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**PERFORMANCE AUDIT REPORT**

**INDIA**

**SOCIAL SAFETY NET SECTOR ADJUSTMENT PROGRAM  
(CREDIT 2448-IN)**

June 19, 1998

*Operations Evaluation Department*

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## Currency Equivalents (annual averages)

*Currency Unit = Country Currency (\$\$)*

1987	US\$1.00	R12.96
1988	US\$1.00	R13.92
1989	US\$1.00	R16.23
1990	US\$1.00	R17.50
1991	US\$1.00	R22.74
1992	US\$1.00	R25.92
1993	US\$1.00	R30.49
1994	US\$1.00	R31.37

## Abbreviations and Acronyms

BIFR	Board for Industrial and Financial Reconstruction	NCAER	National Council for Applied Economic Research
CAS	Country Assistance Strategy	NCFW	National Credit Fund for Women
CEM	Country Economic Memorandum	NDC	National Development Council
CPSE	Central Public Sector Enterprises	NRF	National Renewal Fund
DEA	Department of Economic Affairs	NRV	Nehru Rozgar Yojana (urban public employment program)
DPEP	District Primary Education Program	NSSO	National Sample Survey Organization
GDP	Gross Domestic Product	OED	Operations Evaluation Department
GOI	Government of India	PCR	Project Completion Report
ICDS	Integrated Child Development Services	PDS	Public Distribution System
IDA	International Development Association	PHC	Primary Health Center
IIM	Indian Institute of Management	SAL	Structural Adjustment Loan
IIT	Indian Institute of Technology	SAR	Staff Appraisal Report
JRY	Jawahar Rozgar Yojana (rural public employment program)	SSCC	Standing Social Sector Coordination Committee
MMR	Maternal Mortality Ratio	SSN	Social Safety Net
MNP	Minimum Needs Program	VRS	Voluntary Retirement Scheme
MOWCD	Ministry of Women and Child Development		
MOHFW	Ministry of Health and Family Welfare		

## Fiscal Year

Government: April 1–March 31

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June 19, 1998

**MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT**

**SUBJECT: Performance Audit Report on India  
Social Safety Net Sector Adjustment Program (Credit 2448-IN)**

Attached is the Performance Audit Report (PAR) on the Social Safety Net (SSN) Adjustment program prepared by the Operations Evaluation Department. The credit, for US\$500 million, was approved in FY93 and was closed on August 31, 1994, following two extensions to allow for the conditions of second tranche to be met and released. The credit was fully disbursed on October 20, 1994.

This was one of three adjustment projects (totaling US\$1.3 billion) designed to help India weather its balance of payments crisis and to support a broad set of policy reforms in the investment regime, trade policies, the financial sector, taxation, and public enterprise reform. The objective of this project was to aid the process of structural adjustment by helping to mitigate potentially negative consequences on the poor. This was to be accomplished through financing the existing social safety net, expanding coverage and promoting greater efficiency and effectiveness in the delivery of social programs, and financing a new, temporary safety net for industrial workers subject to retrenchment through industrial restructuring.

The PAR finds that although the basic objectives of the project were achieved, in the sense that all policy conditions were met, its design was not well grounded in India's macroeconomic context and failed to achieve any significant fiscal adjustment. The audit mission found little evidence of major change in the structure of government spending across or within social sector programs—although in real terms total central government spending on social sector programs increased—and even less evidence to show that the programs selected for support were the most appropriate for mitigating the social costs of adjustment. The project lacked evaluative mechanisms to enable an assessment of the effectiveness of the social safety net programs included in the SSN adjustment program.

The absence of reliable information on social expenditures at the state level, trends in the quality of programs, or the effects of inflation on the poorest groups precludes an assessment of the impact of the operation on the poor and vulnerable. This basic problem is compounded by the large and diffuse number of conditions attached to the operation, their limited focus on institutional determinants of program efficiency and effectiveness, and the lack of objective and monitorable performance indicators in the project. Accordingly, where the ICR rates the project as satisfactory because its policy conditions were met, the audit rates the project outcome as marginally satisfactory. The audit, similar to the ICR, rates project sustainability as likely, since the GOI demonstrated its capacity to maintain and increase real expenditures for the selected social sector programs. The audit rates the project's contribution to institutional development as negligible (ICR—modest), since the operation did little to modify

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institutional arrangements in the social sectors, despite its concern with the promotion of “convergence” in the design of these programs. Borrower performance is rated as satisfactory by both the audit and the ICR, since the GOI did meet the conditions of tranche release. The audit mission rates Bank performance as unsatisfactory (ICR—satisfactory) because the project missed an important opportunity to promote qualitative changes in social safety net programs or to ease institutional constraints on program efficiency and effectiveness.

Two lessons can be drawn from this project. First, it is important that apparent opportunities, such as those present at the identification stage for this project, for major adjustment efforts be balanced with a realistic assessment of the constraints to sectoral performance. This understanding needs to be sufficiently robust to assure the design of policy conditions that will genuinely influence sectoral performance. A more robust understanding of social sector policies in India might have led to better selection of SSN’s policy targets (e.g., food distribution and income transfer schemes) and most certainly would have stimulated sharper, more focused efforts to relieve efficiency constraints in the social sectors. Second, the failure of the SSN project to demonstrate changes in the effectiveness of safety net programs, and only marginal influence on the fiscal budget, suggests a need for greater rigor in the selection of conditions and the development of more explicit links between sectoral and macroeconomic policy dialogue.

Robert Picciotto  
by Roger Slade

Attachment

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## Principal Ratings

	<i>ICR</i>	<i>PAR</i>
<b>Outcome</b>	Satisfactory	Marginally Satisfactory
<b>Sustainability</b>	Likely	Likely
<b>Institutional Development</b>	Modest	Negligible
<b>Borrower Performance</b>	Satisfactory	Satisfactory
<b>IDA Performance</b>	Satisfactory	Unsatisfactory

## Key Staff Responsible

	<i>SSN (Credit 2448-IN)</i>		
	<i>Task Manager</i>	<i>Division Chief</i>	<i>Country Director</i>
<b>Appraisal</b>	Richard Cambridge	(Heinz Vergin)	Heinz Vergin
<b>Midterm Review</b>	Richard Skolnik	Richard Skolnik	Heinz Vergin
<b>Completion</b>	Richard Skolnik	Richard Skolnik	Heinz Vergin

## **Preface**

This is the Performance Audit Report (PAR) for the Social Safety Net Sector Adjustment Program (SSN), Credit 2448-IN, in India. The credit, in the amount of SDR 354.7 (US\$500 million equivalent at appraisal), was approved on December 17, 1992, and became effective on December 21, 1992. In addition to financing from IDA, the government of the Netherlands provided 100 million Dutch guilders (US\$55.6 million equivalent). USAID provided parallel financing of US\$35 million for activities related to the National Renewal Fund (NRF). A grant from the government of Japan for Yen 40.5 million (US\$377,500 equivalent) and a Swiss grant of US\$200,000 also assisted in the development of the NRF component of the program. Related to the SSN and the subsequent IDA-assisted District Primary Education Project (DPEP), the European Community provided ECU 150 million (US\$184.5 million equivalent) in parallel financing for the development of primary education.

The credit was closed on August 31, 1994. The original closing date was December 31, 1993. The closing date was extended twice, first to June 30, 1994, and then to August 31, 1994, to allow sufficient time for the conditions for the second tranche release to be met and for the tranche to be released. The credit was fully disbursed on October 20, 1994.

The PAR is based on review of the credit agreements, credit documents, sector and economic reports, project files, discussions with concerned Bank staff and officials of the Government of India, and a field visit in April 1996. The cooperation and assistance of the many individuals that shared their observations about the audit mission are gratefully appreciated.

Following standard OED procedures, copies of the draft PAR were sent to relevant government officials for review and comment. No comments were received.

## 1. Introduction

1.1 In the early 1990s, India's macroeconomic situation was deteriorating. In 1990–91 the central government deficit reached 9 percent of GDP. Inflation, which had stayed in single digits throughout the 1980s, rose to 17 percent in August 1991. On the external front, the current account deficit of the balance of payments rose to 3.4 percent of GDP; the country's external debt grew to US\$70 billion; and the debt-service ratio increased to 29 percent of exports. Despite the government's efforts at import compression, and the mobilization of part of India's gold stock, foreign exchange reserves declined rapidly. By mid-1991, fiscal and current account deficits were reaching unsustainable levels, compounded by the impact of the 1990 Middle East crisis and growing domestic political uncertainty. India was on the verge of default.

1.2 Against this backdrop, a new government came to power in June 1991 and moved swiftly to introduce an impressive set of measures aimed at dealing with the immediate external liquidity crisis, redressing fiscal imbalances, and most important, restructuring the economy. The Bank Group also moved swiftly to support stabilization and structural reforms. Fast-disbursing assistance came in the form of the Bank's first Structural Adjustment Loan/Credit (SAL I, Ln. 3421-IN/Cr. 2316-IN) to India in December 1991.<sup>1</sup> The main objectives of the SAL were to help India weather its balance of payments crisis and to support the policy reforms of the new government in reducing the size of the fiscal deficit and liberalizing the economy.

1.3 The general macroeconomic situation and projections about India's exceptional financing gap laid the foundation for two subsequent adjustment operations: the Social Safety Net Adjustment program (US\$500 million, Cr. 2448-IN), approved in December 1992, which is the subject of this audit, and the External Sector and Investment Regime Liberalization program (US\$300 million, Ln. 3627-IN), approved in June 1993. The total volume of adjustment lending undertaken during this period is set out in Table 1.1.

**Table 1.1. India: Adjustment Operations, 1991–93<sup>a</sup>**

<i>Title</i>	<i>Number</i>	<i>Type</i>	<i>Approved</i>	<i>Amount (\$ million)</i>	<i>Cumulative (\$ million)</i>
Oil and Gas Sector Development	Ln. 3391	SAD	June 1991	150.0	150.0
Structural Adjustment I	Ln. 3421/ Cr. 2316	SAL/SAC	December 1991	500.0	650.0 <sup>b</sup>
Social Safety Net Sector Adjustment Program	Cr. 2448	SAD	December 1992	500.0	1,150.0
External Sector and Investment Regime Liberalization	Ln. 3627	SAD	June 1992	300.0	1,450.0

a. The total number of adjustment operations fell short of the original target because of the speed with which the balance of payments crisis was solved.

b. See Project Completion Report No. 14582, June 7, 1995, and Project Performance Audit Report No. 15774, June 19, 1996.

1.4 Besides the general deterioration in India's macroeconomic situation, two other developments are important for understanding the background to the Social Safety Net Adjustment program. The first development was the growing concern that India's existing social

1. The SAL I was audited by OED in June 1996 (Report No. 15774) and received a satisfactory rating.



safety net was at risk from budget cuts imposed by fiscal adjustment. The second development was the new emphasis in the Bank's collaboration with the Government of India (GOI) in the social sectors.

1.5 *The Social Safety Net.* From the start of the Fifth Five Year Plan (1977–82), the GOI had in place a set of core social programs intended to assist and protect the poorest populations. These programs included (i) the Minimum Needs Program (MNP) which covered, *inter alia*, primary education, rural health, rural water and sanitation, nutrition, and food security, financed in part or entirely from the states' Annual Plans; and (ii) a number of high profile social safety net programs financed entirely by the central government, including the Public Distribution System (PDS), the Integrated Child Development Services program (ICDS), and two employment- and income-generating programs (*Jawahar Rozgar Yojana* (JRY) and *Nehru Rozgar Yojana* (NRY)). By any measure, this was an impressive set of safety net programs for protecting the poor and vulnerable, amounting to about 8.4 percent of GDP in 1992, and approximately 40 percent of total social sector outlays.

1.6 By the late 1980s, however, there was some indication that the MNP was underfunded, and program implementation was being hampered by institutional and management weaknesses, especially at the state level. Concerns about a possible cut (in real terms) in the budget for key social safety net programs for FY92–93 was an added warning that measures to reduce the fiscal deficit might adversely effect the social safety net. A key objective of the SSN was to ensure that this did not happen.<sup>2</sup>

1.7 *Bank Involvement in the Social Sectors.* Prior to 1988, the Bank's role in the social sectors in India was limited. From 1962–87, lending to PHN and education constituted less than 1 percent of total Bank Group lending to India. There was almost no sector work in these areas and no dialogue on education, health, or nutrition. No lending pipeline existed outside of population.

1.8 In 1988 a major shift took place in which the Bank and the GOI agreed to make the human resources sectors a critical focus of their dialogue and overall collaboration. This agreement was immediately followed by two important pieces of economic and sector work: the 1989 Country Economic Memorandum (1989 CEM) on poverty and the 1991 Gender and Poverty Country Study, both of which incorporated analyses of India's social sector and antipoverty programs. A pipeline of investment operations also became effective during this period including a series of follow-up population projects in 1988, 1989, and 1990; the Second Tamil Nadu Nutrition project in 1990; two projects supporting the Integrated Child Development Service (ICDS) in 1991 and 1992; the first health project (Child Survival and Safe Motherhood) in 1991; and the Bank's first-ever investment in primary education—the Uttar Pradesh Basic Education project in 1993. By 1991 lending for human resources had risen to 20 percent of the Bank's total lending in India.<sup>3</sup>

1.9 Against this background, the Social Safety Net Adjustment program was intended to provide fast-disbursing balance of payment support in exchange for the maintenance of Central Plan spending in selected social programs and specific improvements in the targeting, efficiency,

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2. "To maintain the quality of fiscal adjustment, the stabilization and adjustment program should not have a negative impact on the social safety net" (President's Report, p. 31).

3. Estimates for FY96 put Bank lending for human resources at US\$775.2 million or 37 percent of total IBRD/IDA lending in India.

and effectiveness of these programs, along with support for a new temporary safety net for retrenched industrial workers.

1.10 The audit finds that within the narrow confines of its objectives the SSN was implemented satisfactorily. It built on actions already undertaken or planned by the GOI and helped to accelerate them during a period of adjustment. But the audit also finds that, as an adjustment operation—and the first sectoral program of its kind in India—neither the policy content, nor the specific measures to improve efficiency and effectiveness, amounted to a tangible change in the way India was supporting its safety net or an improvement in its impact on the poor. To a large extent, the contribution of the operation was maintaining the financial status quo. As a result its value-added for the social sectors was minimal, and the question that arises is whether, given the macroeconomic and fiscal context of the time, this was the appropriate (or only) path to follow.

## 2. Identification

2.1 The Bank's assistance strategy for India in FY91–92 set out as a key objective the need to support and maintain progress in stabilizing and reforming India's economy. The main vehicles for this support were (i) a continuation of economic and sector work centered on stabilization and structural reform issues and policies that would improve the performance of key sectors (infrastructure, agriculture, energy, and social sectors); (ii) adjustment lending supporting key structural reform measures; and (iii) investment lending for projects in agriculture, infrastructure, and social sectors—including antipoverty projects—in response to, and in support of, major improvements in sectoral policies and capacity building.

2.2 Based on India's macroeconomic situation and projected exceptional financing requirement of US\$2.4 billion per year for three to four years, the Country Assistance Strategy (CAS) for 1991 set out a plan for up to three adjustment operations per year for three to four fiscal years, reaching 25–30 percent of the total IBRD/IDA lending plan of US\$3 billion per year. These fast-disbursing resources were intended to support structural and sectoral policy reforms in a range of sectors, underpin the transition to a viable balance of payments situation, and help moderate inflation and other social costs of the reform program.

2.3 The chief risk associated with the Bank's assistance strategy was identified as a "(F)ailure to sustain the pace of stabilization and reform because of a social reaction to the adverse consequences of the adjustment program" (CAS 1992). Inadequate transitional balance of payments support was a second important risk. In light of these risks, the Social Sector Adjustment Credit of US\$500 million would contribute both toward India's exceptional financing requirement and toward mitigating some of the transitional costs of the stabilization and reform program. In the words of the President's Report and the Letter of Development Policy:

The proposed sector adjustment credit is part of the official aid community's evolving plan to meet India's exceptional financing needs over a three-to-four year adjustment period, and thus support the country's ongoing stabilization and reform program. . . . Without it, the transitional costs of adjustment would be higher, domestic resource mobilization efforts would need to increase, or the country would have to reduce investment. Either one of these alternatives would have negative repercussions on the poor, the ones most vulnerable to reductions in growth of per capita consumption or total output" (President's Report, p. 43, para. 109).

The current agenda for stabilization and structural reforms entail significant transitional costs. To mitigate the social costs of adjustment the Government of India is proposing to strengthen the Social Safety Net as an adjunct to the Structural Adjustment Program, to ensure that the level of effort in the social sectors in general, and for the MNP in particular, is maintained during the process of severe fiscal adjustment. . . (Annex to the Letter of Development Policy, para. 2).

2.4 Identification of the SSN began in January 1992. The operation gained Board approval in December 1992. During that time the program evolved from an early and somewhat narrow focus on the transitional costs of labor retrenchment associated with the government's industrial restructuring efforts to a broader focus on protecting and strengthening priority social programs in the existing social safety net. In line with the areas of special emphasis laid out in the CAS, financial support for these social programs would emphasize improving coverage, quality, and cost effectiveness, and improved targeting to weaker social groups. By strengthening existing programs in the social safety net and supporting a new temporary safety net for retrenched workers, the SSN was expected to accelerate the development of India's human resources and enhance political support for the government's reform program.

### 3. Program Objectives and Design

#### Program Objectives

3.1 The Letter of Development Policy states that “To mitigate the costs of adjustment, the Government of India is proposing to strengthen the Social Safety Net as an adjunct to the Structural Adjustment Programme.” This would be done by (i) ensuring that the level of effort in the social sectors in general, and in the MNP in particular, is maintained during the process of fiscal adjustment; (ii) enhancing this effort by expanding coverage of key social programs in the most disadvantaged regions; and (iii) supporting a new temporary safety net for workers affected by industrial restructuring. The chief objective of the SSN was to support the GOI in these efforts.

3.2 The main actions to be undertaken in the SSN are set out in the President’s Report as follows:

- *Sector policies* including making changes in the National Policy on Education and formulating a new National Nutrition Policy
- *Targeting of resources to disadvantaged regions and groups* including implementing a new district-based primary education program, enhancing primary health care and safe motherhood, focusing ICDS activities in districts with above average infant mortality, and developing a new temporary safety net for retrenched industrial workers
- *Reorienting financial resources in the social sectors* including increasing Eighth Five Year Plan allocations for primary education and increasing efforts to mobilize resources in institutions of higher and technical education and increasing financial norm allowances for supplementary feeding under ICDS
- *Key program changes to enhance efficiency and effectiveness* including establishing minimum levels of learning and a focus on basic competencies in primary education; implementing new work routines in the primary health system; and developing new and improved management information systems in primary education, health, and ICDS to improve program monitoring and supervision.

#### Program Design

3.3 Preparation of the SSN program began in April 1992, and the program was approved by the Board on December 12, 1992. The operation was designed to disburse in two tranches against a negative list of imports. The first tranche release (US\$250 million) would be available upon credit effectiveness, based on significant up-front actions by the GOI. The second tranche (US\$250 million) was planned for June or July 1993 based on significant achievement of conditions set out in the policy action matrix. In addition, the Government of the Netherlands provided joint financing for the program of 100 million Dutch Guilders (US\$55.56 million equivalent). USAID provided parallel financing of US\$35 million for activities related to the National Renewal Fund. A grant from the Government of Japan for Yen 40.5 million

(US\$337,500 equivalent) and a Swiss grant of US\$200,000 also assisted the development to the NRF component of the program.

3.4 A detailed description of specific policy and program changes is in the policy action matrix (see Annex B). What follows is a discussion of some of the salient features of the SSN program grouped under three main headings: financing the safety net; improving the policy environment; and improving program targeting, efficiency, and effectiveness.

#### *Financing the Existing Safety Net*

3.5 To ensure that “. . .the stabilization and adjustment program (w)ould not have a negative impact on the social safety net” (President’s Report, p. 31), the SSN sought government commitment of additional resources to sustain centrally sponsored programs in primary education, primary health, disease control, and nutrition (ICDS) through the end of the Eighth Five Year Plan period in 1997. As part of the condition for first tranche release, the GOI would make a supplementary budget allocation of US\$83.3 million in FY92–93 to ensure that these core social programs were maintained in real terms at FY91–92 levels.

**Table 3.1. Projected Social Safety Net Expenditures and Program Enhancements, 1992–93 to 1996–97 (Rs million)**

	<i>Primary Education</i>	<i>Primary Health Care</i>	<i>Disease Control</i>	<i>ICDS</i>	<i>NRF</i>
<b>Actual<sup>a</sup></b>					
1992–93	3,440.0	4,561.0	2,746.7	5,160.0	
<b>Projected<sup>b</sup></b>					
1993–94	3,784.0	5,017.1	3,021.4	5,676.0	
1994–95	4,162.4	5,518.8	3,323.5	6,243.6	
1995–96	4,578.6	6,070.7	3,655.9	6,868.0	
1996–97	5,086.5	6,677.8	4,021.4	7,554.8	
<b>Enhanced Program Inputs<sup>c</sup></b>					
1993–94	400.0	550.0	250.0	828.6	
1994–95	2,000.0 <sup>d</sup>	700.0	1,300.0	450.0	
1995–96	6,000.0	750.0	1,400.0	600.0	
1996–97	11,100.0	750.0	1,500.0	600.0	
<b>Total Enhancements</b>	19,500.0	2,750.0	4,500.0	2,473.6	
<b>Annual Plan Budget + Enhancements</b>					
1993–94	4,140.0	5,567.1	3,271.4	6,499.6	2,000.0
1994–95	6,162.4	6,218.8	4,628.5	6,693.6	2,000.0
1995–96	10,578.6	6,820.7	5,055.9	7,468.0	2,000.0
1996–97	16,136.5	7,427.8	5,571.4	8,154.8	2,000.0

a. Includes Rs 2,500 million that was restored after the provision was announced.

b. Maintaining 1992–93 provision in real terms (10 percent annual increase).

c. Enhancements costed by Departments of Education, Health and Family Welfare, and Women and Child Development.

d. Primary education enhancements include the major expansion under the new district-based Primary Education Development Program.

3.6 The President's Report provides a summary of actual and projected fund requirements that would be necessary to maintain these core social programs at 1992–93 levels until FY96–97. The summary also includes an estimate of enhanced program inputs required to carry out the program improvements envisaged under the SSN. This summary is reproduced in Table 3.1. Based on these budget estimates, financing for these programs (excluding the NRF) was projected to rise from 4.6 percent of the total GOI Plan budget in 1992–93 to 5.66 percent in 1994–95, and eventually to 7.34 percent in 1996–97.<sup>4</sup>

3.7 It was also agreed as a condition of first tranche release that all external assistance to the social safety net would be treated as a net addition to existing plan outlays. This meant that the selected social programs would receive the enhancements committed to them as *additional to* funds already budgeted in the Eighth Plan. Together, the return to 1991–92 spending levels and the specific program enhancements were expected to maintain and enhance the quality of the existing safety net during a period of anticipated fiscal adjustment.

#### *Improving the Policy Environment*

3.8 The SSN also sought to increase the efficiency and effectiveness of the selected social programs by supporting a “new and revised policy environment,” the detailed elements of which are identified in the policy action matrix (see Annex B).

3.9 The building blocks of this new and revised policy environment comprised a series of actions already undertaken by the GOI to revise national policies on health (initially formulated in 1982 and under review in 1992), education (first prepared in 1986 and revised in 1992), nutrition (formulated in 1992), and an action plan for family welfare (revamped in 1991). In each case revisions sought to improve the overall quality, targeting, and cost-effectiveness of services and to strengthen sectoral planning capacity. In the case of education the revised policy statement went further to emphasize decentralized planning and management, especially for primary education.

3.10 The SSN also emphasized the need for improved coordination, planning, and management through the establishment of a Social Sector Coordination Committee charged with overseeing the preparation of the enhanced programs under SSN, commissioning a report on medium-term financing issues in the social sectors, and preparing guidelines for achieving greater convergence of key social programs in the most disadvantaged districts. Achieving greater convergence meant reducing duplication of services within and across programs and increasing coordination of basic services—such as immunization, family planning awareness, nutritional supplementation, and nonformal education—that cut across existing program boundaries.

#### *Improving Targeting, Efficiency, and Effectiveness*

3.11 Much of the detail of the SSN lies in measures to improve targeting and effectiveness in each of the selected social programs. Measures included more systematic targeting of disadvantaged social groups and geographic regions through the completion of detailed action plans under the new national Primary Education Development Program; the enhancement of

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4. On the assumption that GOI Annual Plan Outlays would increase by 10 percent per annum.

essential obstetric services and female doctors among selected primary health centers in 90 disadvantaged districts; reviews of the effectiveness and coverage of disease control programs for the control of blindness, malaria, and tuberculosis; and achieving feeding norms under the ICDS program in at least 50 percent of the *anganwadi*'s<sup>5</sup> in six states.

3.12 Support for a National Renewal Fund to provide compensation and transitional support to labor displaced in the process of public enterprise reform was also expected to improve the targeting and reach of the government's safety net at a time of economic restructuring. The main objectives of the NRF were to provide:

- (i) Funds for the compensation of employees affected by restructuring or closure of enterprises in both the public and private sectors
- (ii) Help with the costs of retraining and redeployment of employees as a result of modernization, technology upgradation, and industrial restructuring
- (iii) Funds for employment generation schemes in both the formal and informal sectors.

3.13 The NRF was initially designed by the GOI with three constituent windows. The first—the National Renewal Grant Fund—would act as a social safety net for industrial labor and deal with payments under the Voluntary Retirement Schemes (VRS) for public sector enterprises. The second window—the Employment Generation Fund—would provide grant funds for services such as counseling, retraining, or redeployment of affected workers and for approved employment-generation schemes. The third window—the Insurance Fund for Employees—would establish an unemployment insurance scheme using funds contributed by employers and employees for those firms and employees affected by industrial restructuring.

3.14 The NRF was established as a nonstatutory instrument within the Ministry of Industry in February 1992. It was expected to be a demand-driven fund, responding to requests for compensation and retraining from other ministries dealing with retrenched workers. The SSN would provide both financial support (see Table 3.1) and technical assistance to the NRF—specifically in the design of retraining and area employment-generation schemes. First tranche release conditions required that the NRF be fully operational with a business and financial plan for FY92–93, covering the sources and projected uses of funds and the projected number of workers to be affected. At the time of appraisal, the expectation was that some 70,000 workers per year would be retrenched as measures for industrial restructuring (under SAL I) began to take effect, and the business plan was initially prepared on this assumption. As a condition of second tranche release, the GOI would have made satisfactory progress in the implementation of the business plan during FY92–93, approved the business and financial plan for FY93–94, and ensured that funds necessary to meet projected requirements were allocated to the NRF account.

3.15 The SSN was designed to provide balance of payments support in return for ensuring that funding to the social safety net was not compromised during the process of structural adjustment. The operation was justified by the Bank on the grounds that (i) the GOI had already demonstrated its commitment to economic reform and to reducing the fiscal deficit, particularly in SAL I; (ii) the GOI had demonstrated its commitment to policy reform in the social sectors in a series of revisions to existing policy statements in 1991–92; and (iii) the primary concern was to mitigate

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5. An *anganwadi* is a preschool and supplementary feeding center catering to nutritionally at-risk children.



the potential social costs of adjustment by ensuring that spending levels in centrally sponsored social programs were maintained in real terms.

## 4. Findings

4.1 The data in Table 4.1 summarize India's balance of payments situation for the period 1988–89 to 1995–96. The figures show that from a peak of 3.4 percent of GDP in 1990–91, the deficit on the current account declined rapidly to just 0.3 percent in 1993–94, helped by a much larger accumulation of international reserves than was anticipated. India's success in restoring its external balance meant that the program of balance of payments support set out in the 1992 CAS was no longer necessary after 1993–94.

**Table 4.1. Balance of Payments (US\$ Million at Current Prices)**

	1988–89	1989–90	1990–91	1991–92	1992–93	1993–94
Current Account Balance	(8,609)	(7,380)	(10,140)	(1,639)	(3,890)	(685)
Change in Reserves (excluding gold) (I) = increase	1,432	850	1,771	(3,384)	(1,027)	(8,727)
Current Account Deficit % of GDP	3.1	2.7	3.4	0.7	1.6	0.3

Source: World Bank, 1995, India—Country Economic Memorandum. Washington, D.C.

4.2 Table 4.2 shows that projected growth rates during this period were in line with actuals. A number of other macroeconomic outcomes were less favorable. The public sector deficit averaged about 2 percent more of GDP than projected, and inflation averaged close to 10 percent as compared with a target of 6.5 percent, due mainly to the rapid build up of international reserves. While the GOI was reasonably successful in containing any appreciation of the real exchange rate, it was not so successful in containing the deficit and inflation.

**Table 4.2. Key Macroeconomic Indicators: Projected and Actual Growth Rates, 1991–92 to 1993–94**

	Rate of Growth (1992–94)	
	Projected	Actual
<i>Growth Rates (% per annum)</i>		
GDP	3.8	3.4
Inflation	6.5	9.6
Exports	10.8	11.9
Imports	4.6	9.7
<i>Ratios (% of GDP)</i>		
Fiscal balance	4.5	6.3

Source: Extracted from "Performance Audit Report: India Structural Adjustment Loan/Credit," OED, June 1996, p. 29.

4.3 Nevertheless, the government made deliberate efforts to protect expenditures on social programs. The share of social services in total central government expenditures (capital and revenue) increased slightly from 5.8 percent in 1988–89 to 6.5 percent in 1994–95, while total spending (center and state) on antipoverty programs approached 2 percent of GDP between 1992–93 and 1994–95. State spending on social services remained constant at around 5.3 percent of GDP.

4.4 In 1994–95 GDP growth in India was 5.3 percent—the highest since the reform program began in July 1991 and much better than many other economies going through similar

stabilization and reform programs. By this measure alone the GOI's macroeconomic reform program was heralded a success. But numerous challenges remain, including the need for sustained fiscal consolidation—including efforts to raise the level of public savings, improve the financial and administrative performance of central and state governments, and complete reforms in the agricultural, utilities, and infrastructure sectors.

### Financing the Existing Social Safety Net

4.5 Against this background the SSN sought to maintain the level of spending on the safety net. A condition of first tranche release was that the GOI approve a supplementary budget allocation to centrally sponsored schemes in primary education, primary health, communicable disease control, and ICDS for FY92–93. This was done through an allocation of Rs 2,500 million (US\$83.3 million) during 1992, or roughly 18 percent of the total budgeted for these schemes in 1992–93, bringing spending to levels equal to those in 1991–92.

4.6 As a condition of second tranche release, the GOI was to provide adequate funds to meet the additional costs in FY93–94 of the revamped and expanded social programs. The data in Table 4.3 show the total allocations (annual plan budget plus enhancements) agreed by the GOI at the time of second tranche release.

**Table 4.3. GOI Budget Allocations for Key Social Sector Programs (Rs million)**

	1992–93 <sup>a</sup>	1993–94 <sup>b</sup>	1994–95 <sup>b</sup>
ICDS	5,160.0	5,660.0	6,595.3
Primary Health Care	4,561.0	5,225.0	5,396.0
Disease Control	2,746.0	3,212.0	3,907.0
Primary Education	3,440.0	4,428.0	5,230.0

a. Revised estimates.

b. Budget estimates.

Source: India: Social Safety Net Sector Adjustment Program, Release of Second Tranche, July 9, 1994.

4.7 The increase in budget allocations for the period 1992–93 to 1994–95 ranged from 18 percent for primary health to 43 percent for disease control and 52 percent for primary education. For some individual subprograms budgeted increases were even higher—for example, spending on tuberculosis, leprosy control, and trachoma and blindness rose by 59 percent, 169 percent, and 100 percent, respectively (CEM 1995).<sup>6</sup> Notwithstanding the size of these spending increases in percentage terms, their aggregate impact on the social safety net as a share of the central plan budget was minimal—just under 3 percent over a four-year period (1992–93 to 1996–97).<sup>7</sup>

4.8 The data available suggest that in terms of the objective of maintaining spending in real terms on selected parts of the safety net, the SSN was implemented satisfactorily. Nevertheless, there is good reason to question whether in meeting this objective the SSN represented real value-added to the GOI.

6. Budget enhancements for each of the selected programs were positive (in real terms), but below levels estimated at appraisal as being necessary to enhance and sustain the programs until the end of the Eighth Five Year Plan in 1997.

7. A fact used by the Bank to (i) justify the limited attention given to fiscal impact during SSN preparation and (ii) rule out any contribution the SSN might make to the overall process of fiscal adjustment.

4.9 First, it is not clear from the data presented in the President's Report or from interviews with Department of Economic Affairs (DEA) officials at the Ministry of Finance that the problems facing the social safety net at the center were largely financial.<sup>8</sup> In fact, the share of spending on social and antipoverty programs at the central level had been increasing since the late-1980s. This is in contrast to spending at the state level.<sup>9</sup> The Bank's own documentation, including the 1989 CEM, points to serious funding problems and implementation weaknesses at the state level, where the bulk of social spending and program implementation takes place. Although these issues were well known, the SSN focused on spending *levels* over and above spending efficiency and effectiveness. It maintained the status quo by supporting a series of "top-down" social programs (primary education excepted) rather than attempting to address some of the outstanding fiscal and management issues affecting state-level social programs.<sup>10</sup> On these grounds alone, the SSN's value-added was relatively low.

4.10 Second, the question arises of whether, by financing the programs it did, the SSN was the most relevant instrument for ". . . mitigating the social costs of adjustment." Again, the evidence is mixed. On one hand, the SSN sought to protect the financial integrity of programs that benefit the poor during a period of fiscal consolidation. On the other hand, the programs it protected—primary education, primary health, and disease control in particular—were not the usual components of a safety net. In most cases, the immediate social costs on the poor during adjustment come from the effects of a reduction in government subsidies and from food price increases. Investments in primary health, disease eradication, and education are obviously key elements of a long-term strategy for protecting the poor, but such investments are not well placed to help mitigate these short-run costs. In fact, project files indicate that this selection of programs was not uncontroversial within the Bank. A number of technical staff believed the SSN should have addressed inequities and inefficiencies within food- and employment-based programs such as the JRY, NRY, and the Public Distribution System (PDS) in order to better protect the poor during adjustment. While this was by no means a simple alternative course of action, it is unclear

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8. World Bank staff in the India Department have disagreed with this point, arguing that fiscal restraint was already affecting social programs by 1992 and that this situation would have worsened if the Bank had not intervened with the SSN. It is impossible to verify this exactly, but given the new government's commitment to programs such as primary education and its efforts to strengthen the social safety net (independently of the Bank), it is not self-evident that this fiscal situation was going to continue to deteriorate in the absence of the SSN.

9. Primary education is a case in point. Public expenditures on primary education declined marginally between 1991–92 and 1992–93, from 1.57 percent to 1.51 percent of GDP. They recovered to 1.60 percent in 1993–94. But interestingly, during this period the central government increased its share of the total (albeit a small percentage), implying that the decline reflected lower spending by state governments (in relation to GDP). So while primary education expenditures remained constant as a share of GDP 1990–91 and 1994–95, they increased as a share of total central government revenue expenditures from 1.28 to 1.48 percent (CEM 1995, p. 126).

10. "Given the importance of the states in the delivery of [social] services, the failure to correct fiscal and institutional problems at the state level will jeopardize over time the capacity of the governments to provide the poor with the physical health, skills and opportunities needed to benefit from the growth process. In this context, it is especially worrying that recent efforts include only limited attempts to improve the administration of existing programs" (CEM 1995, page x). World Bank staff have argued that this was beyond the scope of the SSN. The complexity of intergovernmental fiscal arrangements, the fact the client in this case was the central government, and the sheer scale of social sector budgets in a country as large as India made any headway on these types of issues impossible for the SSN. It is the opinion of OED, however, that by maintaining the status quo, the operation possibly delayed consideration of some hard "policy" issues regarding the inefficiency of "top-down" program management, the inefficiency of existing intergovernmental fiscal arrangements, and medium-term issues regarding the sustainable financing of the safety net.

how the SSN, by supporting obstetric care in primary health clinics or district planning in primary education, was going to help ease the transitional costs of reform.<sup>11</sup>

4.11 As this discussion suggests, trying to decide what the SSN was, as opposed to what it was not, has proven difficult for the evaluators. The evidence so far suggests that, despite its name and classification, it was not a conventional sector adjustment operation. It was not concerned with fiscal impact, nor was it concerned with contributing to the process of fiscal adjustment. Nor was the SSN a conventional social safety net operation. The programs selected for support were, except for the NRF, only indirectly related to the social costs of adjustment. They were, however, important elements of a longer-term poverty alleviation strategy. So what was the SSN? The conclusion is that it was a *sui generis* operation—a hybrid—designed (quickly) to provide fast disbursing BOP support in exchange for the central government’s continued commitment to the financing of selected social programs. It also provided a timely vehicle for putting Bank–GOI dialogue in the social sectors onto more solid ground. But did it amount to real value-added?

### **Improving the Policy Environment**

4.12 Closely related to the objective of maintaining spending on the safety net was the objective of supporting a “new and revised policy environment” for the selected social programs. The GOI had already laid a foundation for this environment through revised policy statements on health, family welfare, education, and nutrition. In all cases the revisions focused on the need to improve the overall quality, targeting, and cost-effectiveness of services and to strengthen sectoral planning capacity. In education the revised policy statement went further to emphasize decentralized planning and management, especially for primary education.

4.13 SSN support for the revised policy statements achieved two things. First, it gave the necessary rationale for selecting an adjustment instrument; without some evidence that policy change was linked to the SSN, it would have been hard to justify a policy-based operation. Second, it was an effective way for the Bank to endorse what it saw as generally good government progress in revising the policy framework, especially in education.

4.14 Measuring the impact of these policy revisions goes beyond the scope of this audit. The audit mission found, however, that the policy revisions and their implementation were of uneven quality. The cases of family welfare and education are illustrative. In 1991, the National Development Council approved an action plan and policy for “Revamping the National Family Welfare Program,” which included (i) improving the quality and outreach of family welfare services in rural areas; (ii) focusing on disadvantaged districts; and (iii) enhancing the provision of safe motherhood interventions, especially in districts where the maternal mortality ratio (MMR) was above average. There is no doubt that, at the time, this was a valuable recognition of several major weaknesses in the government’s basic family welfare and primary health care strategies. Nevertheless, the action plan did not say how its intentions were to be translated into

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11. World Bank staff involved with the SSN have argued that despite its title, this was not the aim of the SSN, nor was it feasible in such an operation to tackle directly some of the short-run costs of adjustment on the scale required to make a real impact (except perhaps for the National Renewal Fund). In addition, the GOI defined its own social safety net to include programs such as primary education, primary health and disease control, and others not covered by the SSN, such as rural water and housing. It was therefore entirely appropriate for the Bank to select these particular programs for support, perhaps even more so given that the Bank was developing a pipeline of investment projects in these program areas and seeking to build its influence in the social sectors in India.

action, nor does it clarify central versus state responsibilities or specify how progress might be measured. Unfortunately, the policy action matrix in the SSN did not attempt to add these tangible elements to the action plan, leaving the impression that it was an important, but ultimately rhetorical, statement of intent.

4.15 By contrast, in 1992 the GOI revised its 1986 National Policy on Education, giving priority to universal primary education. Political changes at the time also opened the door to a more decentralized approach. The centerpiece of the GOI's policy change was the new national Primary Education Development Program, which was intended to channel funds to improve district-level primary education improvement efforts, mostly in low-literacy districts. This was a considerable step forward for planning and resource mobilization in education and heralded a new and brave approach for achieving universal primary education in India. It also opened up possibilities for direct involvement by the Bank and other donors in the area of primary education.

4.16 Such was the unevenness in the reform content of the revised policy statements that some observers have remarked that the main goal of the SSN was to strongly endorse the GOI's policy shift in primary education. To achieve this the Bank was prepared to go along with attempts to improve the policy environment in other areas, but with much less commitment (at the time) than in education.

4.17 To improve the momentum in the policy dialogue and to coordinate implementation of the SSN, second tranche release conditions also sought to establish a Social Sector Coordinating Committee to deal with coordination of SSN programs, generate studies on medium-term financing issues in the social sectors, and develop guidelines on resource mobilization and convergence in social programming. A mid-term review and interviews with Bank staff reveal that most of the activities requiring the work of the committee moved forward only slowly, including the review of financing issues (which ended up being of very low quality), methods for mobilizing nonbudgetary resources for higher and technical education, and ways of improving program coordination. The committee, which was crucial in establishing the initial sectoral dialogue on the SSN, did not survive the duration of the SSN. As more than one GOI official commented during the audit mission, this was largely due to the lack of "incentive mechanisms" within the GOI for interministerial cooperation. Had it remained intact, however, it would have been a useful vehicle for sustaining a high-level dialogue with the Bank on issues of intersectoral importance. As it was, the SSN was too fast-disbursing a vehicle to keep this momentum going.

### **Improving Targeting, Efficiency, and Effectiveness**

4.18 Much of the detail of the SSN lay in measures linked to improving the targeting and effectiveness of the selected social programs. The following section presents some of the findings of the audit mission.

4.19 *Primary Education.* The primary education component of the SSN effectively built on ongoing efforts within the Department of Education (DOE), as well as efforts by other donors, to experiment with alternative institutional arrangements for improving primary education. The shift to district- and village-level participation in the preparation of education action plans was an important strategic shift from earlier top-down approaches. Alternative institutional arrangements for managing the flow of funds to primary education projects involved, on one hand, *de facto* centralization of financing for primary education in selected states (including creating a single

window for donor financing in primary education) and, on the other, substantial decentralization of financial management to elected “societies” operating at the state and district level to oversee the flow of funds to district primary education projects.

4.20 Under the SSN, additional funds were allocated to the DOE for identifying educationally backward priority districts, completing detailed action plans in 20 or more of these designated districts, and funding at least 20 percent of the total amount required to implement these plans by the end of 1993–94. According to the DOE’s own records, implementation of the SSN conditions was carried out in full.

4.21 Around the time that second tranche release was initially scheduled to occur, the Bank’s first District Primary Education Program (DPEP I) preparation mission visited India. In November 1993 the preappraisal mission visited the priority states and districts. In July 1994 the Bank approved DPEP I. The strong synergy between SSN and DPEP I is acknowledged within the Bank and within the DOE. Whether DPEP I depended on the SSN is, however, much more difficult to determine. There is no doubt that DOE had already gone a long way toward developing a consensus on ways to improve primary education before either the SSN or DPEP I. The DPEP I essentially built on the DOE’s ideas for experimenting with a district-based primary education program. Nevertheless, as one Bank staff member has put it, the SSN provided a much needed sense of “policy security”—a sense of confidence that the DPEP I experiment was the right way to go. Set against a history of the Bank’s lack of participation in the primary education sector in India, providing this “policy security” was a major breakthrough. In addition, by leveraging EU funds in support of DPEP I, the SSN provided the DOE with the opportunity to develop a “single window” for donor financing in support of the expansion of DPEP I. There is no doubt that this combination of factors altered the course of Bank–GOI dialogue in primary education in India.

4.22 *Primary Health.* The GOI’s plans for strengthening the primary health care network included strengthening physical facilities, providing essential equipment, and enhancing delivery of essential drugs and supplies. As conditions for second tranche release, the Ministry of Health and Family Welfare (MOHFW) sought to strengthen the provision of essential obstetric services and female doctors in selected Primary Health Centers (PHCs) in the 90 districts identified (in the action plan) as particularly disadvantaged. The aim was to reduce maternal and infant mortality by increasing institutional deliveries in poor districts.

4.23 The primary health component of the SSN well illustrates the “hybrid” nature of the operation. On one hand, it sought to solidify support for the action plan and for revamping family welfare and support changes in the policy environment, while on the other hand, it sought to provide additional support for strengthening rural health and family welfare infrastructure much as a specific investment project would. What is not clear is whether either step made a substantial difference in the availability, quality, or effectiveness of primary health care services in the priority districts, or how the expansion of obstetric facilities in poor and remote areas was expected to serve as part of the social safety net.

4.24 Under the revised and enhanced primary health care program, 450 primary health centers would be targeted each year (across 90 districts) for improved safe motherhood interventions, including obstetric facilities and better-trained staff. At the time of the audit, 617 centers had been completed, and another 733 were under construction. No information was available in the MOHFW about utilization rates in the newly renovated PHCs or their effectiveness in increasing

the number of institutional deliveries. One highly placed MOHFW official argued that in many of the most disadvantaged districts (to which the PHC program was targeted) the poor state of existing PHCs made them unsuitable for adding-on obstetric facilities and were definitely not places likely to attract female doctors. In these settings, trying to reach the poorest simply by adding more infrastructure was unlikely to be beneficial. What was more fundamental was influencing behavior and attitudes—on the demand side—to encourage more attended births and safe motherhood practices.

4.25 The funds made available under the SSN program boosted the PHC renovation program, but difficulties were numerous, particularly with implementation at the state and district level.<sup>12</sup> Finding additional funds for the operating costs of newly renovated PHCs was problematic for some states, while recruiting and retaining female doctors to attend the centers was almost impossible in the poorest and most remote districts. A field trip to Rajasthan during the audit mission reinforced the extent of this problem. Interestingly, the Bank's 1989 CEM had noted that despite an impressive physical presence, the extensive coverage of the primary health care system was not accompanied by intensive use, especially by the rural and urban poor. Institutional and management weaknesses were partly responsible for the poor performance as were problems of weak preservice and inservice training, unfilled vacancies, and worker insensitivity to clients due to difficult working conditions and poor supervision. Many of these issues remained despite the revamped primary health care program. None were directly addressed in the conditions set by the SSN credit, although Bank staff have argued that they were taken up in subsequent investment operations, such as Health I (MCH) and Reproductive Health I.

4.26 *Disease Control Programs.* The government's reform agenda included several initiatives to intensify targeting and make policy and strategy adjustments in the major disease control programs. The GOI had already completed reviews and action plans to enhance the effectiveness and increase the coverage of the National Leprosy Eradication and AIDS control programs. As a condition of second tranche release, the GOI agreed to complete detailed reviews of the effectiveness and coverage of its programs for the control of blindness, malaria, and tuberculosis and adopt a national action plan for the control of tuberculosis and action plans for the control of malaria and blindness in designated states. These review exercises contributed to the preparation of a series of disease control projects that eventually received Bank support.

4.27 *Nutrition (ICDS).* The GOI's strategy for strengthening action on nutrition focused on the Integrated Child Development Services program (ICDS), the GOI's principal program to combat child and maternal (mal)nutrition. The Bank had already funded two projects supporting the development and expansion of ICDS. In 1992 the GOI accepted and began to implement the recommendations of an evaluation of the ICDS program by the National Institute of Public Cooperation and Child Development. This involved improved geographical targeting and intensification of ICDS plus a new strategy for the synchronized delivery of services at the *anganwadi* level. The states also began to investigate shortfalls in feeding days under the ICDS.

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12. The SSN assumed that "[T]he center has adequate financial leverage to ensure that programs are carried out in accordance with agreed design and implementation parameters" (PR, p. 42). However, a Bank report published in 1995 on financing in the primary health care sector argues that capacity of the poorer states to utilize plan funds was in part dependent on the availability of untied transfers: "In a climate of declining untied transfers from the center, the poorest states are the ones least likely to take advantage of centrally sponsored programs that require matching allocations from state budgets." The implication is that the issue was not so much the total quantity of funds transferred from the center, but the capacity of the states to provide the necessary matching funds and infrastructure to implement the programs effectively.



Under SSN, this work was further expanded with reviews in six states of the reasons for the shortfall in the number of feeding days, construction of godowns in the selected states to improve storage and distribution of food, and steps to reduce feeding shortfalls in at least 50 percent of the *anganwadis* under the ICDS program in Bihar, Madhya Pradesh, Orissa, and Rajasthan.

4.28 Despite continuing Bank support for ICDS, numerous reviews have suggested that it is overcentralized, with poor supervision and coordination at the village level, poorly adapted to differing local conditions, and administratively inflexible and expensive. Efforts by the Ministry of Women and Child Development (MOWCD) to improve targeting and coordination of ICDS activities at the local level are important, but more fundamental issues relating to the heavily top-down and bureaucratic nature of the scheme, plus the continuing problems of weak monitoring and evaluation, were not addressed under the SSN. A review of Social Safety Net Programs, undertaken by the National Council for Applied Economic Research (NCAER) in New Delhi, summarizes some of these outstanding problems: “There is considerable backlog in recruitment, training, and posting of personnel at all levels of the programme. Besides the training infrastructure needs considerable upgradation. . .the machinery at the state level for programme review, monitoring, and improvement is utterly inadequate in several states. . . .The focus in ICDS should be much more on qualitative upgradation based on evaluation and monitoring. . .rather than quantitative expansion” (p. 17–18). The SSN basically supported the status quo rather than attempt any qualitative upgradation. Bank staff argue that the latter was impossible within the restrictions of a two-year operation and given the extent of the scheme and its history. Staff also argue that the Bank had been and was addressing qualitative issues in the context of two specific investment operations (ICDS I and ICDS II). The thrust of SSN support was not to get in the way of these two operations. Nevertheless, it is reasonable to ask whether the designers of the SSN did not miss an important opportunity to shift the focus of Bank involvement in ICDS away from broad concerns with scale and coverage to a more direct focus on problems of quality and effectiveness.

4.29 *The National Renewal Fund (NRF)*. The Bank’s first supervision mission in February 1993 identified limited progress on the NRF component as a potential problem. The mid-term review mission, which was delayed from mid-March to late-April 1993, confirmed that “limited progress had been made in meeting the targets for the FY92–93 Business and Financial Plan of the NRF.” The main identified problems were: first, the slow progress on industrial restructuring, so that at the end of FY92–93, the GOI had met only half of the quantitative target of labor layoffs expected at Negotiations. There were also delays in establishing the retraining network and the area regeneration councils because of lengthy consultations and approval processes.

4.30 A supervision mission in September 1993 noted little progress in the preparation of a comprehensive progress report on the NRF that had been requested by the Bank in July 1993. The Empowered Authority, established to oversee the operation of the NRF, was observed by the Bank to be weak and lacking in institutional capacity. However, public expectations of the NRF were running high as civil servants referred to it in their speeches to workers.

4.31 Problems related to the operationalization of the NRF were twofold. First, calls on the NRF were substantially less than originally estimated. This meant that the broad targets laid out in the business and financial plan quickly became unrealistic. Lack of progress in meeting targets for retrenched workers became grounds for delaying second tranche release—first from June–July 1993 to July 1994 and then to August 1994—even though the original targets were not strictly meant as a yardstick against which to measure implementation progress. Bank staff and

GOI officials stated that the SSN gave much needed credibility to the Voluntary Retirement Scheme (VRS), but had no way of influencing the lack of pace in (and obstacles to) public enterprise reform or the reluctance of many workers to take voluntary retirement (most of the recipients were older workers). Actually, little attention had been paid in the SAL, or the subsequent SSN, to the demand side of industrial restructuring, leaving neither operation with the necessary “teeth” to maintain the pace of reform.

4.32 Second, the setting up of the institutional framework for the NRF took longer than expected. Counseling and redeployment activities were not started until December 1993 and in some cases not until mid-1995. At the time of the audit, GOI officials at the Ministry of Industry estimated that some 49 “Employment Assistance Centers” had been established in 16 states. Approximately 8,000 workers had been retrained. It was nevertheless too early to evaluate the impact of the program.

4.33 Only one of the five nodal agencies for retraining and redeployment, the Gandhi Labour Institute (GLI) in Ahmedabad, was fully operational at the time of the audit. It was working with public and private training institutions to develop vocational training for retrenched workers in skills ranging from computers to metal working to carpentry and electrical wiring. Its action plan for January–April 1996 proposed retraining for 1,000 workers retrenched from two major textile mills in Ahmedabad. In most cases, except for a few highly educated trainees, workers were reentering the labor market in the informal or microenterprise sector. But as acknowledged by the GLI staff, even here finding immediate employment was difficult for most trainees, and many required further training to establish microbusinesses.

## 5. Ratings

5.1 According to the CAS and the Letter of Development Policy, the SSN was an adjustment operation, very much part of the Bank's plan for assisting the Government of India with its reform program and mitigating the social costs of adjustment. Still, the SSN did not affect the fiscal balance, did not promote any restructuring of government expenditures, nor did it explicitly address the social costs of adjustment (except for the NRF). The SSN was a *sui generis* operation, fitting few of the conventions of either a sectoral adjustment program or a safety net operation. Assessing its performance is therefore complicated by the lack of a clear yardstick for evaluation. Nevertheless, in terms of its stated objectives and its success in meeting these objectives, OED has decided on the following ratings.

5.2 Weighing the contribution of the SSN in terms of relevance, efficacy, and efficiency, *overall outcome is rated marginally satisfactory*. In terms of its broad objective—to maintain real spending on selected safety net programs—the program was satisfactorily implemented. However, in terms of relevance the operation scores low. Given the economic and social context, and the opportunity provided by a policy-based operation, SSN objectives were poorly specified and barely touched on known factors constraining the effectiveness of social programs on the ground. The operation's emphasis on maintaining the financial status quo was at the expense of qualitative changes in the effectiveness of public financing of the social safety net.

5.3 *Program sustainability is rated likely* on the grounds that the GOI demonstrated its capacity to maintain and increase real expenditures for the selected safety net programs. In the absence of a more rigorous effort to monitor poverty and its alleviation in India, it is less certain that maintaining these expenditures will result in measurable improvements in program outcomes. Moreover, the financial sustainability of these programs over the long run is dependent on continued progress in the reduction of fiscal deficits and public enterprise reform.

5.4 *Institutional development is rated negligible* since the operation did little to modify institutional arrangements or capacity in the social sectors. Planning capacity at the ministry level was not tangibly strengthened, nor was there any improvement in the use and effectiveness of management information systems.

5.5 Within the limitations of program design, *borrower performance is rated satisfactory*. Budget allocations to the selected social programs were made as planned, and individual program improvements were (are being) largely executed. The operation did not require any significant changes in program management—beyond those in primary education—and the NRF, which has had only marginal impact. The work of committees was also slow, barely making an impact, especially with respect to the review of medium-term financing issues, resource mobilization, and guidelines for increased program convergence.

5.6 Although the SSN accomplished its broad objective, *OED rates Bank performance unsatisfactory*. The grounds are that the operation was only tenuously linked to the reform program; the objectives were too diffuse to provide real value-added across or within any specific program areas; and despite real change in primary education which was forthcoming before the

SSN, program conditionalities failed to leverage real qualitative change in social safety net programs.<sup>13</sup>

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13. Bank staff associated with the SSN have argued vigorously that the operation was not intended to leverage such change and that had it tried it may have derailed efforts already under way in investment projects in ICDS, MCH, and disease control. Nevertheless, to argue that such a large operation as the SSN was not intended to leverage qualitative change still begs the question of what it was intended to do. In hindsight, it appears that the SSN was primarily a mechanism for transferring funds, despite being rationalized as an effort to strengthen social sector programs.

## 6. Conclusions and Lessons

6.1 As the previous chapters have shown, the SSN was not a conventional operation. In this section we summarize some of the findings about its achievements and missed opportunities as well as lessons for the Bank and the GOI.

6.2 GOI staff connected with the operation and Bank staff familiar with conditions in India before and after the SSN agree that the SSN raised the visibility of “the social sectors,” both within the GOI and within the context of GOI–World Bank policy dialogue. Involving social sector ministries—Health and Family Welfare and Education—in discussions around an adjustment operation provided a forum, albeit temporary, for a level of policy debate that had hitherto not taken place. This provided an important backdrop to ongoing and future discussions on specific investment operations.

6.3 Second, the SSN provided a vehicle for establishing the principle of “additionality” in project financing; this has subsequently been carried through to Bank-funded investment operations in India. Additionality was established under the SSN by getting assurances from the Ministry of Finance that funds allocated to each program intervention—primary health centers, disease control activities, ICDS—would be *additional to* existing planned expenditures (under the central plan) in each of these program areas. This principle is now widely applied to specific investment operations in which the central or state governments must ensure that funds disbursed to project implementing agencies are 100 percent “additional” to plan expenditures.

6.4 Third, by underwriting the GOI’s commitment to maintain real spending for centrally financed social programs, the SSN provided much needed “political capital” for the GOI during the reform process. As stated in the President’s Report, the SSN—and the NRF in particular—was intended to ensure the political acceptability of the adjustment process.

6.5 Nevertheless, the SSN was also a series of missed opportunities for the Bank and the GOI. While in principle it provided a vehicle for sectorwide policy dialogue, it proved to be only temporary. The Social Sector Coordinating Committee (SSCC), chaired initially by the incumbent Secretary of Health and formed to coordinate “project” activities in each ministry, was not institutionalized during the SSN, and the momentum for sectoral policy dialogue quickly dissipated after second tranche release. While much had been made during the preparations for the SSN of a shift toward a sectoral approach—talking policy not just projects—there was relatively limited agencywide understanding of what a sectoral approach might mean and little ownership of the idea beyond the secretaries and undersecretaries of Health, Family Welfare, and Education who participated in SSN preparations. Although some policy dialogue momentum has been sustained in specific investment activities (such as state health systems), the broad questions of quality and effectiveness in public spending and the relationship between central and state financing in the social sectors have yet to be fully addressed.

6.6 Despite the program’s clear overarching objective of maintaining the safety net, a deeper look reveals a collection of rather diffuse objectives spanning four social programs and the NRF that attempt to give substance to a sectorwide program. As one GOI official put it: “There was no sectoral value added from the individual components of the program,” nor any real change in the

way the ministries went about their business of delivering the social safety net programs, except for primary education, where the vision and momentum for change was in place before the SSN. The SSN helped the GOI capitalize on this momentum and provided the Bank with much needed credibility in the education sector, but the SSN was not the source of the change.

6.7 Finally, expenditures on central plan safety net programs were maintained and increased in real terms, but no real expenditure adjustment was attempted within social sector programs. Bank staff have argued that this was too difficult and complex, given that so much social sector spending occurs at the state level. But if this was the case, was a sectorwide operation the most appropriate instrument in the first place? And if the priority was protecting budgets for social programs, why did the SSN not focus more heavily on issues of fiscal management in central plan programs? Instead, it supported an expansion of operating theaters for primary health centers in remote districts, more godowns, and action plans for disease control programs—activities being supported in one way or another by specific investment operations. On these grounds, it is hard to see what the marginal contribution of the SSN was.

### **Lessons**

6.8 Despite its satisfactory implementation, the impact of the SSN (for a policy-based operation) was extremely limited. Diffuse objectives and conditions hampered the operation's potential to add value, reflecting the fact that both the Bank and borrower were considerably less well prepared for an adjustment-style operation in the social sectors than they were for macroeconomic adjustment. For the SAL, the existing state of knowledge and consensus about the priorities for reform were much higher. While the Bank moved unusually quickly to prepare and approve the SSN, hindsight suggests that this very dispatch may have contributed to the diffuse nature of the operation and the lack of push for genuine policy change.

6.9 The second lesson is that a more deliberate effort should have been made to link the fiscal adjustment goals of this operation to the macroeconomic stabilization and deficit reduction goals that were at the heart of the borrower–Bank dialogue. Had this been done, there might have been better selection of SSN policy targets (for example, food distribution and income transfer schemes) and sharper efforts to relieve the prevailing constraints. A more rigorous review process during preparation may have averted both of these problems.

6.10 Finally, the absence of well-defined mechanisms (plus incentives) for horizontal cooperation between ministries in the Indian context meant that the SSN very quickly lost whatever sectoral focus it had and became a loosely connected set of enhancements to programs operating independently of one another and of a larger policy framework. So a third lesson is that for policy-based lending in the social sectors to be truly effective, it must be embedded in horizontal arrangements that support information sharing and ownership across ministries or agencies. Without such arrangements, individual ministries or public officials have little incentive to work for or within a wider policy framework or to contribute to the achievement of larger intersectoral goals.

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## Basic Data Sheet

### INDIA—SOCIAL SAFETY NET SECTOR ADJUSTMENT PROGRAM (CR. 2448-IN)

#### Cumulative Estimated and Actual Disbursements

	<i>FY93</i>	<i>FY94</i>	<i>FY95</i>
Appraisal estimate (US\$M)	250.0	250.0	0.0
Actual (US\$M)	244.6	0.0	259.6
Actual as % of appraisal	97.84%	0%	--
Date of final disbursement:	October 20, 1994		

#### Project Dates

	<i>Original</i>	<i>Actual</i>
Initiating memorandum	1/15/92	
Negotiations	11/92	
Board approval	12/17/92	
Signing	12/17/92	
Effectiveness	3/17/93	12/21/92
Closing date	12/31/93	8/31/94

#### Staff Inputs (staff weeks)

	<i>FY92</i>	<i>FY93</i>	<i>FY94</i>	<i>FY95</i>	<i>Total</i>
Through preappraisal	55.4	58.8	0.0	0.0	114.2
Appraisal to Board	0.0	38.6	0.0	0.0	38.6
Supervision	0.0	29.7	23.1	4.6	57.4
Completion	0.0	0.0	0.0	10.0	10.0
Total	55.4	127.1	23.1	14.6	220.2



**Mission Data**

	<i>Date (month/year)</i>	<i>No. of persons</i>	<i>Staff days in field</i>	<i>Specializations represented</i>	<i>Performance rating</i>	<i>Types of problems</i>
Identification/ Preparation						
Appraisal						
Supervision 1	1/93-2/93	2	19	Ec,F		
Supervision 2	4/93-5/93	7	7	Mgr,F,(2), E,Edn,N,Ph		
Supervision 3	8/93	1	13	F		
Supervision 4	11/93-12/93	5	10	Mgr,F,H,Ph		
Supervision 5	6/94	2		Mgr,F		
Completion						

a. Mgr: Task Manager; Ec: Economist; F: Finance; N: Nutrition Specialist; Edn: Education; H: Health; LE: Labor Economist; Ph: Public Health

**Other Project Data**

Borrower/Executing Agency:

**RELATED OPERATIONS**

<i>Operation</i>	<i>Credit no.</i>	<i>Amount (US\$ million)</i>	<i>Board date</i>
National Leprosy Elimination Project	Cr. 2528	85.0	6/93
District Primary Education I	Cr. 2661	310.5	11/94
Blindness Control Project	Cr. 2611	117.8	5/94
Population IX	Cr. 2630	88.6	6/94
Andhra Pradesh First Referral Health System Project	Cr. 2663	133.0	12/94
State Health Systems II	Cr. 2833	350.0	3/96
District Primary Education II	Cr. 2876	425.2	6/96

## Policy Action Matrix

AREA OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
<b><u>FINANCING THE SOCIAL SAFETY NET</u></b>		
Social Sector Financing Policy	<p><b><u>A.1</u></b> The GOI has approved the aggregate levels of additional resources required to sustain the social safety net initiatives to be undertaken in primary education, primary health, disease control and ICDS through the end of the Eighth Five-Year Plan period (1997).</p> <p><b><u>A.2</u></b> The GOI has approved the million (US\$ 83.3 million) supplementary budget allocation to the primary education, primary health, communicable disease control and ICDS programs in FY 1992/93 in order to maintain these programs at 1991/92 levels in real terms.</p> <p><b><u>A.3</u></b> The GOI has approved the annual budget for the specific Social Safety Net programs in primary health, primary education, communicable disease control, and ICDS would be maintained at least in real terms to the end of the Eight-Five-Year Plan in 1997.</p> <p><b><u>A.4</u></b> The GOI has decided that all donor assistance for the Social Safety net will be considered as “net additionality” to Plan outlays.</p> <p><b><u>A.5</u></b> The GOI has decided that all Committee of Secretaries including the Secretaries of the Planning Commission, and Departments of Finance, Expenditure, Economic Affairs, Health, Family Welfare, Education and Women and Child, to review the share of public expenditures to be devoted to the social sectors during the Eighth Five-Year Plan, methods of mobilizing</p>	<p><b><u>B.1</u></b> The GOI would have: completed all appropriate to make adequate funds available to meet the additional costs in FY93-94 of the revamped and expanded programs in primary education, primary health, disease control and ICDS.</p> <p><b><u>B.2</u></b> The GOI has decided that all (sic) completed the review of the financing of the social sectors; and started implementation of the recommendations timely availability of funds for the Program and the enhanced mobilization of non-budgetary resources for tertiary education and tertiary health care.</p>

AREA OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
Mobilization of Non-budgetary resources and cost recovery	<p>additional non-budgetary resources for higher education and tertiary health, and mechanisms for progressively increasing the proportion of non-budgetary support for higher and technical education and tertiary health care.</p> <p><u>A.6</u> In FY 1992, the GOI increased significantly (between 500-1200%) tuition and other fees at the apex higher education institutions such as the Indian Institutes of Management (IIM) and Indian Institute of Technology. Tuition fees have also been increased at Polytechnics which are operated by the States. Fees have been increased by about 100% in the pay wards of centrally-funded tertiary level hospitals like the All India Institute of Medical Sciences (AIIMS).</p>	
<p><b><u>COORDINATION AND INTEGRATION OF SOCIAL SECTOR PROGRAMS</u></b></p>		
Program Coordination Policy	<p><u>A.7</u> The Eighth Five-Year Plan (1992-1997) approved by the National Development Council (NDC) of which all states are members, includes new strategies and approaches to design, targeting, funding and the implementation of social sector programs. It calls for among other things, better coordination and integration of services between health, education, nutrition, water supply and sanitation, and urban and rural employment programs.</p>	<p><u>B.3</u> The GOI would have: for each component of the Program (primary education, primary health care, disease control and ICDS), selected districts for priority implementation of the Program, using indicators relevant to the</p>
	<p><u>A.8</u> The GOI has established a Standing Social Sector Coordination Committee chaired by the Secretary (Coordination) and including the Secretaries of Health, Family Welfare, Education, Women and Child, and the Chief Secretaries of the States of</p>	

Kerala, Maharashtra, Madhya Pradesh and West Bengal to develop new strategies and approaches to (a) the convergence of social services; and (b) overcoming duplication and redundancy in the staffing and management of social sector programs; (c) achieving better targeting of poor beneficiaries; and (d) ensuring greater cost-effectiveness in the delivery of social sector programs.

concerned component such as educational backwardness, maternal mortality rates, infant mortality rates and the incidence of poverty and endemic diseases; operationalized mechanisms for district-level coordination of Program implementation in the selected districts including defining the responsibility of the district administration and issuing instructions for linking implementation of the Program to district development plans.

## **PRIMARY EDUCATION**

### **Sectoral Policy**

**A.9** The National Policy on Education of 1986 has been revised in 1992 to introduce changes which emphasize the priority to universalizing primary education through disaggregated target setting and decentralized planning, better targeting of females and scheduled caste and scheduled tribe students; improved quality; and the provision of adequate budgetary resources.

**A.10** The GOI has ranked all districts in the country on the basis of literacy rates, female enrollments, and the demand for primary education. The GOI has also developed and introduced a strategy for the intensified development of primary education giving priority to the districts which are ranked as educationally backward as well as districts where total literacy campaigns have been successful resulting in increased demand for primary education.

**A.11** GOI has developed prototype District Action Plans to be used in the implementation strategy for the new initiative of a National district-based Primary Education Development Program

**B.4** GOI would have: completed detailed actions plans for intensified implementation of the primary education component of the Program in the selected districts; transferred to each of the selected districts, the first installment of funds required for the implementation of the action plans; and caused the appointment

AREA OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
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by concerned authorities, of the key management staff for the intensified primary education program in the selected districts and States

**A.12** The revised National Policy on Education gives priority to: (a) quality improvement, retention and learning achievement over expansion; (b) establishing Minimum Levels of Learning (MLL) to streamline the curriculum and focus on basic competencies; and (c) cost effective decentralized planning and management. The GOI has already started implementation of these changes.

**A.13** GOI has changed key aspects of the Operation Blackboard Program and is implementing an enhanced program which calls for the provision of additional classrooms and teachers per school as well as flexible program delivery to meet specific local needs.

**A.14** The GOI has developed Management Information Systems to monitor progress of primary education programs especially as regards total new enrollments and the additional enrollments of girls.

Reorientation of financial resources

**A.15** GOI has given priority to the financing of primary education. An additional Rs. 26,000 million (US\$ 880.0 million) has been added to the Center's Eighth Five-Year Plan total educational allocation. Rs. 28,800 million (US\$ 960.0 million) is dedicated to primary education. This is an increase for primary education by a factor of four over allocations during the Seventh Five-Year Plan period (1985-1990).

**A.16** The States have also increased their Eighth Five-Year Plan allocations for primary education by a

factor of three over Seventh Five-Year Plan allocations.

**A.17** Under the Eighth Five-Year plan, the GOI has held almost constant in nominal terms, allocations to higher education.

**A.18** GOI has developed and piloted the use of new funding mechanisms to ensure that the additional resources required for the national district-based Primary Education Development Program is successfully passed on to the targeted priority districts.

## **HEALTH**

### **Sector Policy**

**A.19** A review of the National Health Policy of 1982 has started with the objective of (a) establishing more appropriate goals and targets re: Health for All by 2000; (b) examining the role of Center and States in the provision of health services; and (c) methods to identify those areas where the center will remain active more cost-effective.

**A.20** The National Development Council has established a Committee including the Chief Ministers of five States and the Ministers of Finance, Human Resources Development, Health and Family Welfare to assess all aspects of medical and dental education including the present and future availability of medical manpower, and to make recommendations for starting new medical schools in the private sector and/or expanding existing intake capacity.

**A.21** The Bureau of Planning in the Department of Health has been strengthened to create a health policy and economics planning capacity.

**A.22** The GOI has started to supplement the existing provision of drugs and medicines to subcenters by providing additional quantities of drugs and medicines to the extent of about Rs. 4,000 per subcenter per year

**B.5** The GOI would have: completed the assessment of pharmaceutical requirements in all of the districts targeted for the implementation of the revised and expanded primary health care

AREA OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
<b><u>PRIMARY HEALTH CARE</u></b>	under the Child Survival and Safe Motherhood Program in identified districts.	program; and delivered the initial batch of pharmaceuticals in kits developed under the Child Survival and Safe Motherhood Program to selected districts.
<b>Sectoral Policy</b>	<p><b><u>A.23</u></b> The National Development Council (NDC) has approved an Action Plan and Policy for Revamping the National Family Welfare Program which includes (a) improving the quality and outreach of family welfare services in rural areas; (b) adopting a differential strategy for districts in the implementation of the revamped program; (c) focusing attention on the backward districts of the country; (d) enhancing the provision for safe motherhood interventions especially in districts where maternal mortality rates are above the national average.</p> <p><b><u>A.24</u></b> GOI has started the implementation of its new policy for the operationalization of the rural health system which includes health sub-centers and Primary Health Centers (PHCs). The new emphasis and strategy would be on: (a) the provision of supplementary facilities where required; (b) the training of medical and para-medical staff, and (c) increased provision of materials as may be required.</p>	
<b>Targeting of disadvantaged groups and areas</b>	<p><b><u>A.25</u></b> GOI has selected on the basis of higher than average infant, young child and maternal mortality, 90 districts for intensified implementation of the revised and enhanced primary health care program.</p>	
<b>Enhancing the quality of service delivery</b>	<p><b><u>A.26</u></b> GOI has developed an implementation strategy for the provision of the enhanced primary health and safe motherhood interventions in the 90 targeted</p>	<p><b><u>B.6</u></b> The GOI would have: completed detailed facility surveys and detailed action plans based on the surveys, for implementing the revised and expanded primary</p>

districts including the provision of special MCH facilities, equipment and the training of staff.

health care program in the selected districts; transferred to each of the selected districts, the first installment of funds required for the implementation of the action plans; and obtained from each of the States in which the selected districts are located, an assurance that it shall provide, within a stipulated time frame, the services of at least one female doctor at each primary health center which has been identified for enhanced safe motherhood facilities in the selected districts.

**A.27** GOI has started implementation of the new birth-based approach to determining work routines and the training of health workers and revised instructions have been issued to female health workers to focus on and give priority attention to pregnant and lactating mothers.

## **DISEASE CONTROL PROGRAMS**

Enhancing the quality of service delivery

**A.28** GOI has completed the detailed reviews and Action Plans to enhance the effectiveness and increase the coverage of the National Leprosy Eradication and AIDS control programs primarily through more appropriate technologies, approaches and funding.

**B.7** GOI would have completed detailed reviews of the effectiveness of its programs for the control of blindness, malaria and tuberculosis; adopted a national action plan for the control of tuberculosis; and adopted action plans for the control of blindness and malaria in designated States.

**A.29** A new Health Management Information System has been developed, and a plan prepared for its phased introduction in all the States.

## **NUTRITION**

Sector Policy

**A.30** The GOI has formulated for the first time, a National Nutrition Policy which outlines the Government's commitment and strategy for ensuring the adequate nutritional status of all citizens.

**A.31** GOI has taken action to avoid



AREA OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
Targeting of disadvantaged groups and areas	<p data-bbox="624 300 1042 555">duplication, and to provide Early Childhood Education Centers only in blocks where ICDS is not being implemented. GOI has also started a review of the coverage and efficacy of State-funded Special Nutrition Programs (SNPs) in relationship to ICDS.</p> <p data-bbox="624 591 1042 846"><b>A.32</b> GOI has introduced strict geographical targeting of ICDS and has already selected 180 focal districts for the intensification of services. The districts have been ranked on criteria including the poverty ratio, the concentration of scheduled castes and tribes, and the crude birth rate.</p>	
Enhancing the quality of service delivery	<p data-bbox="624 878 1042 1198"><b>A.33</b> GOI has developed a strategy for the provision of intensified inputs to 200 blocks in the 180 focal districts through (a) increasing the outreach to areas and target groups who remain uncovered under existing programs (in-filling); (b) replenishing worn out articles, provision of additional facilities and equipment; and (c) better training and supervision.</p> <p data-bbox="624 1229 1042 1389"><b>A.34</b> The National Institute of Public Cooperation and Child Development (NIPCCD) has completed a comprehensive national evaluation of the ICDS program.</p>	<p data-bbox="1070 1421 1433 1889"><b>B.8</b> The GOI would have: completed state-wide reviews in Bihar, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal of shortfalls in required feeding days under the ICDS program; commenced construction of godowns in the selected States where logistics has been identified as the problem in the timely and adequate supply of food; and achieved the feeding norm under the ICDS program in at least 50% of the Anganwadis under the ICDS program in each of the following</p>
	<p data-bbox="624 1421 1042 1889"><b>A.35</b> The GOI has accepted the findings of the NIPCCD evaluation and started implementation of the key recommendations which include:  (a) Increasing honoraria to grass-root workers. GOI has increased the honoraria by 25% for Anganwadi workers and 100% for helpers.  (b) The introduction of a new strategy for the synchronized delivery of services at the Anganwadi level. Actions in this area have been taken by the Departments of Health, Rural Development, Urban Development, Education, Welfare and Food.</p>	

(c) Addressing the program relating to short falls in number of feeding days. The GOI is in the process of devising a comprehensive strategy but has already increased the financial norm allowance for supplementary nutrition per beneficiary. The States have undertaken district and block specific investigations of the reasons for the shortfalls. The GOI plans further to construct food storage godowns-cum Child Development Project Officer (CDPO) offices in selected remote tribal hill and difficult areas to overcome some of the logistical problems which lead to the feeding shortfalls.

(d) Improving basic and refresher training. Annual Training plans for ICDS personnel have been reviewed and updated and State compliance with training targets are now linked to the release of funds by the Center.

(e) Improving supervision. GOI has taken a number of steps to reinforce the supervision ratios of 1 supervisor to 17 Anganwadis in tribal areas; 1 supervisor to 20 Anganwadis in rural areas, and 1 supervisor to 25 Anganwadis in urban areas. The GOI has now issued and operationalized a new checklist for supervisor; taken steps to fill vacancies of supervisors; and introduced a program under which supervisors can purchase mopeds to improve their mobility in difficult areas.

(f) Improving program monitoring. GOI has introduced a new computerized Management Information System that enables the Department of Women and Children Development to effectively monitor the quantity and quality of ICDS performance.

States: Bihar, Madhya Pradesh, Orissa, and Rajasthan.

**A.36** The GOI has taken steps to ensure that CARE, and World Food Program food contributions as well as its wheat-based nutrition program is used exclusively for the ICDS program. This contribution covers approximately 11 million of the 17 million ICDS beneficiaries.

AREA OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
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**EMPLOYMENT AND INCOME GENERATION**

National Renewal Fund:  
Targeting of groups and areas/impacted by the industrial reform program.

**A.37** The Government has established the National Renewal Fund to facilitate the industrial sector reform program and to mitigate the negative impact on workers who have been affected by the restructuring and revitalization programs being undertaken in Public Sector Enterprises (PSEs).

**A.38** The Operational Guidelines of the NRF have been formally approved by the cabinet and the initial meetings of the Empowered Authority have been held.

**A.39** A Business and Financial Plan for the NRF for FY92/93 has been prepared, approved and implementation started. The Plan covers the Sources and projected Uses of Funds with particular attention to the support to be provided to (a) the Voluntary Retirement Scheme and the number of workers accessing this facility; (b) negotiated compensation packages for PSEs and the projected number of workers who are to be affected; and (c) projected expenditures on counseling and retraining of affected workers as well as for area regeneration schemes to stimulate new employment opportunities.

**A.40** The GOI has increased funding to JRY in FY 1992/93 through the National Renewal Fund.

**A.41** GOI has revised and issued new guidelines for the Nehru Rozgar Yojana (NRY); and additional provisions have been included in the NRF 1992/93 Business and Financial Plan to support employment generation activities under the NRY

**B.9** The GOI would have: made satisfactory progress in the implementation of the NRF Business and Financial Plan during FY92-93; approved the FY93-94 Business and Financial Plan for the NRF; and allocated the necessary funds for the NRF account consistent with the projected requirements of the FY93-94 Business and Financial Plan.

especially for targeting beneficiaries and urban areas which have been impacted by industrial restructuring.

**MONITORING THE  
SOCIAL DIMENSIONS OF  
ADJUSTMENT**

**A.42** The National Sample Survey Organization (NSSO) has completed consumer expenditure surveys covering the 1990-91 period.

**A.43** The GOI has established management information systems to monitor progress in the implementation of new initiatives in primary education (A.15), primary health care and communicable disease control (A.29); and ICDS (A.35).

## Comments from the South Asia Region

*1. Mr. Richard Skolnik, Sector Manager (SASHP) 12/31/97*

1. Overall I still think you are judging this too much against some theoretical notion of what a safety net adjustment operation should be, rather than by what this set out to do and whether or not it was appropriate. The name of the operation is of no consequence to me at all. The contents and their relevance and how we met reasonable client needs should be dominant. I have marked up the copy and sent it back to you with specific indications of where I felt this to be the case. Your comments in para 4.10 about the relationship between obstetric care and the cost of reform are most indicative of why I think you are judging the project against at least some of the wrong criteria. The point should be clear .. by helping to preserve and improve expenditure on obstetric care during a financial crisis, it sought to ensure that the crisis was used to get more and better things into health, rather than contributing to a decline in health and an increase in maternal mortality that might have ensued if, for example, obstetric services deteriorated further as a result of the financial crisis.
2. I also think you fail to adequately look at what the without project case might have been. They have proposed cuts in their social sector budgets, they might have had another several years of failing to get kids in school, and they would not have moved ahead with the important investments they made in specific disease control efforts.
3. On the other hand, you are probably too gentle on the NRF. The NRF was not to cause restructuring but should have helped to enable it. In the end, there were very few calls on it and institutionally it did not amount to much.
4. para 1.6- this para is factually incorrect. Anyone working on India has known forever that almost all social programs have been "underfunded" as you say.
5. para 4.9- this para is also incorrect, I think. Helping India to shift its financing patterns and its technical paradigms for service delivery in communicable disease control and nutrition was part of all of the work and intensive dialogue surrounding the SSN and its related investment operations. Nothing was more central to our work. A few minutes with how they did or planned to do blindness control, TB, malaria before and after Bank involvement should make this clear.
6. para 4.28 - this grossly overestimates what the Bank should and should not do. As you know, I argued for us to link this operation more closely to food security concerns and helping India reform its expenditure on the PDS, etc. In a country of a billion people, however, it would have been impossible for us to believe that we should have tried to do all that you suggest in the audit. In addition, the operation was linked with a series of investment operations that were trying to focus specifically on effectiveness and efficiency.
7. para 5.2 is not correct- the aim of the project was to help change the central financing of health and education.
8. para 5.3 - again missed the point .. the operation was not meant to reduce poverty per se .. it was meant to sustain and improve expenditure on selected programs and deal with retrenched workers.

9. As you know, I had many qualms about the operation and how we managed its development. However, I could make a strong case that Bank performance here was not only satisfactory, but a lot of what the Bank should be doing. The country was about to go belly up and possibly take health and education with it. At that time, India barely cared about health or education. Through very quick and very creative means, the Bank found a way of helping India keep health and education going and to help India to jump start primary education. Most countries, with Bank help, in the early days wound up hurting social expenditure during adjustment .. here you finally have the opposite .. I think this deserves quite positive comment, even if you regard the operation largely as financial operation. If we look at how India has moved on primary education, we might judge this one of the more creative and valuable adjustment operations the Bank has done on the social sectors and praise the staff who fought to get primary education in the operation and to keep it there (Our department was completely united in this effort).
10. I cannot agree that the project was a series of missed opportunities, as you suggest in para 6.5.
11. It is very important that the GOI see your audit and I would welcome a chance, as well to see their comments, which were not attached.
12. para 6.8 - again we were pushing for change like crazy in the investment operations linked to the SSN - and getting it.
13. Your comments on the institutional issues are not unfair but probably not correct .. we made the convergence issue sound more important that it was or would be, although Richard Cambridge may disagree with me.

*Mr. Richard Cambridge, Principal Operations Officer (SARVP) 12/21/97*

1. I have read the draft Audit Report carefully, with keen interest, and commend the authors for a well written and insightful piece of work. I must confess however, that throughout my review of the document I was struck by the fact that the Audit Team was prepared to go beyond the question and analysis of whether the operation met its stated objectives and instead to seek answers about whether the operation had "real value-added" because it was "unconventional".
2. Because OED is an independent group and we should take their evaluations and lessons seriously, I will not contest their ultimate judgment that The Bank's performance was unsatisfactory. Suffice to say, the argumentation outlined in the draft report as well as other background information which is not mentioned, does not appear to support this conclusion. It is also ironic that at a time when the Bank is trumpeting the need to be responsive to client needs and to be flexible (i.e. who says that a Social Safety Net Adjustment operation must solve the problems of the social costs of adjustment?), that a project which the audit team agrees had met its stated objectives is rated unsatisfactory because it does not fit a preconceived mold or include the "bells and whistles" and "demandingness" criteria which OED has described for many years. More interesting questions which should have been raised and answered by the audit team could have been "What would have happened if the Bank was not as responsive i.e. prepared and processed the project in the April - December period? Would the process achieved in the specific

sectors (health, primary education, family welfare) since the [start of] SSN been more or less? Is the argument in para. 5.6 to support the “unsatisfactory” rating of Bank performance reasonable in the context of how the operation was identified, prepared, processed and approved by the Board of Executive Directors? (What will OED say about the proposed adjustment loans to Korea?)

3. I would like to offer some background which may be of interest to the audit team. What is the Social Safety Net? It is a series of programs chosen and defined by the Government of India (GOI) and better known to them as the Minimum Needs Program. Some of these programs are centrally funded while others receive matching funds and are primarily the responsibility of the States. The Bank could not and did not attempt to redefine what was to be included in India’s “Social Safety Net”. It would have been so much easier to (in true old Bank style) tell the GOI that because Social Safety Nets in Africa or Eastern Europe include the following programs, your program should look the same. The Team which identified and prepared this operation resisted this temptation .. an attempt at client responsiveness. The team also chose those programs in the MNP which the Central government had more control over for the first operation with the understanding that further operations would look more closely at the programs with more state control (rural water, housing, employment etc.)

4. The Letter of Development Policy did mention the three programs which the audit team felt should have been the focus of the operation i.e. the Public Distribution System (PDS); and the Rural and Urban Employment Programs. If these programs were not mentioned at all in the Letter or were not part of the dialogue with GOI, I would have agreed with the audit team about a missed opportunity. However, the PDS in particular was discussed at the highest levels of the Bank and GOI, and the political economy necessitated that this would be best dealt with outside the confines of the first operation.

5. The authors provide little context on the preparation of this and other adjustment operations. The refrain of diffuse objectives, not enough attention to institutional change and reform, the problem of speediness of response etc., all point to a belief that the SSN was conceived and designed as a one-shot operation. This is simply incorrect. The fact is that the Bank did not expect India to emerge so quickly from its balance of payments crisis and a series of adjustment operation in a particular sequence was planned with the objective of deepening the policy reforms agreed to in the first phase adjustment loans and credits. The SSN was also conceived in the context of a strong realization from our sectoral professional technical colleagues that true and sustained institutional change comes at the micro level and had to be undertaken in the context of specific investment operations with longer gestation periods. (This is what OED has found on institutional development in its recent reviews of Development Effectiveness and the Bank’s Appraisal Process). This has certainly happened in India. To argue therefore that an operation which was very much intended to be quick disbursing did not last long enough to see through the process of institutional change is quite correct. The operation was never intended to achieve this objective.

6. In paragraph 5.6, the audit team argues that “Although the SSN accomplished its broad objectives, OED rates Bank performance “unsatisfactory”. The team asserts that:

a) the operation was only tenuously linked to the reform program. Which reform program? If the audit team supposes that “the reform program” ended when the Bank stooped adjustment lending then they may have made the case. The fact is, the reform program and

process which was started under the Rao government continues to today (viz. the proposed Economic Restructuring program in Andhra Pradesh) but at a pace and sequence in each sector that is warranted by the shifts of political and social power. What is the District Poverty Initiative Project (DPIP)? Was not its initial roots a second SSN operation which had to be converted to an investment operation after the Bank/IDA could no longer lend for balance of payment support. Country context is important and this does not seem to have been taken into consideration.

b) the objectives were too diffuse to provide real value-added across or within any specific program areas. Again, I wonder if objectives are being confused with the number of sectors/components covered by the operation. It is true that the SSN umbrella covered primary education, primary health, health, disease control programs, nutrition, National Renewal Fund, and financing the Safety Net. It is also true that the mechanism established by the GOI to coordinate work across the sectors for this project dissipates even prior to the final tranche release and completion of the project. But having argued that the broad objectives of the project were achieved, that the Government's performance was satisfactory by it having met all of the conditions for second tranche release i.e. the sub objectives (Logframe), and noting that the Bank held up release twice to ensure that the sub conditions were met, it is puzzling that one can then assert that "objectives" were diffuse;

c) the staff who worked then and now on primary education in India will best know if the SSN had any influence on the launching of the largest primary education effort in the Bank today. Indeed, it provided the vehicle for the Central government to get involved in an area in which it had neither the funds or the support of the states. Today this is reversed. Nonetheless, if the audit team feels that it is important to ascribe the small success of the SSN elsewhere, and also mock (what has obstetric care have to do with social costs of adjustment - a question raised in the report) so be it.

7. A couple of final points. The report says that the Child Survival and Safe Motherhood project was the first health intervention. It was not. It was the first attempt to look at the Family Welfare program in a programmatic/sectoral context rather than the state population project. Mention is also made that the NRF was less than successful because it did not achieve its business plan objectives. The audit team must be cognizant of the fact that the NRF was established to deal with expected layoffs and retrenchment from the public enterprise reform program. In other word, the business plan was as good as the "reform program". It never happened in India the way it was envisioned when we started down the Adjustment road. To be fair, it would have been real value-added had the audit team been able to draw from this lesson and better explain why the SSN and other adjustment operations in India appear to have mewed only the resource transfer objectives while the structural reform agenda had to continue under "policy-based investment lending".