citizen is a major thrust of the Government. Availability of vital information pertaining to departments and their function is facilitated through websites. Tender documents and forms are available on line. All government departments are accessible through a government portal and a grievance button is displayed prominently.

#### **Deregulation**

- ◆ Deregulation committee established in October, 1999. Committee began functioning in January, 2000. It has held 49 meetings with departmental secretaries and 68 internal meetings.
- ◆ Approximately 58 departments completed its internal review and submitted the report to deregulation committee.
- ◆ Deregulation committee submitted its first review and recommendations to Government in November, 2000. The initial report makes 615 recommendations concerning the work of 40 departments.
- ◆ Based on recommendation of the Deregulation committee Government is formulating a time bound program to streamline and modernize the laws, rules and regulations.

### **Strengthening Key Accountability Institutions and Anti Corruption Bodies.**

- ◆ Surveys conducted to find out perception of general public, traders and civil servants towards corruption.
- ◆ Vigilance establishment budget for the year 2000-01 increased by 12.9% over the expenditure 1999-00, to ensure to proper funding and staffing for key accountability institutions to compare favorably with per capita funding in other states.
- ◆ The Lok Ayukta is empowered to recruit and appoint more junior staff (Class III and IV). Class I and II are appointed only with the concurrence of the Lok Ayukta to have greater independents in recruitment and transfer to staff in vigilance establishment and Lok Ayukta.
- ◆ A proposal is being formulated that would allow 50% of the staff of the vigilance establishment to be recruited by the Directorate of Vigilance.

### **PUBLIC ENTERPRISES REFORM**

We are governed by the dictum that the State should withdraw from manufacturing or servicing in areas where the private sector exists or is ready to move in. Towards this divestment and closure is one aspect and privatization is the other. The Divestment Commission has made its recommendation and we are now processing these in the Empowered Committee. Five enterprises have been closed. The Technical assistance available under this program was used fruitfully to write the divestment procedure manual as well as the guidelines for environment audit for closed units.

- ◆ PE Reform policy has been approved.
- ◆ Divestment Commission and Working Committee established.
- ◆ The detailed procedure for sale and closure of PE's prepared.
- ◆ The transaction Manual on environmental matters being prepared.
- ◆ Three public enterprises (UPSMDC, UPIL and UP Pashudhan Udyog Nigam Ltd.) have been divested and closed.
- ◆ The Technical Secretariat, PICUP has committed that the environmental audit of phase –I enterprises will be completed by 31st March 2001.
- ◆ The decision to refer remaining 14 enterprises to divestment commission will be taken shortly.
- ◆ Divestment Commission has submitted recommendation of the following 10 PE's
  1. The Indian Turpentine & Rosin Co. Ltd.
  2. UP Bhumi Sudhar Nigam.
  3. UP (Purva) Ganga Beej evam Vikas Nigam
  4. UP (Pashchim) Ganga Beej evam Vikas Nigam
  5. UP (Ruhelkhand) Ganga Beej evam Vikas Nigam
  6. UP (Madhya) Ganga Beej evam Vikas Nigam
  7. UP Tarai Ganga Beej evam Vikas Nigam
  8. UP State Leather Development Corporation.
  9. UP Project and Tubewells Corporation
  10. UP Poltry and Live Stock Corporation.

### **FINANCIAL MANAGEMENT AND ACCOUNTABILITY**

The State government has modernized and computerized its financial management and control architecture. The Financial Controller is in place and is providing valuable inputs in developing strategy and policy direction to strengthen internal audit functions. The Conference on Parliamentary Control of the Public

Purse has helped build a national consensus on this important aspect of Financial accountability. The C&AG has completed special audits of the HPDE.

- ◆ Strategy for Strengthening Financial Management and accountability is approved.
- ◆ Controller of Accounts appointed.
- ◆ Task Force has completed its work on recommendation on form content and presentation of financial statements for public disclosure.
- ◆ Feasibility study for accrual according and financial statements and the accounting system required is under process.
- ◆ Recruitment of consultant to study to modernization State Finance and Accounts cadre is underway.
- ◆ Timely response to observation in the C&AG audit reports.
- ◆ Special audit of HPDE is under way.

## **POVERTY AND SOCIAL MONITORING**

We share the vision of the President of the World Bank the underlying objective of all reform is that it should reduce poverty. The benchmarking survey has been completed and we are awaiting the result of the statistical investigator. We have positioned key officers to develop skills in analyzing the information to understand the impact of reforms on the poor and in making informed policy decisions.

### **Technical Assistance for Economic Reform Project**

Given the magnitude and range of the fiscal, governance and sector reform being initiated and contemplated by the Government, there is a clear need for Technical Assistance to assist with both conceptualization and implementation of reform. Technical Assistance is an integral part of Reform Program of Govt. of UP. The departments have already submitted a number of T.A. proposals covers the following main areas: tax reform, expenditure management, audit and financial management, poverty monitoring, public enterprise reform, civil service reform, deregulation, urban reform and restructuring of the irrigation department.



सत्यमेव जयते

D.O.No:1(27)/Review-UP/FRC/2000

R. Bannerji,  
Joint Secretary (PF.1)  
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Fax: 3011022

भारत सरकार  
वित्त मंत्रालय  
व्यय विभाग  
GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
DEPARTMENT OF EXPENDITURE

नई दिल्ली (New Delhi), the 21<sup>st</sup> of June, 2001

Dear Mr. Lim,

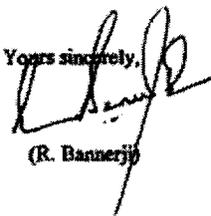
This has reference to UP Fiscal and Public Sector Restructuring Credit/Loan - Final Implementation Completion Report.

Subsequent to this Ministry's earlier letter of 30<sup>th</sup> April, 2001, efforts have been made to reassess the Power Sector deficit in the State of UP. It will appear, in the light of discussions with World Bank Officers, that the Power Sector deficit will, perhaps, be lower than our initial assessment. While the exact dimension of the Power Sector deficit is yet to emerge, the Consolidated Fiscal Deficit of the State appears to have shown some improvement. However, I must qualify, the remarks above by reiterating that the data in respect of the Power Sector requires to be 'cleansed', especially in the matter of T&D losses and the operating losses of the UP Power Corporation.

In view of the above, advisedly, the consolidated fiscal stance of the State has shown marginal improvement. To this end our earlier viewpoint of 30<sup>th</sup> April, 2001, stand modified. The other general remarks regarding a manageable set of process and outcome indicators still remain valid.

I remain, *f* with regards,

Yours sincerely,

  
(R. Bannerji)

Mr. Edwin R. Lim,  
Country Director - India,  
The World Bank,  
70, Lodi Estate,  
New Delhi - 110 003

(b) Cofinanciers:

NA

(c) Other partners (NGOs/private sector):

NA

## 10. Additional Information

**Annex 1. Key Performance Indicators/Log Frame Matrix**

## **Annex 2. Project Costs and Financing**

Not applicable

**Annex 3: Economic Costs and Benefits**

Not applicable

## Annex 4. Bank Inputs

### (a) Missions:

Stage of Project Cycle	No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.)		Performance Rating		
	Month/Year	Count	Specialty	Implementation Progress	Development Objective
<b>Identification/Preparation</b> April 1999 - Oct. 1999		6	Economist	S	S
		2	Public Sector Specialist		
		2	Private Sector Dev. Specialist		
		3	Financial Mgmt. Specialist		
		1	Procurement Specialist		
		1	Legal		
		2	Research Analyst		
<b>Appraisal/Negotiation</b> Nov. 1999 - March 2000		5	Economist	S	S
		1	Public Sector Specialist		
		2	Private Sector Dev. Specialist		
		3	Financial Mgmt. Specialist		
		1	Procurement Specialist		
		1	Legal		
		1	Research Analyst		
<b>Supervision</b> NA					
<b>ICR</b> January 2001 - February 2001		4	Economist		
		2	Public Sector Mgmt. Specialist		
		1	Research Analyst		

### (b) Staff:

Stage of Project Cycle	Actual/Latest Estimate	
	No. Staff weeks	US\$ ('000)
Identification/Preparation	195.4	660.00
Appraisal/Negotiation	(included above)	(included above)
Supervision	NA	NA
ICR	19.8	58.00
Total	215.2	718.00

Includes labor, travel and other costs.

## Annex 5. Ratings for Achievement of Objectives/Outputs of Components

(H=High, SU=Substantial, M=Modest, N=Negligible, NA=Not Applicable)

	<i>Rating</i>
<input checked="" type="checkbox"/> <i>Macro policies</i>	<input type="radio"/> H <input checked="" type="radio"/> SU <input type="radio"/> M <input type="radio"/> N <input type="radio"/> NA
<input checked="" type="checkbox"/> <i>Sector Policies</i>	<input type="radio"/> H <input type="radio"/> SU <input checked="" type="radio"/> M <input type="radio"/> N <input type="radio"/> NA
<input checked="" type="checkbox"/> <i>Physical</i>	<input type="radio"/> H <input type="radio"/> SU <input type="radio"/> M <input type="radio"/> N <input checked="" type="radio"/> NA
<input checked="" type="checkbox"/> <i>Financial</i>	<input type="radio"/> H <input checked="" type="radio"/> SU <input type="radio"/> M <input type="radio"/> N <input type="radio"/> NA
<input checked="" type="checkbox"/> <i>Institutional Development</i>	<input type="radio"/> H <input type="radio"/> SU <input checked="" type="radio"/> M <input type="radio"/> N <input type="radio"/> NA
<input checked="" type="checkbox"/> <i>Environmental</i>	<input type="radio"/> H <input type="radio"/> SU <input type="radio"/> M <input type="radio"/> N <input checked="" type="radio"/> NA
<i>Social</i>	
<input checked="" type="checkbox"/> <i>Poverty Reduction</i>	<input type="radio"/> H <input checked="" type="radio"/> SU <input type="radio"/> M <input type="radio"/> N <input type="radio"/> NA
<input checked="" type="checkbox"/> <i>Gender</i>	<input type="radio"/> H <input type="radio"/> SU <input type="radio"/> M <input type="radio"/> N <input checked="" type="radio"/> NA
<input checked="" type="checkbox"/> <i>Other (Please specify)</i>	<input type="radio"/> H <input type="radio"/> SU <input type="radio"/> M <input type="radio"/> N <input checked="" type="radio"/> NA
<i>Not applicable</i>	
<input checked="" type="checkbox"/> <i>Private sector development</i>	<input type="radio"/> H <input type="radio"/> SU <input checked="" type="radio"/> M <input type="radio"/> N <input type="radio"/> NA
<input checked="" type="checkbox"/> <i>Public sector management</i>	<input type="radio"/> H <input checked="" type="radio"/> SU <input type="radio"/> M <input type="radio"/> N <input type="radio"/> NA
<input checked="" type="checkbox"/> <i>Other (Please specify)</i>	<input type="radio"/> H <input type="radio"/> SU <input type="radio"/> M <input type="radio"/> N <input checked="" type="radio"/> NA
<i>Not applicable</i>	

## Annex 6. Ratings of Bank and Borrower Performance

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HU=Highly Unsatisfactory)

### 6.1 Bank performance

Rating

Lending

HS  S  U  HU

Supervision

HS  S  U  HU

Overall

HS  S  U  HU

### 6.2 Borrower performance

Rating

Preparation

HS  S  U  HU

Government implementation performance

HS  S  U  HU

Implementation agency performance

HS  S  U  HU

Overall

HS  S  U  HU

## **Annex 7. List of Supporting Documents**

1. Aide-Memoire of the ICR Mission

**Additional Annex 8. Overview of Fiscal Reform and Public Sector Restructuring Program, 1999-2004**

<b>Overview of Fiscal Reform &amp; Public Sector Restructuring Program in Uttar Pradesh, 1999-2004</b>		
<b>Objectives</b>	<b>Benchmarks/ Policy Actions Supported under the UPFRPSR credit/loan 1999-00 (April-March)</b>	<b>Outcomes</b>
<b>I. FISCAL REFORMS</b> <i>Achieve Fiscal Sustainability</i>	Obtain Cabinet approval and table in the State's Legislative Assembly Policy Paper on Medium-Term Fiscal Reforms; with objective of reducing overall deficit from 7.5% of GSDP to 4% by 2003-04; Reduce non-power fiscal deficit from Rs.99 billion (6.7% of GSDP) in 1998-99 to Rs.98 billion (6.0%) in 1999-00; Adhere to agreed debt and guarantee ceilings.	Achieve substantial reduction in fiscal deficit and create sufficient fiscal space for adequate levels of development outlays and a gradual decline in the debt-to-GSDP and interest-to-revenue ratios.
<i>Improve Expenditure Management and Composition of Public Spending to enhance Development Impact</i>	Protect High Priority Development Expenditures from potential budget cuts; Contain Salary and Pension payments to within Rs.101 billion in 1999-00; Abolish leave encashment facility; Ban new loans to public enterprises except in power and for VRS; Freeze higher and secondary education grants at their 1998-99 level; Obtain Cabinet approval of user charge hikes in irrigation, professional education and hospital care so as to cut implicit subsidies; Computerize treasury transactions; Prepare a strategy for developing a Medium Term Expenditure Framework (MTEF) to be implemented with technical assistance.	Improved budget compliance and fiscal discipline ; Improved poverty targeting and developmental impact of government spending; Expenditure composition linked to policy priorities.  Increase in the rate of recovery of recurring cost of canal irrigation – from less than 20% currently to 50% by 2003-04.
<i>Reform Tax System to Improve Efficiency in Resource Allocation and Enhance Tax payer Compliance</i>	Policy Paper on Governance Reforms to be approved by Cabinet and tabled in the State's Legislative Assembly;  Policy Paper on Civil Service Renewal (CSR) to be approved by Cabinet and tabled in the State Assembly; Reduce the size of the civil service by at least 2% through attrition and abolish about 10,000 unfilled and unnecessary positions; Initiate a review of civil service terms and conditions to identify changes that will allow for greater flexibility in downsizing and redeployment; Publicize Annual Transfer Policy and initiate monitoring of compliance; Begin to implement a consultative mechanism to oversee transfers.	Improved voluntary tax compliance; Reduced transactions costs for private business operating in UP; Increase in the State's Own Tax Revenue – from 5.4% GSDP in 1998-99 to 7.6% by 2003-04.
<b>II. GOVERNANCE REFORMS</b> <i>Reform the Civil Service to Enhance Efficiency, Effectiveness and Productivity and Reduce Overhead Costs</i>	Policy Paper on Governance Reforms to be approved by Cabinet and tabled in the State's Legislative Assembly;  Policy Paper on Civil Service Renewal (CSR) to be approved by Cabinet and tabled in the State Assembly; Reduce the size of the civil service by at least 2% through attrition and abolish about 10,000 unfilled and unnecessary positions; Initiate a review of civil service terms and conditions to identify changes that will allow for greater flexibility in downsizing and redeployment; Publicize Annual Transfer Policy and initiate monitoring of compliance; Begin to implement a consultative mechanism to oversee transfers.	Substantial reduction in the number of departments towards international norms; Significant improvement in the ratio of front-line staff vis-à-vis support and administrative staff; Significant increase in the number of functions that are privatized and/or commercialized; Improved staffing in key skill categories.
<i>Implement Anti-Corruption and Deregulation Strategies to Reduce Corruption and Maladministration, as well as Administrative Burden on the State</i>	Complete the first surveys of perceptions of public service quality and corruption among households, business enterprises and civil servants; Establish a broad based Governance Reform Task Force including civil society representatives, for rationalizing and strengthening key accountability institutions; Publish Citizen Charters for 18 departments with public interface; Cabinet approval of a code of access for documents of local governments, state financial institutions, and development agencies; Establish Deregulation Committee to review existing laws and regulations and streamline and modernize them.	Increased awareness and utilization of Lok Ayukta function by the public and Vigilance Establishment by civil service; Radical reduction (more than 50%) in average investigation time; Improved sanction and conviction rate; Stakeholder surveys indicate decreasing perceptions of corruption.

<b>Objectives</b>	<b>Benchmarks/ Policy Actions Supported under the UPFRPSR credit/loan 1999-00 (April-March)</b>	<b>Outcomes</b>
<i>Implement Fiscal Decentralization to Enhance Beneficiary and Stakeholder Participation and Income Accountability</i>	Transfer selected functional responsibilities to local bodies - Panchayat Raj Institutions (PRIs), including primary schools, tube wells, health sub-centers, agriculture and rural development; Transfer staff of corresponding government departments to local bodies; Transfer 11% of the state's own tax revenue to local governments; Initiate short-term training programs; Prepare a Training Manual for all functions in the PREs and empowered local bodies to recruit new staff.	Enhanced beneficiary & stakeholder participation in overseeing government performance; Improved quality of social services and infrastructure maintenance in the rural areas; Increased public accountability.
<i>Reform Public Enterprises and Privatize to Reduce Scope of Government, Reduce Fiscal Burden and Improve Economic Performance</i>	Obtain Cabinet approval of the Public Enterprise Reform and Privatization Policy Paper and related guidelines and procedures, including sale, closure, labor and environmental issues; Establish Divestment Commission, a working Committee and designate PICUP as the technical secretariat; Complete closure and sale of Uttar Pradesh Instruments Ltd. (UPIL) assets.	Reduction in fiscal drain due to PEs; Release of assets to private owners; Reorientation of government role
<i>Modernize Financial Management &amp; Control Architecture and Enhance Accountability to Promote a more Honest, Efficient and Answerable Government</i>	Cabinet approval of the Strategy Paper on strengthening financial management and accountability; Appoint a "Controller" to coordinate and provide leadership in modernizing the systems of Financial Management. GoUP departments to respond to the audit observations of the C & AG for the year 1997-98 to facilitate review by the Public Accounts Committee; Establish Task Force, including stakeholders from outside government, to recommend ways of modernizing accountability including presentation and frequency of government financial statements for public disclosure; Request C &AG for conduct of special external audits of procurement, and high priority expenditures; Ban year end transfers to PLAs.	Improved quality of financial information available to the public; Improved and timely information for financial management; Computerized performance recording and result-based management; Effective legislative scrutiny over financial management by the Executive.
<b>III. POVERTY AND SOCIAL DEVELOPMENT</b>	Finalize detailed implementation plan for the first 18 months of the project; Set up independent monitoring unit in the Chief Secretary's Office.	Track progress at reducing poverty and improving living conditions using a range of indicators; measure the impacts of key reform measures on poor, vulnerable, and socially-excluded; based on this information, identify factors responsible for adverse outcomes and design appropriate mitigation measures, also improve impacts of policies on the poor.

Objectives	Benchmarks/ Policy Actions		Outcomes
	2000-01 (April-March)	2001-02 to 2003-04 (April 2001-March 2004)	
<b>I. FISCAL REFORMS</b>  <i>Achieve Fiscal Sustainability</i>	Reduce the non-power fiscal deficit from Rs.98 billion (6.0% of GSDP) to Rs 82 billion in 2000-01 (4.6% of GSDP); Adhere to agreed debt and guarantee ceilings.	Reduce the overall fiscal deficit to below 4% of GSDP by 2003-04, reduce non-power fiscal deficit to below 3% and achieve primary surplus by then; Adhere to agreed debt and guarantee ceilings in the period 2001-04.	Achieve substantial reduction in fiscal deficit and create sufficient fiscal space for adequate levels of development outlays and a gradual decline in the debt-to-GSDP and interest-to-revenue ratios.
<i>Improve Expenditure Management and Composition of Public Spending to enhance Development Impact</i>	Enhance allocations for High-Priority Developmental Expenditures and implement plan to protect the same in 2000-01; Reduce salary bill of regular government employees as percentage of GSDP; Begin implementation of a Medium-Term Expenditure Framework (MTEF) with Technical Assistance for the budget for 2001-02; Carry out a study of options for Pension and Provident Fund Reform (with TA); Conduct Public Expenditure Review.	<b>By March 2002:</b> Full implementation of MTEF; Begin implementation of Pension and Provident Fund Reform; Conduct Public Expenditure Review. Further increases in user charges in irrigation, higher & professional education & specialized hospital services. <b>By March 2003:</b> Achieve full computerization of budgeting, accounting and expenditure management; Conduct Public Expenditure Review.	Improved budget compliance and fiscal discipline ; Improved poverty targeting and developmental impact of government spending; Expenditure composition linked to policy priorities.  Increase in the rate of recovery of recurring cost of canal irrigation – from less than 20% currently to 50% by 2003-04.
<i>Reform Tax System to Improve Efficiency in Resource Allocation and Enhance Tax payer Compliance</i>	Implement the decision to reduce the number of sales tax rates from 11 to 5 and reduce commodity classification to 200; Begin to implement a strategy of functional reorganization of the Trade Tax Department; Implement external audit of the Trade Tax Department on a sample basis by an external professional auditing firm; Make officials of the trade tax department subject to Vigilance supervision and require all tax officers to make an annual declaration of their family assets; Institute formal monitoring of up to 2000 largest tax payers; Begin modernizing property valuation for levying stamp duties; Begin to develop a strategic plan for introduction of VAT.	<b>By March 2002:</b> Intensify audit efforts, through well designed inspections; Complete the reorganization of Tax Dept.; Expand scanning and storage of registered conveyance deeds state wide; Implement external audit of the Tax Dept. <b>By March 2003:</b> Complete a comprehensive review of business procedures; Implement external audit of the Tax Dept.; Change from assessing 100% of periodic and annual returns to modern self- assessment; Begin to implement core computer application system. <b>By March 2004:</b> Adopt a Value Added Tax system.	Improved voluntary tax compliance; Reduced transactions costs for private business operating in UP; Increase in the State's Own Tax Revenue – from 5.4% GSDP in 1998-99 to 7.6% by 2003-04.

Objectives	Benchmarks/ Policy Actions		Outcomes
	2000-01 (April-March)	2001-02 to 2003-04 (April 2001-March 2004)	
<p><b>II. GOVERNANCE REFORMS</b></p> <p><i>Reform the Civil Service to Enhance Efficiency, Effectiveness and Productivity and Reduce Overhead Costs</i></p>	<p>Continue to reduce the size of civil service by at least 2% a year; Freeze all non-regular hiring and target further reductions (by more than attrition) in PWD and Irrigation Departments; Carry out a phased rationalization and consolidation of departments; Publicize Transfer Policy on an annual basis, including guidelines for transfer of senior and mid-level officers; Formulate and implement an alternative policy to compensatory/ compassionate employment; Develop set of organizational performance indicators; Conduct follow up civil service census; Implement the recommendations from the review of Civil Service terms and conditions; Begin implementing a human resource development and training plan.</p>	<p><u>By March 2002:</u> Continue implementation of rationalization of government departments based on GoUP report on positions;</p> <p><u>2002-04:</u> Ongoing annual reduction in the size of civil service employment of at least 2% per annum; Publish annual report on progress in CSR; Conduct detailed monitoring of performance indicators of all departments and publish them annually.</p> <p><u>By March 2004:</u> Complete phased rationalization of departments.</p>	<p>Substantial reduction in the number of departments towards international norms; Significant improvement in the ratio of front-line staff vis-à-vis support and administrative staff; Significant increase in the number of functions that are privatized and/or commercialized; Improved staffing in key skill categories.</p>
<p><i>Implement Anti-Corruption and Deregulation Strategies to Reduce Corruption and Maladministration, as well as Administrative</i></p>	<p>Conduct series of public workshops on corruption survey's results; Develop and publish Anti-corruption Strategy; Enhance budget allocation significantly above the level of expenditure in 1999-00 on Vigilance and the Lok Ayukta (ombudsman); Strengthen the staffing of Vigilance and facilitate the Lok Ayukta (Ombudsman) to fill all existing vacancies in investigative positions; Submit Lok Ayukta reports from 1991 through 1998 to the Assembly; Update the Conduct Rules for GoUP civil servants on the basis of international best practice; Make Vigilance Directorate the appointing authority for 50% of its staff; Obtain Cabinet approval of UP Right to Information Act for presentation to Legislative Assembly; Deregulation Committee to conduct review and submit recommendation to GoUP for implementation.</p>	<p><u>By March 2002:</u> Enact UP Right to Information Act; Implement the recommendations of the Governance Reform Task Force to strengthen accountability institutions; Each Department to prepare its own anti-corruption strategy, including preventive and curative measures; Expand Citizen's Charter to all departments that interface with the public; Conduct regular follow-up surveys among employees, businesses and households and publish the results.</p> <p><u>By March 2003:</u> Corruption Prevention Unit to assist all departments in preparing and implementing anti-corruption strategies and streamlining business processes.</p> <p><u>2001-04:</u> Publish annual reports for Lok Ayukta and Vigilance Commission; Conduct regular follow-up surveys of perception of corruption; Complete implementation of the deregulation program.</p>	<p>Increased awareness and utilization of Lok Ayukta function by the public and Vigilance Establishment by civil service; Radical reduction (more than 50%) in average investigation time; Improved sanction and conviction rate; Stakeholder surveys indicate decreasing perceptions of corruption.</p>

Objectives	Benchmarks/ Policy Actions		Outcomes
	2000-01 (April-March)	2001-02 to 2003-04 (April 2001-March 2004)	
<i>Implement Fiscal Decentralization to Enhance Beneficiary and Stakeholder Participation and Income Accountability</i>	Begin implementation of comprehensive training and capacity building in the PRIs; Initiate strengthening of accounts and audit of local body finances; Conduct a detailed evaluation of the effectiveness of decentralized management of state tubewells.	Initiate sample surveys of public perception and satisfaction with the functioning and quality of services provided by the PRIs; Scale up the comprehensive training program for PRI functionaries; Implement corrective measures for tubewell management; Publish the results of the first annual audit of PRI finances.	Enhanced beneficiary & stakeholder participation in overseeing government performance; Improved quality of social services and infrastructure maintenance in the rural areas; Increased public accountability.
<i>Reform Public Enterprises and Privatize to Reduce Scope of Government, Reduce Fiscal Burden and Improve Economic Performance</i>	Complete the divestment or closure of 20 units of public enterprises selected for the first phase including 11 Sugar Mills, and 5 Textile Mills.	<b>By March 2002:</b> Divestment or closure of at least eight PEs by March 2002. <b>By March 2003:</b> Divestment/closure of at least 8 additional PEs by the Working Committee <b>By March 2004:</b> Divestment or closure of remaining PEs by the Working Committee.	Reduction in fiscal drain due to PEs; Release of assets to private owners; Reorientation of government role.
<i>Modernize Financial Management &amp; Control Architecture and Enhance Accountability to Promote a more Honest, Efficient and Answerable Government</i>	Appoint an "Internal Auditor" and initiate the process of modernization of the internal audit function; Enhance the State's treasury function by beginning to convert the treasury offices into Integrated Pay and Accounts Offices (IPAO); Require all departments to publish an Annual Report outlining their objectives, activities, costs and actual achievements; Implement the recommendations of the task force on the government's financial statements for public disclosure; Implement the rules for ensuring timely response from offices to the observations in the C & AG audit reports. Implement the agreed special external audits by C & AG; Conduct a feasibility study for introducing an appropriate form of accrual accounting.	Complete conversion of treasuries into IPAOs; Implement computerized performance recording and reporting systems for more result-based management; Implement the recommendations of the feasibility study for introduction of an appropriate form of accrual accounting; Implement the recommendations of the study on modernization of the existing State Finance and Accounts cadre; Consolidate the internal audit function, modernize the internal audit practices, and address the skills mix required for a modern internal audit function.	Improved quality of financial information available to the public; Improved and timely information for financial management; Computerized performance recording and result-based management; Effective legislative scrutiny over financial management by the Executive.
<b>III. POVERTY AND SOCIAL DEVELOPMENT</b>	Collect, enter, and tabulate data collected for the state sample of the NSS 55 <sup>th</sup> round; Develop sample frame and listing for community and household monitoring system; Develop and implement a community monitoring system; Implement second round of data collection by ESD; Publish and make available to the public the results from NSS 55 <sup>th</sup> round and poverty module.	Collect information on poverty indicators on an annual basis; Use new information to assess impact of reforms on the poor and socially disadvantaged groups; Publish periodic reports on progress at reducing poverty, impact of reforms.	Track progress at reducing poverty and improving living conditions using a range of indicators; measure the impacts of key reform measures on poor, vulnerable, and socially-excluded; based on this information, identify factors responsible for adverse outcomes and design appropriate mitigation measures, also improve impacts of policies on the poor.

## Additional Annex 9.Re form Output/Process/Outcome Indicators - Fiscal Reforms

Item	Indicators
<p><b>1. Fiscal Correction</b></p> <p><i>Long-Term Objectives:</i></p> <p><i>To achieve fiscal sustainability over the medium-term through growth oriented revenue and expenditure measures</i></p>	<p><b>Output Indicators</b></p> <ol style="list-style-type: none"> <li>1. <b>Cabinet Approval and tabling in the Assembly of Policy Paper on Fiscal Reforms.</b> [Done on March 27, 2000]</li> <li>2. <b>Finalization of Contingency Plan to manage potential revenue and financing shortfalls.</b> [Done for 1999-00 by January 2000; and for 2000-01 by January 2001]</li> <li>3. <b>Ceiling on Debt and Guarantees.</b> [Debt ceiling was implicit in the fiscal deficit target for 1999-00, which has been overfulfilled. Guarantees – The guarantee given by the GoUP during 1999-2000 and outstanding guarantees at the year end, were within the agreed program targets]</li> </ol> <p><b>Outcome Indicators (to be monitored annually)</b></p> <ol style="list-style-type: none"> <li>4. <b>Fiscal Deficit – in Rupees and as % GSDP.</b> [Overall fiscal deficit (adjusted) declined from Rs. 109.6 billion (7.5% GSDP) in 1998-99 to Rs. 103.6 billion (6.4%) in 1999-00, 0.6 percentage point below the agreed program target; non-power deficit was reduced from Rs. 98.5 billion (6.7%) to Rs. 93.5 billion (5.8%), Rs. 4 billion lower than the agreed benchmark.]</li> <li>5. <b>Revenue Deficit – in Rs. and as % GSDP.</b> [Revenue deficit declined from Rs. 83 billion in 1998-99 (5.6% GSDP) to Rs.67.2 billion (4.2% of GSDP) in 1999-00]</li> <li>6. <b>End-of-year Outstanding Debt and Guarantees – in Rs. and as % Revenue Expenditure.</b> [Outstanding debt was Rs 604 billion (37.4% of GSDP) on March 31, 2000, compared to the target of Rs 603.4 billion (37.3%); outstanding guarantees were 2.7% of GSDP]</li> <li>7. <b>Interest and Total Debt Servicing – in Rs. and as % Total State Revenue</b> [Interest rose from Rs. 58.8 billion in 1998-99 to Rs. 65.5 billion in 1999-00; in proportion to total revenue, interest declined from 34.6% to 31.4% while total debt servicing declined from 41.3% to 40.1%]</li> <li>8. <b>Fiscal stress ratio: Interest as % Revenue Expenditure.</b> [Interest as a percentage of Revenue Expenditure remained at 23.6% in 1999-00, same as in the previous year; Revenue Deficit as a ratio of Revenue Receipts declined from 45.6% to 28.9%]</li> </ol>
<p><b>2. Expenditure Measures</b></p> <p><i>Long-Term Objectives:</i></p> <p><i>To improve expenditure management, efficiency of public resource allocation and the composition of public spending so as to enhance its developmental impact</i></p>	<p><b>Output Indicators</b></p> <ol style="list-style-type: none"> <li>1. <b>Finalization of High Priority Development Expenditures to be protected each year.</b> [The target for HPDE was enhanced from Rs. 100 billion in 1999-00 to Rs. 124 billion in 2000-01. A Government Order issued on July 5, 2000, directed the departments and treasuries to give priority to the items in the HPDE list]</li> <li>2. <b>Preparation of Strategy for Medium-Term Expenditure framework (MTEF) in 1999-00</b> [Strategy under discussion; Workshop by Bank experts held on December 6, 2000]</li> <li>3. <b>Complete computerization of treasury transactions in 2000-01.</b> [Treasury payment system fully computerized; Computerized payroll system expected to be in place by July 2001]</li> <li>4. <b>Implementation of MTEF, beginning with 2001-02 Budget preparation.</b> [Decided to establish a Resource &amp; Expenditure Commission to oversee development of MTEF beginning with 2002-03 budget preparation]</li> <li>5. <b>Pension &amp; Provident Fund Reforms initiated in 2001-02.</b> [Background Study has been initiated]</li> <li>6. <b>Full computerization of budgeting, accounting and expenditure management by 2002-03</b></li> </ol> <p><b>Process Indicators (to be monitored each year)</b></p> <ol style="list-style-type: none"> <li>7. <b>High Priority Development Expenditures during first 6 months of fiscal year, in Rupees and as ratio of annual target</b> [Data awaited]</li> <li>8. <b>Expenditure on Salary and Pensions during the first 6 months of 2000-01.</b> [Salary expenditure during April-Sept 2000, at Rs 40.7 billion, was 50% of the annual target; and at Rs 12.2 billion, pension was 57% of the annual target]</li> <li>9. <b>Expenditure on Explicit Subsidies (Grants-in-Aid) during first 6 months of fiscal year, in Rupees and as ratio of annual target.</b> [Data awaited]</li> <li>10. <b>Net Additional Expenditure approved in Supplementary Demands during the year.</b> [Net additional expenditure approved in the Supplementary Demand in October 2000 was Rs. 17.4 billion or 4.7% of the original expenditure budget]</li> </ol> <p><b>Outcome Indicators</b></p> <ol style="list-style-type: none"> <li>11. <b>Improved budget compliance and fiscal discipline.</b> [Deficit reduction target achieved in 1999-00; financing shortfall was managed without any significant cut in developmental expenditures]</li> <li>12. <b>Priority to maintenance of existing assets over creation of new assets, and to completion of ongoing projects over new starts</b> [Has formed part of the guidelines contained in the Budget Call Circular since 1999-00]</li> <li>13. <b>Satisfactory Performance in protecting and enhancing High Priority Developmental Expenditures.</b> [About 93% of the targeted level of High Priority Development Expenditure was protected in 1999-00.]</li> <li>14. <b>Reduction in the share of salary and pension payments in total expenditure.</b> [Salaries declined from 24% of total expenditure and net lending in 1998-99 to 23% in 1999-00. Pensions rose from 6% to 7% in the same period]</li> <li>15. <b>Reduction in the share of explicit subsidies in total expenditure</b> [Total grants-in-aid declined from 28.6% of total expenditure in 1998-99 to 26.4% in 1999-00]</li> <li>16. <b>Increased expenditure flexibility</b> [Share of salaries, pensions and interest payments in total expenditure declined from 51.4% in 1998-99 to 49.8% in 1999-00]</li> <li>17. <b>Increase in the share of capital outlays and non-wage O&amp;M</b> [Capital outlays increased from 1.4% of GSDP in 1998-99 to 1.5% in 1999-00]</li> </ol>

<p><b>3. Revenue Measures</b></p> <p><i>Long-Term Objectives:</i></p> <p><i>To enhance the state's own revenue base, create a fair, simple and high compliance tax system and improve cost recovery from publicly provided private and semi-private goods and services</i></p>	<p><b>Output Indicators</b></p> <ol style="list-style-type: none"> <li>1. <b>Reduction in the number of Trade Tax rates.</b> [Subsequent to the introduction of uniform floor rates in January 2000, the number of rates were further reduced to 8 main and 4 special rates in Jan 2001, from 11 main and 6 special rates; further rationalization under consideration, based on consultant report of Dr. Govinda Rao]</li> <li>2. <b>Amendment of Trade Tax Act to strengthen anti-evasion efforts.</b> [Amendment enacted in March 2000; implementation being initiated in a phased manner starting in March 2001]</li> <li>3. <b>Identification of potential taxpayers who are outside the tax net</b> [Survey conducted in 1999-00 showed that 15% of those surveyed needed to be registered but were not]</li> <li>4. <b>External Audit of Trade Tax Department</b> [Following an objection by the Law Department of the State to the violation of privacy rights of businesses, internal audit has been strengthened instead of external audit]</li> <li>5. <b>Introduction of New Taxes (Entry Tax)</b> [Entry Tax introduced in November 1999. Cabinet gave clearance for tax on crude oil, machines and spare parts and natural gas in December 1999. Extended to include tobacco and non-levy sugar in 2000-01]</li> <li>6. <b>Phasing out of Tax Holidays</b> [Accomplished effective from February 2000]</li> <li>7. <b>Reorganization, modernization and computerization of Trade Tax Administration</b> [Computerization piloted; Functional reorganization ongoing with technical assistance]</li> <li>8. <b>Increase in user charges for irrigation, higher education and hospital care</b> [Total revenue from user charges increased from Rs. 7.2 billion in 1998-99 to Rs. 10.3 billion in 1999-00. Revenue from user charges in education increased from Rs. 1.01 bln to Rs. 1.38 bln over the same period]</li> </ol> <p><b>Process Indicators (to be monitored monthly/quarterly/annually)</b></p> <ol style="list-style-type: none"> <li>9. <b>Percentage rise in tax collected from manufacturers within UP, adjusted for inflation</b> [Registered an increase of about 75% in real terms, during the first 3 quarters of 2000-01, compared to the same period of the previous year]</li> <li>10. <b>Percentage rise in tax collected from non-manufacturing dealers, adjusted for infln</b> [Data awaited]</li> <li>11. <b>Value of "recorded" goods imported (i.e. from outside UP) through railway /post offices compared to previous period</b></li> <li>12. <b>Value of "recorded" goods imported by road and recorded on form 31 compared to previous period</b> [There was an increase of about 7% during the first 3 quarters of 2000-01. Compared to the same period of the previous year]</li> <li>13. <b>Total monthly collections from Trade Tax, with and without petroleum products</b> [Trade tax collected during April 2000-January 2001, excluding from petrol/diesel, was Rs. 32.68 billion (increase of 20.6% over previous year in nominal terms); including petrol/diesel it was Rs. 45.72 billion (increase of 19.6% over previous year)]</li> <li>14. <b>Number of taxable dealers who file declarations</b> [Number of 'registered' dealers increased by 3% from 190,398 in 1999-00 to 196,024 in 2000-01]</li> <li>15. <b>Half-yearly collections from the 1000 dealers with the largest turnover</b> [The total tax recovered during April-September 2000 was 76% higher than during the same period of the previous year]</li> <li>16. <b>Net Recoverable Arrears – in Rupees and as ratio of total taxes due</b> [Net recoverable arrears (provincial) were Rs. 964 crores in August 2000]</li> <li>17. <b>Annual number of cases under appeal and value under dispute</b> [In 1999-00, there were 115,780 appeals (60,586 past and 55,194 new appeals). There were 64,133 disputed appeals amounting to Rs. 33.24 billion. The number of pending appeals were 51,647 and amounted to Rs. 9.6 billion]</li> <li>18. <b>Proportion of staff in Trade Tax Department assigned to enforcement</b> [In 1999-00, of a total of 1206 officers and 1419 employee in the Trade Tax Departments, 42% and 22% respectively were involved in enforcement work]</li> <li>19. <b>Number of staff in Trade Tax Department using computers in daily work</b> [During July-September 2000-01, 17% of officers and 0.1% of employees were using computers compared to 0.5% and 3% over the previous quarter, i.e., April-June 2000-01]</li> </ol> <p><b>Outcome Indicators</b></p> <ol style="list-style-type: none"> <li>21. Improved voluntary tax compliance</li> <li>22. Reduced transactions costs for private business operating in UP</li> <li>23. Increase in the State's Own Tax Revenue – from 5.4% GSDP in 1998-99 to 7.6% by 2003-04;</li> <li>24. Increase in the rate of cost recovery from canal irrigation – from less than 20% currently to 50% by 2003-04</li> </ol>
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## Additional Annex 10. Re form Output/Process/Outcome Indicators - Governance Reforms

Item	Indicators
<p><b>1. Establish Policy and Institutional Frame-work for Major Government Reform Program</b></p> <p><i>Long-Term Objective:</i></p> <p><i>To ensure successful reforms by creating appropriate policy and institutional arrangements for providing guidance and oversight</i></p>	<p><b><u>Process/Output Indicators</u></b></p> <ol style="list-style-type: none"> <li>1. <b>Approval of Policy Papers on Governance and Civil Service Renewal</b> [Done. Papers were approved by Cabinet and tabled in the Assembly in March 2000.]</li> <li>2. <b>Cabinet Committee to provide overall guidance and direction for reform effort</b> [Cabinet Committee on Economic Affairs headed by the Chief Minister has been given responsibility for this effort.]</li> <li>3. <b>Governance and CSR Core Group, headed by the Chief Secretary</b> [CSR Core Group Headed by Chief Secretary functioning actively]</li> <li>4. <b>Publication of Departmental annual reports</b> [Performance budget being published and presented in the Assembly].</li> </ol>
<b>I. CIVIL SERVICE REFORM</b>	
<p><b>1. Review and Rationalize All Departments</b></p> <p><i>Long-Term Objectives:</i></p> <p><i>To enhance efficiency, effectiveness and productivity by rationalizing, realigning and reengineering departments</i></p> <p><i>To eliminate functions and tasks that are no longer needed or bring little value added so that the government can con-centrate upon high priority areas</i></p> <p><i>To save overhead costs by reducing administrative and support functions and involving more staff in front-line tasks of service delivery</i></p> <p><i>To enhance effectiveness by increasingly shifting focus from compliance to outputs and outcomes</i></p>	<p><b><u>Process/Output Indicators</u></b></p> <ol style="list-style-type: none"> <li>1. <b>Establish Policy Planning Cells and complete intra-departmental functional reviews</b> [Policy Planning Cells established in 53 major departments and intra-departmental reviews initiated. The cells are meeting every three months on average. Approximately 38 functional reviews have been completed and submitted to relevant secretaries]</li> <li>2. <b>Establish Technical Working Group to the CSR Core Group and complete inter-departmental functional reviews</b> [Technical Working Group yet to be established, due to delays in procuring appropriate technical assistance for implementation.]</li> <li>3. <b>Integrate reviews into a comprehensive report for rationalization (with TA), which is approved by Cabinet</b> [Yet to be done]</li> <li>4. <b>Phased rationalization of departments to begin on 1 October 2001 and be completed by December 31, 2004. Number of departments rationalized to be carefully monitored to ensure implementation does not slip</b> [Clustering of related departments along sectoral lines has begun]</li> <li>5. <b>Develop and implement appropriate organizational performance indicators for all Departments by December 31, 2004</b></li> </ol> <p><b><u>Outcome Indicators</u></b></p> <ol style="list-style-type: none"> <li>6. <b>Substantial reduction in the number of departments towards international norms, with significant savings in overhead and administrative costs</b></li> <li>7. <b>Rationalization of organizational structure, business processes, staffing, and products and services for remaining departments, starting with PWD, Irrigation, Forestry, Health and Tax and Trade, by December 31, 2002</b> [Significant progress has been made in Forestry. Detailed plans are currently being made in Health, PWD and Irrigation. Exercise on functional reorganization is ongoing in the Trade Tax Department.]</li> <li>8. <b>Significant improvement in the ratio of front-line staff vis-à-vis support and administrative staff for all departments consistent with best practice in Indian states and elsewhere.</b></li> <li>9. <b>Significant increase in the number of functions that are privatized and/or commercialized consistent with best practice in Indian states and elsewhere</b> [Selective progress to date in some departments, such as PWD.]</li> </ol>

<p><b>2. Ensure a Global Annual Reduction in Civil Service Size by at Least 2% for Next Five Years</b></p> <p><i>Long-Term Objectives:</i></p> <p><i>Ensure the long-term affordability of the civil service</i></p> <p><i>Improve productivity by re-deploying staff to more valuable tasks</i></p> <p><i>Allow for greater managerial flexibility by expanding options for redeployment and re-trenchment</i></p> <p><i>End "entitlement mentality" regarding jobs in the public sector</i></p>	<p><b><u>Process/Output Indicators</u></b></p> <ol style="list-style-type: none"> <li>1. <b>Initiate a review of civil service terms and conditions in comparison with global and Indian best practice to identify options for greater flexibility in downsizing and redeployment and implement study recommendations</b> <i>[Yet to be done]</i></li> <li>2. <b>Abolish unfilled positions identified as redundant</b> <i>[Approximately 15,000 posts, or 1.7%, have been abolished to date, since the program began in 1999-00]</i></li> <li>3. <b>Identify alternatives to the practice of compensatory/compassionate employment</b> <i>[Alternatives under consideration]</i></li> </ol> <p><b><u>Outcome Indicators</u></b></p> <ol style="list-style-type: none"> <li>4. <b>Global reduction in civil service size of at least 2% annually</b> <i>[Size of civil service reportedly declined by 1% during FY 1999/2000 and an estimated 1.6% in FY 2000/01. More reliable data on personnel in place are expected once the computerized payroll is in functional, i.e., by July 2001]</i></li> <li>5. <b>Number of position establishments abolished or redeployed annually by department, with substantial savings in staffing and wage bill in key departments (i.e. PWD, Health, Irrigation and Forestry), consistent with findings of institutional reviews</b> <i>[Over 60 divisions abolished in PWD and Irrigation; however, excess staff still remain. Approximately 5,000 staff awaiting transfer to surplus labor pool in Department of Administrative Reforms for redeployment.]</i></li> <li>6. <b>Major reduction (i.e. greater than 50%) in casual and work charged employees by FY 2004</b></li> </ol>
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<p>3.</p> <p><b>Improve Human Resource Management</b></p> <p><i>Long-Term Objectives:</i></p> <p><i>To ensure access to accurate, timely information regarding the size and composition of the civil service</i></p> <p><i>To improve productivity by reducing external influence on staff transfers and postings and allowing public sector managers greater freedom and discretion in managing their staff</i></p> <p><i>To enhance meritocracy by strengthening the process of performance monitoring and evaluation</i></p> <p><i>To improve the quality and skills mix of the workforce by improving human resource development</i></p>	<p><b>Process/Output Indicators</b></p> <ol style="list-style-type: none"> <li>1. Computerized human resource database established and regularly updated, so GoUP can immediately produce accurate and timely information on the size and composition of the civil service. [Ongoing].</li> <li>2. Annual Transfer Policy to be finalized and guidelines publicized; consultative mechanism adopted to oversee transfers for all classes and cadres; and departmental budgets for transfers desegregated and strictly monitored. [Annual Transfer Policy published in May 2000. Frequency of transfers continued to be a major concern until September 2000, although there has been some improvement in recent months. Effectiveness of consultative mechanism to oversee transfers is doubtful.]</li> <li>3. Class I and II positions classified for rational and judicious placement [Requirement for the post and officers background are kept in view while making placements]</li> <li>4. GoUP to study Annual Confidential Report (ACR) process to improve its effectiveness as a tool for human resource management and implement recommendations. [Implemented in the Forestry Department, U.P. Jal Nigam, Irrigation Department Under consideration for secretariat / Head of Department ]</li> <li>5. GoUP allocates 1% of annual departmental wage bill for training aggregate and by department [A Government Order to this effect has been issued. Expenditure on training rose from Rs 3.2 crore in 1999-00 to an estimated Rs. 11.7 crore in 2000-01]</li> <li>6. Department of Personnel and Appointments to publish regular annual report on size and composition of the senior civil service, demographic profile, average tenure in office, annual screening procedures, and number of staff reprimanded for corruption and maladministration; other departments to also do the same for senior officials in their annual reports</li> <li>7. Departments certify that screening is performed on an annual basis [Done.]</li> </ol> <p><b>Outcome Indicators</b></p> <ol style="list-style-type: none"> <li>8. Average tenure increases for Class I and II officers</li> <li>9. Improved utilization of ACR process in transfers and promotions</li> <li>10. Significant increase in the numbers of staff given early retirement through screening</li> <li>11. Improved staffing in key skill categories (i.e. water resource management, traffic management, rural nursing)</li> <li>12. Numbers of staff rewarded for good performance and reprimanded for non-performance</li> <li>13. Expenditure on training and number of staff trained by department; number of staff with multi-task skills</li> </ol>
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## II. DEREGULATION AND ANTICORRUPTION

<p><b>1. Deregulation</b></p> <p><i>Long-Term Objectives:</i></p> <p><i>To reduce the administrative burden on the state, facilitate private sector growth, and enhance equity and access among impoverished groups</i></p> <p><i>To radically simplify regulations to ensure they are readily understood, unambiguous in their application, and straightforward to implement</i></p> <p><i>To make the rule-making process more transparent</i></p>	<p><b>Process/Output Indicators</b></p> <ol style="list-style-type: none"> <li>1. <b>Establish Deregulation Committee</b> [<i>Committee established on October 28, 1999 and began functioning on January 13, 2000. It has held 49 meetings with Departmental Secretaries and 68 internal meetings.</i>]</li> <li>2. <b>Each department complete its internal review and submit them to the Deregulation Committee for consideration by 1 July 2000</b> [<i>Approximately 58 departments formed Deregulation Committees and submitted reports.</i>]</li> <li>3. <b>Deregulation Committee to submit its first review and recommendations to GoUP by 1 October 2000</b> [<i>Report published on November 5, 2000. The initial report made 615 recommendations concerning the work of 40 departments. The quality of these recommendations is variable. The Committee's tenure was recently extended by six months, with the prospect of further extensions as needed.</i>]</li> <li>4. <b>Based on these recommendations, GoUP to formulate a time-bound program to streamline and modernize the laws, rules and regulations applicable in UP and initiate the implementation of such a program</b> [<i>Under progress; yet to be completed</i>]</li> </ol> <p><b>Outcome Indicators</b></p> <ol style="list-style-type: none"> <li>5. Substantial reduction and modernization in the number of state acts, rules and regulations/orders currently being administered by the departments, in line with best practice among Indian states</li> <li>6. Enhance transparency and stakeholder participation in the regulatory process by engaging business and civil society in the work of the Deregulation Committee</li> </ol>
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<p>2.</p> <p><b>Strengthen Key Accountability Institutions and Anti-Corruption Bodies</b></p> <p><i>Long-Term Objectives:</i></p> <p><i>To reduce corruption and mal-administration by strengthening mechanisms for detecting, investigating and sanctioning improper behavior, while ensuring these institutions operate within an appropriate accountability framework</i></p> <p><i>To combat corruption pro-actively by strengthening preventive measures in central and line departments</i></p> <p><b>3. Develop and Implement Anticorruption Strategies</b></p> <p><i>Long-Term Objectives:</i></p> <p><i>To create an integrated, flexible and responsive anti-corruption strategy based upon solid empirical evidence and regular stakeholder feedback</i></p> <p><i>To effectively implement the strategy, with particular attention to fostering successful anticorruption efforts at the departmental level</i></p>	<p><b>Process/Output Indicators</b></p> <ol style="list-style-type: none"> <li>1. <b>Regular stakeholder surveys to monitor performance</b> [Initial three surveys conducted of general public, traders and civil servants towards corruption. Further surveys are planned for some key departments.]</li> <li>2. <b>Increase in funding and staffing for key accountability institutions to compare favorably with per capita funding in other Indian states</b> [Increases occurring in a phased manner in line with agency absorptive capacity. Vigilance Establishment budget for year FY 2000-01 has increased by 12.9% over expenditure in FY 1999-00, albeit from a very low base.]</li> <li>3. <b>Vigilance Establishment and Lok Ayukta to have greater independence in recruitment and transfer of staff, and improvement in the ratio of front-line staff to administrative staff to compare favorably with other Indian states</b> [The Lok Ayukta is empowered to recruit and appoint more junior staff, while senior staff are appointed only with the concurrence of the Lok Ayukta.]</li> <li>4. <b>Task Force report on mandate, staffing, budget, organizational structure, business processes, regulations and guidelines and performance indicators completed and integrated into broader GoUP anticorruption strategy, along with surveys, stakeholder workshops, and anticorruption strategies for key departments with significant revenue, expenditure or regulatory responsibilities</b></li> <li>5. <b>Publication of survey results, along with GoUP anticorruption strategy, by 31 October 2000, with implementation to begin immediately</b> [To be published]</li> <li>6. <b>Update and disseminate Conduct Rules for GoUP civil servants not subject to All India rules on the basis of international best practice</b></li> <li>7. <b>Regular submission of annual Lok Ayukta reports to the Assembly</b> [GoUP has formally tabled pending reports from 1990 to 1994 in the State Assembly. Remaining reports to be tabled in the budget session in early 2001.]</li> <li>8. <b>Corruption Prevention Unit established and actively working with core and departmental agencies to reduce opportunities for corruption (by March 2003)</b></li> </ol> <p><b>Outcome Indicators</b></p> <ol style="list-style-type: none"> <li>9. <b>Increased awareness and utilization of Lok Ayukta function by the public and of Vigilance Establishment by civil service</b> [Role and functions of Lok Ayukta are being given wide publicity. Additional funds sanctioned for the Lok Ayukta for this purpose. A website for the Vigilance Department has been set up. Role and functions of the Vigilance establishment and other anti-corruption bodies are publicized through the website.]</li> <li>10. <b>Reduction in average investigation times and adjudication times for administrative and criminal cases</b></li> <li>11. <b>Increased number of investigations and reduction in case backlogs</b> [Number of corruption related cases in which prosecution was approved was 375 during April-December 2000, compared to around 100 in the same period of the previous year.]</li> <li>12. <b>Improved sanction and conviction rate</b> [There were 44 "trap" cases during the year 2000, involving 49 officials who were caught red handed.]</li> <li>13. <b>Successful prosecution of a few "high profile" cases</b> [A senior IAS officer was recently compulsorily retired from service for corruption.]</li> <li>14. <b>Number of concrete examples where regulatory reform, processes reengineering and other preventive measures have significantly reduced corruption.</b></li> <li>15. <b>Stakeholder surveys indicate increasing public satisfaction with anticorruption effort and decreasing perceptions of corruption, particularly in departments with substantial revenue and expenditure responsibilities or regulatory functions.</b></li> </ol>
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<p><b>4. Undertake Actions to Make Government More Open and Responsive To Citizen Needs</b></p> <p><i>Long-Term Objective:</i></p> <p><i>To improve government performance, accountability and responsiveness by improving the public's access to information and engaging civil society in providing informed feedback on the quality of government services</i></p>	<p><b>Process/Output Indicators</b></p> <ol style="list-style-type: none"> <li>1. <b>Citizen's Charters with clear specification of service standards and remedial measures prepared and widely publicized for all departments with major public interface.</b> <i>[Citizen charters have been issued for several departments; they need to be widely publicized and steps need to be taken to ensure effective implementation of charters (redesigning business procedures, providing managerial flexibility, sensitizing employees to the new standards, and instituting user feedback mechanisms)]</i></li> <li>2. <b>Cabinet approval of a code of access for government documents based upon United Kingdom practice and draft UP Right to Information Act.</b> <i>[GoUP has approved a code of access for government documents but it is very restrictive and applied to only three departments so far.]</i></li> <li>3. <b>Each department to publish a brochure outlining their organizational structure, mission and objectives, staffing profile, annual budget, services, compendium of relevant government orders and contact points for further information by 1 March 2000</b> <i>[ This information is available in Annual reports websites and official directories].</i></li> <li>4. <b>Each department to review and redesign public grievance redress system and publicize relevant procedures.</b> <i>[ Government orders already exists. Grievances are being monitored by the Directorate of Lok Shikayats (Public grievances) ]</i></li> <li>5. <b>Number of departmental web pages and accessibility of GoUP forms on the Internet.</b> <i>[At least 16 major departments have created their respective web pages; the Transport Department has 30 forms available to be downloaded, including the application form for a driver's license Major initiative taken by Information Technology Department to develop a single U.P. Govt. Website.]</i></li> </ol> <p><b>Outcome Indicators</b></p> <ol style="list-style-type: none"> <li>6. Survey data indicates increased awareness on the part of the public (and particularly the poor) regarding the quality of services they can expect and utilization of grievance procedures</li> <li>7. Survey data for officials indicates increased awareness and concern about transparency and the public's right of access to information</li> <li>8. Enhanced information flow regarding service standards and quality measured through by web page use and surveys of NGOs and civil society</li> </ol>
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### III. PUBLIC ENTERPRISE REFORM AND PRIVATIZATION

<p><i>Long-Term Objectives:</i></p> <p><i>Government to withdraw from the provision of goods and services that can be provided more efficiently by the private sector, through divestment or closure of those public enterprises that either compete with the private sector or are commercial in nature</i></p>	<p><b>Output Indicators</b></p> <ol style="list-style-type: none"> <li>1. <b>Cabinet approval of the PE Reform Policy</b> <i>(Done; Policy tabled in the Assembly in March 2000)</i></li> <li>2. <b>Cabinet approval of procedures for implementation</b> <i>[Drafts of the overall transactions manual and of the environmental guidelines having been produced during February 2001]</i></li> <li>3. <b>Divestment/closure of PEs selected for the first phase, by March 2001</b> <i>[Done; 20 units, including 11 sugar mills and 5 textile mills, have been closed; the assets of two enterprises have been sold]</i></li> <li>4. <b>Number of units divested or closed on an annual basis</b> <i>[See point 3]</i></li> </ol> <p><b>Process Indicators</b></p> <ol style="list-style-type: none"> <li>5. <b>Value of assets sold each year</b> <i>[Value of assets sold from 1st Phase enterprises is Rs 50 crores]</i></li> <li>6. <b>Number of employees retrenched/retired in each year</b> <i>[About 11,000 workers have departed with VRS packages in the first phase of the program]</i></li> <li>7. <b>Number of enterprises remaining under public ownership at the end of each year</b> <i>[There will be 47 remaining under public ownership by the end of March 2001]</i></li> <li>8. <b>Fiscal savings from closure/privatization</b> <i>[To be calculated]</i></li> </ol> <p><b>Outcome Indicators</b></p> <ol style="list-style-type: none"> <li>9. Substantial fiscal savings</li> <li>10. Improved economic efficiency</li> </ol>
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### IV. FINANCIAL MANAGEMENT AND ACCOUNTABILITY

<p><i>Long-Term Objectives:</i></p> <p><i>Greater availability of information concerning the finances of the State amongst the general public and media, leading to increased transparency</i></p> <p><i>Enhanced accountability of the Executive to the Legislature</i></p> <p><i>Integrated computerized financial management system that would facilitate results-based management</i></p> <p><i>Modern internal audit function which provides continuous oversight over the activities of the State</i></p> <p><i>Reconstituted and better trained finance and accounts cadre capable of providing efficient financial management services.</i></p>	<p><b><u>Output Indicators</u></b></p> <p>1. <b>Cabinet approval of Strategy for Strengthening Financial Management and Accountability</b> [Done in March 2000; Next step is to prepare a more detailed implementation plan]</p> <p>2. <b>Task Force to recommend the form, content and presentation of financial statements for public disclosure</b> [Task Force has almost completed its work on the format of the half-yearly financial statements and the accounting system required to facilitate preparation of these statements; finalization of Report is pending]</p> <p>3. <b>Feasibility Study for accrual accounting financial statements and the accounting system required to facilitate preparation of these statements.</b> [Recruitment of consultants is underway]</p> <p>4. <b>Study to modernize State Finance and Accounts Cadre.</b> [Recruitment of consultants is underway]</p> <p>5. <b>Timely Response to observations in the C&amp;AG audit reports.</b> [Progress is slow. Government has set a 90-day rule for responding to CAG reports. However, responses to 550 out of 583 "paras" in the CAG's Report for 1998-99 (tabled on May 17, 2000) are pending, and to 158 out of 587 "paras" in the CAG's report for 1997-98 are pending]</p> <p><b><u>Process Indicators</u></b></p> <p>6. <b>Time taken between C&amp;AG audit queries and departmental responses</b> [Data on time taken to respond is not available, either for responses to 'Draft Paras' or for response to the final CAG Report]</p> <p>7. <b>Deviations between Budget Estimates, Revised Estimates and Audited Accounts figures of revenue and expenditure, by major categories.</b></p> <p><b><u>Outcome Indicators</u></b> [Too early to measure outcome indicators since the process is only starting now]</p> <p>8. <b>Improved quality of financial information available to the public</b></p> <p>9. <b>Improved and timely information for financial management</b></p> <p>10. <b>Computerized performance recording and result-based management</b></p>
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**Additional Annex 11. Poverty and Social Impact Indicators: Table 1**

Item	Indicators
<p><b>1. Establish a system to monitor and evaluate the impacts of the overall reform program on the poor and other socially disadvantaged groups.</b></p> <p><i>Long Term Objectives: To maximize impacts of reform-led growth on the poor; To identify emerging adverse impacts of specific reform measures and design appropriate mitigation measures; To support better informed policy making and program design To inform the public at large about the success or otherwise of the reform program.</i></p>	<p><b><u>Process/Output Indicators</u></b></p> <ol style="list-style-type: none"> <li>1. Set up monitoring units in the Chief Secretary's Office and the Department of Planning</li> <li>2. Agree on initial set of quantitative poverty monitoring indicators, viz.</li> </ol> <p><b><u>Consumption and Income</u></b></p> <ol style="list-style-type: none"> <li>1. <i>GSDP growth (Agriculture, Manufacturing, Industry, Services, Total)</i> <b>Source and Periodicity:</b> UP Directorate of Economics and Statistics (DES), Annual state series.</li> </ol> <p><b><u>Current Baseline Estimates:</u></b> Here and below see "Poverty and Social Impact Indicators --Table2."</p> <ol style="list-style-type: none"> <li>2. <i>Per-capita monthly expenditures (Food items, Education, Health, Other, Total)</i> <b>Source and Periodicity:</b> Quinquennial NSS Consumer Expenditure Survey, central and state samples. Every five years. Most recent estimates, 1999-00</li> <li>3. <i>Poverty: Headcount, Poverty-gap, FGT P2 measure (i.e. severity of poverty)</i> <b>Source and Periodicity:</b> Quinquennial NSS Consumer Expenditure Survey central and state samples. Every five years. Most recent estimates, 1993-94 (<b>Proposed:</b> annual poverty estimates forecast based on trends in key determinates of poverty – levels and structure of growth, development spending, inflation)</li> </ol> <p><b><u>Employment and Wages</u></b></p> <ol style="list-style-type: none"> <li>4. <i>Wages (Agriculture, Non-Agriculture) and (proposed) prices</i> <b>Source and Periodicity:</b> UP DES, monthly monitoring at block and district level.</li> <li>5. <i>Employment Status (Employed, Under-employed, Unemployed, Out of Labor force, )</i> <b>Source and Periodicity:</b> UP DES, baseline set by Poverty Module, state-sample 55<sup>th</sup> round, follow-up through light/priority survey agreed in project proposal, sampling, periodicity and design to be discussed and finalized with GOUP after release of baseline report and internal discussions. To be supplemented by multiple sources such as Quinquennial NSS Consumer Expenditure Survey, Employment/Unemployment module(every 5 years) and Population Census of India (every 10 years). Most recent estimates, 1999-00 (forthcoming)</li> </ol>

### Health

6. *Percentage of children that have been immunized (Boys, Girls, Overall)*

Source and Periodicity: UP DES, baseline set by Poverty Module, state-sample 55<sup>th</sup> round, follow-up through light/priority survey agreed in project proposal. To be supplemented by administrative data from the relevant line departments and cross-checked against National Family Health Survey (NFHS), NSSO special purpose surveys state and central samples, and Department of Health data. Most recent estimates, 1999-00 (forthcoming)

7. *Infant Mortality Rate (Boys, Girls, Overall)*

Source and Periodicity: UP DES, baseline set by Poverty Module, state-sample 55<sup>th</sup> round, follow-up through light/priority survey agreed in project proposal. (Note that PSMS module uses a different method to estimate IMRs and CMRs) Alternative estimates provided by the Sample Registration System (SRS) on annual basis. Cross-checked against National Family Health Survey (NFHS-2), repeated every five years. Most recent estimates, 1999-00 (forthcoming). NFHS-2 in 1998-99.

### Education

8. *Literacy (Men, Women, SC/ST, Overall)*

Source and Periodicity: UP DES, baseline set by Poverty Module, state-sample 55<sup>th</sup> round, follow-up through light/priority survey agreed in project proposal. To be supplemented by administrative data from the Department of Education, and cross-checked against National Family Health Survey (NFHS-2), NSSO Quinquennial and special purpose surveys, state and central samples. Most recent estimates, 1999-00 (forthcoming), also Feb, 2001 – India Population Census.

9. *Enrollment rates for children aged 5-14 years (Boys, Girls, SC/ST, Overall)*

Source and Periodicity: UP DES, baseline set by Poverty Module, state-sample 55<sup>th</sup> round, follow-up through light/priority survey agreed in project proposal. To be supplemented by administrative data from the Department of Education, and cross-checked against National Family Health Survey (NFHS-2), NSSO special purpose surveys, state and central samples. Most recent estimates, 1999-00, forthcoming.

10. *Drop-out rates for children aged 5-14 years (Boys, Girls, SC/ST, Overall)*

Source and Periodicity: Administrative data from the UP Education Department, annual. Most recent estimates, tbd

11. *Completion rates for children, primary, secondary, (Boys, Girls, SC/ST, Overall)*

Source and Periodicity: UP DES, baseline set by Poverty Module, state-sample 55<sup>th</sup> round, follow-up through light/priority survey agreed in project proposal. To be supplemented by administrative data from the Department of Education, and cross-checked against National Family Health Survey (NFHS-2), NSSO special purpose surveys state and central samples. Most recent estimates, 1999-00, forthcoming.

### Housing Conditions

12. *Percentage of households living in slum areas*

Source and Periodicity: SUDA administrative data, periodicity not known

13. *Percentage of households having latrine facilities in their house*

Source and Periodicity: UP DES, baseline set by Poverty Module, state-sample 55<sup>th</sup> round, follow-up through light/priority survey agreed in project proposal. Current estimates, 1999-00, forthcoming.

14. *Distribution of households according to source of drinking water*  
*As in 13*

15. *Percentage of households living in electrified dwellings*  
*As in 13*

**Participation in Government Programs**

16. *Percentage of persons benefiting from employment/welfare schemes (public works, TPDS, Other government anti-poverty programs, IRDP, etc.)*

Source and Periodicity: UP DES, baseline set by Poverty Module, state-sample 55<sup>th</sup> round, follow-up through light/priority survey agreed in project proposal. Current estimates, 1999-00, forthcoming.

17. *Health (percentage of pregnant women registered for prenatal care during last one year and Percentage of deliveries attended by Doctor/Trained Nurse/Dai during last one year)*  
*As in 16*

18. *Education (Percentage of children enrolled in non-formal or alternative schooling programs and Percentage of 0-5 year-olds attending ICDS anganwadis)*  
*As in 16*

**Awareness of Health Programs and Social Rights**

19. *Percentage of households aware of the following: Immunization of children, vaccination of pregnant women, Iodized salts, Use of ORT, Contraceptives, Minimum wage act, Child Labor Prevention act, Dowry prohibition act, Prevention of Atrocities against SC/ST, Child marriage prevention act.*  
*As in 16*

**Access to Facilities/Services**

*Distance to nearest facility/service (within village, upto 2 km, 2-5 km, 5-10 km, 10+ km)*  
*Metalled Road, Other roads, Railway station, Bus stop, Police station, Post office, Telegraph road, PCO, Block headquarter, Bank, Regular market, Rural weekly market, Fair price shop, Junior basic school, Senior basic school, High school / Higher secondary school, Non-formal education center, Total literacy center, Veterinary hospital / stockman center, Hospital / dispensary, Maternity center, Anganwadi center, Cinema, Library, Sales point of agricultural inputs, TRYSEM training center, Perennial source of drinking water, Cooperative society*

Source and Periodicity: administrative data from the relevant line departments, proposed as a part of the UP Human Development Initiative, data base development. Periodicity to be determined, likely ever 2-3 years.

### Quality of Services

*For health: availability of medical staff in government facilities, availability of essential medicines For education, teacher qualifications and training, teacher attendance, hours of classroom instruction, availability of textbooks and other supplies, etc. For water and sanitation, number and location of tubewells and other drinking water sources, quality of water, number of months water available for specific wells, quantity of water available during dry seasons.*

Source and Periodicity: data on perceptions about quality of selected services are to be collected by UP DES through light/priority survey agreed in project proposal. The baseline has been set by Poverty Module, state-sample 55<sup>th</sup> round, sampling, periodicity and design of the follow-up surveys is to be discussed and finalized with GOUP after release of baseline report and internal discussions. These data is to be augmented by quantitative indicators from administrative data from the relevant line departments. It is **proposed** to collect more extensive and disaggregated indicators, including indicators of access, quality, and satisfaction through **facility surveys** and as a part of **district monitoring system**.

3. Undertake a five-year program of data collection, including
  - (i) *baseline poverty monitoring surveys*

Progress, Immediate Next Steps. A baseline household survey, gathering information on most of the agreed monitoring indicators, was undertaken in conjunction with the state-sample of the NSS 55<sup>th</sup> round (Schedule 99, Poverty Module). The focus of the module was on outcome measures linked to service delivery and special programs for the poor, as well as a limited amount of information on user views and satisfaction. These data are now being tabulated and discussed with counterparts in GOUP. A joint GOUP/WB baseline report is under preparation, which draws on these data, administrative data, and other sources in establishing a project baseline.

- (ii) *annual special purpose surveys (e.g. indicators of service delivery at the local level).*

Progress, Immediate Next Steps. It was agreed at the outset of the project that regular, periodic monitoring surveys would be implemented once the baseline was established. Further, modalities would be agreed based on capacity of DES, agreed sources of information, and agreed periodicity. Discussions are being initiated with DES/Planning on the coverage, sample design, and periodicity of regular monitoring surveys. It is unlikely that these will be combined with the ongoing NSS state sample, both for reasons of geographic coverage and desired disaggregation as well as breadth of information needed. It is desirable that the first of these surveys be launched in January, 2002, two years after the mid-point of the baseline survey and well enough into the reform initiative that there may be evidence of real improvements (e.g. in delivery of key services). Note that no new survey work should be undertaken until the national and state sample frames are redone based on the 2001 Population Census (hopefully by Jan, 2002).

- (iii) *community-based monitoring in high profile districts.*

Progress, Immediate Next Steps. Following on earlier discussions, a draft proposal has been prepared with close links to performance monitoring and the governance component of the program. This will be discussed and agreements reached shortly (planned June, 2001) on initial actions required for implementing a pilot program. There are still outstanding questions regarding the role of DES and line departments within GOUP, and the advisability of involving local research organizations or NGOs in providing an audit function on administrative data. Note that one of the key objectives of the district level work is to improve the quality and accessibility of the vast amount of information collected by various implementing departments at the block and district level.

(iv) *monitoring of regionally disaggregated intermediate indicators (e.g. prices, wages)*

Progress, Immediate Next Steps. Price and wage data are collected on a monthly basis. Work is underway to develop a database system to make these data more readily available as well as reporting formats.

(v) *participatory studies, monitoring of qualitative outcome indicators.*

Progress, Immediate Next Steps. These will be discussed after building stronger analytic and monitoring capacity in the Planning Department, and getting the fundamentals of the statistical system better in place.

4. Institute regular reporting process, undertake policy and program analysis to inform decision making, particularly linked to reforms

Baseline data and first report under preparation. Further plans to be discussed and agreed over next 4-6 months.

5. Disseminate reports widely to public at large as well as a range of stakeholders, undertake information workshops, other dissemination exercises.

GoUP held informal workshop to discuss draft UP Poverty Assessment and UP PSMS in October, 2000, which was attended by a number of non-government individuals, including staff from several well-known research institutes. Planning follow on meetings when UP Poverty Assessment is released, also to disseminate findings of baseline monitoring report. Further dissemination efforts to be discussed, including broader dissemination on information at the local level.

#### **Outcome Indicators**

1. Reductions in poverty levels, including measurable improvements in backward districts.
2. Improvements in living conditions for vulnerable groups, especially socially excluded or marginalized groups.

**Additional Annex 12. Poverty and Social Impact Indicators - Table 2 (current baseline estimates)**

*POVERTY AND SOCIAL IMPACT INDICATORS — Table 2 (current baseline estimates)*

<b>Geographic/ social group disaggregation</b>	<b>Data Sources</b>	<b>Reporting Periodicity</b>	<b>Current baseline estimates/source</b>
<b>Consumption and income: Annual growth rate</b>			
State	UP DES, Annual state series	Annually	Gross State Domestic product: 1997-98 0.1%; 1998-99 -6.9% ; 1999-00 5.7%; Agriculture and Allied Services: 1997-98 -4.4%; 1998-99 2.7%; 1999-00 5.7%; Industry: 1997-98 -0.2%; 1998-99 14.3%; 1999-00 5.4%; Services: 1997-98 4.8%; 1998-99 6.5%; 1999-00 5.9%. <i>Source: UP DES; at 1993-94 prices</i>
<b>Per-capita monthly expenditure</b>			
State, Urban/Rural, NSS Regions ; Poor – non-poor, SC/ST – majority	Quinquennial NSS Consumer Expenditure Survey, central and state samples.	Every 5 years	1999-00: Rs./person/month (30 day reference period) Total expenditures 466.7 (100%) Total food 268.0 (57.4%) Cereals 98.0 (21.0%) Education 10.5 (2.2%) Medical 38.6 (8.3%) <i>Source: 55<sup>th</sup> Round NSSO, central sample.</i>  Data from 55 <sup>th</sup> state sample is being processed
<b>Poverty: Headcount, Poverty-gap, FGT P2 measure (severity of poverty)</b>			
State, Urban/Rural, NSS regions; SC/ST – majority	Quinquennial NSS Consumer Expenditure Survey, central and state samples.  Forecasting model in intervening years	Every 5 years	Current Baseline Estimates not available, pending resolution of internal discussion on comparability of NSS 55 <sup>th</sup> round with previous rounds of the NSS. (see UP poverty assessment for fuller details)
<b>Employment and wages: Wages (agriculture, non-agriculture) and (proposed) prices</b>			
State, Urban/Rural, District	UP DES, monthly monitoring at block and district level.	Monthly	See below *



<b>Geographic/ social group disaggregation</b>	<b>Data Sources</b>	<b>Reporting Periodicity</b>	<b>Current baseline estimates/source</b>
<b>Infant Mortality</b>			
State, Urban/Rural; NSS Regions; Poor – non-poor; SC/ST – majority; Boys – girls	Sample Registration System, Office of the Registrar General (ORG)	Annual	1998: 85 death per 1000 live births <i>Source: Office of the Registrar General</i>
	Sample survey of households such as National Family Health Survey (NFHS-2)	5 years	1998- 1999: Number of death per 1,000 live birth, 0-4 years preceding the survey –overall 116  <i>Source: National Family Health Survey(NFHS-2) International Institute for Population Studies, Measure DHS, ORC Macro</i>
<b>Education: Literacy</b>			
State, Urban/Rural; NSS Regions; Poor – non-poor; SC/ST – majority; Boys – girls	UP DES	To be finalized, 12-18 mos	Data from 55 <sup>th</sup> round state sample is being processed
	Sample survey of households such as National Family Health Survey (NFHS)	5 years	1998-99: Men – 71.8% Women - 62.7%  <i>Source: National Family Health Survey(NFHS-2) International Institute for Population Studies, Measure DHS, ORC Macro</i>
	Population Census of India	10 years	Feb, 2001: Men –70.9% Women –51.2% All-61.1% <i>Source: Census of India 2001</i>
<b>Enrollment rates for children aged 5-14 years</b>			
State, Urban/Rural; NSS Regions; Districts; Poor – non-poor; SC/ST – majority; Boys – girls	UP DES	To be finalized, 12-18 mos	Data from 55 <sup>th</sup> state sample is being processed
	Administrative data	Annual	Data is forthcoming
	Population Census of India	10 years	Data is forthcoming
<b>Drop-out rates for children aged 5-14 years</b>			
State, Urban/Rural, Region, District; Boys – girls	Department of Education, Administrative Data	Annual	Data is forthcoming
<b>Completion rates for children, primary, secondary</b>			
State, Urban/Rural; NSS Regions; Poor – non-poor; SC/ST – majority; Boys – girls	UP DES	To be Finalized, 12-18 mos	Data from 55 <sup>th</sup> state sample is being processed
	Administrative data, Department of Education	Annual	Data is forthcoming

<b>Geographic/ social group disaggregation</b>	<b>Data Sources</b>	<b>Reporting Periodicity</b>	<b>Current baseline estimates/source</b>
<i>Housing Conditions: Percentage of households living in slum areas</i>			
State	SUDA data base	Annual	Data is forthcoming
<b>Percentage of households having latrine facilities in their house</b>			
State, Urban/Rural; NSS Regions; Selected distr. Poor – non-poor; SC/ST – majority	UP DES, District Monitoring	To be finalized, 12- 18 mos	Data from 55 <sup>th</sup> state sample is being processed
<b>Distribution of households according to the source of drinking water</b>			
State, Urban/Rural; NSS Regions; Selected distr.; Poor – non-poor; SC/ST – majority	UP DES, District Monitoring	To be finalized, 12- 18 mos	Data from 55 <sup>th</sup> state sample is being processed
<b>Percentage of households living in electrified dwellings</b>			
State, Urban/Rural; NSS Regions; Selected distr. Poor – non-poor; SC/ST – majority	UP DES, District Monitoring	To be finalized, 12- 18 mos	Data from 55 <sup>th</sup> state sample is being processed
<i>Participation in government programs: Access to Anti-poverty programs and schemes (percentage of persons Benefiting from employment/welfare schemes such as public works, TPDS, IRDP)</i>			
State, Urban/Rural; Selected distr. Poor – non-poor; SC/ST – majority	UP DES, District Monitoring	To be finalized, 12- 18 mos	Data from 55 <sup>th</sup> state sample is being processed

Geographic/ Social group disaggregation	Data Sources	Reporting Periodicity	Current baseline estimates/source
<b>Health (percentage of pregnant women registered for prenatal care during last one year and Percentage of deliveries attended by Doctor/Trained Nurse/Dai during last one year)</b>			
State, Urban/Rural; Selected distr. Poor – non-poor; SC/ST – majority	UP DES	To be finalized, 12- 18 mos	Data from 55 <sup>th</sup> state sample is being processed
<b>Education (Percentage of children enrolled in non-formal or alternative schooling programs and Percentage of 0-5 year-olds attending ICDS anganwadis)</b>			
State, Urban/Rural; Selected distr. Poor – non-poor; SC/ST – majority; Boys – girls	UP DES	To be finalized, 12- 18 mos	Data from 55 <sup>th</sup> state sample is being processed
<b>Awareness of health programs and social rights: Percentage of households aware of the following: Immunization of children, vaccination of pregnant women, Iodized salts, Use of ORT, Contraceptives, Minimum wage act, etc.</b>			
State, Urban/Rural; Selected distr. Poor – non-poor; SC/ST – majority	UP DES	To be determined	Data from 55 <sup>th</sup> state sample is being processed
<b>Access to facilities/services: Distance to nearest facility/service, Metalled Road, Other roads, Railway station, Bus stop, Police Station, Post office, Telegraph road, etc.</b>			
State, Urban/Rural; Selected distr. Poor – non-poor; SC/ST – majority	Administrative data	Annual	Data is forthcoming
<b>Quality of services: For health: availability of medical staff in government facilities, etc., For education: teacher qualifications and training, etc. For water and sanitation: number and location of tubewells.</b>			
State, Urban/Rural; Selected distr. Poor – non-poor; SC/ST – majority	UP DES	To be finalized, 12- 18 mos	Data from 55 <sup>th</sup> state sample is being processed
<b>Other indicators, comments, etc.</b> Wherever feasible indicators will be collected through integrated household-survey instruments so as to permit disaggregation by important Groups of interest, such as by gender, poor/non-poor, backward regions, socially disadvantaged groups, etc. Other important performance monitoring indicators such as school learning achievement and behavioral outcomes, process indicators such as whether test-books and other material reach schools in time, teacher attendance and regularity, etc., supplementing quantitative data with qualitative assessments, etc to also be eventually incorporated into the monitoring system once capacity within GOU/DES improves.			

\* Current Baseline Estimates: 1993-94 – 1998-99, 1999-00 pending

Real Agr. Wage Index (1993=100)	93-94	94-95	95-96	96-97	97-98	98-99	Actual Wages (Rs. 1993-94)
Unskilled Average	100.0	96.9	99.2	96.6	108.7	109.6	31.0
Himalyan	100.0	95.6	99.8	96.9	103.9	104.7	39.1
Western	100.0	95.1	95.4	91.8	105.5	105.1	36.9
Central	100.0	97.4	103.3	100.0	109.1	110.7	25.8
Eastern	100.0	98.0	100.1	99.6	113.2	113.2	27.2
Southern	100.0	100.2	105.1	95.9	101.5	114.9	28.4

### **Additional Annex 13. Background and Task Team**

This is the Implementation Completion Report (ICR) for the Uttar Pradesh Fiscal Reform and Public Sector Restructuring (UPFRPSR) Credit/Loan, for an amount equivalent to US\$251 million. The operation was approved by the World Bank in April 2000 and disbursed to the Government of India (GoI) in May 2000. The proceeds of the loan/credit were received by the Government of Uttar Pradesh (GoUP) in June, 2000.

The UP Fiscal Reform and Public Sector Restructuring Credit/Loan supported the launch of multi-year fiscal and governance reforms by the Government of Uttar Pradesh, to turn around a situation of economic stagnation and slow progress in reducing massive poverty in the state. The operation was part of an overall program of assistance to the state of Uttar Pradesh. The one-tranche operation was approved on the basis of up-front actions taken by the GoUP during 1999-00 (April-March), the first year of a medium-term fiscal and governance reform program.

The ICR was prepared by a team led by Manuela Ferro and V. J. Ravishankar (SASPR, Senior Economists and co-Task Leaders), under the guidance of Edgardo Favaro (SASPR, Lead Economist). Team members included Sanjay Pradhan, Farah Zahir, Robert Beschel, Valerie Kozel, Vikram Chand, Rajni Khanna, Jillian Tullett, Vinod Ghosh (SASPR), Clive Harris (SASFP), Vinod Sahgal (OEDCM), and T. K. Balakrishnan (SASRD). Useful comments were received from Manuel Penalver (SARVP), Salvatore Schiavo-Campo, Edward Mountfield, Mark Sundberg, Elena Glinskaya, Lili Liu (SASPR), Mohinder Gulati, Sameer Shukla, and Kari Nyman (SASEG), and Shahrokh Fardoust (DECVP). The ICR was reviewed by Roberto Zagha (Sector Director), Edwin Lim (Country Director), Joëlle Chassard (Country Coordinator) and Christopher Hoban (Operations Advisor).

Preparation of the ICR began in November 2000. An ICR Mission visited New Delhi and Lucknow during January 29-February 16, 2001 and the Aide Mémoire of the ICR Mission is attached as part of the supporting documentation. A matrix of Reform Output/Process/Outcome Indicators is attached as Annexes 9, 10, 11 and 12.

This ICR is based on the Government of UP's audited accounts for 1999-00, which have become recently available. The ICR also looks forward beyond the specific program supported by the operation, and analyzes the "revised estimates" presented by the GoUP for 2000-01. In the area of governance, the ICR reviews the follow-up actions and initial outputs/outcomes, based on information available for the first 3 quarters of 2000-01, the second year of the reform program. The borrower (Government of India) and implementing agency (Government of Uttar Pradesh) contributed to the preparation of the ICR with their own evaluations of the operation.