42203

INDIA - GOVERNMENT FISCAL YEAR
April 1 – March 31

CURRENCY EQUIVALENTS
Currency unit: Rupees (Rs.) as of December 12, 2007
US$1 = Rs. 39.325
1 billion = 100 crore

ABBREVIATIONS AND ACRONYMS

AG	Auditor General	NTFPs	Non-Timber Forest Produce
CESCO	Central Electricity Supply Company Of Orissa Ltd.	OERC	Orissa Electricity Regulatory Commission
CESU	Central Electricity Supply Utility	OLIC	Orissa Lift Irrigation Corporation
DFID	Department for International Development	OPCB	Orissa Pollution Control Board
EPIS	Employment Personal Information System	OSEDL	Orissa Socio-Economic Development Loan
FPS	Fair Price Shop	OTMS	Orissa Treasury Management System
FRBMA	Fiscal Responsibility & Budget Management Act	PCE	Per-Capita Expenditure
GDP	Gross Domestic Product	PDC	Periphery Development Committee
GoO	Government of Orissa	PDF	Periphery Development Fund
GPs	Gram Panchayats	PDS	Periphery Development Society
GSDP	Gross State Domestic Product	PESA	Panchayat Extension to Scheduled Areas
HLCA	High-level Clearance Authority	PP	Pani Panchayats
HRMIS	Human Resource Management Information System	PPP	Public Private Partnership
IBRD	International Bank for Reconstruction and Development	PRI	Panchayati Raj Institution
IMR	Infant Mortality Rate	RTE	Ready-To-Eat Food
IPPs	Independent Power Projects	SC/ST	Scheduled Caste/Scheduled Tribe
IPR	Industrial Policy Resolution	SHGs	Self Help Groups
MDG	Millennium Development Goal	SOUTHCO	Southern Electricity Supply Company of Orissa Ltd.
MNP	Minimum Needs Programme	SNP	Special Nutrition Program
MoU	Memorandum of Understanding	SWS	Single window Clearance System
MRP	Mixed Reference Period	TFC	Twelfth Finance Commission
MTFP	Medium-Term Fiscal Plan.	URP	Uniform Reference Period
NESCO	North Eastern Electricity Supply Company of Orissa Ltd.	VECs	Village Education Committees
NRECA	National Rural Electric Cooperative Association	WESCO	Western Electricity Supply Company Of Orissa
NREG	National Rural Employment Guarantee		

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REPUBLIC OF INDIA

Orissa Socio-Economic Development Loan II (Loan No. 48370 IN and Credit No. 42250 IN) – Second Tranche Release – Full Compliance

Tranche Release Document

I. INTRODUCTION

1. ***This memorandum summarizes progress in the implementation of the second operation in support of Orissa's Socio-Economic Development Program with a focus on actions taken by the Government of Orissa to meet the specific conditions for the release of the second tranche of the Orissa Socio-Economic Development Loan II*** (OSEDL II). It should be read in conjunction with the main Program Document.[1]

2. OSEDL II provides financial support for the continued implementation of structural, fiscal and administrative reforms needed to boost inclusive economic growth and achieve rapid poverty reduction over the medium term in Orissa, one of India's poorer states. The multi-pronged approach of the Government of Orissa ("GoO")'s reform program includes:

(i) reforms focusing on enhancing agricultural productivity, security of land rights and market access for poor farmers and forest dwellers; improving the business environment for private investors, including strengthening the regulatory framework for managing environmental and social impacts of resource-intensive investment; and reform of public enterprises;

(ii) fiscal, financial management and public accountability reforms, including anti-corruption measures and public procurement reforms, aimed at achieving creditworthiness while creating additional fiscal space for high priority developmental spending, and promoting more efficient and transparent management of the government's financial resources; and

(iii) cross-cutting and sector specific reforms in public administration and service delivery, especially for human development – i.e., education, health and social protection/anti-poverty programs.

3. The key policy and institutional actions taken by Orissa as prior actions for the release of the first tranche of the loan and credit are listed in Box 1 below.

Box 1: Prior Actions for the release of the first tranche of OSEDL-II

Economic Reforms for Inclusive Growth

- Enact legislation to amend the Orissa Agricultural Produce Markets Act, 1956, to lift state monopoly, enable private investment in marketing yards and storage facilities, and to regulate sale of agricultural produce through contract farming.
- Enact the Orissa Industries Facilitation Act, 2004 and notify the Orissa Industries Facilitation Rules, 2005, for streamlining the approval of projects sponsored by private enterprises, including a Combined Application Form that reduces the number of forms required to be submitted for establishment of industries from 18 to one.
- Continued progress in implementing the Public Enterprises Reform and Privatization Policy, 2002, including selling the assets of two closed enterprises, initiating the environment audit of twenty enterprises and privatizing two enterprises.

[1] See the Program Document for the Operation (IN-P097036), Report No. 33767-IN.

- Initiate implementation of Orissa Energy Regulatory Commission Order on the business plan of distribution companies, including: (i) reconciliation and settlement of past dues between the largest consuming government department and CESCO; (ii) payment of current bills by state government departments to the distribution companies on an average of at least 90% of billing in 2005/06; (iii) execution of agreements between CESCO and at least two municipal authorities for ensuring discipline in the supply of and payments for electricity; and (iv) initiation of steps to designate existing courts to try electricity theft cases.

Fiscal reforms, Financial Management & Accountability

- Enactment of Orissa Fiscal Responsibility & Budget Management Act; primary surplus achieved in 2004/05 with overall deficit less than 3.5% of GSDP; execution of the 2005/06 budget and targets for 2006/07 consistent with the FR&BM Act.
- Reduce the share of salaries in current expenditure (net of interest and pension) from 57% in 2003/04 to below 54% in 2004/05, and estimated less than 50% in 2005/06.
- Improved ratio of actual spending to target in the Annual Plan 2004/05; improved utilization of centrally sponsored schemes in 2005/06.
- Begin implementation of Action Plan to strengthen financial accountability, including enhanced level of disclosure of financial information in budget documents, and updated month-end accounts of rural local bodies posted on GoO website.
- Government approval of Anti-Corruption Action Plan, covering measures to strengthen prevention, enforcement and public awareness, and reforms in the system of public procurement.

Public service delivery and human development

- Continue implementation of civil service reforms, including (i) identification of vacant regular posts for abolition, of which over 15,000 abolished during April 2004 – April 2006; and (ii) continued staff redeployment.
- Initiate implementation of short-term recommendations of the organizational review of the Department of Health (2002), including abolition of some posts and conversion of paramedics to district cadre.

4. According to the legal agreements for this operation, the release of the second tranche of the loan and credit are based on two requirements.

- The macroeconomic policy framework of Orissa is appropriate, including further strengthening of the fiscal position beyond 2005/06 towards achieving the targets and objectives of the Medium-Term Fiscal Plan.
- Orissa has made progress, satisfactory to the Bank and the Association, in carrying out the Program, including the measures outlined in GoO's Letter of Development Policy (see the Program Document for the Operation (IN-P097036), Report No. 33767-IN).

Both second tranche-release conditions have been met and the overall program is on track.

5. The next Section describes the overall macro-economic policy framework in India as well as recent trends in development outcomes in Orissa. Section III describes progress with program implementation of GoO's overall reform program. Section IV describes the status of specific tranche release conditions. The memorandum concludes that the conditions for the release of the second tranche have been met and that substantial progress has been made in implementing the measures outlined in GoO's Letter of Development Policy.

II. RECENT ECONOMIC DEVELOPMENTS

A. National Developments

6. ***Developments in the Indian economy in 2006/07 were extremely positive, with excellent growth performance, manageable inflation, large capital inflows and record levels of foreign exchange reserves.*** Overall the economy appears to be on a robust growth track, with an increasing underlying trend growth rate, as the benefits of reform and increased integration with the rest of the world take hold. The key growth drivers remain the investment cycle upturn and domestic private consumption. Real GDP

growth for the past four years has been 8-9% and the forecast for this year is in a similar range. The service and industrial sectors continue to lead the way with double-digit growth rates. The volatility and low growth of the agricultural sector, however, continues to be a weak spot in India's overall growth picture.

7. ***Recent growth in India has been based on productivity improvements, related to increased competition and financial deepening, and has been complemented by a savings and investment boom.*** The investment rate increased to 33.8% of GDP in 2005/06, up from 22.9% in 2001/02. Estimated at 32.4% in 2005/06, savings are also at an all-time high, up from 23.4% in 2001/02. This is explained by a turn-around of some 4% in public savings (reflecting the fiscal consolidation process) as well as by the buoyancy of private corporate sector savings (which increased from 4.2% in 2002/03 to 8.1% in 2005/06), linked to sustained improvements in corporate profitability and internally generated resources.

8. ***Significant progress has been made with fiscal consolidation at both the central and state levels***. Fiscal indicators have improved considerably in recent years and the consolidated (center and state) deficit is estimated at 6.3% in 2006/07, down from some 10% of GDP in 2001/02, on the back of excellent revenue performance at both central and state levels. Nevertheless, the size of the consolidated fiscal deficit and the accumulated public debt stock remain the main macroeconomic source of concern, in particular as they impact the allocation and effectiveness of public infrastructure and social spending. The huge foreign exchange reserves, exceeding gross external debt, and the favorable position in the capital and current accounts, should limit vulnerability to an external crisis. Significantly, all major international credit rating agencies upgraded India's sovereign rating to investment grade since mid-2006.

9. ***India's strong macroeconomic performance is shadowed by a relatively slow rate of poverty reduction.*** The population living in poverty has declined modestly from 36% in 1993/94 to an estimated 27.8% in 2004/05 according to Planning Commission estimates (or from 26.1% in 1999/00 to 22% in 2004/05, depending on the methodology used). There is also evidence of growing divergence in economic outcomes among India's states. This can adversely affect long term growth, including by creating poverty traps in lagging regions where resources are trapped in low productivity activities and creating social and political tensions that can consume resources in political and other conflict, that could have been utilized for growth. Progress in poverty reduction since the 1980s seems not to have matched the performance of the Indian economy at the aggregate level, and seems closer to India's historical trend. In recognition of this fact, inclusive growth forms an important theme of the Eleventh Plan and is also a key thrust of the Government of India ("GoI")'s 2007/08 budget.

B. Sub-national Developments

10. ***Many of the structural and fiscal reforms required to bring about inclusive growth and reduce poverty are in the domain of the states, and GoI has put in place a range of schemes to support reforms at the state level.*** GOI has fully accepted the recommendations of the Twelfth Finance Commission (TFC) to the period 2005-10. Consequently, there has been a significant increase in central financial resource transfers for reforming states. In the case of Orissa, such transfers include grants for education, health, roads and bridge maintenance, forests and heritage conservation, and grants for local bodies.

11. ***During the first three years of the Tenth Plan (2002/03 to 2005/06), Orissa has achieved an annual average growth rate of 7.3% against a target of 6.2%, driven by industrialization and service sector growth*** (see Table 1). Per capita income at constant 1999/00 prices increased from about US$250 in 1999/00 to an estimated US$350 currently. Over the past three years, GDP growth in Orissa has been in excess of 10%, ahead of the all-India average, and significantly higher than the growth rate during the Eighth and Ninth Plan Periods. Growth has been increasingly broad-based, with five of the nine economic sectors (comprising 70% of the economy) growing at rates higher than the all-India average.

Table 1: Sectoral growth rates during 8th, 9th and 10th Plan
(at 1993/94 prices, in percentage)

	8th Plan (1992/93-1996/97)	9th Plan (1997/98-2001/02)	10th Plan (2002/03-2005/06)
Agriculture	-1.02	4.46	3.00
Industries	3.54	3.89	11.34
Services	5.14	7.09	8.20
Total GSDP	2.30	5.20	7.26

Source: Eleventh Plan

12. ***Industry has been an important driver of growth in Orissa during the Tenth Plan Period***. In June 2005, the Korean steel company, POSCO, started the first phase of its US$12 billion foreign investment (the largest ever in India), followed by an investment of US$10 billion in 2006 by Mittal Steel. Since 2002, investment commitments worth approximately US$60 billion have been made (see Table 2). The state is richly endowed with mineral resources and raw materials; apart from the mega-projects in steel and other mineral-based manufacturing, investments in IT and high-end knowledge sector are also proposed, including the setting up of a Vedanta University (investment of around US$3 billion), an Indian Institute of technology. This could bring Orissa one step closer to its vision of becoming a second-tier center for both Business Process Outsourcing and the software industry, and could generate much needed non-agricultural employment.

Table 2: List of MoUs signed by Government of Orissa from 2002 to Present

Sector	Number of companies	Proposed Investment (in US$ billion)
Steel	45	45.1
Alumina/Aluminum	3	0.4
Cement	3	0.5
Power	13	14.6
Others	2	0.4
Total	66	***US $ 61 billion***

Source: GoO
Note: (1US$ =Rs 40)

13. ***While subsistence agriculture is still dominant, there are increasing signs of diversification towards high-value commercialized agriculture.*** Cotton contract farming has started in the tribal districts leading to higher production and a shift from traditional to high-yielding varieties; cotton production in Orissa has increased threefold in recent years. Other emerging cash crops include maze and coconuts, and production of both is increasing steadily in Orissa's poorer districts. The fishery sector in Orissa has grown at around 3.5% per annum in the last five years. Yet, long-term problems continue to affect the productivity of agriculture, as large concealed tenancy, poor research and extension facilities and inadequate infrastructure remain a constraint.

14. ***There is evidence of a modest decline in poverty in Orissa over the last ten years, with the pace of decline somewhat accelerating in the last five years, especially in rural areas***. The official poverty estimates for India and Orissa for 1993/94, 1999/00 and 2004/05 are available from the Planning Commission of India. The first set of estimates is based on the so-called "mixed reference period" (MRP) and allows for the comparison of change in poverty between 1999/2000 and 2004/05 (see Table 3). Based on this method, the decline in the poverty rate is over 8 percentage points in rural and over 2 percentage points in urban areas. A second set of estimates, based on the "uniform reference period" (URP), indicates that the decline in poverty over the past ten years has been more modest: rural poverty rate has declined

from 49.7% to 46.8% between 1993/94 and 2004/05 and urban poverty rate has increased slightly from 41.6 to 44.3%. MRP and URP results are not comparable with each other. [2]

Table 3: Orissa and all-India, trends in poverty rate between 1993/94 and 2004/05

		1993/94	1999/2000	2004/05	change (percentage points)	change (percent)
Orissa						
URP	rural	49.72	-	46.80	2.92	6.24
	urban	41.64	-	44.30	-2.66	-6.00
MRP	rural	-	48.01	39.80	8.21	20.63
	urban	-	42.83	40.30	2.53	6.28
All-India						
URP	rural	37.30	-	28.30	9.00	24.13
	urban	32.40	-	25.70	6.70	20.68
MRP	rural	-	27.10	21.80	5.30	19.56
	urban	-	23.60	21.70	1.90	8.05

Note: "URP" stands for uniform reference period; "MRP" stands for mixed reference period.
Source: GoI, Press Information Bureau, New Delhi 21st march 2007 for 2004/2005 data and various National Planning Commission publications for the earlier data.

15. ***Recent data on households' real per-capita expenditure (PCE) indicate a 7% growth (1.4% per annum) during five years.***[3] The aggregate performance masks differences across urban and rural sectors and across regions. Real per-capita spending has increased faster in rural areas (by 12% over five years or 2.3% annually) than in urban areas (by 4% or 0.8% annually). In urban areas, while real per capita spending remained flat in Coastal and Southern regions, it grew by 14% (2.7% annually) in the Northern region where most of the mining activities are taking place. This growth was driven by the very large increases in spending in households engaged in mining-related activities and in financial services. In rural areas, the highest growth in spending was recorded in the poorest Southern region where PCE increased by 25% (4.6% annually).

16. ***The scheduled castes (SCs) experienced growth in real per-capita spending of 7% over five years (1.4% annually) while growth in per-capita real spending for the scheduled tribes (STs) lagged overall performance.*** The better performance of the SC group is due to a rise in their agricultural wages and increased non-agricultural self employment. In particular, while in 1999/2000 average male agricultural wages of SC groups were at par with that of ST groups, by 2004/05 agricultural wages of SC were on average 10% higher. ST groups are also underrepresented in non-agricultural self-employment occupations.

[2] Change in the design of questionnaire for 1999/2000 55th quinquennial NSS round rendered incomparable estimates of poverty based on uniform reference period --"URP" --which had been used for estimating poverty rates in 1993/94 and earlier. This gave rise to a long-standing debate on the pace of poverty progress in India during the 1990s and 2000s. National Planning Commission's solution was to introduce an additional measurement method based on mixed reference period --"MRP" -- and to amend the questionnaire for the most recent 2004/05 61st quinquennial NSS round so as to allow for calculating poverty rates based on both methodologies. While these changes allowed for comparing poverty rate between 1999/00 and 2004/05 they still do not allow for comparing the pace of poverty reduction between the two consecutive periods of 1993/94–1999/2000 and 1999/2000-2004/05.

[3] This is based on the so-called "Schedule 10", which collects abridged PCE data and allows for the comparison between 1999/2000 and 2004/05.

17. ***Overall growth in households' per capita spending can be explained by (i) a shift out of agricultural labor into more remunerative agricultural and non-agricultural self employment and to non-agricultural labor, and (ii) an increase in real agricultural wages.*** While in 1999/2000 almost 45% of all household heads indicated that their primary occupation was agricultural labor, in 2004/05 this proportion declined to 30%. The proportion of self-employed in non-agricultural activities increased from 12% to 19% and the share of non-agricultural labor doubled from 5% to 10%. Real agricultural wages of prime aged males increased by 45%, on average, while female wages increased by over 25%. In the Southern region, real male agricultural wages almost doubled.

18. ***Orissa has also registered marked improvements in a number of human development outcomes between 1998/99 and 2005/06.*** The proportion of children who received all recommended vaccines increased from 44% to 52%; the proportion of vaccinated children in Orissa is now higher than the all-India average (see Table 4). With regard to infant mortality, good progress has been made in both rural and urban areas. In rural areas the number of infant deaths per 1,000 live births fell from 81 to 69, remaining higher than the all-India average of 62; in urban areas, it declined from 81 to 40, falling below the all India average of 42. Progress has been slower in raising the use of contraceptives and in increasing the number of institutional deliveries.

Table 4: 1992/93 -2005/06: Selected Human Development Outcomes: Orissa and India

	Orissa			India		
	NFHS-1 1992/93	NFHS-2 1998/99	NFHS-3 2005/06	NFHS-1 1992/93	NFHS-2 1998/99	NFHS-3 2005/06
Percentage of children 12-23 months who received all recommended vaccines:						
Urban	44	56	53	51	61	58
Rural	35	42	52	31	37	39
Total	36	44	52	36	42	44
Percentage of children under age 3 who are:						
Stunted (too short for age)	45	44	38	na	38	46
wasted (too thin for height)	23	24	19	na	19	16
underweight(too thin for age)	52	54	44	52	47	46
Number of infant deaths per 1,000 live births in the last 5 years:						
Urban	85	81	40	56	47	42
Rural	117	81	69	85	73	62
Total	112	81	65	79	68	57
Trends in contraceptive use (percent), currently married women 15-49 years old:						
Urban	47	54	59	51	58	64
rural	34	46	49	37	45	53
Total	36	47	51	41	48	56
Trends in institutional deliveries (percent), birth in the last 3 years:						
Urban	41	55	65	58	65	69
rural	10	19	35	17	25	31
Total	14	23	39	26	34	41

Source: Ministry of Health and Family Welfare, GoI, Provisional results from the 2005-06 National Family Health Survey.

19. ***In spite of recent progress, significant challenges remain.*** Per capita incomes in Orissa remain significantly below that of the rest of India. Moreover, within Orissa acute regional, social and gender disparities also remain. The challenge going forward will be to ensure sustainable and shared economic growth. In this context, increased emphasis is being placed by GoO on measures to further improve the performance of agriculture and allied activities in which the majority of the poor are engaged, alongside continuing measures to improve the business climate. The latter includes measures to strengthen the regulatory framework for managing the environmental and social impacts of resource-intensive investment. GoO is also paying increasing attention to accelerating the improvements in human development outcomes.

20. ***Some groups in Orissa continue to question the benefits of Orissa's chosen development***

strategy. On balance, there is a consensus among the leadership of the state, most inhabitants of the state, and its development partners that acceleration of growth and industrialization are vital for economic growth and poverty reduction in Orissa. Industrialization is taking advantage of the rich mineral resources with which the state is endowed and the government is making considerable efforts to find the right balance between speeding up economic development and protecting the rights of people affected by mineral resource exploration and land acquisitions in particular (see Section III below). Yet, the situation remains volatile with protests against land acquisitions drawing support both within and outside the state, posing risks to the intended objectives of the GoO reform program.

III. PROGRESS IN IMPLEMENTING THE GoO REFORM PROGRAM

21. ***GoO's strategy to accelerate growth and poverty reduction has been updated in its draft Eleventh Five-Year Plan and a long-term strategy called "Vision 2020", which is under preparation.*** From a strategy of relying on the public sector for job creation and for poverty reduction in the past, the state now regards the private sector and community groups as the major engines for accelerating economic growth and creating job opportunities. At the core of this strategy is the agenda for responsible and accountable fiscal and public financial management, which would enable GoO to enhance the quantity and quality of public investment in human and physical capital so that the benefits of income growth are more equitably distributed than in the past. Key objectives of the draft Eleventh Plan (2007-2012) include: (i) reaching a sustainable growth rate of 9% per annum, and a growth rate of agricultural production of 4% per annum; (ii) reducing the headcount ratio of consumption poverty by ten percentage points; (iii) improving access to basic health, education, drinking water and sanitation facilities; (iv) giving special attention to the welfare of SCs, STs, minority communities, girls and young children; and (v) continuing fiscal and governance reforms including improved public sector investment with a focus on outcomes.

A. Reforms for Inclusive Growth

Regulatory Reform

22. ***A continuing challenge for GoO is to sustain and manage the growing private investor interest towards achieving broad-based and inclusive economic growth.*** The Government is aware that the large mining and power based projects may not directly generate much employment; nonetheless they could spawn ancillary industries in the medium to long term. To achieve this, GoO is deepening its on-going investment climate reforms, particularly (a) to address the barriers to investment faced by small and medium-scale enterprises (SMEs) and (b) to diversify the manufacturing and services base.

23. ***The new 2007 Industrial Policy Resolution (IPR) focuses on broad-basing and strengthening the reforms in the regulatory and structural framework at both state and district levels, with a particular focus on addressing barriers to investment faced by SME and on the non-mining sectors.*** The Orissa IPR 2001 first mooted the idea of single-window clearance system (SWS), among other things. Since the SWS was set up in April 2005, the High-level Clearance Authority (HLCA) - for investment projects over Rs. 10 billion - considered and approved 19 investments worth US$30.5 billion in 2006/07[4]. The State-level Clearance Authority - for investments between Rs 500 million and Rs 10 billion - considered 40 proposals in 2006-07. The majority of the investments were in mineral-based industries and the power sector, although investments in Information Technology, tourism and retail sectors have also grown over the last couple of years.

[4] In 2005-06, the HLCWA considered and approved five MoUs of US$17 billion of which POSCO's investment of US$12 billion accounted for 70% of the investment.

24. ***The SWS has also begun to be extended to the district level and efforts are underway to further streamline the single window system at the state level.*** Through the DFID support for single window activities, GoO is in the process of putting in place a project management and information system. The system shall help keep track of all investments, MoUs etc. coming through the SWS, and it will maintain the database for all information related to single window investments. At the district level, the Government has proposed the concept of regional centers, with a focus on the regions where investment potential of sectors covered by the district industrial centers is highest. Jajpur and Jharsuguda, the two original pilot districts will be included for further strengthening under the regional District Industrial Center scheme. In addition 2-3 more regional centers will be selected. In the four pilot centers responsible for investments below US$12.5 million, there has been an increase in the number of applications coming through in 2006/07.

PPPs

25. ***While the government has recently increased three-fold its budgetary funding for infrastructure projects, it is equally important to encourage private sector participation in the infrastructure sector.*** Orissa continues to face the challenge of huge infrastructure constraints.[5] For instance investments are needed in railways and main artery roads with the increasing needs posed by large mineral–based and power projects.

26. ***A PPP policy framework has been adopted aimed at developing a comprehensive policy and regulatory framework and guidelines for attracting private participation.***[6] The policy envisages the need for special legislation that would be supported by a set of rules, guidelines and sectoral policies. Certain sectors such as roads, ports, urban development, and power, as well as social sectors such as health, education etc., are covered under this policy. The policy outlines the project identification and approval process, along with the funding mechanisms that could be put in place for project pre-feasibility and feasibility studies as well as financial support to fund viability gap where required. The GoO has concurrently moved ahead with key institutional initiatives. For instance, a PPP cell has been set up in the Planning and Coordination Department in the Government of Orissa under a Special Secretary to promote PPP projects.

Agriculture, Land Reform, Forestry and Fisheries

27. ***Without improving the productivity and market orientation of agriculture in Orissa, it would be impossible to achieve a visible reduction in poverty.*** In this spirit the Orissa Agricultural Produce Markets Act was passed to allow for setting up of private markets and to enable contract farming; and the Rules have recently been issued.

28. ***To facilitate empowerment of farmers in water resources management, good progress continues to be made in putting irrigation schemes under the control of Pani Panchayats (PP).*** Out of 1.1 million hectares a total of 873,600 hectares have been completed, covering a total of 12,275 PPs. A total of 850 PPs meet the requirements of the PP Act and Rules by having organized elections and elected office bearers. The target now is to bring the earlier PPs (many of them informal) under the ambit of the PP Act.

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[5] Infrastructure bottlenecks - particularly the reliability of power supply, roads, rural connectivity, railways, and port facilities - have been highlighted by the private sector as the most critical constraint in doing business in the state (Orissa ICA, 2005).

[6] The gazette notification was issued on August 7, 2007.

29. ***The land administration agenda, which includes survey of un-demarcated lands, is considered by GoO as a crucial part of its socio-economic development program.*** The importance of this agenda is underscored by the benefits associated with providing better secured land property rights both *in social terms* through better rights for mainly ST/SC populations who currently live on un-surveyed lands or as encroachers on surveyed lands, and in *economic terms* through the positive impact of a better functioning land market on the business investment climate in Orissa. Yet progress on agreed key land administration actions appears to be modest, primarily due to a shortfall in funding.[7]

30. Progress has been made in the computerization of land records, which has now been completed in 165 out of 171 tehsils, while digitization of cadastral maps has been undertaken on a pilot basis in six districts. Unfortunately, due to lack of funds, it is not clear whether this program can be rolled-out to cover all tehsils. Legal challenges pertaining to integration of the Settlement and Consolidation departments in the tehsil administration are pending in the Orissa High Court.

31. ***Recognizing the importance of the forestry sub-sector as a potential source of income generation for the poor, the Forest Department is in the final stages of developing a comprehensive forest sector vision and strategy, with broad stake-holders inputs.*** Positive steps have been taken in enhancing income opportunities for tribal communities resident in forests. In 2005 out of a total of Rs. 1.4 billion gross revenues from Kendu leaf sales, communities received Rs. 790 million or over 55%. The newly established Policy Analysis and Strategic Planning Unit in the Forest Department prepared a study on impact of deregulation of non-timber forest produce (NTFPs), which offers further insight on income changes of forest dependent households.[8] The new manual for Joint Forest Management, under which communities will be empowered to take on increased forest management responsibilities and would be entitled to a greater share of Minor Forest Produce (MFP) and timber products, has been finalized.

32. A draft vision document for Fisheries Management and Development is currently being circulated among stakeholders for feedback. Preparation of a comprehensive fisheries policy is also taking place through the formation of seven committees that already have or are in the process of finalizing recommendations on various aspects of such a policy.

Public Enterprise Restructuring and Privatization

33. ***Orissa has made considerable headway with closing down loss-making enterprises and privatizing viable units.*** The Public Enterprise Reform and Privatization Policy is aimed at divesting from commercial activities and reducing the fiscal losses, and facilitating private investment through a program of privatization, closure/liquidation, and restructuring. Since the negotiation of OSEDL II, one further enterprise has been privatized. There has also been progress with the restructuring of the Orissa Lift Irrigation Corporation (OLIC). Despite persistent efforts, progress towards closure of PEs and sale of assets has been relatively slow over the past 6 months.

Power

34. ***Orissa initiated power sector reforms in the 1990s and has achieved considerable improvements, but performance of its distribution utilities continues to be a critical area of concern.*** Unlike in the past, distribution utilities are now recovering their operating costs, paying fully for their electricity supply and also servicing some past dues, even though there has been no tariff increase for

[7] The targets agreed for the land administration agenda were based on the assumption of available funding for the sector from DFID. In view of this funding falling through, these targets had to be scaled-down. Although GoO signals that it will pick-up part of the required financing, the major share of the Government's developments funds are tied and thus do not allow enough flexibility in the budget to pick-up the entire shortfall.

[8] The new JBIC-financed Orissa Forest Sector Development Project will track forest-related revenues obtained by communities relative to a baseline established upon commencement of the project.

several years and no provision of budget funds to the sector since 1999. However, the sector's aggregate technical & commercial losses (AT&C) – at 43% in 2006/07 – compare rather poorly with states like Andhra Pradesh, Gujarat and West Bengal, which reportedly managed to bring down their AT&C losses to below 30%. (see Table 5)

35. ***There have been improvements in the collection-to-billing ratio.*** The Central Electricity Supply Utility (CESU) signed MoUs with the municipalities of Bhubaneswar, Cuttack, Puri, Kendrapara and Angul, and is currently collecting more than 80% of the billed amount from the first two municipalities. The Utility's collection-to-billing ratio in the case of government-dependent consumers also improved from about 85% in 2005/06 to more than 95% in 2006/07. As regards state-wide law and order interventions for curtailing theft, energy police stations have been established in some areas, but their track record in proactively registering theft cases and ensuring convictions has not been satisfactory. The depletion of key technical and managerial staff in state-government owned entities also remains a concern. A sound approach of the Regulatory Commission to improve performance through a multi-year approach to tariff setting and approval of business plans is weakened by the day-to-day management of the utilities.

Table 5: Aggregate Technical & Commercial Losses (%) of Distribution Utilities

DISCOM	2002/03	2003/04	2004/05	2005/06	2006/07	Business Plan Target for 2006/07
WESCO	48.1	46.2	41.4	41.5	39.7	32.3
NESCO	51.4	49.2	44.9	44.0	38.8	36.1
SOUTHCO	50.3	50.5	45.8	46.3	47.7	37.7
CESCO/CESU	55.0	51.1	51.0	49.4	47.1	40.4

Source: OERC & the World Bank

36. ***The state is mobilizing funds for rural electrification.*** These are expected to deliver electricity to about 6,000 rural villages. But even after successful completion of the ongoing projects, there would still be about 11,650 villages and 420,000 rural households without electricity. To address this challenge, the state government could consider innovative approaches such as franchisees and cooperatives for service delivery and establish an umbrella organization – like the Rural Electrification Board in Bangladesh and NRECA in USA – to effectively dispense subsidy as well as quality advice to small, scattered entities engaged in supply of electricity to rural areas.

37. ***Orissa's significant coal resources offer substantive scope for ramping up generation capacity through Captive and Independent Power Projects (IPPs).*** Harnessing the IPP potential, however, will need the allocation of coal blocks, a decision that falls under the purview of the central government and an agreement between the Centre and the State government on the latter's demand to levy duty on power generation, avail concessional power, and receive compensation for mitigating environmental hazards.

Social

38. ***To address the social issues in the state, GoO is pursuing a two-pronged strategy***. First, it is devolving more powers to panchayats; and second it is supporting collectives of citizens such as water committees, forest conservation committees and women's self-help groups. Elections to panchayats/local bodies were held in February 2007 and the GoO is assessing the capacity needs and constraints of the new incumbents. Training is also being conducted by various departments on the Right to Information Act. Pursuant to the Panchayat Extension to Scheduled Areas Act (PESA), the GoO had earlier transferred 69 items of NTFP to Gram Panchayats in tribal areas. The impact of this devolution is yet to be assessed. GoO is also framing rules and guidelines to give effect to the PESA in other sectors and is seeking policy advice from the Bank on modalities of convergence of local institutions. To reach the second objective, GoO has supported the establishment of 12,000 water user associations, 280,000 women's self-help groups through *Mission Shakti*, and 9,000 *Bana Sanghrakhana Samiti* (forest conservation committees).

Environmental

39. ***With mining and downstream industry playing an important role in GoO's strategy, the government is acutely aware of the need to strengthen a framework and state capacity for addressing environmental impacts.*** Towards this end, GoO is undertaking decentralization of the Orissa Pollution Control Board (OPCB) functions that is expected to improve efficiency of inspection, monitoring and compliance management. In addition, a system of joint inspection by the OPCB and a representative of the Industries Department has been formulated. Planning ahead, GoO intends to develop a regional environmental management plan for one or two critically polluted areas, where future growth is expected through environmentally sensitive industrial investments. A comprehensive program of actions has been developed, including establishing monitorable targets and assignment of responsibilities for implementation, but more steps need to be taken to ensure that implementation is effective and sustainable. The OPCB could also consider the development of performance standards, risks assessments of polluted sites, and transactions guidelines for liability assessments.

40. ***To address economic and social needs of communities affected by mining-related projects, the GoO formulated and adopted a new Resettlement and Rehabilitation (R&R) policy in 2006.*** While the Orissa R&R policy is one of the most progressive in India in terms of providing assistance to the affected populations, it is currently being further upgraded. GoO is also in the process of framing continuous rules and guidelines to make the R&R Act more operational. GoO has requested technical assistance from the Bank, including (i) support to social monitoring and audit activities, (ii) an assessment of the Periphery Development Fund (PDF, see Box 2) and the PESA Act, (iii) support to district level workshops on inclusive growth, and (iv) assistance with local capacity to undertake impact evaluations and economic analysis of mining.

Box 2: Orissa Initiative for Benefit-Sharing in Mining Areas: The Periphery Development Fund (PDF)

In addition to the R&R Policy, the state's framework on inclusive growth seeks to implement a judgment of the Supreme Court of India. In that judgment, the Court upheld the state's right to exploit its mineral wealth, but it also emphasized the state's duty to safeguard the interests of tribals who reside in mineral-rich areas. The judgment also outlined a framework for sharing of benefits of mining between private companies and citizens with the state playing the role of a facilitator and enforcer. Although the Court's decision strictly applied only to Andhra Pradesh, GoO took a proactive stance and established a sub-committee of the cabinet regarding this matter. Based on the sub-committee's recommendations as well as those by a committee of secretaries, the state government issued a policy on benefit sharing through a gazette notification in 2004: It laid out two kinds of approaches to the development of tribals in mining areas. The policy decision focuses on both a private and a public goods approach. The key decisions on the private goods side relate to when land is acquired and are incorporated in the R&R Policy.

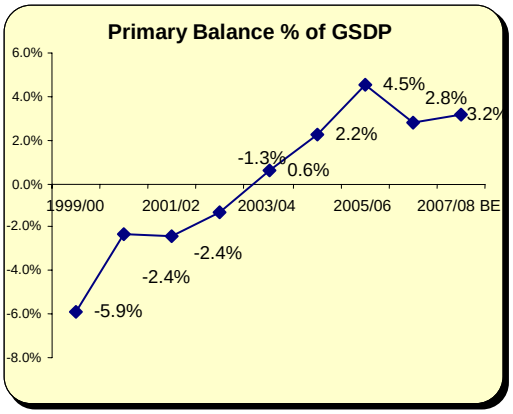
In addition to the private goods side addressed in the R&R Policy, a "Periphery Development Fund" (PDF) was established at the district level in several Scheduled Areas (tribal dominant areas). This is based on an "area development" or a public goods approach. It is implemented through a Periphery Development Committee (PDC, a decision–making authority) and a Periphery Development Society (PDS, an executing authority), set up under the Regional Divisional Commissioner. The annual contributions from the mining companies into the PDF are based on a negotiated settlement between the PDC and representatives of the companies. These payments are made in addition to taxes and royalties that companies pay and that belong to the central and state governments.

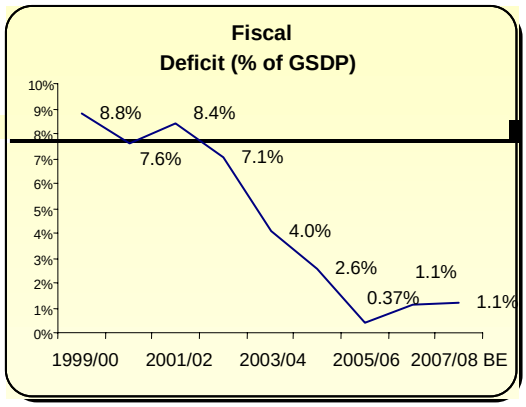
B. Fiscal Reforms and Public Financial Accountability

41. ***The ambitious targets of the Fiscal Responsibility & Budget Management Act continue to be met.*** The state has achieved significant progress in its fiscal correction objectives, and has exceeded the targets set in its medium-term fiscal plan. According to the latest budget, the primary fiscal balance has been converted from a deficit of 6.0% of GSDP in 1999/00 to a surplus of 4.5% in 2005/06 – a correction of 10.5 percentage points in six years and it is expected to be close to 3% as per the revised estimates for

2006/07. The fiscal deficit has been brought down to less than half a percent of GSDP (0.37%) and Orissa has eliminated the revenue deficit three years ahead of target, achieving a surplus of 0.6% of GSDP in 2005/06, for the first time in twenty-two years. The revenue deficit has declined faster in Orissa than in any other Indian state, albeit from a higher base.

Figure 1





42. ***These fiscal improvements are underpinned by improved revenue performance and expenditure restructuring; with revenue improvements accounting for 85% of the overall adjustment (see Table 6 below).*** The bulk of the contribution from the higher revenues comes from an increase in own revenues, and the bulk of the contribution from expenditure containment comes from the salary bill and debt restructuring. The improved revenue performance of Orissa is largely attributable to recent increases in sales tax / VAT collections, although stamp duties and registration fees, electricity duties, state excise duties, and vehicle taxes also reported high growth rates. As Table 6 shows, Finance Commission awards have also contributed significantly to Orissa's fiscal improvement.[9] Tied grants for maintenance (separate grants for roads, buildings, and forests) are conditional on states' increasing their own spending in these areas, as are the health and education grants, which are only for the poorer states.

Table 6: Contributions to Orissa Fiscal Correction: 1999/00 to 2006/07

Change from 1999/00 to 2006/07	% of GSDP	Contribution to change in fiscal deficit
Primary Deficit	8.7	100
Revenue	7.4	85
Own Revenue	3.5	40
Revenue from Center	3.9	45
Non-interest spending	-1.3	15
o/w Salaries	-3.5	
o/w Pensions	0.7	
o/w Capital and non-wage O&M	0.2	
Memo		
Interest payments	1.0	
Fiscal deficit	7.7	

[9] The Twelfth Finance Commission (TFC) recommendations, adopted by GoI, also offer states debt relief and other incentives to adopt and implement Fiscal Responsibility Laws. Significantly, the TFC has set up a Debt Relief Facility, made up of two schemes. First, enacting fiscal responsibility legislation qualifies states for restructuring of old central debt at significantly lower interest rates. A second scheme offers a waiver on debt servicing as a reward for meeting annual targets for reducing the revenue deficit.

43. ***Expenditure composition, although still burdened by the state's high debt service, has also improved further.*** Managing the civil service wage bill has been a central reform priority for the Government of Orissa and civil service reform has been the major contributor to the expenditure side of fiscal stabilization (see Box 3). The ratio of the salary bill to the state's own revenues – selected by GoO as a key indicator of its fiscal reform efforts – has been reduced dramatically from over 161% on 1999/00 to 63% in 2006/07. Capital outlays have rebounded to an estimated 2% of GSDP in 2006/07 (roughly equivalent to the 1.9% in 1999/00), after being at about 1.5% of GSDP in recent years; non-wage operation and maintenance spending has also rebounded from 0.45% in 2003/04 to just over 1% in 2006/07, driven by increased spending on road maintenance. The sectoral composition of government spending (net of interest and pensions) shifted slightly in favor of human development, including education, health, drinking water supply, social protection and anti-poverty programs.

Box 3: Civil Service Reform in Orissa

Managing the civil service wage bill has been a central reform priority for the Government of Orissa and civil service reform has been the major contributor to the expenditure side of fiscal stabilization. The public sector in Orissa had acted for years as the employer of first resort, leading to a government work force proportionately much larger than in most Indian states. A White Paper on Public Expenditure Management and Administrative Reforms that laid out a reform path for Orissa, noted that the state had the highest proportion of public sector employees at 1.6 per 100 to the population compared to an all India average of employees to population at 0.8. Development expenditure had been squeezed to a minimum due to the large and growing salary bill and interest burden, and the ratio of the salary bill to the state's own revenues was 150% in 1999/00.

The wage bill has fallen significantly by 3.5% of GSDP through a series of measures to right size the government work force. A memorandum of understanding signed with the Government of India committed Orissa to reduce government employment by 20% (about 100,000) people in the medium term. Between 1998/99 and 2005/06 Orissa has brought down the total number of employees in the public sector from 475,791 to 392,805, a reduction of over 80,000 people and the salary wage bill has fallen significantly by about 3.5%. The reduction in civil service numbers is based on the elimination of vacant posts and a ban on new recruitments across government. The reforms began in 2001, with 50 % of all vacant entry level posts being abolished and a ban on recruitment. The ban rightly exempted essential development areas – education health, as well as the police. This thrust was reinforced by government orders in 2004 that required all departments to abolish 75% of regular posts that became vacant every year. These bans continue. The salary bill of temporary workers has also been halved from Rs. 0.32 billion in 2003-04 to an estimated 0.15 billion in 2005/ 06.

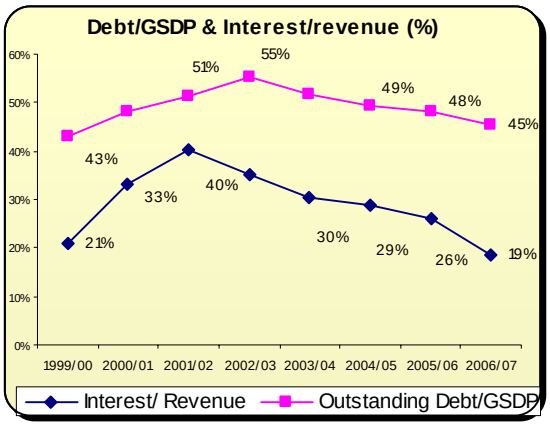
Going forward, a balance needs to be struck between banning recruitment of new staff and protecting and expanding staff in priority areas of development. It is not only the quantity of staff but the quality that matters. If Orissa is to meet its human development goals, it will need to radically restructure the long term skill profile of its employees. For instance, Orissa has only a few anesthetists in position in government service who have to serve a public health system that covers 38 million people. While this is a problem across India, the government of Orissa will need to consider innovative ways to train and recruit skilled staff into its organization and invest more in feeder institutions that can develop skills for public service delivery.

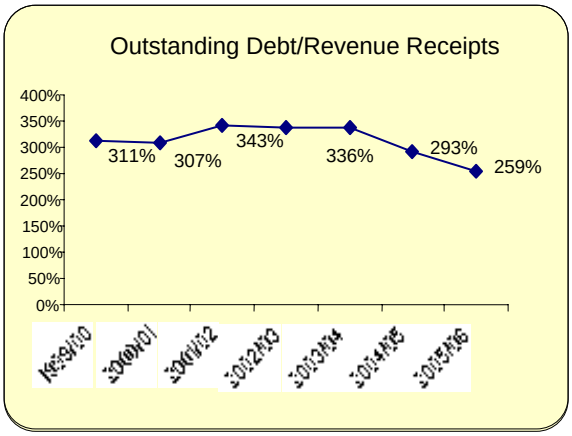
A robust basis for decisions on right sizing requires qualitative analysis to determine staffing patterns and norms across categories and departments. This needs to include more robust functional, manpower and productivity analysis. Such analysis will also support better redeployment of surplus staff. This along with the establishment of the database on surplus employees can form the basis of an equitable staffing policy that will support better staffing of underserved departments and districts and allow for better cadre and human resource management. In addition the government needs to establish a clear policy on contractual employees. These actions will require considerable administrative and political commitment. The human resource management agenda needs to go beyond the Finance department and become an integral part of all line department functioning.

44. ***One of the pillars of the structural reform process has been restructuring of debt and the debt stock has begun to decline although debt ratios still remain high.***(See Figure 2) Government of Orissa has made use of available debt restructuring and swapping possibilities with the support of Government of India, it has used part of the proceeds of the budget support from the Bank to pre-pay expensive debt to domestic financial institutions; and it has qualified for debt relief under the Debt Consolidation and Relief Facility by passing the FRBMA and bringing the fiscal deficit to below 3% of GSDP. In addition, GoO has rescheduled high cost Government of India loans at lower interest rates. As a consequence, GoO has saved almost Rs 1.6 billion in interest alone since 2002/03 when they first started swapping high cost debt.

45. All these steps have helped Orissa bring down the interest-to-revenue ratio from 35% in 2002/03 to 26% 2005/06, the ratio of outstanding debt[10] to revenue fell below 300% in 2004/05 and the debt-to-GSDP ratio has come down to 48% in 2005/06 from a high of 55% in 2002/03. As per the revised estimates for 2006/07 the interest-revenue ratio is expected to fall below 20%. If this happens, Orissa would emerge out of a debt stressed condition (on two parameters out of the three defined by the Twelfth Finance Commission). However it will take Orissa many more years to reach the target debt-to-GSDP ratio of no more than 35% from the 48% in 2005/06. Orissa needs to continue its prudent fiscal and debt policy well into the future to achieve sustainable debt-GSDP ratio.

Figure 2





46. ***Progress has also been made with bringing down the stock of outstanding guarantees: they are at about 4% of GSDP now, down from 11% in 2001/02.*** Over and above the immediate fiscal gains, the public enterprise program has also helped to control the future build-up of liabilities and unproductive investments. During 2002/03 GoO fixed the guarantee ceiling. The power sector accounts for over two-thirds of the outstanding guarantees; outside the power sector, the Orissa State Financial Corporation and the Orissa Industrial Development Corporation are the largest recipients of guarantees. A Guarantee Redemption Fund was established in 2002/03, which would be utilized for meeting payment obligations from guarantees.

47. ***Now that Orissa has created considerable fiscal space, improving expenditure programming methodology and the budgeting system takes on increased significance.*** Since the introduction of the 2002 "White Paper on Public Expenditure Management and Administrative Reforms", GoO has already made important improvements to the budget process. New investment procedures were introduced in 2003/04 (tightening the funding of schemes by setting in advance binding sectoral envelopes, giving priority to continuing projects and to projects nearing completion, requiring viability analysis for proposed schemes, and several other measures). The State has also adopted a medium-term framework approach, whereby an expenditure projection is formulated for the next five years, updated annually, and presented to the Assembly at the same time as the annual budget.

48. ***The thrust of the budgeting exercise for 2007/08 has been to improve the quality of spending and outcomes.*** In the budget guidelines for the 2007/08 Budget, GoO re-emphasized the need to curtail nonproductive expenditures and enhance revenues by speedy recovery of arrear tax and non-tax revenues. The Budget Manual has been published and revisions to Government Financial Rules and Public Works Code carried out. Ready references to the newly adopted six-tier budget codes have been prepared and distributed to the Controlling Officers and Drawing & Disbursing Officers.

[10] Outstanding debt includes end year debt stock plus off-budget borrowing.

49. ***Improving public financial accountability remains a central part of the reform program in Orissa and outcomes have started to improve***. The steps taken by Orissa to enhance accountability and transparency in public financial management include strict enforcement of expenditure controls, improvement in the quality of expenditure composition by prioritization using zero-based investment reviews, and increased verification/reconciliation of expenditures and receipts with the Auditor General (AG). The Finance Department has continued to monitor the timeliness of submission of utilization certificates. Regular reviews by the Finance Minister and scrutiny by the Orissa Legislative Assembly have suitably increased the importance of financial discipline in this area. The monthly financial reports of actual expenditures against allocations, forwarded to the individual departments by AG Orissa seek to increase the accountability of the departmental secretaries. Departmental Audit Monitoring Committees of different departments met frequently to review compliance on pending audit paragraphs and the status was reviewed twice in the last six months by the Principal Finance Secretary and the Chief Secretary.

50. Many of these measures have started to produce positive results, as seen in (a) a reduction in the number of departments reporting expenditures in excess of the appropriated annual allocations from 12 in 1999/2000 to 3 in 2004/05 and 2 in 2005/06; (b) higher levels of compliance in responses to audit paragraphs as in 100% responses noted for the Comptroller and Auditor General Civil Report for 2004-05 and 96% for the Comptroller and Auditor General Revenue Receipts Report and (c) increased levels of centrally transferred funds utilized in the year 2006/07; utilization certificates amounting to Rs. 2.9 billion submitted during the year 2006/07 as against Rs. 2.5 billion submitted during 2005/06.

51. ***Computerization of the state's accounting function including the implementation of the Orissa Treasury Management System (OTMS) is in full swing.*** When the reform process was launched in 2000/01, the Finance Department did not have the knowledge and capacity to identify, let alone monitor, the over 6,000 drawing and disbursing officers working across the state. In the last five years the department has established a computerized treasury management system that allows every transaction to be reported on a daily basis and has become a key instrument to both manage financial and human resource information and maintain financial accountability. The system is being linked with the office of the Accountant General so that there are no delays in both reporting and accounting of expenditures. In terms of budget management all budget lines will be centrally managed and be fed into the system so that no officer can bypass the budget allocations as bills will be passed through the system only if there is a valid budget head.

52. ***The computerized treasury system is now fully operational across the state and covers 161 Treasuries/Special Treasuries and Sub-Treasuries.*** Connectivity has been established between the Directorate of Treasuries and Inspection and the Finance Department and allows the Finance Department access to the daily Ways and Means position of the State as well as real time information on the expenditures and receipts position. The Government plans to roll out the Computerized Pension Disbursement System and Payroll verification system in 2007/08. While the Pension Disbursement System will simplify the pension payment process by directly crediting the pension amount to the bank accounts of the pensioners, the payroll verification system will help in establishment of greater checks and controls in an area hitherto considered as `high risk' and open to fraud and graft.

53. ***314 Panchayat Samitis (Block Panchayats) and 30 District Rural Development Agencies have begun to discontinue the manual books of accounts*** and will enter all accounting transactions in a computerized accounting system. In a major initiative and with the help of 12th Finance Commission grants, the Government is arranging to provide computers to the Gram Panchayats (GPs) that have adequate office infra-structure.

54. ***The requirements of FRBMA with respect to disclosure and transparency are being met*** The "Budget at a Glance" has been enriched and provides comprehensive financial related information on employee position, sources of revenues and allocations, reform initiatives, contingent liabilities, state-

owned enterprises, and debt and liabilities. This information, along with the revised MTFP and updated summarized accounting information is accessible on GoO website. In an effort to establish accountability of administrative departments, timely compliance of audit paras/draft paras is being given great importance. An apex committee under the chairmanship of Chief Secretary and review committee under the chairmanship of Additional Chief Secretary (Finance) and departmental monitoring committees has been formed to monitor progress.

55. ***Orissa is only one of two states in India (the other being Andhra Pradesh) to develop a comprehensive anti – corruption action plan and implementation of the action plan has begun.*** The Action Plan identified the need to deal with delays in trials and departmental proceedings related to corruption and recommended that eight additional vigilance courts be set up to deal with the backlog of cases. Two new courts have already been established and the government plans to establish three more courts in the coming months. The Government has also passed the "Orissa Special Courts Bill", which allows for the setting up of special courts to try high-level corruption cases. Procedural changes have been introduced through this legislation that will allow these courts to dispose of cases within a period of one year. The Bill also allows for the confiscation of property of corrupt officials, which is an important aspect of deterrent vigilance. A beginning has been made in taking the anti–corruption agenda into the departments of government. Vigilance Officers are now in place in key high-spending departments and corruption-prone processes are being identified and reformed. There remains a need to establish a mechanism to monitor the implementation of the strategy and in particular to review the capacity of vigilance officers and the backlog of departmental vigilance cases.

56. ***The state has also shown interest in implementation of reforms in the area of public procurement and has agreed on an Action Plan***. The anti-corruption action plan also lays stress on several items of this agreed plan for Procurement Reforms. Whereas some parts of the reform agenda have progressed significantly, other areas remain slow, including the setting up of a Procurement (Policy) Cell. A noteworthy development is that procurement tenders and bidding documents, by key departments are now being placed on the web. A next important step would be the implementation of e-procurement for all procurement above rupees 10 million in at least one participating department.

C. Public Service Delivery and Human Development

Education

57. ***Certification by Village Education Committees (VECs) of teacher attendance of contract (para) teachers has been under implementation in the State since 2006***. This certification is a prerequisite for release of salaries to these teachers (nearly a third of the teaching force in elementary education is contract teachers). A government order has been passed in 2006 empowering VECs to certify teacher attendance of regular teachers. To date, however, there are no third party evaluations of compliance with this order.

58. ***The state is in the process of hiring 30,000 new SSS (para-teachers) under the new teacher recruitment policy which became effective in 2006 and applies to all contract teachers hired since 2001.*** [11] Continuous satisfactory performance for five years will allow a contract teacher to become a junior teacher and after another four years of satisfactory performance a junior teacher will become a regular teacher. Contract teachers' attendance is being taken, monitored as a critical aspect of continuous satisfactory performance, and an unauthorized leave by the contract teacher is considered a break in

[11] A cabinet policy was passed in August 2006, and the report from the Implementation Committee was finalized in December 2006. Currently, consultations with the finance and legal departments of the state are being held regarding the finalization of the policy.

performance. Evidence from the ground indicates that there were cases among contract teachers who were due for promotion to junior teachers and those who had been found to have unsatisfactory performance had their appointments terminated.

59. ***Another initiative aimed at improving teachers' accountability -- display by schools of teachers' pictures and names and information on receipt and use of resources -- was expected to be piloted in two blocks but has not taken place until now.*** The delay, however, seems to be due to the technical difficulties that are expected to be removed once the Employment Personal Information System (EPIS), an online data-base system for teachers (along the lines of a Human Resource Management Information System), is operationalized. Currently, information to fill the EPIS has been provided by 10 districts, and it is expected that the data-base will have complete information in another 6 months. The data-base will include pictures of teachers and can be the used, once it is operational, to print pictures and names of teachers for display.

Health

60. ***GoO has increased high-level attention to MDG-related health outcomes and health sector performance in the State.*** This will further accelerate efforts that have been underway in the state for the last 3-4 years and resulted in improvements in Infant Mortality Rate (IMR), indicating the incidence of child malnutrition, and improving immunization coverage in rural areas (see Section II). The Orissa Health Sector Plan, aligned closely with the National Rural Health Mission strategy, has been finalized. The implementation of the strategy, which is supported by multi-year DFID grant support to the sector, has started and includes the establishment of devolved institutional arrangements (approved by GoO in December 2006) to accelerate improvements in MDG-related health outcomes.

Social Protection

61. ***Good progress in strengthening administration of key food distribution programs has been made.*** In particular, the Food and Civil Supplies Department has recently finalized a new Management Information System which will allow much more precise and timely administrative monitoring of Public Distribution System (PDS) grain flows, off take and stocks. While Orissa has been identified by the Planning Commission as a relatively low leakage state with regard to PDS, there nonetheless remains scope for reducing leakage, and such a Management Information System is a useful step in this regard. The program also allows for making and tracking of grievances through the system. The Management Information System will be fully operational in one district by the end of the financial year 2007/08, with 5-6 additional districts being covered. The gradual transition in Fair Price Shop management from private dealers to PRIs and/or SHGs continues. Over 3500 Fair Price Shops are now operated by PRIs, and about 6400 SHGs operate the kerosene supply under the Public Distribution System, with survey data indicating improvements in operations under these new management arrangements.

62. Under the Special Nutrition Program (SNP), the Women and Child Welfare Department is expanding its Ready-to-Eat (RTE) food program, which now covers 11 districts of the state, with 6 mini-RTE plants operated by SHGs. GoO provides lump sum cash transfers to SHGs for direct local purchase of some ICDS food (such as soya and dhal). The Department plans to soon pilot a system with Midday Meals in schools whereby SHGs may receive funds either directly or through PRIs for purchase of the non-grain ingredients of mid-day meals.

63. The Women and Child Welfare Department has a range of more specific measures designed to strengthen community oversight of their food-based programs, including piloting of posting of lists of children entitled to SNP food in Koraput, with quality certification by Mothers' Committees of SNP food inputs (which seems a positive step and should be monitored with an eye to expanding this approach if it proves effective), and distribution of weighing machines to ensure proper measurement of deliveries. The

Department has also commissioned a study (with support from DFID) to document the food stock management and procurement system in order to develop a user manual on all aspects of food and funds flow management in its programs. This will contribute to greater transparency and consistency in processes. There is a further need, however, to consider an evaluation of the various initiatives which would help to determine their impact on efficiency of the SNP.

64. ***Significant progress has been made in operationalizing NREG.*** As of October 2007, over 9 million people in 3.6 million households had registered under NREG, though employment actually provided to date was for just over 630,000 people. Orissa has implemented an impressive computerized tracking system which ranks as one of the most impressive in the country in design. In addition, it has appointed Block Project Officers specifically for NREG in all blocks. These BPOs are the key functionaries in the NREG design, and this is an important achievement that many other states have yet to deliver. An outstanding issue – and one common to many states – is the payment of minimum wages on NREG, which due to the piece rate system and current rural schedule of rates remains an issue. The area where increased attention under NREG seems warranted is on development of PRI's capacity to carry out necessary implementation functions and effective oversight of NREG operations through social audits. There is a training program in some areas on social audit, but the anticipated larger scale PRI capacity development for NREG implementation has not come to fruition as yet. Given the acknowledged weak capacity of PRIs, it is important to be proactive in this regard, especially as recent field studies from some districts of Orissa raise significant concerns on the ground-level impact of the scheme to date and on the effectiveness of the accountability mechanisms under the Act. Training would therefore be a key element of the program action.

IV. COMPLIANCE WITH TRANCHE RELEASE CONDITIONS

65. Significant progress has been made by GoO in carrying out the Orissa Socio-Economic Development Program-II. The remarkable improvement in the aggregate state fiscal position has continued into 2006/07. In the Bank Team's assessment, GoO is also making steady progress in facilitating the environment for private sector development. A policy on PPPs has been adopted and several new initiatives are underway to broaden and deepen the reforms to encourage the growth of the SME sector. There has also been significant progress with the implementation of the measures outlined in the anti-corruption Action Plan.

66. The legal agreements for this operation require two tranche-release conditions to be met for release of the second tranche of the loan and credit.

> **Condition 1:** *The macro-economic policy framework of the Government of Orissa is appropriate, including further strengthening of the fiscal position beyond 2005/06 towards achieving the targets and objectives of the Medium Term Fiscal Plan (2005-10).*

67. **This condition has been met.** As described in the Operations' Program Document (Rep. No. 33767-IN), the fiscal position would be considered to have been further strengthened if the estimated outcome in 2006/07, as set out in the Revised Estimates published by GoO, is in conformity with the targets of the Medium-Term Fiscal Plan (MTFP), including outstanding debt being less than 280% of revenue receipts, and interest payments being less than 25% of revenue receipts. These conditions have been met, as discussed in section III of this document, and as also illustrated by the detailed fiscal accounts presented below (Table 7).

Table 7: Key Fiscal Outcomes in Orissa

Per cent GSDP	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
	Actuals	Actuals	Actuals	Actuals	Actuals/a	Actuals/a	Actuals	RE	BE
Revenue	13.8%	15.7%	14.9%	16.4%	15.5%	16.9%	18.6%	21.3%	20.8%
State's own revenue	5.7%	6.5%	6.7%	7.7%	7.2%	7.7%	8.6%	9.2%	8.7%
Central resources	8.1%	9.2%	8.2%	8.6%	8.3%	9.2%	10.0%	12.1%	12.0%
Non-interest expenditure	19.7%	18.1%	17.3%	17.7%	14.8%	14.61%	14.09%	18.4%	17.5%
Current Exp.excl interest	17.0%	14.9%	14.9%	15.2%	13.1%	13.1%	13.1%	16.4%	15.3%
Current Exp excl interest & funds							13.2%	16.6%	15.9%
o/w salary bill	9.1%	8.6%	7.7%	8.2%	6.4%	6.1%	5.6%	5.8%	5.6%
o/w pension	1.6%	1.9%	2.1%	2.5%	1.9%	1.8%	1.8%	2.0%	2.3%
o/w capital outlay	1.9%	1.9%	1.9%	2.1%	1.4%	1.53%	1.37%	1.96%	2.04%
o/w net lending	0.9%	1.3%	0.5%	0.3%	0.3%	0.0%	-0.4%	0.1%	0.2%
o/w funds-2048 & 2075							0.87%	1.79%	1.6%
Primary Balance	-5.9%	-2.4%	-2.4%	-1.3%	0.6%	2.2%	4.5%	2.8%	3.2%
Interest Payments	2.9%	5.2%	6.0%	5.8%	4.7%	4.8%	4.9%	3.9%	4.3%
Overall balance	-8.8%	-7.6%	-8.4%	-7.1%	-4.0%	-2.6%	-0.37%	-1.11%	-1.1%
Memo items:									
Salary/ Own revenue	161%	133%	115%	106%	89%	79%	65.3%	63%	64%
Interest/ Revenue	21.0%	33.1%	40.2%	35.1%	30.3%	28.6%	26.2%	18.5%	20.8%
Salary/ Rev. Exp (net of interest & pension)	59.5%	66.6%	60.1%	64.3%	57.0%	53.8%	49.8%	39.9%	42.8%
Current (Revenue) Balance/GSDP	-6.1%	-4.4%	-6.0%	-4.6%	-2.3%	-1.1%	0.6%	0.9%	1.1%
Current balance/Revenue Receipts	-43.7%	-27.9%	-40.1%	-28.0%	-15.1%	-6.4%	3.4%	4.2%	5.4%
Outstanding Debt/Revenue Receipts	311%	307%	343%	338%	336%	293.3%	259.1%	212.9%	198.4%
Outstanding Debt/GSDP	43%	48%	51%	55.4%	51.9%	49.4%	48.2%	45.3%	41.2%
GSDP	425.27	439.81	472.70	501.49	610.71	690.37	*757.06*	*830.16*	*938.08*

a/ Actual figures have been adjusted to exclude impact of one-time shocks, including securitization of power sector liabilities in 2003/04; and one-time receipt of interest, dividend and loan recovery from power utilities in 2004/05.

Condition 2: *Orissa has made progress, satisfactory to the Bank and the Association in carrying out the Program.*

68. **This condition has been met.** Substantial progress has been made in implementing the measures outlined in GoO's Letter of Development Policy. This includes: completion of computerization of the Treasury System; notification of the Orissa Agricultural Produce Markets Rules; implementation of procurement reform component of Anti-Corruption Action Plan including posting of tenders and contracts awarded by selected departments (Works, Rural Development, Water Resources, Housing and Urban Development) has begun; adoption of PPP policy framework; further concrete steps towards strengthening performance incentives for teachers, including (i) progress towards establishing a career path for contract teachers and (ii) steps towards enhancing teacher accountability through the development of an electronic education management information system.

V. CONCLUSION

69. In view of the overall performance and progress with the implementation of the program supported by the loan and credit, and in compliance with the specific prior actions as described in Section IV, the Bank has informed India (as the borrower of the IBRD loan and the recipient of the IDA credit) that the second tranche of the financing (consisting of US$50 million and SDR 16.83 million) is available for withdrawal.