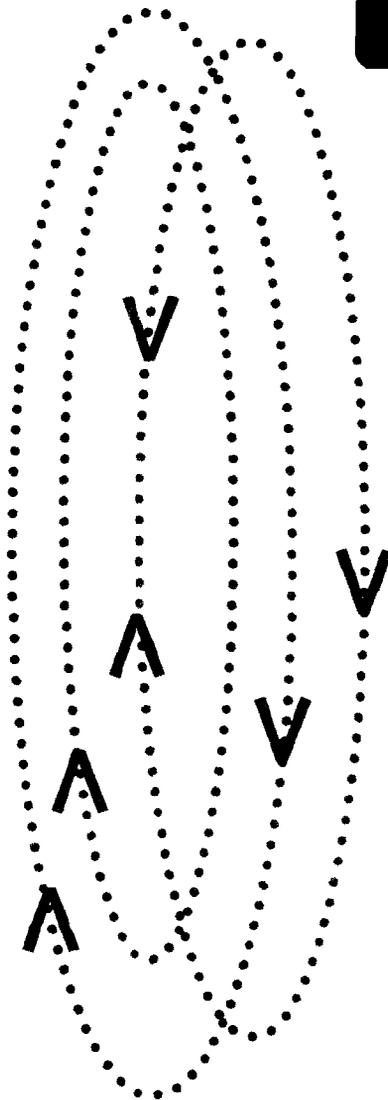


INDIA

REDUCING POVERTY, ACCELERATING DEVELOPMENT

20749
2000



OXFORD

A WORLD BANK COUNTRY STUDY

INDIA
REDUCING POVERTY,
ACCELERATING DEVELOPMENT

The report was completed in December 1999. It does not include developments and policy changes since then, such as the Union Budget presented in February, the March amendment of the TRAI Act and the EXIM policy of 1 April. The report uses GDP data available at the time, the revised series of 30 June 1999. The 28 January Quick Estimates of GDP revised the series back to 1993-4, reducing the absolute level of GDP and changing the year-to-year growth rates. For readers of this report, the revisions most obvious effects would be:

- (a) to raise the ratios of the various variables to GDP shown in this report by 0.1 to 0.2 percentage points, and
- (b) for 1998-9, to raise growth rate 6.8 per cent as compare to 6 per cent in the earlier estimate.

INDIA
REDUCING POVERTY,
ACCELERATING DEVELOPMENT

THE WORLD BANK

OXFORD
UNIVERSITY PRESS

OXFORD
UNIVERSITY PRESS

YMCA Library Building, Jai Singh Road, New Delhi 110001

Oxford University Press is a department of the University of Oxford. It furthers the University's objective of excellence in research, scholarship, and education by publishing worldwide in

Oxford New York

Athens Auckland Bangkok Bogota Buenos Aires Calcutta
Cape Town Chennai Dar es Salaam Delhi Florence Hong Kong Istanbul
Karachi Kuala Lumpur Madrid Melbourne Mexico City Mumbai
Nairobi Paris Sao Paulo Singapore Taipei Tokyo Toronto Warsaw

with associated companies in Berlin Ibadan
Oxford is a registered trade mark of Oxford University Press
in the UK and in certain other countries

Published in India
By Oxford University Press, New Delhi

© Oxford University Press 2000
The moral rights of the author have been asserted
Database right Oxford University Press (maker)
First published 2000
Oxford University Press 2000

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, without the prior permission in writing of Oxford University Press, or as expressly permitted by law, or under terms agreed with the appropriate reprographics rights organization. Enquiries concerning reproduction outside the scope of the above should be sent to the Rights Department, Oxford University Press, at the address above
You must not circulate this book in any other binding or cover and you must impose this same condition on any acquirer

ISBN 0-8213-4775-6

The World Bank does not guarantee the accuracy of the data included in this publication and accepts no responsibility whatsoever for any consequence of their use. The boundaries, colours, denominations, and other information shown on any map in this volume do not imply on the part of the World Bank Group any judgement on the legal status of any territory or the endorsement or acceptance of such boundaries.

Typeset in Garamond 10.5 on 12 by Excellent Laser Typesetters, Delhi 110 034
Printed at Rashtriya Printers, Delhi 110 032
Published by Manzar Khan, Oxford University Press
YMCA Library Building, Jai Singh Road, New Delhi 110 001

Acknowledgements

This Report was prepared by a team led by Sanjay Kathuria and James Hanson. It was supported by a core team of Bank staff consisting of Bala Bhaskar Naidu Kalimili, Priya Mathur, Harpinder Oberai, Farah Zahir, Shahnaz Rana, Shunalini Sarkar, and Rita Soni. The Report draws upon an interdisciplinary team, both from within the World Bank and outside. For Chapter 1, Valerie Kozel and Stephen Howes were primarily responsible; for Chapter 2, David Peters and Venita Kaul; for Chapter 3, Fahrettin Yagci; for Chapter 4, Arindam Das-Gupta; and for Chapter 5, Clive Harris. Other primary contributors include: Deepak Ahluwalia (agriculture), Benoit Blarel (agriculture), Carter Brandon (environment), Luis Constantino (decentralization), Paramita Dasgupta (state finances, small savings, and general), Gaurav Datt (poverty), Edward Heneveld (education), Monica Jain (poverty), Bala Bhaskar Naidu Kalimili (macroeconomic projections, growth analysis, and debt data management and analysis), Rajni Khanna (contingent liabilities), David Marsden (decentralization), Priya Mathur (environment and privatization), William McCarten (state finances), Kari Nyman (energy), Harpinder Oberai (labour markets, gender, and governance data management and analysis); Gajanand Pathmanathan (agriculture), Garry Pursell (anti-dumping), Salman Zaidi (poverty), Farah Zahir (governance, budgetary and financial management, growth analysis, public enterprises, and central and state fiscal data management and analysis).

Background papers for the review were prepared by O. P. Mathur (decentralization), Shubhashish Gangopadhyay, Wilima Wadhwa, and Bibek Debroy (judicial and civil service reforms), Omkar Goswami (corporate governance), and CRISIL (public enterprises). The CII conducted a survey of the business environment for 210 small and large firms in all parts of India.

Apart from the very useful comments of the task team members, the Report benefited from comments by Pedro Alba, Mukesh Ambani (Reliance Industries), Alok Bansal, Bhavna Bhatia, Milan Brahmabatt, Tim Çallen (IMF), Shahrokh Fardoust, Edgardo Favaro, Keith Hinchcliffe, Karin Kapadia, Homi Kharas, Sandeep Mahajan, Will Martin, Smita Misra, Lucio Monari, Djamal Mostefai, Tawhid Nawaz, Martin Rama, V. J. Ravishankar, Patricia Reynolds (IMF), Panneer Selvam, Rajesh Sinha, Suresh Tendulkar, Christopher Towe (IMF), Sanjay Vani, Maj-lis Voss, Michael Walton, John Williamson, J. P. Wogart, and Adrian Wood. Peer reviewers were Kaushik Basu (Cornell University and World Bank), Philip Keefer, Ashok Lahiri (National Institute of Public Finance and Policy), Sanjay Pradhan, and Helcio Tokeshi (on behalf of PREM Economic Policy). The Report also benefited from the comments of the Quality Assurance Group review team led by Gobind Nankani.

Data analysis and management were done by Bala Bhaskar Naidu Kalimili, Priya Mathur, Harpinder Oberai, and Farah Zahir. Kanishka Ghoshal helped with the states' database. Bitu Hadjimichael did the analysis of customs

tariff data, while Mihir Pandey and Samiran Chakrabarti provided the analysis on non-tariff barriers. The desktop publishing was done by Shahnaz Rana, Shunalini Sarkar, and Rita Soni. Jillian Badami and Naomi Dass provided logistical support. Priya Mathur and Harpinder Oberai provided all-round contributions in getting the Report ready.

The Report was discussed with the Government of India on 10 August 1999. As the government emphasized, the longer term, strategic issues for accelerating development and reducing poverty are critical for India. Consequently, these issues are the focus of this report. The World Bank would like to acknowledge the comments received at the meeting as well as later, in writing, from the Ministries/Departments of Agriculture, Administrative Reforms and Public Grievances, Commerce, Consumer Affairs, Economic Affairs, Education, Family Welfare, Food and Civil Supplies, Health, Labour, Personnel, Power, Telecommunications, Social Justice and Empowerment, Statistics, Water Affairs, and Women and Child Development. The Reserve Bank of India also provided very valuable and extensive comments. The World Bank is also grateful for the help rendered by various government agencies, including the Reserve Bank of India, the Department of Statistics, the Ministry of Finance, the Ministry of Industry, and the Directorate General of Commercial Intelligence and Statistics (DGCI&S).

Finally, we are very grateful to Oxford University Press for bringing out this report in such a short time.

Contents

<i>List of Tables</i>	ix
<i>List of Boxes</i>	x
<i>List of Figures</i>	xi
<i>List of Annexes</i>	xii
<i>List of Annex Tables</i>	xiii
<i>Abbreviations</i>	xv
<i>Economic Development Data</i>	xviii
<i>India Social Indicators</i>	xxi
Overview	1
Progress and Problems in Poverty Reduction	1
Potential Problems in Accelerating Poverty Reduction, Sustaining Growth	4
A Second Wave of Reforms to Reduce Poverty Faster	6
Circumstances Propitious for Reforms and Acceleration of Growth	8
Issues for Further Analysis	9
1 Poverty Reduction: Progress and Challenges	10
Overview	10
Poverty Reduction: The Long View from the 1950s to the early 1990s	11
Reduction in Poverty in the Mid-1990s: A Mixed Picture	14
Macroeconomic Concerns: Inflation and Agricultural Performance	16
Divergence in Poverty Reduction between States	17
Summary	18
2 Improving Health and Education for the Poor	21
Overview	21
Education and Health Outcomes in India	22

Characteristics of Education and Health Services	24	
A Similar Story in Health and Education Services for the Poor	28	
Solutions being Found in Education and Health	29	
A Way Forward: Delivering More and Better Education and Health to the Poor	31	
3 Reducing Poverty Faster: The Role of State Fiscal and Sectoral Reforms		33
Overview	33	
Differential Growth and Widening Disparities among States	34	
State-level Reforms to Reduce Poverty	37	
Cutting the States' Fiscal Deficits and Raising their Development Spending	37	
Reforming Power and Irrigation at the State Level	40	
Decentralization: Emerging Issues and the Eleventh Finance Commission	42	
4 Good Governance: The Business of Government		46
Overview	46	
Rule of Law, Contract Enforcement, and the Business Environment	48	
Improving Public Administration: Strengthening Performance Incentives and Accountability in a Downsized Civil Service	51	
Sound Budgetary and Financial Management	52	
Improving Public Services through Effective Decentralization	56	
5 Improving Infrastructure to Reduce Poverty and Support Growth		62
Overview	62	
India's Public Provision of Infrastructure	64	
Attracting Private Investment in Infrastructure—Evolving Policies	66	
Developing Specialist Regulatory Agencies	69	
6 Increasing the Demand for Labour: Deregulation to Increase Export, Growth, Agricultural Growth, and Labour Market Flexibility		74
Overview	74	
Deregulation to Increase Trade, Growth, and Labour Demand	75	
Improving Labour Market Flexibility	82	
Improving Agriculture's Contribution to Development	86	
7 Raising and Using Capital Well: The Financial System and Corporate Governance		89
Sound Financial System to Allocate Credit and Reduce Vulnerability	91	
Strengthening the Framework for Corporate Governance	99	
8 Growth, Macroeconomic Developments, and Policies		102
Overview	102	
Economic Growth in 1998–9 and over the Longer Run	103	
Inflation and Monetary Policy	106	
Reducing the Fiscal Deficit and Realigning Government to Speed Up Development and Reduce Vulnerability	108	
Balance of Payments	119	
9 India's Development Prospects		130
<i>Bibliography</i>		133
<i>Annex Tables</i>		139
<i>Statistical Appendix</i>		187

Tables

1.1	Annual Average Growth in Price Indices	16
1.2	Annual Average Growth in Wage Rates of Unskilled Agriculture Male Labourers	17
3.1	Real Per Capita Income of the Fourteen Largest Indian States	35
3.2	Standard Deviation of States' Per Capita Output	36
3.3	State Poverty and Social Indicators and their Standard Deviations	36
3.4	Main Fiscal Trends in All States	38
3.5	Financing of All States Fiscal Deficit	38
5.1	India: Investments in Infrastructure and Other Investments	64
6.1	India's Regulation of Agricultural Markets and Agro-industry	87
8.1	GDP Growth 1981-99	104
8.2	India and High-growth East Asia: A Statistical Comparison	106
8.3	Fiscal Slippage 1998-9	112
8.4	Fiscal Deficit in the New Accounting Framework 1990-2000	113
8.5	Change in Social and Economic Infrastructure and Interest Spending 1991-2 and 1997-8	115
8.6	Finances of CPEs 1990-2000	116
8.7	Balance of Payments 1990-2001	121

Boxes

1.1	NSS versus NAS	15
1.2	Reforms in India's Anti-poverty Programmes	19
2.1	India's District Primary Education Programme	25
2.2	Himachal Pradesh: A Successful Experiment in Improving Primary Education	30
3.1	Financing State Governments' Deficit: Borrowing and Guarantees	39
3.2	India's Experience with State-level VAT	40
3.3	The Growing Importance of Small Savings in State Finances	43
4.1	Project LARGE	49
4.2	Public Enterprise Governance: A System that has not Delivered	53
4.3	The Effectiveness of Voice	56
4.4	Improving Environmental Governance	57
5.1	Progress in Infrastructure Provision	63
5.2	The Perverse Impact of Subsidies	66
5.3	Privatizing Distribution in Orissa	68
5.4	Design of Regulatory Agency Powers: Lessons from Telecoms	70
6.1	China's Exports and India's Forgone Exports	76
6.2	India: One of the Most Protected Countries	77
6.3	Recent Developments in Trade Policy	79
6.4	Gokaldas Exports: Constrained by SSI Reservation	81
6.5	The Adverse Consequences of Anti-dumping in India	83
6.6	Women in the Indian Labour Market	85
7.1	The Narsimhan II, Khan, Gupta, and RBI Reports on the Financial Sector	90
8.1	The Need to Improve India's Data	109

Figures

1.1	Trends in Poverty 1950s through mid-1990s	12
1.2	Rural Poverty Levels by State	13
1.3	Headcount Rates (Rural India)	18
2.1	Literacy in India 1951-97	22
2.2	Infant Mortality Rates in India	24
4.1	India's International Ranking on Selected Governance Indicators	47
6.1	India's Share in World Trade, REER, and Tariffs	76
7.1	India M3:GDP, Deposit Rate, and Inflation	91
8.1	India: Inflation and Money (M3) Growth 1994-9	107
8.2	Public Sector Deficits 1990-2000	110
8.3	Central Government Surpluses/Deficits: Developing Countries over 20 Million Population	111
8.4	Gross Capital Formation by Private Corporate Sector and Consolidated with Deficit of General Government	118

Annexes

4.1	Effectiveness and Efficiency of Financial Management: Selections from the Reports of the CAG for 1997-8	59
4.2	Budgeting and Expenditure Management: A Suggested Reform Programme	59
4.3	Effectiveness and Efficiency of Tax Administration: Systems Appraisals by the CAG	60
4.4	A Suggested Reform Programme for Central Tax Administration	61
5.1	Functional Characteristics of Regulatory Bodies	72
5.2	Responsibilities of Regulatory Bodies	73
8.1	Analysing India's GDP Growth and the Role of Reform	123
8.2	Environment, Economic Growth, and Poverty	126
8.3	India's Progress in Privatization 1991-9	128

Annex Tables

1.1	Poverty in India 1951-97	141
2.1	India: Per Capita Income, Fertility, Infant Mortality, and Literacy in Selected Years	142
3.1	Fiscal Deficit and Debt Stock Fourteen Major States	144
4.1	International Comparisons of Selected Governance Indicators	145
4.2	Efficiency of Government in Delivering Services	148
4.3	Quality, Integrity and Efficiency of Public Services Delivered by Public Agencies	148
4.4	Predictability, Responsiveness and Availability of Rules and Regulations	149
4.5	Efficiency of the Court System in Resolving Business Disputes	149
4.6	Obstacles in the Operation and Growth of Business	150
4.7	(a) Payment of Bribes	151
	(b) Extra Unofficial Payments to Public Officials	151
	(c) Percentage of Contract Value in Additional or Unofficial Payment to Secure Government Contracts	151
4.8	Summary Evaluation of Budget and Financial Management Practices	152
4.9	Public Financial Management: Evaluation of Outputs and Outcomes	153
4.10	Variations between Budget/Revised Estimates and Actuals	154
4.11	Revenue Effect of Tax Concessions	154
4.12	Central Tax Revenue and Buoyancy	155
4.13	Assessment of Tax Structure and Administration	156
4.14	Facilitation Indicators for Import Containers, Selected Countries (1998)	157
4.15	Structure of Rural Local Government	158
4.16	Decentralization of Local Government: A Report Card	158
4.17	Expenditure and Revenue Decentralization and Financial Autonomy of Rural Local Bodies 1996-7	158

6.1	Capital Employed per Worker in Domestic Industries Corresponding with Principal Exports and Imports 1994-5	159
6.2	India and China: Selected Trade Indicators 1987-96	161
6.3	Coverage Ratio for Non-Tariff Barriers on Indian Imports: Weighted and Simple Averages	162
6.4	India's Share in World Trade, REER, and Tariffs	164
6.5	Share in World Exports: India and Selected Countries 1998	164
6.6	India: Tariff Structure 1990-9	165
6.7	Real Exchange Rate of India's Main Trading Partners and Competitors 1981-99	166
6.8	Foreign Direct and Portfolio Investment	168
7.1	India: Structure of Selected Institutions of the Financial System	169
7.2	Indicators of Indian Banking Policy 1968-99: The Deposit Rate, Loan Ceiling Minimum Rate, CRR, and SLR in Selected Years	170
7.3	Scheduled Commercial Banks' Investments and Other Assets	171
7.4	Bank Resources to Small versus Medium and Large Industries	172
8.1	Domestic Demand 1981-97	173
8.2	Key Interest Rates 1994-9	174
8.3	Sources of Change in Base Money 1988-9 to 1997-8	176
8.4	Imports: Customs and Non-Customs 1996-7-1998-9	177
8.5	Central Government Finances 1990-2000	178
8.6	Evolution of the Public Sector Deficit 1990-9	179
8.7	Central Government Salary Bill and Establishment Strength 1990-1997	180
8.8	State Government Finances	181
8.9	India: Finances of CPEs	182
8.10	Yearwise/PSU-wise Details of Shares Disinvested since 1991-2	183
8.11	India: Estimated Capital Inflows and Debt Stocks 1991-2 to 1998-9	184
8.12	Details of Mobilization in the Primary Market	185

Abbreviations and Acronyms

ACR	Annual Confidential Report	CIF	cost, insurance, and freight
AD	anti-dumping	CII	Confederation of Indian Industry
ADR	additional drawing right	CPE	central public enterprise
AIDS	Acquired Immuno-deficiency Syndrome	CPI	consumer price index
AP	Andhra Pradesh	CPIAL	consumer price index for agricultural labourers
APP	anti-poverty programme	CPSE	Central public sector enterprise
APSEB	Andhra Pradesh State Electricity Board	CRR	cash reserve ratio
ARM	additional resource mobilization	CSO	Central Statistical Organization
BE	Budget estimate	CSS	centrally sponsored scheme
BHEL	Bharat Heavy Electricals Limited	CVC	Central Vigilance Commission
BIFR	Board for Industrial and Financial Reconstruction	CVD	countervailing duty
BOP	balance of payments	DGCI&S	Directorate General of Commercial Intelligence and Statistics
BOT	build-operate-transfer	DoT	Department of Telecommunications
BPCL	Bharat Petrochemicals Limited	DPC	District Planning Committee
BSES	Bombay Suburban Electricity Supply Ltd.	DPEP	District Primary Education Programme
CAG	Comptroller and Auditor General	DRS	Debt Reporting System
CAMEL	Capital adequacy, asset quality management, earnings and liquidity systems	EAS	Employment Assurance Scheme
CBI	Central Bureau of Investigation	EDI	Electronic Document Interchange
CD	certificate of deposit	EFC	Eleventh Finance Commission
CEO	Chief Executive Officer	EXIM	Export-Import
CERC	Central Electricity Regulatory Commission	FCI	Food Corporation of India
		FDI	foreign direct investment
		FEMA	Foreign Exchange Management
		FI	finance institution
		FII	foreign institutional investor
		FOB	free on board

FSU	former Soviet Union	NBFC	non-banking financial company
GAIL	Gas Authority of India Limited	NCAER	National Council of Applied Economic Research
GCR	Global Competitiveness Report	NCERT	National Council of Education Research and Training
GDP	gross domestic product	NFHS	National Family Health Survey
GDR	general drawing right	NGO	non-governmental organization
GFCF	gross fixed capital formation	NPA	non-performing assets
GFD	Gross Fiscal Deficit	NIPFP	National Institute of Public Finance and Policy
GNFS	goods and non-factor services	NRI	Non Resident Indian
GNP	gross national product	NR(NR)D	non-resident (non-repatriable) deposits
GOI	Government of India	NSDP	Net State Domestic Product
GSDP	Gross State Domestic Product	NSS	National Sample Survey
HP	Himachal Pradesh	NSSF	National Small Savings Fund
HPCL	Hindustan Petrochemicals Limited	NSSO	National Sample Survey Organization
ICICI	Industrial Credit and Investment Corporation of India	NTB	non-tariff barrier
ICL	International Container Line	NTPC	National Thermal Power Corporation
IDBI	Industrial Development Bank of India	O&M	overheads and maintenance
IFS	International Financial Statistics	OCC	Oil Coordination Committee
IFPRI	International Food Policy Research Institute	OECD	Organization for Economic Co- operation and Development
ILO	International Labour Organization	OLS	Ordinary Least Squares
IMF	International Monetary Fund	ONGC	Oil and Natural Gas Commission
IOC	Indian Oil Corporation	PAC	Public Accounts Committee
IPCL	Indian Petrochemicals Limited	PDS	Public Distribution System
IPP	independent power producers	POWERGRID	Power Grid Corporation of India Ltd.
IRDP	Integrated Rural Development Programme	PPP	purchasing power parity
IW	industrial workers	PROBE	Public Report on Basic Education in India
JGSY	Jawahar Gram Samridhi Yojana	PSE	Public Sector Enterprise
JNCP	Jawaharlal Nehru Container Port	QR	quantitative restriction
JNPT	Jawaharlal Nehru Port Trust	RBI	Reserve Bank of India
JRY	Jawahar Rozgar Yojana	RE	revised estimate
KWh	kilowatt Hour	REER	real effective exchange rate
LARGE	Legal Adjustments and Reforms for Globalizing the Economy	RER	real exchange rate
MFA	Multi-fibre Arrangement	RIB	Resurgent India Bond
MISH	Market Information Survey of Households	RRB	regional rural bank
MODVAT	modified value added tax	SAIL	Steel Authority of India Limited
MoF	Ministry of Finance	SDR	special drawing right
MoHFW	Ministry of Health and Family Welfare	SEB	State Electricity Board
MoU	memorandum of understanding	SEBI	Securities and Exchange Board of India
MP	Member of Parliament	SEWA	Self-employed Womens' Association
MPC	Metropolitan Planning Committee	SFC	State Finance Commission
MTNL	Mahanagar Telephone Nigam Limited	SGSY	Swarnajayanti Gram Swarozgar Yojana
MW	Megawatt		
NABARD	National Bank for Agriculture and Rural Development		
NAS	National Accounts Statistics		

SICA	Sick Industrial Companies Act	UPSEB	Uttar Pradesh State Electricity Board
SPE	State public enterprise	US	United States
SSI	small-scale industry	USO	Universal Service Obligation
TEC	Tata Electric Companies	UT	Union Territory
TFP	Total Factor Productivity	UTI	Unit Trust of India
TPDS	targeted public distribution system	VAT	value added tax
TRAI	Telecom Regulatory Authority of India	VDIS	Voluntary Disclosure Income Scheme
TRC	Tax Reforms Committee	VSNL	Videsh Sanchar Nigam Limited
UNCTAD	United Nations Conference on Trade and Development	WUA	Water Users' Association
UNDP	United Nations Development Programme	WMA	ways and means advances
UP	Uttar Pradesh	WPI	wholesale price index
		WTO	World Trade Organization

Economic Development Data

GNP Per Capita (US \$, 1998-9) 430^a

	US \$ Bn % of GDP		Annual growth rate (% pa, constant prices)					
	1998-9		1970-1— 1975-6	1975-6— 1980-1	1980-1— 1985-6	1985-6— 1990-1	1991-2— 1998-9	1997-8— 1998-9
<i>Gross domestic product</i>								
GDP at factor cost	392	91.6	3.0	3.1	5.0	6.3	6.5	6.0
GDP at market prices	428	100.0	2.9	3.1	5.4	6.3	6.4	5.0
Gross domestic investment	102	23.8	4.6	3.1	7.0	7.4	8.5	7.7
Gross domestic saving	92	21.5	7.3	-0.1	10.1	7.1	4.8	8.9
Current account balance	-3	-0.7	—	—	—	—	—	—
<i>Output, employment, and productivity (1990-1)</i>	Value added		Labour force ^b		Value added per worker			
	US \$ Bn	% of total	M	% of total	US \$ Bn	% of total		
Agriculture	89	30.8	186	66.8	480	46.1		
Industry	79	27.1	36	12.7	2215	212.8		
Services	122	42.1	57	20.5	2139	205.5		
Total/average	290	100.0	279	100.0	1041	100.0		
<i>Government finance</i>	General government ^c			Central government				
	Rs Bn	% of GDP		Rs Bn	% of GDP			
	1998-9	1998-9	1991-2—1998-9	1998-9	1998-9	1991-2—1998-9		
Revenue receipts	3080	17.1	17.6	1577	8.7	9.0		
Revenue expenditures	3907	21.6	21.3	2181	12.1	11.9		
Revenue surplus/deficit (-)	-828	-4.6	-3.7	-605	-3.4	-2.8		
Capital expenditures	616	3.4	3.6	523	2.9	2.9		
External assistance (net) ^d	23	0.1	0.4	9	0.1	0.4		
<i>Money, credit, and prices</i>	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9	
Rs billion outstanding, end of period:								
Money and quasi money	3668	4344	5314	6040	7018	8272	9743	
Bank credit to government (net)	1762	2039	2224	2578	2886	3306	3867	

Bank credit to commercial sector	2201	2378	2927	3446	3763	4327	6869
Money and quasi money as % of GDP	48.0	49.5	51.2	49.6	49.8	52.9	54.0
Wholesale price index (1981-2 = 100)	228.7	247.8	274.7	295.8	314.6	329.8	6.9
Annual percentage changes in:							
Wholesale price index	10.1	8.4	10.9	7.7	6.4	4.8	-97.9
Wholesale price index	11.4	15.7	9.1	15.9	12.0	14.5	17.0
Bank credit to commercial sector	17.1	8.0	23.1	17.7	9.2	15.0	12.5

<i>Balance of payments (US \$ millions)</i>	1996-7	1997-8	1998-9	<i>Merchandise exports</i>		
				<i>(Average 1991-2/1998-9)</i>	<i>US \$ million % of total</i>	
Exports	41,607	45,109	47,484	Tea	397 1.5	
Merchandise, fob	34,133	35,680	34,298	Iron Ore	459 1.7	
Imports of goods & NFS	55,696	59,297	58,565	Chemicals	2174 8.0	
Merchandise, cif	48,948	51,187	47,544	Leather & Leather products	1506 5.6	
of which crude petroleum	5,222	4278	3350	Textiles	3455 12.8	
of which petroleum products	4814	3939	3084	Garments	3278 12.1	
Trade balance	-14,815	-15,507	-13,246	Gems and jewelry	4450 16.5	
Non-factor service (net)	726	1319	2165	Engineering goods	3487 12.9	
				Others	7808 28.9	
<i>Resource Balance</i>	-14,089	-14,188	-11,081	Total ⁱ	27,013 100.00	
Net factor income ^e	-3307	-3521	-3544	<i>External debt, 31 March 1999</i> US \$ M		
Net transfers ^f	12,367	11,830	10,280	Public & publicly guaranteed	85,208	
				Private non-guaranteed	8409	
<i>Balance of Current Account</i>	-5209	-5879	4345	Total (including IMF and short-term)	98,231	
Foreign investment	6133	5385	2401	% current receipts		
Official grants and aid	410	379	307	<i>Debt service ratio for 1998-9</i>		
Net medium- & long term capital	3230	4139	4380	Public & publicly guaranteed	21.0	
Gross disbursements	10,627	10,256	9952	Private non-guaranteed	1.8	
Principal repayments	7397	6117	5572	Total (including IMF and short term)	24.0	
Other capital flows ^g	-1892	-940	-159	<i>IBRD/IDA lending,</i>		
Non-resident deposits	-3350	1125	1742	<i>31 March 1999</i>		
Net transactions with IMF	-975	-613	-393	<i>(US \$ millions)</i>		
Overall Balances	6202	4209	4326		<i>IBRD IDA</i>	
Change in net reserves	-5227	-3596	-3933	Outstanding and disbursed	8114 18,652	
Gross reserves (end of year) ^h	22,664	26,260	30,193	Undisbursed	3512 4463	
				Outstanding incl. undisbursed	11,626 23,204	
<i>Rate of exchange, end Oct. 1999</i>	US \$ 1.00 = Rs 43.454					

— Not available.

^a The per capita GNP estimate is at market prices, using World Bank Atlas methodology. Other conversions to dollars in this table are at the prevailing average exchange rate for the period covered.

^b Total labour force from 1991 Census. Excludes data for Assam and Jammu & Kashmir.

^c Budget estimates and transfers between centre and states have been netted out.

^d As recorded in the government budget.

^e Figures given cover all investment income (net), Major payments are interest on foreign loans and charges paid to IMF, and major receipts is interest earned on foreign assets.

^f Figures given include workers' remittances but exclude official grant assistance which is included within official loans and grants, and non-resident deposits which are shown separately.

^g Includes short-term net capital inflow, changes in reserve valuation, and other items.

^h Excluding gold.

ⁱ Total exports (commerce); net of crude petroleum exports.

Sources: Union Budget Documents; RBI State Finance Reports; RBI Annual Reports; DGCIS; World Bank estimates.

Currency	Rs/US \$		
	Official	Unified	Market ^a
Prior to June 1966	4.76		
6 June 1966 to mid-December 1971	7.50		
Mid-December 1971 to end-June 1972	7.28		
	1971-2	7.44	
	1972-3	7.71	
	1973-4	7.79	
	1974-5	7.98	
	1975-6	8.65	
	1976-7	8.94	
	1977-8	8.56	
	1978-9	8.21	
	1979-80	8.08	
	1980-1	7.89	
	1981-2	8.93	
	1982-3	9.63	
	1983-4	10.31	
	1984-5	11.89	
	1985-6	12.24	
	1986-7	12.79	
	1987-8	12.97	
	1988-9	14.48	
	1989-90	16.66	
	1990-1	17.95	
	1991-2	24.52	
	1992-3	24.61	30.65
	1993-4		31.36
	1994-5		31.40
	1995-6		33.46
	1996-7		35.50
	1997-8		37.16
	1998-9		42.00
September	1999		43.54
October	1999		43.45
November	1999		43.39

Note: The Indian fiscal year runs from 1 April through 31 March.

Source: IMF, *International Finance Statistics* (IFS), line 'rf'; Reserve Bank of India.

^a A dual exchange rate system was created in March 1992, with a free market for about 60 per cent of foreign exchange transactions. The exchange rate was reunified at the beginning of March 1993 at the free market rate.

India Social Indicators

1970-5	Latest single year			Same region/income group (1992-7, latest single year)	
	1980-5	1992-7	South Asia	Low income	
POPULATION					
Total population, mid-year (millions)	613.5	765.1	962.4	1281.3	2035.6
Growth rate (% annual average)	2.3	2.1	1.4	1.5	1.7
Urban population (% of population)	21.3	24.3	27.4	27.0	28.4
Total fertility rate (births per woman)	5.6	4.8	3.3	3.5	4.0
POVERTY (% of population)					
National headcount index	—	—	35.0	—	—
Urban headcount index	—	—	30.5	—	—
Rural headcount index	—	—	36.7	—	—
INCOME					
GNP per capita (US \$)	160	260	430	—	—
Consumer price index (1995 = 100)	21	41	117	117	122
Food price index (1995 = 100)	—	38	115	—	—
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	—	—	29.7	—	—
Lowest quintile (% of income or consumption)	5.9	—	9.2	—	—
Highest quintile (% of income or consumption)	49.4	—	39.3	—	—
SOCIAL INDICATORS					
<i>Public Expenditure</i>					
Health (% of GDP)	—	—	0.7	0.8	1.0
Education (% of GNP)	2.7	3.5	3.4	3.0	—
Social security and welfare (% of GDP)	—	—	—	—	—
<i>Gross Primary School Enrolment Rate</i> (% of age group)					
Total	79	96	101	—	—

	Latest single year			Same region/income group (1992-7, latest single year)	
	1970-5	1980-5	1992-7	South Asia	Low income
Male	94	111	110	—	—
Female	62	80	90	—	—
<i>Access to Safe Water</i>					
<i>(% of population)</i>					
Total	31	54	85	81	69
Urban	80	80	87	84	80
Rural	18	47	85	80	66
<i>Immunization Rate</i>					
<i>(% under 12 months)</i>					
Measles	—	1	81	81	74
DPT	—	41	90	87	76
Child malnutrition (% under 5 years)	—	—	53	53	—
<i>Life Expectancy at Birth</i>					
<i>(years)</i>					
Total	50	55	63	62	59
Male	51	56	62	62	58
Female	49	55	64	63	60
<i>Mortality</i>					
Infant (per thousand live births)	132	97	71	77	82
Under 5 (per thousand live births)	206	177	88	100	118
Adult (15-59)					
Male (per 1000 population)	324	261	212	219	274
Female (per 1000 population)	353	279	202	212	255
Maternal (per 100,000 live births)	—	460	440	—	—

— Not available.

Source: 1999 World Development Indicators CD-ROM, World Bank

Overview

This Report is a pilot in the World Bank's *new approach to country economic reports, embodying the Bank's Comprehensive Development Framework*. Experience worldwide indicates that poverty reduction and sustainable development require sound macroeconomic policies, open trade relations, and increases in human and physical capital. But sustained development also requires a comprehensive framework that includes (1) good governance; (2) sound legal, incentive, and regulatory frameworks that protect property rights, enforce contracts, and stimulate competitive markets; (3) a sound financial sector, adequately regulated and supervised with a basis in internationally accepted accounting and auditing standards; (4) health, education, and social services that reach the poor, women, and girls effectively; (5) quality infrastructure and public services to promote rural development and livable cities; and (6) policies to promote environmental and human sustainability (Wolfensohn 1998).

The World Bank's new approach to economic reports provides a medium-term perspective on these elements and on the economy's potential vulnerabilities, including those in the short run. Given the framework's breadth, this Report's coverage is limited to the most important issues. In other areas, it points out directions for further analysis. The Report begins with a chapter on reducing poverty—the yardstick against which development is measured and the World Bank's principal concern. It is followed by a chapter on human development, which is both an indicator of

poverty reduction and a way out of poverty. Chapter 3 focuses on the Indian states, which are key actors in human development and infrastructure provision, as well as in regulation and governance. Chapter 4 deals with governance issues, an area of major concern of the World Bank because of its links to poverty reduction and development. The next three chapters deal with ways to increase growth and its poverty-reducing content through improvements in (a) infrastructure; (b) the incentive and regulatory framework to encourage efficiency and labour demand—a key element in poverty reduction; and (c) the financial system and corporate governance. Chapter 8 deals with recent developments, the sustainability of growth and ways to reduce vulnerability to macroeconomic crises that hurt the poor. Finally, Chapter 9 provides a brief forecast of India's prospects and summarizes policies that would accelerate poverty reduction and sustained development. The Report's discussion of agriculture (in Chapter 6)—a sector critical for poverty reduction that is still of major importance for the economy—summarizes the extensive analysis in the World Bank report *India: Towards Rural Development and Poverty Reduction*. The unifying theme for this Report is thus accelerating poverty reduction and sustained development.

Progress and Problems in Poverty Reduction

Steady Progress since Independence

India is an ancient civilization with a proud history. It

is one of the world's largest and most heterogeneous countries. Prior to Independence, India suffered frequent, devastating famines and secular stagnation. Hence poverty reduction and agriculture were central themes of India's founding fathers. Uplifting the poor and integrating them into the mainstream is a recurrent theme of India's Five Year Plans. Universal access to education is enshrined in the Constitution. India has established a wide array of anti-poverty programmes and much of India's thinking on poverty has been mainstreamed internationally. India has successfully eliminated famines and severe epidemics. It has made progress in reducing poverty and in its social indicators, which at the time of Independence in 1947 were among the world's worst. Its vibrant democracy and free press have been major factors in these achievements.

Poverty incidence began to decline steadily in the mid-1970s, which roughly coincided with a rise in growth in gross domestic product (GDP) and agriculture. Since 1980, India's 5.8 per cent per annum trend GDP growth is the highest among large countries outside East Asia. Empirical analyses suggest that agricultural growth and human development were key factors in the decline in poverty across states (Chapter 1). However, the development strategy of the 1970s and 1980s, based on an extensive system of protection, regulation, and public sector presence in the economy, and on worsening fiscal deficits in the 1980s, proved unsustainable.

Quick Recovery from 1991 Crisis

The 1991 balance-of-payments and fiscal crisis was met by stabilization and reforms that opened up the economy, reduced the public sector's role, and liberalized and strengthened the financial sector over the next few years. The policies generated a surprisingly quick recovery and then an unprecedented three consecutive years of 7.7 per cent per annum average growth, led by increases in productivity at the macro-economic level and a booming private sector. The 3.3 per cent per annum agricultural growth during the 1990s has been about the same as in the 1980s and much higher than the declining rate of population growth, currently estimated at about 1.6 per cent per annum (Chapter 8).

Improvement in social indicators, including gender-related indicators, has continued in the 1990s. For example, literacy rates continue to rise and infant mortality rates continue to fall. Life expectancy at birth has increased, as have school enrolments. Gaps

between male and female access to social services are diminishing.

Sluggish Poverty Reduction in Recent Years

Despite the improvements in human development and higher GDP growth in the mid-1990s, India's household sample surveys suggest that poverty reduction has been sluggish recently. In the early 1990s, poverty worsened following the stabilization (correction) of the unsustainable policies of the 1980s, a poor harvest, and a decline in food availability (Tendulkar 1998). Soon, poverty began to fall again and by 1993–4 was somewhat below the 1987 level. However, from 1993–4 until 1997 (the last available survey), improvement has been limited in the rural areas which contain over 70 per cent of the poor. Moreover, analysis suggests that the large poor states in the north and east, containing 40 per cent of India's population, have lagged in reducing poverty since the late 1970s (Chapters 1 and 3).

The estimated slowdown in overall reduction of poverty may merely reflect one of India's many statistical inconsistencies—the estimates of consumption and foodgrains consumption in the national accounts suggest much faster consumption growth than the sample surveys, while the surveys suggest little worsening of distribution. The need to improve the consistency and quality of these and other statistics, in order to provide a firmer basis for policy making, is a major recommendation of this Report.

Despite Achievements, Significant Challenges Ahead

More worrisome is the possibility that growth became less potent in reducing poverty in the 1990s. Further work is needed on this complex issue. Nonetheless the characteristics of agricultural growth in the 1990s; the slowdown of growth in the poor states; and the problems of infrastructure, social services, and poverty programmes, especially in poorer states which are linked to their increasing fiscal problems, poor incentive frameworks, and weaknesses in governance and institutions, are all problems that may explain the lack of progress in reducing rural poverty (Chapters 1, 2, 3, and 8; note that statements made regarding individual state's or states' GDP as a group refer to the old (1980–1 based) GDP accounts; once they are rebased, like national GDP, on the new (1993–4 based) accounts, the growth rates of states could be different from what the old accounts show, since the new GDP

accounts include a much higher estimate of national agricultural output). Agriculture's average growth has remained roughly constant since 1980 according to the new GDP series. However, productivity growth in the sector seems to be slowing, even in the Punjab and Haryana, where some analysts suggest that environmental issues are a concern. Further, agricultural growth in some of the poorer states seems to have lagged behind. Public spending on agriculture has focused on subsidies, which lead to inefficiencies and environmental problems and at best have limited impact on poverty. Implicit and explicit subsidies have crowded out public investment and social spending in governments' budgets and substantially worsened the fiscal problems of states. While private investment in agriculture has increased, to some extent this reflects inefficiencies and distortions that are partly related to the subsidies, such as the purchase of pumps to reach deep aquifers and generator sets to run them when free, low quality power fails. Moreover, the limited growth in agricultural productivity may also reflect the limited deregulation, which has left many distortions in the sector. For example, restrictions on domestic and international agricultural trade contribute to occasional, sharp transitory increases in prices, which hurt the poor (Chapters 3, 6, and 8).

The poorer states have lower GDP growth, not just weak agricultural growth. Partly, of course, this reflects their structure—agriculture is a large percentage of their GDP. However, the poor states' lower growth also reflects differences in initial conditions and state-level policies. The poorer states' problems in infrastructure, human development, and, in some cases, governance, have limited their ability to take full advantage of the post-1991 reforms. Moreover, catching up is a problem because of their increasingly severe fiscal problems—in the late 1980s the states began unsustainable increases in spending and large untar­geted subsidies (explicit and implicit) that have never been adjusted, which has led to a large, costly debt build up. Indian states are constitutionally prevented from external borrowing and limited in their domestic borrowing by central government. Nonetheless, several states, including some of the poorest, now face unsustainable debt service obligations, mainly to the central government, which in turn had borrowed to fund these loans. Infrastructure and social spending have slowed in most states as a consequence of the high debt service particularly in the highly indebted and poorer states. States' problems have worsened in the last two years, with the cascading down of the excessive central public sector wage settlement of 1997 (Chapters 2 and 3).

Institutional weaknesses and governance issues exacerbate the lack of funds (Chapters 2 and 4). For example, not only are teacher–pupil ratios very low, teacher absenteeism is common. Numbers working in employment programmes or attending school appear far smaller in surveys than in official statistics—for example, in 1995–6, the National Sample Survey (NSS) showed gross attendance ratios of 85 per cent versus the Department of Education's gross enrolment ratio of 104 per cent. Large fractions of the poverty funds go to administrative costs or are diverted, leaving less for the poor. For example, a study in UP suggests that under the new, targeted PDS much of the grain that reached public distribution centres went to the poor, but that there was a 40 per cent shortfall between off-take and what reached the distribution centres (Kriesel and Zaidi 1999).

Thus, despite its many achievements, India faces significant challenges and needs to take some difficult political decisions to realize its potential. Concerted policy action is needed to lift the more than 300 million poor, 34 per cent of the population and increasingly concentrated in the poorer states, out of poverty. Better and more education and health spending is needed to provide better access for the poor, females, and other disadvantaged groups and improve basic services across the board. For example, major challenges in reducing poverty and getting India's population ready for the demands of the twenty-first century are raising the literacy rate from the current 62 per cent (50 per cent for females); enrolling the over 30 million children, mostly poor, who are out of school; and increasing the overall average years of quality schooling. In addition, inequalities faced by women in participating fully in the political, legal, and economic systems need to be addressed. The decline in infrastructure spending needs to be reversed, to increase the rate and spread of growth and to meet urban needs that will rise as the 73 per cent of the population that still lives in rural areas shifts to the cities. Improvements at state level particularly improved service delivery in the poorest states, will be critical in meeting these challenges. At the national level, implementation of the often discussed second phase of reforms, to complete the external and internal deregulation of goods and factor markets, will speed the growth of better paying jobs.

East Asian countries, despite the recent crisis, still have a much lower poverty incidence and better social indicators than India. For example, Indonesia, which in the mid-1960s had a similar per capita income to India and which was the hardest hit by the East Asian crisis, has a literacy rate of 80 per cent and less than

20 per cent of its population was below the poverty line in 1998 (World Bank 1999a). Moreover, except for Indonesia, the crisis countries are rebounding surprisingly rapidly, reflecting their strong underlying base of infrastructure and human development.

Potential Problems in Accelerating Poverty Reduction, Sustaining Growth

The East Asian experience of the 1970s and 1980s, and the differential experience of India's states, suggest that India needs to get back to a higher growth path, which is also more effective at reducing poverty, through improved public spending and a strengthening of incentives, institutions, and governance, particularly in the poorer states. To make a significant dent in poverty, growth needs to be at least maintained in India's high growth states and increased significantly in the poorer states.

India's Future Growth and Poverty Reduction

India's growth of 6 per cent in 1998–9 was one of world's highest. However, it mainly reflected good harvests; all major non-agricultural sectors grew less than in 1997–8 when overall GDP growth was 5 per cent. The reversion to the average post-1980 growth trend during the last two years may partly reflect a sluggishness related to the shake out of excess capacity and partly the slowing world economy. However, another important factor in slowing growth is probably the slowing of reforms, along with a worsening of the fiscal deficit and rises in tariffs—reforms that had earlier contributed to higher productivity, a higher share of world trade, and rapid growth (Chapters 6 and 8 and Annex 8.1). Also, the delivery of social services and anti-poverty programmes, necessary to include India's poor in the growth process and largely a state function, would have benefited not only from higher funding but improved institutions and governance.

Indeed these and other issues touched upon above raise concerns about maintaining even the current pace of development. Current rates of investment have supported a GDP growth of 5–6 per cent per annum in the last two years, and can go on doing so provided the productivity of resources continues to increase in the macroeconomic sense. However, the deterioration of infrastructure (Chapter 5); slower pace of reforms (Chapters 6 and 8) and resulting uncertainty for investors; lack of agricultural deregulation (Chapter 6);

the still low indicators of human development; and governance and institutional issues, particularly in the social sectors (Chapters 2 and 4), all pose potential problems for the growth of productivity in an economy-wide sense.

Large Central and State Deficits Related to Large Explicit and Implicit Subsidies

Another major concern for sustained development is the large general government (consolidated central and state) deficit. India's fiscal deficit has been among the world's highest and in 1998–9 it deteriorated by roughly 2 per cent of GDP. The consolidated public sector deficit of 9.6 per cent of GDP in 1998–9 was not much lower than the peak of 10.9 per cent registered in the crisis year of 1990–1. The centre's deficit deteriorated by 0.8 per cent to 6.5 per cent of GDP in 1998–9 (including net loans to states) and was far higher than the budgeted figure of 5.3 per cent (all figures exclude disinvestment revenues). The current (revenue) deficit increased to 4 per cent of GDP, the highest in the decade, meaning India is increasingly borrowing to finance current expenditure. Meanwhile, states' combined deficit rose to 4.2 per cent of GDP, the worst ever (Chapter 8). Reflecting the recent fiscal deterioration, the ratio of Central government debt to GDP, which fell in the mid-1990s, has now risen to about 60 per cent of GDP, and has led to comment from the Reserve Bank of India (RBI) (1999f, pp. v-12–v-17). The large and rising fiscal deficit and large public sector debt (mostly internal) raise investors' concerns about macroeconomic instability and inflation (which would hurt the poor), and crowds out private credit in the banking system.

The 1999–2000 Union Budget projected a cut of 0.9 per cent of GDP in the central deficit. Achieving this target depends on a substantial rise in tax revenue and containing revenue expenditure growth to only 9 per cent. Preliminary data from the first seven months of 1999–2000 suggest taxes are growing slower than projected and expenditure faster, partly because of support for and lending to states to finance their high deficits. The Union Budget also changed the accounting treatment of the growing small saving funding of states' deficit from a central government loan to an item in the 'National Small Savings Fund' in the centre's public accounts. This accounting change reduces the centre's deficit figures by about 1.3 per cent of GDP but leaves the (consolidated) general government fiscal deficit unchanged. It will be important to pay close attention to the policy on small savings, as the centre sets the

rates and implicitly guarantees the deposits. A positive fiscal development was the sharp upward adjustment of domestic diesel prices in October 1999, an attempt to correct for the potential deficit in the oil pool; it also maintained the liberalization of the sector. The states' and the public enterprises' deficits are likely to suffer continued pressure from the cascading effect on wages and pensions of the excessive central wage settlement of 1997. As noted, the interest costs of the debt have increasingly crowded out infrastructure, maintenance, and social spending in central and state budgets.

Implicit and explicit subsidies at the central and, especially, state levels are a major factor in the deficit. The Ministry of Finance estimated these subsidies at over 14 per cent of GDP in 1994–5. In addition to increasing the deficit, they are distortionary, non-transparent, and at best have uncertain equity consequences; at worst they are anti-equity. While states are directly responsible for many of the subsidies, the centre's funding of states supports them indirectly. Another structural factor in the deficit is the tax system, with central taxes declining by over 1.5 per cent of GDP over 1991–8. The growing services sector is inadequately taxed and agriculture, part of the state tax base, remains outside the system. The tax base has been widened recently, but nonetheless remains fairly narrow, with under 15 million taxpayers. As various experts have noted, the approach to sharing of taxation revenues, lack of a full-fledged value added tax (VAT) (including services), and failure of states to tax agriculture have complicated fiscal decentralization and generated tax-based inefficiencies (Chapters 3 and 4). Expenditure management and efficiency could be improved, as recognized in the last two finance ministers' calls for an Expenditure Reforms Commission. The civil service is large. Many public enterprises continue to operate at low efficiency in areas where the private sector could function more effectively and generate more taxable revenues.

Comfortable BOP but Domestic Policies Continue to Constrain Competitiveness

In contrast to the fiscal situation, India's balance of payments (BOP) remains comfortable. In 1998–9, the BOP strengthened substantially, with the current account deficit improving to 1 per cent of GDP. This improvement reflected the low oil prices that prevailed for much of the year and a \$ 4 billion drop in non-customs imports that reduced imports by over 7 per cent. However exports also declined, by 4 per cent in dollar terms, reflecting not only weak markets

but a loss of share of world markets for the second consecutive year. Regarding the capital account, the Resurgent India Bond raised \$ 4.2 billion despite the turmoil in international markets. However, FDI declined and portfolio flows turned negative. The net impact of these developments was a rise of about \$ 3.9 billion in international reserves (including special drawing rights (SDRs) and IMF reserves but not gold), to a comfortable end-fiscal year level of \$ 30.2 billion (7.6 months of imports, and comfortably larger than potential short-term claims). The projection for 1999–2000 is a slight widening of the current account deficit, to 1.4 per cent of GDP, reflecting continued high oil prices. On the capital account, increases in portfolio investment (despite continued low levels of private capital flows worldwide) and 'other' capital inflows which appear strong thus far in 1999, will offset a decline in net long-term borrowings after the one-time Resurgent India Bond (RIB) issue in 1998–9. These inflows will finance much of the larger deficit and permit some increase in reserves, although the reserve cover is likely to decline marginally to 7.2 months of imports (Chapters 8 and 9). The external debt situation remains comfortable, and external debt to GDP as well as debt to current receipts ratios have steadily fallen since 1992–3. A large proportion of external debt is to multilateral and bilateral lenders and/or is long term. Careful monitoring by government and changes in the underlying economic factors have led to a substantial fall in short-term debt, from over \$ 8.5 billion (10 per cent of external debt) in 1991 to an estimated \$ 4.3 billion (4.4 per cent) in March 1999.

The fundamentals of India's slow export growth lie in the lack of further tariff reform, high infrastructure and transactions costs, and continued domestic regulations such as small-scale sector reservation and labour laws that reduce India's comparative advantage in labour-intensive products and, consequently, the demand for labour. As a result, India may find it difficult to take advantage of the next upsurge in world trade and the international agreement to phase out textile and garment quotas by 2005, and be not well prepared for greater competition that will arise from the elimination of the remaining quantitative restrictions on imports no later than April 2001 (of which half, mainly the special import licence restrictions, are due to go by April 2000). Indeed, India already faces growing competition from a recovering East Asia. A bright spot in the current account is the rapid growth of computer service exports, which do not suffer from the anti-export biases mentioned above, but even they may be hurt if telecom infrastructure lags behind.

Financial System Remains a Concern

The public sector-dominated financial system is another major area impinging on sustained growth and, indirectly, poverty reduction. The financial sector mobilizes substantial resources but still invests a large part of them in government debt, in the case of banks about 40 per cent of deposits. This pattern of asset holding by the financial sector does reduce India's susceptibility to financial crises but it also reduces credit availability to the private sector. From a macroeconomic standpoint, these large holdings levels of debt are simply the reflection of the long history of high fiscal deficits and the need for someone to hold the resulting debt; funds can be made available to the private sector at reasonable cost only as public debt declines relative to GDP. A second factor raising the cost of private sector credit is non-performing assets (NPAs). NPAs are a low fraction of total bank assets (3 per cent net of provisions) or GDP (under 2 per cent), but are large relative to lending to the private sector (or to bank capital). The large NPAs in turn require large provisions, another factor pushing up real lending rates. Regulation and supervision have improved substantially since the 1980s and are largely up to international standards, but they remain well below the steady evolution of international best practices. The payments system continues to lag behind international standards, according to participants in the sector. The capital markets are deep for a low-income country and improvements have been made—notably the setting up of the electronic National Stock Exchange and the creation of a depository that has reduced transactions costs by dematerializing an increasing number of shares. Nonetheless, transparency needs improvement, notably in the activities of the dominant Unit Trust of India and in settlements, to help avoid payments crises such as the one that hit the Bombay Stock Exchange in June 1998. More fundamentally, accounting, auditing, and also corporate governance could benefit from improvement to make India more attractive to domestic and foreign investors (Chapter 7).

Legal and Environmental Issues

Enforcement of property rights and contracts is increasingly identified by analysts as a critical institutional element in development. Clarity and security of property and land rights and timely recourse to an efficient legal system are important not only to investors but to sustainable increases in living standards for the poor. Surveys indicate a respect for India's adherence to the rule of law and the independence and

quality of the judiciary. However, 'justice delayed is justice denied', particularly for the poor, and in India the enormous backlog of cases and legal processes can delay decisions by 10–20 years. These delays add to the problems of the poor in obtaining protection from the legal system. All these problems, as well as the bankruptcy and liquidation processes, raise credit costs, increase non-performing assets (Chapters 4 and 7), hinder good credit allocation and limit the ability of the poor to use their limited real assets effectively.

Finally, the environmental dimension needs to be kept in mind. The Finance Ministry's 1998–9 *Economic Survey* farsightedly included a chapter on environment, which points out the disproportionate burden of environmental and resource degradation on the poor, a concern which this Report shares. As noted above, environmental degradation and unsustainable usage of resources, encouraged by subsidies and unclear property rights, may be factors in slowing agricultural growth in some states and limitations on improvements in the quality of life generally. Often the poor suffer from the environmental problems associated with unclear allocation of property rights to clean air, water, etc. The human sustainability of the cities is threatened by water and air pollution, which partly reflects distortionary pricing and partly lack of funding for public infrastructure (Chapter 8 and Annex 8.2).

A Second Wave of Reforms to Reduce Poverty Faster

All recent governments have discussed the need for a second wave of reforms to launch India on to a higher growth path that reduces poverty faster. However, as noted, reforms have slowed, creating some uncertainty among investors. Many excellent suggestions for reform are contained in such reports as the Hussain Committee on small-scale sector reservation, the Rakesh Mohan Committee on infrastructure, the Tenth Finance Commission on intergovernmental finances, the Fifth Pay Commission on downsizing the civil service, the Tarapore Committee on the capital account and its implications for the macroeconomic framework, the Narasimham Committees on the financial sector, the Disinvestment Commission reports, recent Economic Surveys, RBI Annual Reports, and the 1999 Export–Import Policy. In addition to these contributions, the comprehensive framework outlined above may provide some assistance. While a basic consensus on the need for the second wave of reforms

has emerged, for example in the programmes of the two major political parties, it needs to be translated into substantive action.

Broadly speaking the reforms would be most effective to the extent they reduce the risk of macroeconomic instability, increase the access of the poor to human development, improve governance and reduce distortions, and improve the demand for labour. Poorer states in particular will need to enact these reforms to overcome the initial lags and accelerate development.

Perhaps the most effective, cross-cutting reform would be cuts in explicit and implicit subsidies together with privatization in power to raise the current low collections of user charges (that represents a major part of the implicit subsidies). Cutting the subsidies would cut the fiscal deficit and thereby reduce risks of macroeconomic instability and the crowding out of private borrowers; it would free up public funds for social and infrastructure spending to help the poor and speed growth; it would encourage private sector interest in infrastructure; it would reduce distortions and environmental degradation; and it would probably improve equity (Box 5.2 and Chapter 8). In the petroleum sector, the link that was established between domestic and international prices with the September 1997 liberalization has been an important factor in cutting subsidies, and needs to be sustained. Another policy to reduce subsidies that could be enhanced is the increasing use of cesses on fuels to fund road infrastructure. Obviously, state governments will play a major part in cutting power and irrigation subsidies. There have been welcome movements towards reform in some states, including some of the poorer states such as Andhra Pradesh, Haryana, Orissa, and UP. However, state governments are not always prepared to embark on the reform path. In this context, increasing emphasis on states' performance in Central government transfers, increasing the proportion that states borrow directly from markets, without Central guarantees (and reducing state borrowings from the Centre), and limiting states' ability to ease their hard budget constraint, such as reducing access to high cost small savings and limiting guarantees, would provide important incentives for reform. A welcome development along these lines is the recent use of memorandums of understanding (MoU) to encourage fiscal discipline between the Ministry of Finance (MoF) and states that receive extraordinary financing to ease the impact of the recent hefty pay revision. And links between Centre-state finance and state performance appropriately form part of the Eleventh Finance Commission's terms of reference.

Realigning Central and state governments to focus on core public activities would have high social payoffs. Basic education and health and infrastructure need better and more public spending to reduce poverty and speed growth. Withdrawal of government from non-core activities through faster privatization (not just sales of minority shares) in manufacturing and service sectors, for example airlines and hotels, and increased private sector participation in infrastructure, would permit a downsizing, upgrading, and focusing of government and the civil service on truly public sector activities. It would also increase the current low returns on capital invested in these areas and raise taxable revenues. It is also worth noting that the current lack of attention and investment in these sectors is reducing their saleability. Improvements in the budgets from reduced explicit and implicit subsidies and higher taxes from former public enterprises would permit much needed increases in spending on infrastructure and basic human development at the centre and state levels. At the state level, states such as Andhra Pradesh, Haryana, Orissa, and UP are embarking on much needed realignments of government in varying degrees and sectors.

Better and more spending on health and education. Faster poverty reduction cannot be accomplished without improving the delivery of health and education services. This will involve more effective spending on elementary education and basic health systems, with better targeting on improving the quality and quantity of services to the poor and with more public funding to address the unfinished agenda. The effectiveness of public education and health services in poverty reduction can be improved by focusing on meeting consumer needs and the holistic needs of children, realigning the role of the state towards primary education and health, and making efforts to encourage improvements in and better use of private education and health services.

Governance could be improved in a variety of ways. In the public sector, tax structure and collection and expenditure management would benefit from improvement. Effective decentralization—including improving the state and local institutional capacity and greater 'voice', a more efficient sharing of the tax base across different levels of government, and closer links of costs, revenues, and service delivery—would improve governance, outcomes, and the inclusion of the poor (Chapter 4). This is particularly the case in primary health and education delivery that impacts heavily on the opportunities for the poor to escape poverty. In this regard, it is worth noting that India's decentralization to the third tier of rural and urban local bodies

already has a firm legal basis in the 73rd and 74th Constitutional Amendments (1992). Effective decentralization and greater deregulation would help reduce corruption, a mounting concern of central and state governments, as would improving public administration and procedures, incentives and disincentives, and accountability (Chapter 6). The legal system would benefit from a reduction in delays and disincentives to frivolous litigation and appeals, which would make legal remedies more accessible to the poor and help reduce the non-performing assets that burden the financial system and drive up borrowing costs. State governments also need to enforce property rights and law and order, to provide an attractive environment for investment.

Completion of the deregulation of goods and factor markets, notably through deregulation of agriculture, articulation of a time-bound tariff-reduction programme, completion of the WTO commitments, and development of a less negotiated/more rules-based treatment of FDI, would stimulate poverty reduction through higher, more labour-using growth. It would also help get India ready to take advantage of the pick-up in the world economy and the increased competition, domestic and international, that is developing. Further deregulation of labour markets and the small scale sector would increase the demand for labour (Chapter 6).

In the financial system India needs to speed up judicial resolution of cases and debt recovery and improve bankruptcy and liquidation procedures. Accounting and auditing and financial system regulation and supervision, though much improved since the 1980s, need to move much closer to steadily improving best international practices, especially as the financial system becomes more privatized and links with the international economy increase (Chapter 7). The RBI also needs to deal more rapidly with weak banks and prevent their non-performing assets from increasing. Lending to the private sector needs to improve, which will depend on a reduced fiscal deficit (to reduce crowding out) and better incentives to lend and collect, including privatization of banks. The payments system lags behind improvements elsewhere in the financial sector and would benefit from some quick improvements. Finally, more transparency, such as making the massive UTIs activities more open, reducing settlement times in the capital market, and improving accounting, auditing, and corporate governance, as laid out in the draft Companies Bill, 1998, would help reduce vulnerability and improve the allocation of scarce capital (Chapter 7).

Improved infrastructure provision, both public and private, would help accelerate growth. The currently inadequate provision of high quality, reliable, and reasonably priced infrastructure services represents a major barrier to continued growth of the economy and services to the poor, and to the diffusion of the benefits of liberalization. The development of infrastructure needs an effective delineation of responsibilities between regulator and policy maker, and the creation of independent regulators within a broader restructuring of the sectors. In many sectors, privatization and greater reliance on competition could improve service delivery in many areas. Above all, infrastructure improvement will depend on the removal of implicit and explicit subsidies and a move to remunerative user charges (Chapter 5).

Circumstances Propitious for Reforms and Acceleration of Growth

Events at the end of 1999 seem favourable to the initiation of the second wave of reforms. The central government that took office in October 1999 has already made progress by passing legislation to open up insurance (the Insurance Regulatory and Development Authority Bill), liberalizing foreign exchange regulation (the Foreign Exchange Management Bill), allowing trading in derivatives (the Securities Contract Regulation [Amendment] Bill), and protecting trade marks (the Trademarks Bill). The government enjoys a more comfortable majority than the previous government, which will permit it to move forward more easily on subsidy cuts (as it demonstrated by implementing a 40 per cent diesel price hike in October, in spite of pressures for roll-back), government realignment, and reform. At the state level, reforming governments received electoral support and non-reforming governments seem to have lost support. Some of the poorer and most indebted state governments—such as in Uttar Pradesh—are embarking on a path of comprehensive reforms, similar to the economic restructuring launched by the Government of Andhra Pradesh (that was re-elected in October 1999). These reform efforts are aimed at (a) restructuring state-level expenditure and improving governance so as to maximize the outcomes achieved by public spending and private investments in the state; and (b) enhancing the revenue base through tax policy and administrative reforms and improved cost recovery from publicly provided non-merit goods and services. These developments suggest that the chances of real reform happening are much brighter

than they have been in the past; if these do occur, then, as this Report suggests, growth could accelerate to the 7.5 per cent and higher levels of the mid-1990s. India would then have a real opportunity to reduce poverty substantially in the new millennium.

Issues for Further Analysis

In several places in the Report, gaps in the knowledge base and in country experience have been identified as issues deserving further analysis and research. Work on these and related issues will be important in reducing poverty in India.

Some of the issues are fundamental and involve cross-cutting work in various areas, and often these are the most important issues. These include

- improving the delivery of social services to the poor;
- the links between growth, poverty reduction, and governance, especially at the state level;
- the nature, causes, and cures of urban poverty;

Other issues involve examination and comparison of policy options, based on experience within India and internationally. These include

- possible policy paths for deeper restructuring of government at all levels, to help 'right-structure and, as necessary, right-size' the state in India;

- decentralization experiences that will be most effective in improving the quality and effectiveness of the decentralization process in the Indian context (including studies of states' devolution of revenue and taxing powers to local governments to decentralize services);

- possible paths to fiscal adjustment at the central and state level, taking into account the linkage between fiscal deficits, growth, and poverty reduction, and drawing on international experiences;

- approaches to corporate restructuring, public and private, and the constraints imposed by the labour market, drawing on international experience;

- possible paths to privatization of banks, while decreasing the vulnerability of the banking system through regulation and supervision that approaches best practices and improvements in accounting, auditing, and corporate governance;

- further ways to strengthen institutions and modalities for delivery and repayments of micro-credits and agricultural loans;

- options before India in the next round of trade negotiations;

- linkages between trade, growth, employment, and education.

Finally, as noted at various places in the Report, a key issue for policy making is improvement in the quality and consistency of various statistics.

Poverty Reduction: Progress and Challenges

Reducing poverty and providing for minimum needs is the ultimate yardstick against which to measure development. These have been major concerns of India's governments since Independence in 1947. Experience suggests that reducing poverty requires coordinated macroeconomic and sectoral efforts and reforms. High rates of economic growth, especially in agriculture, have contributed to rapid decreases in poverty incidence in India and elsewhere. Good infrastructure, a well-educated and mobile labour force, effective institutions, and a stable political and social environment are enabling conditions. Conversely, low levels of education and ill-health, exacerbated by social and structural barriers, reduce opportunities for escaping poverty and improving the quality of life. Low incomes and inadequate safety nets leave persons vulnerable, particularly women and children. The importance of these factors explains Indian states' differential success in reducing poverty.

Overview

Since the mid-1970s, India's growth rate has risen, poverty has declined, and social indicators have improved—literacy and enrolments have risen, morbidity and mortality have declined, and the gender gap has narrowed. Despite this progress, India's poverty situation remains a serious concern: in 1993–4, every third person in India still lived in conditions of absolute poverty (Datt 1997), meaning India had 50 per cent more poor than all of sub-Saharan Africa. In the social sectors, India's indicators remain below comparator countries and even some African countries (see Annex Table 4.1). Moreover, recently released NSS data suggest that poverty has declined only marginally

since the early 1990s, despite a period of high growth in the mid-1990s.

What factors are behind the slowdown in poverty reduction? This chapter looks at the evidence and some economic factors that may explain the slowdown; human development/social sector issues are discussed in the next chapter. Although much more research is needed on the slowdown in poverty reduction, some hypotheses have emerged. First, the slowing of poverty reduction may partly be a statistical artefact—the National Accounts Statistics (NAS) suggest a faster growth of consumption and cereal availability than the household surveys. The differences between the surveys and the NAS suggest a need for better statistics, a theme that echoes throughout this

report (see Box 8.1). A second and more worrisome possibility is that growth, including agricultural growth which was previously identified as a major factor in reducing poverty, has become less effective in reducing poverty in the 1990s (World Bank 1999b). Third, while some of the better-off states have exhibited rapid growth and reduced poverty, most of the poorer states have increasingly lagged behind. If these poor states were to grow faster, poverty would fall more quickly. Their lagging performance probably reflects not only lags in infrastructure and human development, but also these states' relatively weaker property rights and governance (Chapter 4 discusses governance issues in India). In addition, the poorer states' fiscal problems, related to distortionary and non-transparent subsidies, poor expenditure management, low (and declining) shares of spending on social and physical capital, and ineffective spending on basic services and anti-poverty programmes certainly contributed to limiting these states' growth and poverty reduction (Chapter 3 focuses on differences in state growth and fiscal management).

Poverty Reduction: The Long View from the 1950s to the Early 1990s

Since Independence, Indian governments have accorded great importance to poverty reduction. Poverty reduction has been a major goal of all Five-Year Plans. To measure its success in achieving this goal, the government commissioned a series of household surveys on poverty, beginning in 1951. These surveys provide an unparalleled record of a developing country's efforts to reduce poverty.¹

India has reduced the percentage of population living in poverty since the 1970s, but progress has been uneven over time and across states and the number of poor has continued to rise, albeit at a slower rate. From the early 1950s to the mid-1970s, poverty rates fluctuated without a clear trend, as shown in Fig. 1.1² (See also Annex Table 1.1 and Ravallion and Datt 1996a). In 1951–5, the average headcount index

¹ Between 1951 and 1997, the NSSO has undertaken thirty-eight national household surveys that have obtained reasonably comparable consumer expenditure information.

² The numbers discussed in the text and shown in Figure 1.1 refer to the so-called headcount index; other poverty measures show similar patterns. India's official measure of poverty is a headcount index based on the food-energy method. The poverty line is the monthly per capita expenditure in 1973–4 all-India prices of Rs 49 in rural areas and Rs 57 in urban areas, with

of poverty was 53 per cent, about the same as in 1970–4. Then, from 1973–4 to the mid-1980s, poverty incidence declined fairly steadily from its earlier range—from 54 per cent in 1973–4 to 38 per cent in 1986–7, a decline of about 2 per cent per annum. Poverty reduction slowed in the late 1980s, probably due to poor weather conditions and the resultant downturn in agricultural production, but the public distribution system (PDS) and anti-poverty programmes kept poverty from rising as it had in such circumstances in the past. Poverty incidence dropped sharply in 1990, for reasons that are not altogether clear, and whatever contribution the macroeconomic situation made was clearly unsustainable. In 1991–2, a transitory worsening of poverty incidence occurred with the 1991 BOP crisis and decline in growth and stabilization measures. However, the increased poverty incidence was also related to other factors—poor harvests, limited agricultural imports, and large agriculture procurement in the following year that kept food prices high—and there may be statistical questions related to the small samples in those years³ and the price indices used to deflate the expenditure data (Tendulkar 1998; Datt and Ravallion 1998; Dubey and Gangopadhyay 1998). By 1993–4 the incidence of poverty had fallen to 35 per cent. This was well below the 53 per cent of the early 1970s, but only slightly below the 38 per cent achieved in 1987–8.⁴

people below this expenditure considered poor. These expenditures correspond to a total household expenditure estimated as sufficient to provide 2400 calories daily in rural areas and 2100 calories daily in urban areas, plus some basic non-food items. This Report, and other recent World Bank reports on poverty in India, use the poverty line as defined by the 1993 Planning Commission Expert Group on Estimation of the Proportion of the Poor, but use slightly different price indices. The resulting figures are slightly lower than the Expert Group's in 1993–4 (for a full discussion including issues in poverty measurement in India, see Annex 1 in World Bank 1997a and other works cited therein).

³ Some have suggested that the NSS figures are subject to error because of the limited size of the recent annual rounds. The NSS 51st, 52nd, and 53rd rounds sampled approximately 40,000 households for the consumption module of the survey. Experiments with questionnaire design reduced the comparable sample to an estimated 20,000 households at the all-India level, but some simulations show that this is estimated to give an acceptable confidence interval of only ± 1 percentage point in the poverty estimate. The 'quinquennial' surveys, most recently 1993–4 and 1987–8, are much larger, with about 115,000 households.

⁴ Between the 1987–8 and 1993–4 surveys, urban poverty dropped 6 percentage points, while rural poverty declined only 2.5 percentage points. This compares to a typical drop in rural

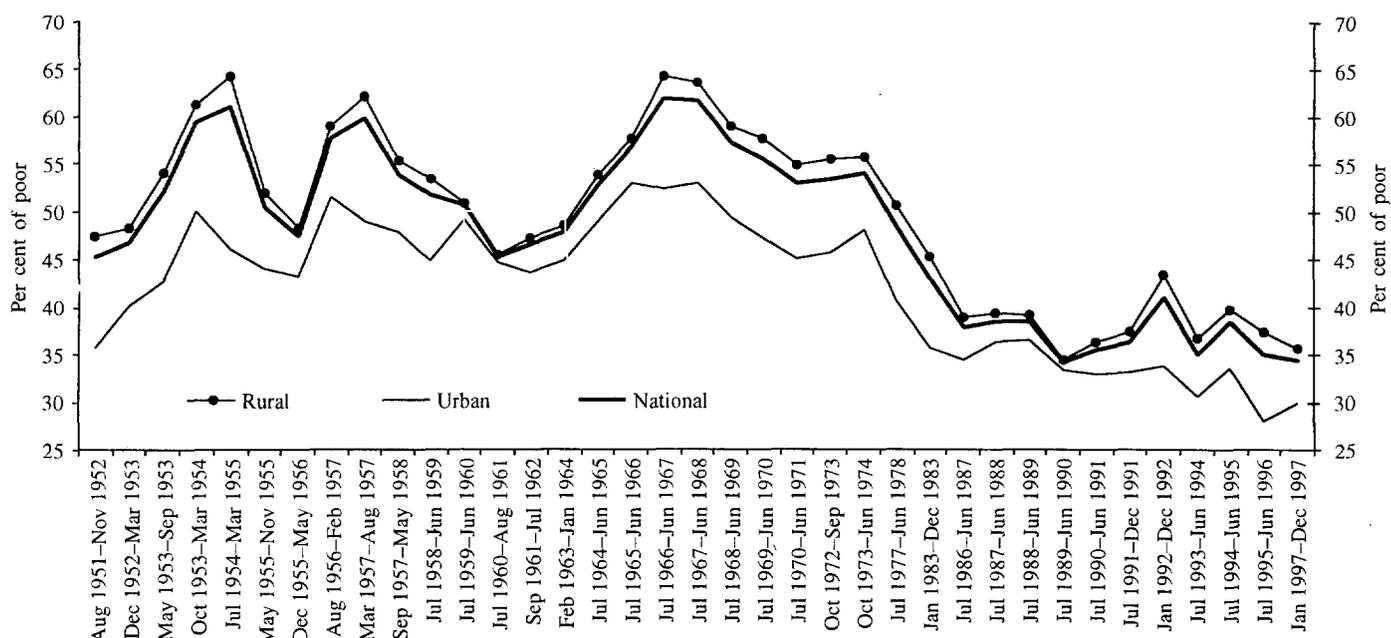


FIG. 1.1: Trends in Poverty 1950s through mid-1990s

India also reduced the depth and severity of poverty even faster than the poverty rate (the headcount ratio).⁵ Thus, the decline of poverty was not simply a process whereby a segment of the population which had previously been located just below the poverty line was able to lift itself above the line, while the remaining poor were left unaffected. Rather, the process through which poverty was being reduced also improved the consumption of those far below the poverty line.

Despite these successes, over 310 million people were living in poverty in 1993–4—50 per cent more than the poor in sub-Saharan Africa. Moreover, some comparator countries seem to have been more successful than India in reducing poverty. For example, Indonesia reduced poverty from the 70 per cent range in the early 1970s to below 10 per cent in the early 1990s; even after the East Asian crisis, Indonesia's poverty was still less than 20 per cent (World Bank 1999a).

Poverty in India remains predominantly rural: three of every four poor persons live in rural areas. Changes in urban and rural poverty followed a similar path over

poverty of about 5 percentage points over quinquennial periods in the 1970s and 1980s (see World Bank 1997a). However, Dubey and Gangopadhyay, using a somewhat different poverty line and a price index adjusted to reflect the changing pattern of the poor's consumption basket, suggest that rural poverty dropped about as fast between 1987–8 and 1993–4 as between quinquennials in the 1970s and 1980s.

⁵ This is reflected in the improvement in the poverty gap and squared poverty gap index.

most of the last twenty-five years, with progress actually more rapid in rural India through the 1970s and 1980s. By 1990, urban and rural poverty rates had nearly converged; an unusual pattern compared to other South Asian countries. In the early 1990s, poverty rose faster in the rural than urban areas, and then did not decline as rapidly.

A wide disparity in poverty across Indian states and their uneven progress in poverty reduction is a key feature of the evolution of poverty in India. In most instances, better-off states remained relatively affluent and reduced poverty, while poorer states remained poor and made less progress in poverty reduction, but there are also cases where poorer states made major progress in poverty reduction and growth—see Fig. 1.2, where the states are listed from left to right by the incidence of rural poverty in the early 1990s. In Kerala, for example, rural poverty declined at 2.4 per cent per annum between the early 1970s and early 1990s. Other states where poverty incidence fell substantially (as a percentage of the original level) include West Bengal, Andhra Pradesh, Orissa, and, to a lesser extent, Gujarat and Tamil Nadu. Notably poor performers include Bihar and Uttar Pradesh. The stronger performing states typically managed to reduce poverty at a rate of 1.5 per cent to 2.0 per cent per annum. Poor performers rarely averaged above 0.5 per cent per annum. It should be noted that states' poverty rankings vary with alternative indicators. However, Bihar, Madhya Pradesh, and Uttar Pradesh generally have among the highest rates

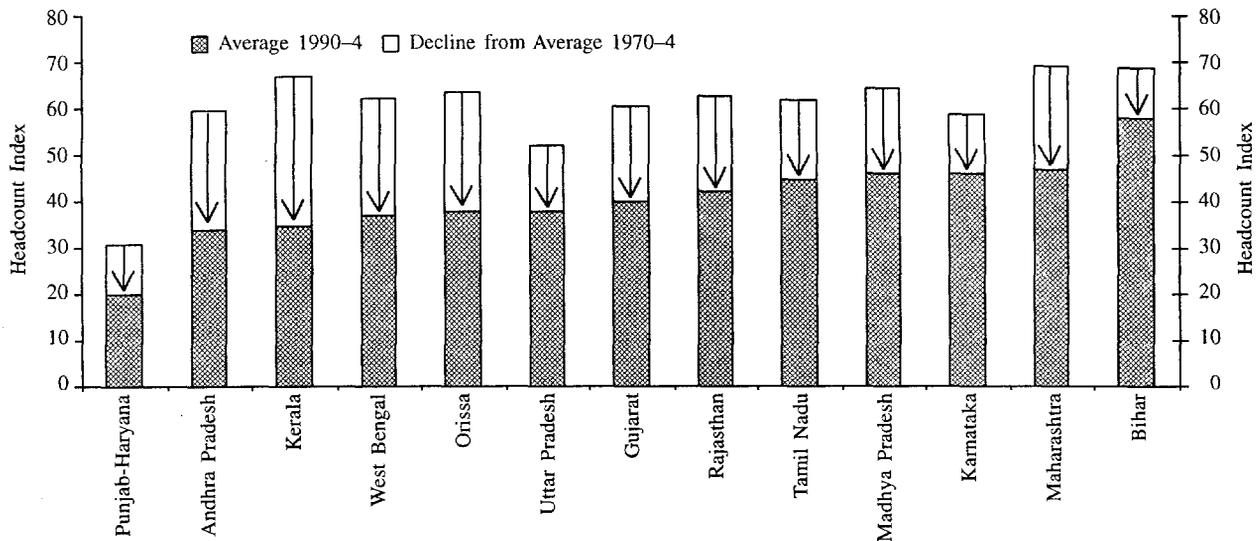


FIG. 1.2: Rural Poverty Levels by State

of poverty whichever the index used; Kerala, Haryana, and Punjab have the least (see Chapters 2 and 3, UNDP 1999; World Bank 1997a). It is also important to note that the sample sizes in some of the states are small, implying a large error of estimate in their figures. Finally, it is important to note that there exist large disparities in poverty within states (Dreze and Srinivasan 1996).

Factors in Reducing Poverty from the 1970s to the Early 1990s

The historical evidence across countries, in India over time, and across Indian states suggests that the major factors in reducing poverty are (a) faster growth, particularly agricultural growth that raises agricultural wages and tends to depress the (relative) price of food, (b) lower inflation, (c) infrastructure (see Chapter 5), and (d) human resource development, notably female literacy⁶ (see Chapter 2). Most anti-poverty programmes seem to have had little sustained impact on poverty reduction, though they certainly eased the impact of the 1987 drought. Rural to urban migration also seems to have played only a small role. (For further discussion of these issues see Datt 1997; Ravallion and Datt 1996a and 1996b; World Bank 1997a and 1998b and works cited therein.)

Regarding the role of growth, India's sustained decline in poverty began as GDP growth picked up from the 3.5 per cent rate that characterized the country in the early years. A decomposition of the changes in poverty (in the NSS) into a growth component (of

⁶ In statistical work, factors (c) and (d) are sometimes proxied by development spending.

mean consumption) and a distribution component shows that the rise in growth in mean consumption accounts for about 87 per cent of the cumulative decline in poverty, with changes in distribution accounting for the rest, that is only 13 per cent (Datt 1997). The opposite side of the coin is that the Surveys suggest that inequality was not increased much by higher growth—according to the NSS, the Gini coefficients of expenditure rose (worsened) by about 10 per cent from 1974 to 1978 in both rural and urban areas, and since then have remained fairly close to 0.29 and 0.35 respectively, a relatively even distribution of income for a developing country.⁷

Different rates of agricultural growth and increases in rural wages were major factors which led to different levels as well as rates of decline of poverty across Indian states (Ravallion and Datt 1996b). Green revolution technology, irrigation, and infrastructure were associated with rising rural wages and increased rural non-farm employment, such as in Punjab and Haryana which had the highest GDP per capita up to the early 1990s (and continue to be among the top five states in 1996-7). Growth in the urbanized part of the economy was less significant in reducing poverty across states, reflecting the capital-intensive, import-substituting nature of India's industrial development, its requirements for skilled rather than unskilled labour, and labour market regulations that limited the growth of formal sector employment (see Chapter 6). These factors limited the impact of urban growth on labour

⁷ Of course, there are the standard issues that (a) the Gini coefficient is not a good measure of distribution and (b) consumer surveys do not capture well the increases in consumption and income of the higher income population.

demand and kept the proportion of urban population relatively small (around 27 per cent), so that its proportionate impact was low. The human resource approach to poverty reduction across Indian states is exemplified by Kerala, which exported relatively skilled labour internationally and benefited from remittances, even though its GDP growth was not particularly rapid. A variety of international evidence supports the contribution of human development to poverty reduction.

Finally, inflation had a negative effect on poverty. Higher inflation in India is often associated with poor harvests and a relative rise in the price of food. The poor are doubly hit, as their consumption is largely food, and their wages (and demand for labour and income) rise less than prices in years of poor harvests. In addition, there is the traditional macroeconomic argument that the inflation tax hits the poor hardest because relatively more of their assets are held in the form of currency (see Chapter 8). International evidence supports the importance of a stable macroeconomic environment for growth and poverty reduction, for example in East Asia (World Bank 1993).

Reduction in Poverty in the Mid-1990s: A Mixed Picture

In the mid-1990s, the decline in poverty slowed sharply, particularly in rural areas, according to recently available NSS data for the periods July 1994 to June 1995, July 1995 to June 1996, and January to December 1997 (see Figure 1.1 and Annex Table 1.1). An estimated 34 per cent of the population was still below the poverty line in 1997 compared to 35 per cent in 1993–4. During the mid-1990s, GDP growth exceeded 7.5 per cent per annum and agricultural growth seems to have remained high (see Chapter 6), while social sector indicators such as literacy and infant mortality improved (see Chapter 2).

What changed in the mid-1990s to undermine the strong relationship found before the 1990s between poverty reduction, growth, and social indicators? As discussed below, the lack of decline in poverty may well be a statistical artefact. However, closer examination of recent developments also raises concerns regarding inflation, the changing role of agricultural growth, and, more fundamentally, a lack of progress in reducing poverty in the poor states.

Inconsistencies in statistics raise questions about how much of the slower poverty reduction is a statistical artefact. The recent NSS surveys cover a much smaller

number of households than the larger quinquennial surveys, the most recent of which was held in 1993–4, but are still large enough to be statistically accurate (see fn. 3 in this chapter). A more serious problem is the *increasingly* large discrepancy between the NSS and the NAS. The NSS shows not only that poverty did not decline much in the mid-1990s but that mean per capita consumption, a key determinant of poverty reduction according to various analyses, did not rise much. Thus, according to the NSS, poverty stagnated not because inequality increased, but because of slow growth. However, the NSS per capita consumption figures are an increasingly smaller fraction of estimated consumption in the NAS⁸—from 77 per cent in 1970–1 to only 66 per cent in 1997, as shown in Box 1.1. Applying the NSS estimate of distribution to the consumption figures in the NAS results in poverty falling in the 1990s as well as the 1980s (See Box 1.1). Moreover, the NAS consumption estimate is itself a declining fraction of total GDP: from 65 per cent in 1988–9 to 57 per cent in 1997–8. This fall is explained almost fully by a rise in the statistical discrepancy—the difference between expenditure and production estimates of GDP—from around zero at the end-1980s to around 10 per cent nowadays (see also Box 8.1). Hence consumption in the NAS may itself be underestimated.

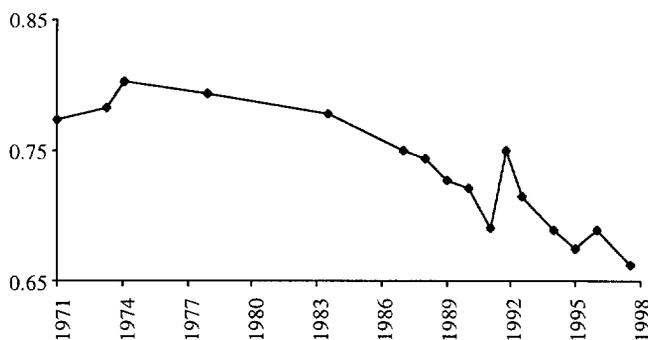
The differences between the NSS and NAS in consumption are also reflected in discrepancies with respect to food consumption. In particular, the NAS show rising per capita cereal availability, whereas the NSS shows declining per capita cereal consumption (Box 1.1). In theory, these two should be approximately equal.

One possible explanation for the growing difference between consumption in the NSS and NAS might be a failure of the NSS to capture the consumption gains of high-income households. The NSS shows only a marginal worsening of income distribution. But if the surveys are failing to capture substantial gains accruing to rich households, they could be underestimating the rise in both mean consumption and inequality. Under-reporting of rich consumers is a common problem for household surveys. However, the estimated

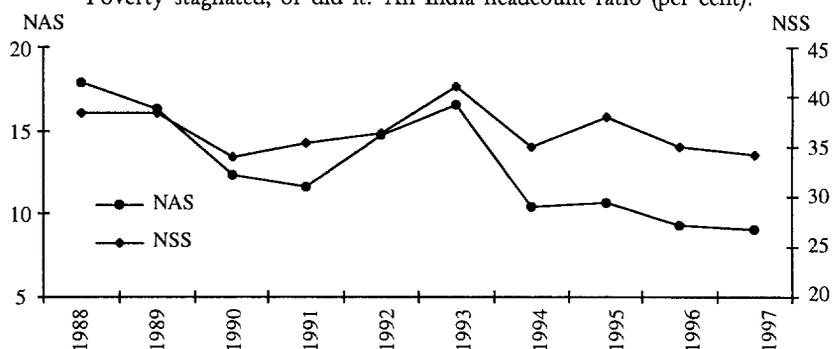
⁸ Private consumption is estimated independently in the Indian NAS, as are public and private investment, exports, imports, and government consumption, and an explicit estimate is made of the difference between estimates of national expenditure and production, as is done in some developing countries. See GOI (1998a) and Box 8.1. The mere existence of a substantial difference between the NSS and NAS is neither surprising nor a cause for alarm; what is worrying is the growing discrepancy between the two sets of estimates.

Box 1.1
NSS versus NAS

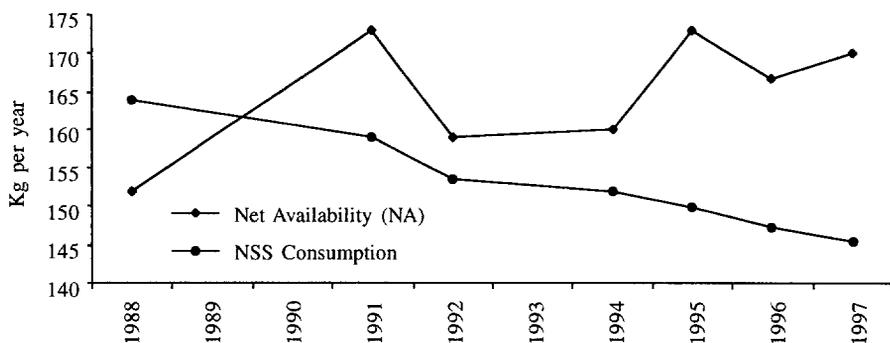
NSS and NAS consumption estimates are getting further apart. Ratio of NSS to NAS per capita consumption:



Poverty stagnated, or did it? All India headcount ratio (per cent):



Food consumption declined, or did it? Per capita cereal consumption/availability:



Notes: The above poverty estimates are World Bank calculations, based on NSS and NAS data. The first figure uses the NAS figures for private consumption and Bank estimates of annual India population levels. The 'NAS' poverty estimates use the NSS distribution (and poverty lines) but adjust the survey consumption levels by the ratio of NAS to NSS mean consumption. Cereal availability equals net production plus net imports minus changes in public stocks, and so should approximate consumption.

increase in availability of cereals (from NAS) is consistent with a fairly constant income distribution and falling poverty—increased demand for cereals comes mainly from rises in income among lower income families—and goes against the hypothesis that it is the 'missing rich' which explain the difference between the NSS and the NAS.

One final source of evidence in this regard is the National Council of Applied Economic Research

(NCAER) Market Information Survey of Households (MISH). This provides annual information on self-reported income from a sample of 18,000 households, slightly smaller than the NSS annual sample size. The income poverty line set by the NCAER in defining its 'low income group' is rather high compared to the poverty lines used with the NSS consumption data, but shows a clear downward trend in poverty in both rural and urban areas. MISH also surveys a larger set of

households on possession of standard durable items (watches, televisions, etc.), something which the NSS does not inquire about in its annual rounds, and MISH finds consistent increases in ownership levels over time, even among low-income households.

In sum, the NAS data (and the NCAER data) suggest that strong growth occurred in the 1990s and that the NSS data underestimates consumption growth and consequently poverty reduction; while the NSS data suggest that not only did poverty stagnate but that the NAS overestimate data consumption growth. Choosing between these two hypotheses, or variants involving changes in income distribution, is not easy, and well beyond the scope of this Report. With discrepancies such as these, the only conclusion that can confidently be made is that India's statistical architecture, once a model for other developing countries, needs more consistency checks (see Box 8.1).

Macroeconomic Concerns: Inflation and Agricultural Performance

Although statistical issues clearly exist, differences between the 1980s and the 1990s in terms of inflation and agricultural performance do give some credence to the statistics showing a mid-1990s slowdown in poverty reduction. Other things being equal, higher

have targeted lower inflation because of the negative impact of inflation on the poor, and have had some success. However, transitory shocks in food prices, such as at the end of 1998, related both to poor harvests and the rigid, still highly regulated food distribution system, continue to cause transitory increases in inflation.

Differences in Agricultural Performance in the 1980s and 1990s also support a slowdown in poverty reduction in the mid-1990s. As noted above, agricultural growth was a major factor in reducing poverty in India in the 1980s. Rural growth was rapid, broad based, and labour-intensive, leading to a reduction in poverty in the 1970s and 1980s. Production of oilseeds and the dairy and poultry sectors grew remarkably, and the adoption of scale-neutral, high-yield technology spread agricultural growth to the lagging, rain-fed, and highly populated eastern regions. Real wages were pushed up by the increase in labour demand and the productivity increases that lowered costs.

The rate of agricultural growth in the 1990s was similar to the 1980s, according to the new NAS⁹ albeit with continued year-to-year volatility. However, the growth of real daily wages in rural areas—a key link between agricultural growth and poverty reduction according to the analysis of the 1980s—slowed in the 1990s (see Table 1.2), suggesting that agricultural growth in the 1990s may have been less poverty reducing.

TABLE 1.1
Annual Average Growth in Price Indices

	Wholesale Price Index (1981-2 = 100) CPIAL (per cent)					
	WPI	Foodgrains	Rice	Wheat	Pulses	(1960-1) = 100)
1980/1-1990/1	6.9	6.4	5.6	5.7	11.2	6.9
1990/1-1997/8	8.8	10.4	10.2	9.5	11.4	9.7
1993/4-1997/8	7.3	8.9	8.3	7.7	9.7	9.6

Note: WPI indices for foodgrains (but not overall WPI) from 1982 to 1983.

inflation tends to increase poverty (that is, with the same real growth rate, higher inflation is associated with greater poverty), as noted above, and average inflation was higher in the 1990s than in the 1980s (see Table 1.1). Research has shown the poor to be particularly susceptible to increases in the relative price of food (Datt and Ravallion 1997), and the increase was even larger in the 1990s as compared to the 1980s. The large increase in foodgrain prices was a particular factor and reflects large increases in procurement and issue prices associated with the PDS in the early 1990s. As discussed in Chapter 8, recent Indian governments

⁹ The new, rebased, 1993-4 NAS estimate a higher level of GDP than the old, 1980-1 based NAS (see fn. 1, Chapter 8 for a full discussion). Agricultural GDP is 8 per cent higher in 1993-4 in the new accounts than in the old. Moreover, the post 1993-4 agricultural growth rates in the new NAS series are over 1 per cent per annum higher than in the old series. The new agricultural GDP data, which are available only from 1993-4 onward, include a higher estimate of many non-traditional agricultural products than the earlier series and track the growth of those products after 1993-4. Presumably these estimates are more relevant for comparisons of recent income and consumer spending on agricultural products than the old series. Statistically speaking, the trend growth rates of agriculture in the 1990s and the 1980s are not significantly different,

Among the possible explanations for the slower growth in wages are: (a) slower growth of demand for agricultural labour in the 1990s, associated with the new crops that account for the continued high agricultural growth in the new NAS; (b) a slowdown in productivity growth in agriculture, possibly related to environmental issues and the need for private investment, such as generation sets, to make up for a poorly performing public infrastructure (see Chand 1999, World Bank 1999b, and references cited therein); and (c) a less well distributed agricultural growth, with the eastern states, where poverty is concentrated, experiencing a slowdown.¹⁰ The latter two explanations are in turn related to the public sector's approach to agriculture, with its continued focus on providing implicit and explicit subsidies, which contribute to inefficiency and have uncertain distributional consequences, rather than on public investment and technological upgrading; its increasing fiscal constraints that have led to a decline in public infrastructure investment; and its continued regulation of the agricultural sector in contrast to the deregulation of the urban sector (See the discussions in Chapters 3 and 6, which summarize World Bank 1999b). Clearly, further analysis is needed, particularly once the state GDP accounts are fully rebased. Whatever the conclusion, a reduction in implicit and explicit subsidies, a refocusing of the public sector on poverty-alleviating spending, and a deregulation of agriculture would all probably improve the impact of agriculture on poverty reduction.

TABLE 1.2
Annual Average Growth in Wage Rates of
Unskilled Agricultural Male Labourers
(per cent)

	Nominal	Real
1980/1–1990/1	12.0	4.6
1990/1–1997/8	12.2	2.4
1993/4–1997/8	12.7	2.5
1980/1–1997/8	12.1	3.2

Note: (i) CPIAL used to deflate nominal wages;
(ii) Exponential trend growth rates were calculated using OLS.

using regressions with the new GDP series growth rates for the years from 1993–4 onward. However, there is a significant fall in the agricultural growth rate in the 1990s using the old, 1980–1 base data, which are available through 1996–7.

¹⁰ It should be noted that much of this analysis, particularly the interstate comparisons, is largely based on the old NAS (1980–1 base), which as noted in fn. 9, show a much slower overall growth of agricultural GDP than the new NAS (1993–4 base).

Analysis also suggests that off-farm employment is an important means of escaping poverty in rural India. Unfortunately, India's recent high GDP growth does not appear to have created more off-farm employment opportunities for the rural poor. In some regions, employment in agriculture actually increased in the 1990s. Recent work (Gupta 1999) documents a rise in the proportion of workers who are self-employed or in casual wage employment in the 1990s, and a fall in regular, salaried employment. Two factors are responsible for the sluggish response in the non-farm sector: not only are there distortions in the agriculture sector, but there remain important distortionary policies in the non-farm sector, for example, small-scale reservation and overregulation of markets and agro-industry (see Chapter 6 and World Bank 1999b). Removing distortions and improving infrastructure, social sector delivery, and the legal framework could help unleash a substantial round of labour-intensive growth in the rural non-farm economy.

Divergence in Poverty Reduction between States

Since the mid-1970s, a number of states have managed to reduce poverty, while in some low-income states, notably Bihar and Uttar Pradesh, growth and poverty reduction have lagged behind. This differential performance appears to have increased in the 1990s. Fig. 1.3 shows a growing regional rural poverty differential between India's five lowest income states (Bihar, Uttar Pradesh, Madhya Pradesh, Orissa, and Rajasthan) and the rest of India's thirteen largest states, using state-by-state poverty figures.¹¹ It is likely that urban poverty shows, if anything, an even greater increase in the differential. Fig. 1.3 suggests that rates of rural poverty reduction began to diverge in the late 1970s: while both groups of states evidenced a steady decline in rural poverty incidence, the rate of progress in the five northern and eastern states was somewhat slower in the late 1970s. The divergence increased in the 1990s as poverty stopped falling in the low-income states. By 1997, the

¹¹ Due to limitations in sample size and data availability, this analysis involves poverty estimates only for India's thirteen largest states, namely, West Bengal, Punjab and Haryana, Maharashtra, Rajasthan, Tamil Nadu, Madhya Pradesh, Andhra Pradesh, Karnataka, Kerala, Gujarat, Orissa, Uttar Pradesh, and Bihar. The five poorest states are selected on the basis of 1980–1 per capita income as per Table 3.1. The differential would have been even greater if Rajasthan had been excluded. See Datt and Ravallion (1998) for details on state-level estimation procedures.

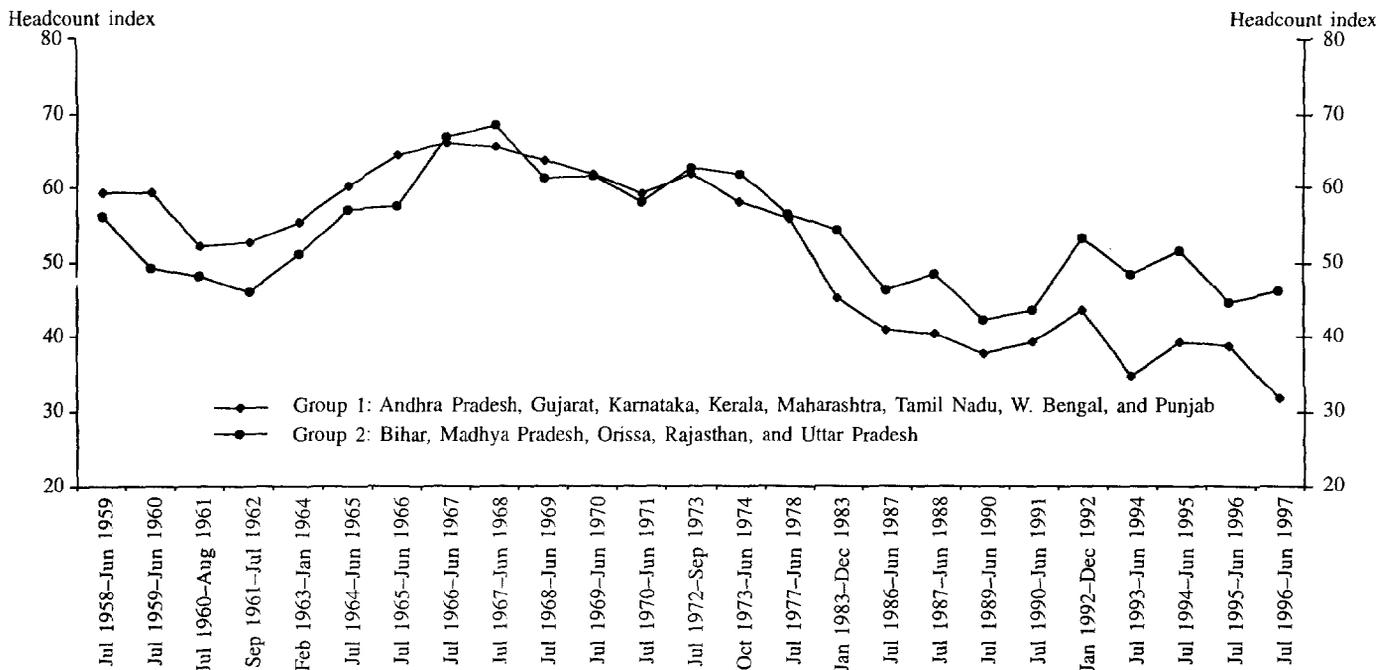


FIG. 1.3: Headcount Rates (Rural India)

gap in poverty incidence between the two groups of states had reached nearly 18 percentage points, and poverty incidence in the low-income states was over 50 per cent higher than poverty in other large states (the 1993–4 gap, based on the quinquennial 50th round, was estimated at 20 percentage points). By way of comparison, in the 1980s, the gap was 7–8 percentage points.

What explains this large cross-state differential in poverty reduction? Partly it reflects lower growth in the poor states. Most of the states that began the 1970s with relatively low per capita GDP had slower growth in GDP and its three main components—agriculture, industry, and services—than the middle and higher income states, as discussed in detail in Chapter 3 and the references cited therein.¹² The poor states also gener-

¹² One might argue that the NSS finding of minimal change in income distribution is inconsistent with the observation that some of the poorer states are growing more slowly than the other states. The differences between the NSS estimates and the NAS data also hold at the state-level, since the total state-level GDP (production estimates) has remained a relatively constant fraction of national GDP. However, another explanation is that a minimal change in the aggregate Gini coefficient can occur, even if some of the poorer states grow relatively slowly, other poor states and the middle income states grow relatively rapidly, and the initially high income states grow relatively slowly, which seems to be the case (see Chapter 3). More importantly, it has to be recognized that interstate disparities typically account for only a small fraction of total inequality—about 10 per cent—so that even large changes in these disparities will have only a small impact on total inequality.

ally have the worst human resource indicators. Infrastructure is recognized as a particular problem in the poor states. The differentials in private GDP growth and public investment in infrastructure and human capital partly reflect weak legal and regulatory frameworks for business; and problems of governance, law and order, and weak institutional capacity more generally (see, for example, *Business India* 1998). Finally, the lagging states, despite allocations of central funds that favoured them in per capita terms because of their low per capita incomes, suffered from fiscal problems. This was particularly the case in the 1990s, because their lack of fiscal adjustment and increased debt service payments coincided with a decline in overall central grants and loans to the states and rise in interest costs. These fiscal problems led the states to reduce their capital and human resource spending as a percentage of GDP (See Chapters 3 and 8 and World Bank 1998a).

Summary

India reduced poverty substantially since the mid-1970s, as growth rose and human development indicators improved (see Chapter 2). In the mid-1990s, growth increased sharply and human development indicators continued to improve. Yet poverty rates, even in the urban areas, declined only marginally. The inconsistencies between the NAS and NSS that are used to measure poverty suggest that this may be a statistical

artefact. Partly the slowdown may also be explained by the higher average inflation in the 1990s compared to the 1980s, especially the more rapid increase in food prices. There are also concerns that the pattern of agricultural growth is producing less of a rise in labour demand/fall in poverty than in the past. More fundamentally, while some states were able to take advantage of the stabilization and reforms to speed up growth and poverty reduction, others increasingly lagged behind, due to poor governance, infrastructure, lack of human development, lack of fiscal adjustment, and compression of development spending (see Chapter 3). The higher growth has brought down poverty reduction in some states, but the poorer states in particular need to undertake reforms that would lead to faster growth and poverty reduction.

Should the recent developments be taken as evidence that stabilization and reforms have worked against the

poor? We would argue not. First, there continues to be some reduction in poverty, particularly in the urban areas and in some states. Second, and more important, the issue is not reforms and stabilization, which were clearly needed to correct an unsustainable situation, but incomplete and partial reforms. In particular, it is generally agreed that agriculture, which may have lost its impetus in reducing poverty, remains the least reformed and most distorted sector. Lack of reforms of labour and product markets limit both the rate of growth and its labour intensity (Chapter 6). Reform of India's anti-poverty programmes is now underway, but has taken place too recently for the benefits to show up in faster poverty reduction—moreover further institutional and governance improvements will be needed to make the programmes fully effective (see Box 1.2). Institutional and governance issues also arise in social sector services (see Chapter 2). Finally, at the state

Box 1.2

REFORMS IN INDIA'S ANTI-POVERTY PROGRAMMES

India's anti-poverty programmes (APPs) are mainly run by the central government. They amount to some 6–7 per cent of total GOI budgetary expenditure, or 1 per cent of GDP. Even accounting for inflation, they have been growing at 10 per cent per annum since 1992–3. There are three main types of APPs: rural works, self-employment, and food subsidy programmes. All three have been subject to reform in recent years.

Food subsidy programmes make up about 55 per cent of total APP spending. By far the largest food subsidy programme is the PDS, which was explicitly targeted towards the poor at the national level in 1997 and renamed the Targeted PDS (TPDS). Recent research in UP (Kriesel and Zaidi 1999) has shown impressive performance in targeting: the poor were found to be four times as likely as the non-poor to purchase subsidized foodgrains through the TPDS.

Self-employment programmes make up only about 5 per cent of total APP spending, but have received a lot of publicity, most of it bad, on account of the poor performance of the Integrated Rural Development Programme (IRDP). This year the IRDP was scrapped, along with five other small self-employment programmes, all of which were replaced by a single programme—the *Swarnjayanti Gram Swarozgar Yojana* (SGSY). Not only is this rationalization very welcome, but the new programme seems better designed. It basically replaces subsidized lending to individuals under IRDP by subsidized lending to self-help groups. Group lending has the advantage of peer-group pressure leading to higher repayment rates, and has demonstrated its potential for success in India as well as many other countries.

Rural works programmes account for about one-third of APP spending. There are two main schemes, the EAS (Employment Assurance Scheme) and the JRY (Jawahar Rozgar Yojana), now renamed the JGSY (Jawahar Gram Samridhi Yojana). The EAS is continuing as an employment-generation scheme, but with better targeting to poorer states and districts. The JRY, which was an employment-generation scheme, has now been redesigned in two aspects. First, it will be exclusively implemented by the gram panchayats, or village local governments. Second, its main focus now is on infrastructure development, with employment generation relegated to a secondary objective. The thinking behind this is that JRY was failing both to develop durable assets and, due to poor targeting and abuse, to provide employment to the poor. While no one can argue with the need for more and better rural infrastructure, there is now a real need to reform the EAS as the burden of providing a rural safety net now falls mainly on it.

The rationalization and better targeting underlying the above reforms are both big steps forward. All the programmes are also giving a greater role to rural local government for implementation and for beneficiary selection and monitoring. The reforms also lay stress on transparency, making information about the programmes public at the village level, and on the importance of physical, financial, and social audits. While these reforms are very welcome, there is still a long way to go on the ground. The same research in UP which showed good targeting of the TPDS also found that only 40 per cent of the grain allocated to the state actually reached the intended beneficiaries: 20 per cent was simply not lifted from central storage facilities, and the remaining 40 per cent was unaccounted for. To reduce leakages and abuse, and to promote the new guidelines on transparency, access to information, and accountability, the central government could make participation by state and local governments in the APPs conditional on good performance.

level, differences in governance and fiscal adjustment have led to differences in human development, infrastructure, and private investment that contribute to the differences in growth and poverty reduction across the states. *Further analysis is clearly needed on the determinants of poverty reduction, including issues relating to urban poverty.*

Against this backdrop, there is concern that poverty reduction will continue to stagnate unless a second phase of reforms occurs. These concerns are the subject

of the remainder of this Report. Successive chapters examine: the social sectors (Chapter 2), issues of state performance (Chapter 3), governance (Chapter 4), infrastructure (Chapter 5), labour demand and related sectoral issues (Chapter 6), the financial sector (Chapter 7), and macroeconomic policies (Chapter 8). Finally, Chapter 9 looks at future prospects and summarizes the key requirements for sustained poverty reduction and growth.

Improving Health and Education for the Poor

Overview

In India, as elsewhere, social outcomes both embody poverty and represent a way out of poverty. Malnutrition, poor health, a lack of learning opportunities, and limited choices are defining characteristics of poverty. Good education, health and nutrition, and low fertility help reduce poverty by increasing opportunities to generate income. By the same token, an improved standard of living leads to gains in health and education, freeing people from the trap of ignorance and exposure to disease. There are also positive connections between health and education. Education empowers people to use information better to make healthy behavioural choices; healthy people are more likely to attend school or go to work, and can learn and work more effectively. Unfortunately, the more common experience is that costs of illness keep people in poverty and poor quality education limits their opportunities to escape poverty.

Progress in the social sectors is both a vital yardstick of and a key element in the reduction of poverty. In India, there are constitutional and oft-stated government commitments to ensuring basic education and health services and it has shown substantial improvements in education and health outcomes over the last decade (in this Report, health is defined to include

health, nutrition, and population but does not focus on important health-related areas such as sanitation and water supply). Nonetheless, indicators continue to suggest surprisingly low levels of literacy and school enrolments and surprisingly high levels of infant mortality, maternal mortality, and malnutrition, relative to China and Indonesia, or even other low-income countries. Within India, inter- and intra-state disparities are large. The poor, rural women, disabled, and people belonging to Scheduled Tribes and Castes stand out as the most vulnerable sections of society. In particular, the indicators suggest substantial problems in the same large states where poverty is high (see Chapter 1). It probably will be difficult to reduce poverty substantially in the future without major improvements in spending on and delivery of health and education services in these states.

The delivery of public services in health and education is fraught with problems related to limited accountability for performance, low management and worker incentives, inadequate materials and equipment for effective health care and education, demands for payment for supposedly free public services, and poor targeting of services and subsidies at the poor. Because of these problems, private delivery of health and education is expanding rapidly, to the public in general and even to the poor.

The sections that follow deal with these issues in detail. First, both the health and education sectors are examined in terms of their outcomes. Then the infrastructure, human and financial resources, and institutional issues that are common to both sectors are described. The chapter ends with ideas on how the problems identified can be overcome so that the government's commitment to effective health and education services for everyone, especially for the poor, can be fulfilled. The main proposals are:

- spend more effectively on elementary education and basic health systems, with better targeting at the poor, and with more public funding to address the unfinished agenda;
- focus public education and health services on meeting consumer needs;
- realign the role of the state to focus on primary education and health and make efforts to upgrade private education and health services and to use them effectively;
- focus on meeting the holistic needs of children.

Education and Health Outcomes in India

Education

In India, as elsewhere, greater coverage and more effective elementary education in grades 1–8 would be the education sector's most significant contribution towards

alleviating poverty. Average educational attainment has improved in India; however, India still lags behind comparator countries in average educational attainment, particularly among the poor. Studies of education consistently suggest large benefits from achieving a critical minimum level of education across the population. This indicates that mass expansion of primary education to raise India's currently low educational participation levels (averaging about 2 years) to 4–5 years of primary education per worker would have high economic and social pay-offs. The pay-offs would be particularly high for the poor, less than 20 per cent of whom currently complete all eight primary grades.

A major indication of India's recent progress in education is the significant rise in literacy rates within the last decade. From 1991 to 1997 the overall literacy rate increased from 52 per cent to 64 per cent, rising from 64 per cent to 73 per cent for males, and from 39 per cent to 50 per cent for females, according to the NSS. Progress is still slow but the number of illiterates (aged 7 and above), which had actually risen from 1981 to 1991, appears to have begun to decline in the 1990s (see Fig. 2.1). Among the states, some of the poorest, for example Uttar Pradesh, Bihar, and Rajasthan, registered significant improvements in literacy albeit from low bases (see Annex Table 2.1). In most of these states, female literacy rose even faster than overall literacy.

Although India has raised literacy rates, it still has a long way to go. Many countries, including China and Indonesia, have overtaken India in literacy rates. For

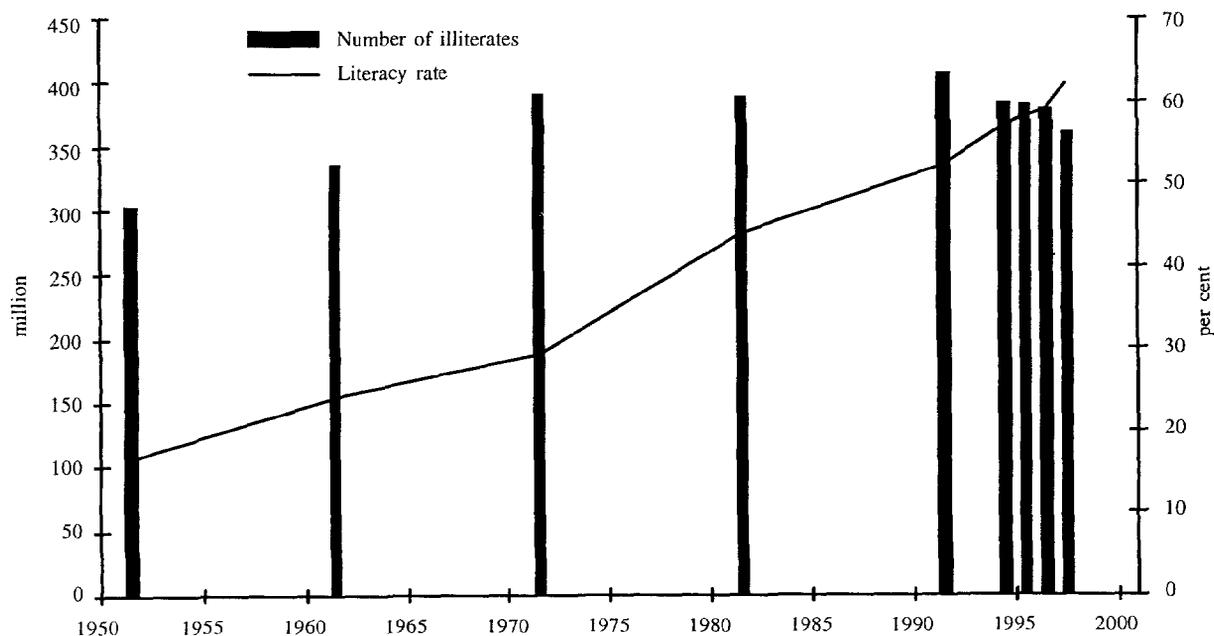


FIG. 2.1: Literacy in India, 1951–97

example, in the 1950s China had problems of illiteracy that were similar to India's at the time. Today China has virtually eliminated illiteracy in the younger age groups (Dreze and Loh 1995). Indonesia has achieved 85 per cent literacy, with a female literacy rate of 80 per cent. If India's literacy rate continues to grow at the current rate of 2.75 per cent per annum, it will still take sixteen years before India catches up with Sri Lanka's current literacy rate of 90 per cent, and even then about 120 million persons will still be illiterate!

Gross enrolment ratios have also improved, reaching 90 per cent at the primary stage, with girls' enrolment reported to be 73 per cent (NCERT 1998). It is worth noting that this figure is significantly lower than the figures reported by the Ministry of Education, which are based on enrolment figures submitted by the districts and which are the basis for comparing achievements with plan targets and providing budgetary support—another example of inconsistencies in Indian data that complicate policy making. Despite the improvement, 33 million children in the 6–11 age-group are still out of school. The NSS also suggests that 7.8 per cent girls and 6.9 per cent boys in the 6–11 age-group are in the workforce, mostly in rural areas (GOI 1997d).

Children of poor families are less likely to be enrolled in school, which is a major factor behind the low enrolment rates. The poverty gap in enrolment is large; the enrolment rate is 25 percentage points lower for the poorest households (annual per capita income of less than Rs 3000) than for the richest households (with annual per capita income of Rs 10,000 and above). And the drop-out rate for the poorest households is about four times that of the richest ones. A major deterrent to school enrolment among the poor is its high cost. Parents need to spend about Rs 318 per year per child, besides the opportunity cost to the family that rises with the child's age (PROBE Team 1999). The few empirical studies of learning achievement also suggest that primary-level learning achievement is low, and that it varies from state to state and with the background of the child. Low-income children in the north and east are particularly worse off (for example see Filmer and Pritchett 1998).

Health Outcomes

These have also improved but have a long way to go, particularly among the poor. Between 1970 and 1993, life expectancy at birth increased from 50 to 61 years, infant mortality decreased from 137 to 74 per 1000 live

births. India no longer faces famines and severe epidemics which kept life expectancy barely over 30 years at Independence. On the demographic front, conditions prevailing at the time when the national family planning programme was launched in 1951, have radically changed. By 1992, fertility had declined to 3.6 births per woman compared to 6.0 about four decades ago. There have also been some remarkable successes related to specific diseases in recent years. The number of leprosy cases has fallen from 1.7 million in 1992 to 0.5 million in 1999, and polio has nearly been eliminated. Despite these improvements, India's health outcomes remain significantly below those of the East Asian 'miracle' economies, even after their recent crisis; and below many African countries (see Annex Table 4.1).

Nutrition is a particular problem area; India has a high percentage of malnutrition and some segments of the population have among the highest levels of malnutrition in the world. Weaning children and women are particularly affected. There have been only modest declines in the levels of severe and moderate malnutrition in children in the last twenty years, so that over half (53 per cent) of the children below 4 years continue to be moderately or severely malnourished (Indian Institute of Population Sciences). Only Bangladesh has higher levels. Micronutrient deficiency is also widespread. For example, a nationwide survey found that 87 per cent of pregnant women are anaemic, largely due to iron deficiency (Indian Council of Medical Research). The economic losses due to malnutrition are estimated to cost India at least \$ 10 billion every year (World Bank 1998d).

The poor suffer particularly from health problems. For example, in 1992–3, compared to the richest 20 per cent of Indians, the poorest quintile had about 2.5 times the infant mortality and under 5 mortality rates, double the fertility rate, and nearly 75 per cent higher rates of child malnutrition (World Bank 1999d).

The reduction in infant mortality seems to have slowed during the 1990s (see Fig. 2.2). Infant mortality is a gross indicator responding to many underlying causes, and therefore the explanation is not straightforward. One possible explanation is the slowdown in poverty reduction (see Chapter 1); another is the impact of the stubbornly high levels of disease and malnutrition, and poor sanitation and water supply, particularly in the poorer states.

In 1997, infant mortality rates were as high as 96 per 1000 live births in Orissa, 94 per 1000 live births in Madhya Pradesh, and 85 per 1000 live births in Uttar Pradesh and Rajasthan (GOI 1998d). At the other end of the spectrum, Kerala had a remarkably low rate of

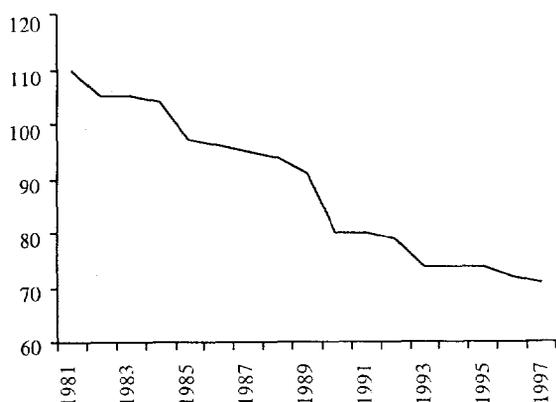


FIG. 2.2: Infant Mortality Rates in India

Source: GOI, Registrar General 1998.

12 deaths per 1000 live births, followed by Maharashtra (47), Punjab (51), and Tamil Nadu and Karnataka (53). The gaps between states are increasing, as better-off states such as Maharashtra, Karnataka, and West Bengal have shown the most rapid declines in infant mortality in the 1990s (see Annex Table 2.1). There are also large differences between districts within states, with the worst-off districts found in states with the poorest overall mortality rates. Urban areas consistently have better health outcomes than rural areas, although these figures probably do not fully reflect the situation of the urban and peri-urban slums where in-out migration is high and settlements have not been legalized.

India's health programmes need to improve their services for females. One indicator of the problem is that India's ratio of females to males is below one—927 females to 1000 males. In the rest of the world outside Asia, the biological advantage of females results in a higher proportion of females to males. This gender disparity suggests a need to make India's health care, nutrition, and social rights of women more equitable. The largest gender disparities are found in the northern states, notably Haryana and Punjab, despite their being two of the most prosperous states. Among Indian states, only Kerala has a female to male ratio above one. The relative neglect of women's health is also reflected in poor reproductive health indicators: maternal mortality is estimated at over 430 deaths per 100,000 live births in India, compared to an average of 350 among low- and middle-income countries.

Health and education outcomes are related. In the context of infant growth and infant and maternal malnutrition, research has demonstrated that the early years of a child's life are critical for cognitive and psycho-social development (Young 1996). Child development is determined not only by the nutritional

status of the infant, but is also affected by the total, synergistic impact of health and nutritional factors and the quality of social interactions and stimulation received from the environment. Children who experience early growth failure are more likely to delay enrolment in school. Protein energy malnutrition, temporary hunger, and micronutrient deprivation adversely affect learning achievement. Undernutrition is also found to have a greater impact on poor children's cognitive development than on development of children who are not poor (World Bank 1998b). Infants growing up in poverty, and particularly in environments lacking in stimulation, therefore face problems of stunted physical and mental development which set the stage for poor educational and developmental outcomes such as low academic achievement, high drop-out rate, functional illiteracy, and overall lack of productivity in the workforce. Early childhood development programmes have proved to be effective in compensating for these critical deficiencies (Kaul *et al.* 1993). Although India has one of the largest Centrally sponsored integrated child development programmes, which has been in operation since 1975, its limited impact on child development indicators remains a cause of concern.

Characteristics of Education and Health Services

India's social services are facing major challenges. A growing population, industrialization, and a globalizing economy that places a premium on information and technology, are stretching the capacity of India's education system to deliver relevant and effective services. Yet enormous tasks remain: getting 33 million children from poor families into primary schools, increasing the retention rate so that more children finish primary grades, and upgrading the average quality of the schooling received (see the discussion in World Bank 1997c). In health, the country is undergoing an epidemiological transition. There continue to be high rates of communicable diseases, malnutrition, and maternal and perinatal illnesses, representing a large unfinished agenda that predominantly affects the poor. There are also growing rates of non-communicable diseases, while rapid urbanization is resulting in new health problems. New diseases, notably AIDS, are placing greater strains on society and the health of the poor in particular. Even though the social sectors are changing dramatically, the role played by the public sector has changed little. In this section, the major challenges for health and education services are outlined according to issues

of public infrastructure, workforce, financing, institutional issues, public-private partnerships, and the implications of these issues for the poor. Each of these can build on recent positive developments in both education and health.

Elementary education in India has seen two positive developments in the past decade. First, elementary education has been brought to the fore as a priority issue, starting with the Jomtien Conference on Education for All (1990). Elementary education has begun to get an unprecedented amount of attention and importance both in terms of political and public discourse. Second, with a series of externally funded and Centrally sponsored projects including the District Primary Education Programme (see Box 2.1), it has seen a great deal of innovation and experimentation aimed at qualitative improvement of the services offered by the system including partnerships with some non-governmental organizations (NGOs). Some specific examples are the decentralization and empowerment of local government (for example Madhya Pradesh, Andhra Pradesh, Rajasthan, and Uttar Pradesh), guaranteed provision of education in response to local demand in currently unserved or underserved areas (for example Madhya Pradesh), use of local para-teachers (for example Rajasthan, Madhya Pradesh, and Andhra Pradesh), incentive schemes for underprivileged groups and the Non-formal Education Scheme, and pedagogical and management innovations under the District Primary Education Programme. Although such examples of successful practices have been documented, the larger system continues to raise challenges and concerns related to quality and management.

Some states (for example Tamil Nadu) are reorganizing pharmaceutical supply systems to improve access, safety, costs, and rational use of drugs. Under the leadership of the Ministry of Health and Family Welfare, the issue of health communications, which have long been fragmentary and stressing awareness-raising over changing behaviours, is being addressed more strategically. Decentralization efforts are improving the accountability of public sector health services in some states (for example Kerala and West Bengal), and other states are focusing on improving services to under-served tribal areas (for example Orissa, Madhya Pradesh, and Maharashtra). Governments are beginning to recognize the existence of the private sector (such as in Andhra Pradesh, Karnataka, Maharashtra, and Rajasthan) and are collaborating with it more effectively in, for example, contracting services, sharing information, and developing standards for quality.

Institutional Arrangements and Issues in the Public Sector

Education and health are joint responsibilities of the central and state governments, with funds provided by both levels of government (see below) and delivery of services largely a state responsibility. In *education*, the system is changing dramatically as Panchayati Raj institutions at district, sub-district, and village levels are beginning to function within the framework of the 73rd and 74th Constitutional Amendments (see Chapters 3 and 4). This devolution of responsibility is expected to improve education by generating more community support, more school-level responsibility for effective

Box 2.1

INDIA'S DISTRICT PRIMARY EDUCATION PROGRAMME

The District Primary Education Programme (DPEP) has been designed to enhance government efforts to provide basic education to all children in the age group 6 to 11 years with a focus on girls, marginalized communities (Scheduled Castes and Scheduled Tribes), children with disabilities and working children. The Programme supports interventions for (i) expanding access to primary school or its equivalent for all children, (ii) increasing retention and improving student learning achievement levels, and (iii) enhancing the capacity of district and sub-district, state, and national institutions for effective management of primary education.

The Programme covers at present 149 districts (including the Uttar Pradesh Basic Education Projects) in fourteen major states of India. Initial reviews of the Programme indicate a significant reduction in gender disparity in enrolment. Also the rate of enrolment is higher in project districts as compared to non-project districts.

There have also been a number of positive developments in health. New technical paradigms are being introduced for the control of leprosy, cataract blindness, malaria, tuberculosis, and reproductive health.

instruction, and a decentralized resource support. But it is also likely to lead to increased uncertainty as states decide on what responsibilities will be transferred to these institutions. The shifts in responsibility need to

be accompanied by planning and training to ensure effective financing and management at the decentralized levels. Alternatives like using para-teachers instead of regular teachers or small alternative schools with local community involvement need careful evaluation. At the same time, care will be needed to ensure that decentralization is not stifled by new regulations. Effective use of the media to educate the community on their rights and responsibilities emerges as a priority.

In *health*, the existing fiscal and administrative set-up is complex, hindering effective financing and accountability for decentralized management of health facilities and deterring effective coordination across the health, population, and nutrition sectors. The Centre-state financial transfer mechanism and the three separate structures for the Health, Family Welfare, and Women and Child Development Departments are ineffective in providing essential inputs, correcting inequities between states, strengthening decentralized management, and monitoring programme performance. Greater field-level coordination and integration of nutrition services with health and family welfare is important to improve the health status of the mother and child. Strengthening sanitation and water supply interventions will also be critical.

Public education and health involve enormous infrastructure and bureaucracies, and are thinly spread across the country. Day-to-day management of services of this size, not to speak of training and upgrading, is a major task, even at the state level. Schools and health facilities are often in disrepair, poorly equipped (schools often lack water and sanitary facilities) and under-supplied, reflecting poor use and low levels of health and education spending (see below) and their bias toward salaries and new construction rather than maintenance (see Chapter 5). Absenteeism of teachers, doctors, and medical staff is common, particularly in rural areas. Partly due to these conditions, the middle and lower level health facilities are often underutilized and actual school attendance is low, while the quality of health services and education suffers. At the same time, tertiary hospitals are overcrowded and the numbers of classrooms and teachers have not kept pace with the growth of school-age population—it is estimated that 1 million (40 per cent) more classrooms and 0.6 million (33 per cent) more teachers would be needed to enrol the entire 6–10 age group. Currently there is an average of 49 students per teacher in India (59 per teacher in Bihar and Uttar Pradesh); this is much higher than, for example, Indonesia which, in 1993, had 21 students per teacher spread fairly evenly across the provinces (World Bank 1996b).

Public Sector Financing of Health and Education are Low by International Standards

In *education*, Central and state government expenditures in 1996–7 were equal to 4.0 per cent of GDP for all levels of education, or 13.4 per cent of total government revenue expenditures, which is somewhat below the average of 17.5 per cent for all low-income countries (UNDP 1993). In the 1999–2000 budget, the central government's plan expenditures on education are 6.6 per cent of its total plan expenditures and its overall expenditure on education is 2.5 per cent of its overall expenditures. While the central government's share is a relatively small part of overall government spending in education (14.6 per cent in 1996–7), most of the expenditures are used to create and sustain new programmes, giving the central government a greater influence over the system's evolution than its expenditure share might suggest. State expenditures, as a share of gross state domestic product (GSDP), are somewhat below peak levels and vary considerably across states. For example, in 1995–6, state education spending ranged from 3–7 per cent of GSDP in the major states and 16–29 per cent as a share of total state expenditure.

In the distribution of general government expenditure among educational levels, elementary education (which most benefits the poor) receives, per student, a much smaller level of funding and subsidy compared to secondary and tertiary education (NIPFP 1997, GOI 1997b). The funds going to elementary education have been roughly constant at 1.5–1.6 per cent of GDP. The composition of expenditures in elementary education is, however, unbalanced. Recent studies indicate that salaries account for roughly 97 per cent of education department expenditures in lower primary schooling and 96 per cent in upper primary schooling while only 0.2 per cent of GDP is spent on the other components.

The need to broaden the coverage of elementary education among the poor and improve its quality, including the targeted goal of universalizing it, means that more funding is needed. In the past few years the Central and state governments have indicated their intent to increase public spending on education to 6 per cent of GDP during the Ninth Plan. It is likely that the states will have to provide most of this funding. Given the importance of elementary education in reducing poverty and the states' current fiscal problems, they will need to reduce implicit and explicit subsidies and find new revenues (see Chapter 3). The Central government will also need to expand

its role in elementary education in view of the low level of resources that many state governments devote to primary education and the large number of children not enrolled in schools. There is also a need to build, in states and districts, the capacity to plan and manage education more effectively and the need for research to identify more cost-effective strategies. These options for central and state governments will have to be considered in the broader context of administrative decentralization and changing centre–state fiscal relationships.

In *health*, India's public spending is very low: an estimated 1.2 per cent of its GDP. This figure places India among the lowest quintile of countries and, to provide basic services on a per capita basis, is far less than the amount recommended by the *World Development Report 1993*. In terms of maternal and child care, India's spending per capita is one-third less than the recommended amount. Public spending on preventive and promotive primary care services has not kept up with the growth of demand for services, particularly for people below the poverty line. India also lags in addressing the determinants of good health that lie outside the health system, such as in water and sanitation, nutrition, and education. For example, at 0.5 per cent of GNP, India spends far less on nutrition programmes than what is needed to reduce the high rates of malnutrition.

The states cover close to three-fourths of public funding for the health sector (excluding central grants to states). They mainly finance primary health-care facilities, hospitals, and aspects of disease control programmes. Central spending emphasizes family welfare, nutrition, and disease control programmes. Capital investment is shared equally by the centre and states. Within the health sector, resource allocation in the public sector has also been skewed in the past in favour of tertiary care services relative to the needs at primary and secondary levels, but again in a few states there have been some improvements in this area. Much of health spending is absorbed by salary costs, and the recurrent budgets for operations and maintenance are chronically underfunded.

Despite the states' deteriorating fiscal situation, some states have managed to increase the resources for health and have initiated systemic changes (for example Andhra Pradesh, Karnataka, and West Bengal). However, much the same recommendations apply to health spending as education. In general, public sector health spending is significantly lower in the poorer states, where health outcomes are also poorer. Although the mechanisms used by the central government to fund health programmes at the state level have the potential

to reduce disparities in resources among states, and even within states, these mechanisms, as currently operated, have not overcome interstate inequities, and in some cases have even exacerbated them.

The Private Sector's Role in Education and Health

In *education*, total private spending (excluding overseas education) is estimated at about one-third of total education expenditure. Private spending on elementary education generally takes one of three forms: (a) schools which cater to lower-income groups, charge very low fees, and provide students with little more than basic literacy—such schools are generally not recognized or aided by local governments; (b) schools that cater to middle-income groups, charge higher fees, and are aided; and (c) elite schools that charge very high fees and cater to an exclusive minority of the upper middle class and above. Private spending on elementary education is expanding rapidly because of (a) the inability of the public system to deliver and (b) parental ability to pay. In Uttar Pradesh, 36 per cent of school-going children were enrolled in private schools. In other northern states, the proportion ranges from 5 per cent to 11 per cent. The recent PROBE study indicated that even poor families and disadvantaged communities are making great sacrifices to send children to private schools, with one-fifth coming from families involved in casual labour and one-half from Scheduled Caste or Backward Caste groups. Parents see private schooling as being more accountable and demonstrating higher levels of teaching activity, particularly in terms of instruction in English.

Although private spending is being encouraged by the central and state governments to complement their own efforts, private schools are unlikely to improve the education of the poor directly, because they remain outside the reach of the vast majority of the poor. Other public/private issues are the absence of adequate information and regulations on private school quality (PROBE Team 1999), the possible shift of the more articulate/education-oriented parents to private schools leaving less pressure on the public system, and the possible divisive pattern of differences in schooling. These issues are, of course, classic ones in the public/private school debate. Another aspect is the possibility of greater reliance on public finance/private provision of services as discussed in the next section.

Although India's public spending on health is low, overall *health* spending is high because of private spending. Private spending on health (including out-of-

pocket expenditures at public facilities) is four times public spending, that is about 80 per cent of health spending in India, which is one of the highest proportions of private expenditure on health in the world (World Bank 1997d). As a result, India's overall expenditure on health is about 6 per cent of GDP, among the highest in the region. There are large interstate variations in private financing and provision. For example the lowest proportion of private hospital care are in rural Orissa and West Bengal (9 per cent and 18 per cent of hospitalizations respectively), compared to over 75 per cent in rural Andhra Pradesh and Bihar (GOI 1998d).

Despite the high levels of spending on health, reflecting high private spending, India's health indicators are relatively poor. For the poor in India, health indicators are particularly dire. The private health sector as currently organized is unlikely to improve the health and nutritional status of the poor substantially. Private spending and delivery neglect 'public goods' or inequality-reducing characteristics of key preventive and promotive health services such as immunization, antenatal care, infectious disease control, and hospital care for the poor, as well as services in poor areas. The private sector remains virtually unregulated and has a widely variable quality of care. The private sector includes highly trained allopathic specialists and services, and a significant number of practitioners of Indian systems of medicine. Yet the largest group of health practitioners are completely unqualified. Despite a significant not-for-profit presence, much of the private sector is dominated by profit motives, often resulting in overmedication, inappropriate use of technology, and overcharging of patients. These problems are particularly great for the poor, who lack information on the quality of care and have a hard time paying for private care. On the other hand, as in education, the failings of the public sector health services are leading to rising demand for private services (see GOI 1999g). The public sector has an important role to play in enhancing the effectiveness of and access to individual health services, and in developing and implementing comprehensive policies addressing private financing and delivery.

A Similar Story in Health and Education Services for the Poor

The poor are often not reaping benefits from public health and education services and education and health costs are enormous burdens for the poor. The

direct cost of *education* even in public schools and even ignoring opportunity cost, is nearly prohibitive for a poor family. For example, in Bihar, the state with the lowest per capita household expenditure on education, the percentage of total household expenditure incurred on elementary education is 7.3 per cent for the lowest income group (less than Rs 3000 per annum). In Kerala, which has the highest household education expenditure, the figure is 21.4 per cent (NCAER 1994). Of course, these costs are a lower fraction of higher income groups' spending. Disaggregation of education expenditure into components reveals that school uniforms, books, and stationery absorb a major part of the total expenditure. In some states like Assam and West Bengal, private coaching and transport also substantially contribute to the expenditure. Thus elementary education becomes a major financial burden, particularly for poor households with several children of school-going age. According to the National Family Health Survey (NFHS) data (1993-4) the probability of children in an Indian village being in school increases by 11 per cent if they belong to the second rather than poorest quintile, and increases with each level of household wealth (Lanjou and Ravallion 1998). Similarly, school attendance is lowest in the poorest quintiles compared to the wealthiest quintile in all states, with the largest gaps between rich and poor found in Bihar, Punjab, and Rajasthan, and the lowest in Kerala and the north-eastern states (Filmer and Prichett 1998).

The availability of a school increases enrolment levels but only by about 4 per cent. The mere presence of a school in a village does not guarantee quality education. Poor parents are more likely to withdraw their children from school (rather than transfer them to other schools) in situations where teachers are often absent or the quality of teaching poor. Also research in low-literacy districts in eight states demonstrates that schools catering to a larger concentration of disadvantaged and Scheduled Tribe students have much poorer facilities (such as *pukka* buildings, furniture and equipment, and instructional aids (World Bank 1997c) and fewer number of teachers compared to other schools. Empirical estimates of community-specific effects show that both village and district averages of parents' education and wealth are important determinants of school attendance and achievements. Improving the quality of education is, therefore, not just a requirement for children already in school but a powerful lever for increasing enrolments of the poor.

Health care also absorbs a significant portion of poor families' incomes but often the spending and the public

health services do not yield much benefit. On an average, households spend 5–7 per cent of their income on health, though rural households below the poverty line spend 12–19 per cent of their income on health (NCAER 1996). The poor also benefit less from health services. Compared to the richest 20 per cent of Indians, the poorest quintile was half as likely to use modern contraception; less than a third as likely to have antenatal care during pregnancy, and a sixth as likely to have a delivery by a medically trained health worker; poor children were a third as likely to be immunized for measles, and more than 25 per cent less likely to go to a health facility in the event of diarrhoea or acute respiratory infection (World Bank 1999d). The large number of private unqualified practitioners, mostly found in rural areas and urban slums, are mainly consulted by the poor. In this situation, health gaps between rich and poor are likely to increase.

The goal of reducing poverty in India will remain elusive as long as the poor have low utilization of preventive and curative health services (immunizations, antenatal care, institutional deliveries, treatment for diarrhoea and respiratory illnesses), poor hygienic conditions, low school enrolment and attendance, and poorer quality schools and health services. These problems are occurring despite the long-standing recognition that health and education services are a public responsibility, as enshrined in the Indian Constitution.

The rapid expansion of the private sector in health and education is partly a result of the public sector's problems in providing quality services. The considerable spending by the poor on private services demonstrates their demand for health and education. But private sector activities in these areas are not effective in providing public goods, and are beyond the scope of many of the poor. Moreover, (a) the poor are often ill-informed and have low expectations from service providers, (b) they have little or no recourse for poor quality services, because of low accountability, and (c) the public sector has not implemented appropriate policies to deal with the private sector, particularly in terms of providing information, licensing, and regulation to protect and empower consumers, especially low income ones.

Solutions being Found in Education and Health

Education Sector Solutions

Himachal Pradesh (HP) has demonstrated the key measures required for improving primary education:

official commitment expressed in resource allocations, parental demand that their children be educated, and civic cooperation in supporting schools (see Box 2.2). In addition, policies and strategies for developing primary education need to respond to the local environment; they must be founded on a vision for effective and appropriate education; and they need to target the most disadvantaged groups.

Even if there is political will and resources to support primary education, evidence suggests that improvements in education must emerge from the community and at the school level. They cannot be fully defined or directed from the state or national level. Current schemes—the Education Guarantee Scheme in Madhya Pradesh, Lok Jumbish and Shiksha Karmi in Rajasthan, the District Primary Education Programme (see Box 2.1)—provide excellent examples of how cost-saving programmes like these can be organized. The current movement towards assigning responsibility for elementary education to Panchayati Raj institutions provides a medium for adapting these schemes to fit the larger systemic need, if planning and management are well executed.

Furthermore, successful programmes are marked by a clearly articulated vision of a well-functioning school, which incorporates expectations about children's learning and the anticipated role of teachers. The vision needs to be clear enough to allow parents and communities to define the objectives while remaining flexible enough for them to pursue local needs. The Rishi Valley Centre and Eklavya provide examples of successful programmes.

Finally, the resources that are applied to improving primary education need to be targeted at those groups in the population that are most in need of support. This means that programme designs need to include special provisions for girls, Scheduled Tribes, Scheduled Castes, children with disabilities, and working children, and have an effective component of early childhood development. These provisions need to be followed through locally with planning and implementation processes that facilitate appropriate lending. Many programmes already do this, and their experience can be built on. Also, in six of the largest states—Andhra Pradesh, Bihar, Madhya Pradesh, Rajasthan, Uttar Pradesh, and West Bengal—more than half the school-age children do not attend school. To redress this, these states, some of which are the poorest (see Chapter 3), will need to use more than half of all incremental spending on education. The central government has an important role to play in seeing that its resources respond to these differential

Box 2.2

HIMACHAL PRADESH: A SUCCESSFUL EXPERIMENT IN IMPROVING
PRIMARY EDUCATION

In the state of Himachal Pradesh, illiteracy has plummeted from above the all-India average in 1951 to significantly below it today. A recent report on education in India investigated the reasons for this rapid decline in Himachal Pradesh and found the following 'foundations of success':

- *Official commitment:* Public policy includes an explicit commitment to the rapid expansion of education; per capita expenditures on education are twice the national average; policy also aims at reducing regional disparities and provides incentives for disadvantaged children to attend school.
- *Parental demand:* Most parents take it for granted that schooling is as an essential part of every child's upbringing; parents support compulsory education for all children, girls as well as boys; and children are self-confident.
- *Civic cooperation:* Parents are involved with their children's schools; they assist with chores and construction projects; they watch over teachers, often informally rather than through formal associations, but with great effect—even schools in remote areas, untouched by inspectors, seem to function well.

The PROBE investigators found that HP's egalitarian social structure helped it make rapid strides towards the abolition of illiteracy. Equally important, however, was that public administration had fostered the conditions for parental involvement and demand for education. As parents found their demands being heard, and learnt that to seek an education for ones' children was not impossible, these demands were strengthened (rather than discouraged as has happened in many other states). HP's experience confirms that there is no magic formula for educational improvement. Rather, HP demonstrates that a sustained state government commitment to universal education needs to be complemented with public response (parental demand).

Source: PROBE Team 1999.

needs among states, and both the central government and states should consider ways to better involve private schools in meeting the demand for primary education in ways that enhance the use of public and private resources for the disadvantaged.

Health Sector Solutions

The Government of India maintains that public investments in health are critical for the sustainability of development and poverty alleviation. India's Ninth Plan (1997–2002) identifies health as one of the six priority areas and emphasizes integration of vertical health programmes; better surveillance and control of communicable and non-communicable diseases; improved health management information systems; strengthened logistics management; and facilitation of Panchayati Raj institutions' involvement in health. The Central Council of Health and Family Welfare has also noted the importance of linking preventive and promotive care with selective aspects of curative care.

An emerging consensus around three broad strategies for reforming the health sector incorporates: (a) using public information more strategically to empower consumers of health care and enable people to be better providers of their own health care;

(b) rejuvenating the public sector to better deliver its core services; and (c) engaging the private sector to better meet societal health goals.

The *use of information* to improve healthy behaviours and to better enable public accountabilities of health services accountable to the public is a critical but underdeveloped strategy. A better educated and empowered public needs to become a force for higher standards in both the public and private sectors. A number of states have taken steps to help promote this, such as publishing standards for procedures and pricing. Several states have publicized patients' rights and responsibilities at all health facilities as an initial effort at improving public accountability in public facilities. In a number of places, community-based organizations and Panchayati Raj institutions are also being used to hold health facilities accountable, taking on such responsibilities as improving clinic hours, reducing staff absenteeism, and organizing patient transport. The Ministry of Health and Family Welfare (MoHFW), Department of Women and Child Development, and a number of states are also beginning to make public health and nutrition information more strategic and less ad hoc, moving beyond distribution of messages to raising awareness and concentrating on changing behaviours to improve health.

The public sector needs to find ways to focus on better delivering the core functions of government and developing a culture of performance. Core functions include not only improvements in public service provision, but also in oversight of the health sector to protect the public interest. The functions of policy development, information dissemination, regulation, mandating, and financing are underdeveloped. Public sector health managers and workers need different types of training, supervision support, and incentives, which are focused on achieving results and solving problems. Building leadership skills and management systems is vital, as is breaking down the structural barriers if the public sector is to function more accountably and efficiently. Better management information, and greater testing and experimentation will be needed for the government to take the lead in anticipating and dealing with the health transition that India is undergoing, and to deliver much better services to the poor.

Some of the specific steps that could be taken include: (i) reviewing the fiscal structures and procedures in the health sector, including the roles of central, state, and Panchayati Raj institutions' financing in the provision of basic inputs; (ii) developing budgeting and management tools at facilities, district, state, and central levels to better plan, utilize, and monitor resources against the progress of important health outcomes; (iii) developing fiscal tools to enable greater experimentation with resource allocation, alternative financing mechanisms, and with regard to choices between provision versus financing of health care services; and (iv) finding ways to share responsibilities and coordinate activities between the centre and states in the areas of health, family welfare, and nutrition, especially with regard to sectoral planning, health strategy, and policy reform. Involving the states more intensively and collaboratively will help solidify their commitment to the overall development policy on health, population, and nutrition services. Involvement of Panchayati Raj institutions would also address the development agenda for health much more broadly by focusing on important health outcome-related issues that are affected by water, sanitation, and environmental concerns.

In strengthening the management of health systems, there is urgent need to focus on improving the quality of services. Current plans to review and redefine processes for quality assurance, including the establishment and use of functional standards for the delivery of care, are positive measures. Such processes are also needed as a check on the unplanned introduction of

expensive and relatively ineffective technologies, while facilitating the use of new effective approaches. Examples of areas where technical shifts are being pursued include new therapeutic approaches in leprosy and tuberculosis control, broadening the interventions used in malaria control, and integrating management of childhood illnesses.

There are also specific steps which could directly reduce the scourge of malnutrition and poor health of small children. These include: (i) refocusing the Integrated Child Development Services Programme on 0–24 month-old children, concentrating on improving the quality of services provided rather than expansion to additional community development blocks; (ii) improving targeting and monitoring of the PDS and National Mid-Day Meals Programme; (iii) strengthening health worker skills relating to nutrition; and (iv) rebuilding India's institutional capacity to develop policy and undertake training, research, and advocacy. An effort to make early childhood development interventions more effective would need to focus on integrating psycho-social stimulation with the reduction of malnutrition and illness in a coherent manner.

The private sector can no longer be ignored, but instead needs to be engaged as an agent to meet the basic societal goal of good health, particularly for the poor. This can, and is starting to, happen in a variety of ways, from contracting private services for various uses, to training non-governmental organizations and other private providers to deliver public programmes, to initiating meaningful regulation and quality assurance measures. What is important now is to undertake studies and open a dialogue to better understand the dynamics of the private sector provision and financing in different areas of India. Another key step is to initiate joint efforts at identifying and solving problems. In some states, private providers and government have developed forums to form a common agenda for action.

A Way Forward: Delivering More and Better Education and Health to the Poor

A renewed commitment to education and health services is required if the poor are to reap the benefits of better education and health. Building on ideas that are currently being tested is a good basis for the way forward. *Moreover, there is a clear need to enhance our understanding of the factors that would improve delivery of basic health and education services, particularly to the poor. Continuing research in these areas would be a vital element in an effective poverty reduction strategy.* While

more spending is needed, the framework and incentives would need to change in order to make spending more effective. Four steps are proposed to improve education and health services that would contribute to reduction in poverty in all its dimensions:

(a) *Spend more effectively on elementary education and basic health systems, with better targeting to the poor, and with more public funding to address the unfinished agenda.*¹ More spending in the same manner is not what is needed. The systems for resource distribution and political overseeing of health and education have led to technically inefficient and inequitable allocations. Common symptoms are that funds are too thinly dispersed, salaries are crowding-out maintenance and operational costs, and capital investments are frequently located in sites that are inaccessible to the poor. Expanding the reach and quality of elementary education by redirecting government subsidies away from secondary and tertiary education towards elementary education would ensure that the poor receive the maximum benefit from government spending on education.

(b) *Focus public education and health services on meeting consumer needs*, which will help improve the quality of public spending. Creative and vigorous processes are needed to generate greater demand for higher quality and more accountable education and health services. This would necessitate finding ways to increase the involvement of communities in the planning, monitoring, financing, and oversight of social services, for which effective examples already exist, notably through women's self-help groups. It would also require more strategic and professional means of communicating among governments, service users, and service providers about service availability, quality, and costs. Carefully planned decentralization of education and health resources and accountabilities

can facilitate this process, provided that these resources do not become 'captured' by local elites and bureaucracies.

(c) *Realign the role of the state to focus on primary education and health and water and sanitation, while making efforts to upgrade private education and health services and to use them effectively.* Where the government has assumed its primary role as a provider of education and health services it may be more effective in increasing the quality and quantity of services, and in making them available to the poor, if it were also a more capable purchaser and regulator of these services from the private sector (including non-profit and for-profit sub-sectors). Experience needs to be gained in India on separating the financing and provision of social services. The relatively neglected functions of policy development, monitoring and regulation, and information provision will need to be developed in government. In any case, public sector management would need to be transformed by *explicitly focusing on improved results in reaching the poor, rather than budget administration.* Effective decentralization would also require states and local governments to develop planning and management capacity, in the context of broader governance and civil service reforms.

(d) *Meeting holistic needs of children.* India's future will depend on its children where the greatest returns on its investment still lie. In view of the interdependent nature of health and educational needs of children, there is need to strengthen linkages among each sector, as well as to ascertain which set of interventions will be most effective. Since the process of human development is both continuous and cumulative, priority will need to be given to interventions in the earliest years of life which are critical to addressing the educational and health needs of the child in a more holistic and integrated manner.

¹ For a discussion of the need for better and more spending in primary education, see World Bank (1997c).

Reducing Poverty Faster: The Role of State Fiscal and Sectoral Reforms

Overview

States in India play a key role in devising and implementing policies to reduce poverty, promote human development, and stimulate growth. In addition, under the Indian Constitution, they are assigned significant responsibilities in major sectors such as agriculture, industry, infrastructure, education, health, social welfare, and tax and expenditure policy at the state level. Finally, the states' increasingly large fiscal deficits mean their fiscal policy is an important factor not only in their own performance but in India's overall fiscal sustainability (see Chapter 8). Improvement in the states' economic and fiscal management is therefore essential for rapid poverty reduction, faster growth, and sustainable development.

This chapter reviews developments in the states and suggests approaches to increase their contribution to poverty reduction. The main findings are summarized as follows:

1. On an average, the higher income states grew faster than other states from 1980-1 to 1996-7, with the exception of Tamil Nadu and Rajasthan. This divergent growth pattern widened the gaps in per capita income among states, despite the government's efforts to achieve balanced development across states.
2. Since 1991, Maharashtra, Gujarat and West Bengal in the high-income states and all but one of the middle-income states accelerated their growth, making the most of the central government's reforms because of their initial leads in governance, infrastructure, and human resources. As a result, the gap in per capita income has widened since 1991.
3. Growth slowed in the poorer states and Rajasthan after 1991. Bihar, the poorest state, actually experienced a decline in per capita income. Growth also slowed in Punjab and Haryana, the richest states in 1991. These states were probably less able to take advantage of the new opportunities created by the central government reforms because of weak governance, infrastructure, and human resources, or, in the case of Punjab and Haryana, growth was restricted by limited reforms in agriculture and issues of sustainability (see also Chapter 1).

4. The slow-growing, poor states (Bihar, Orissa, UP, and Madhya Pradesh in the 1980s) constitute about 40 per cent of India's population. Unless these states improve their performance, it will become increasingly difficult to accelerate poverty reduction and development in India. The states' improvement will have to come primarily through their own efforts, given their major roles in human development, infrastructure, and governance. The poor states have already received favourable treatment in central government transfers and loans, and further redistribution from the centre is unlikely, given their lack of performance and the centre's desire to reduce its large fiscal deficit. However, the central government could support state reforms through its own reforms to improve governance, the civil service, and the compensation system; to further improve intergovernmental fiscal relations; and to modernize the tax and industrial incentive system.

5. The states will need considerable improvements in governance, institutions, and the regulatory environment, and in their physical and social infrastructure. In turn, this will entail cuts in state public sector deficits through cuts in inefficient and, in many cases, inequitable subsidies to power, irrigation, and secondary and tertiary education, increases in public infrastructure and human development spending, and supporting reforms in power, irrigation, and the regulatory framework in general, in order to encourage private investment.

6. Andhra Pradesh has emerged as a leading reforming state. It has demonstrated that, with sustained political commitment, states can improve their policy environment, put their economies on a higher growth path, and narrow the disparities with the higher-income states regardless of their initial conditions. Some of the lower-income states (UP, Rajasthan, and Madhya Pradesh) are showing increasing commitment to reforms. Successful implementation of these reforms could substantially decrease overall poverty in India.

Differential Growth and Widening Disparities among States

Balanced regional growth has always been an objective of successive Indian governments and is supported by redistributive transfers to the states. Nonetheless, on average, the middle- and high-income states grew faster than the low-income states from 1980–1 to 1996–7 (see Table 3.1).¹ The high income states'

average growth rate per capita (3.9 per cent per annum) was almost twice the low-income states' (2.1 per cent); the middle-income states' average growth rate per capita (3.2 per cent) was nearly 50 per cent higher.

Consequently, ranking of the states by per capita income has changed only marginally since 1980–1 (see Table 3.1). The only significant changes that did take place occurred between 1980–1 and 1990–1. From 1980–1 to 1990–1, Rajasthan and Tamil Nadu realized the highest growth rates of all, 4.7 per cent per annum and 4.1 per cent per annum, respectively. Rajasthan invested heavily in public infrastructure. Tamil Nadu had excellent initial conditions in terms of human resources and the irrigation sector where most of the potential investment had already been completed. Their rapid growth rates moved Rajasthan up from the low- to middle-income group (from 13th to 9th in ranking) and Tamil Nadu from the middle- to high-income group (from 8th to 5th).

After 1991, growth differentials accentuated, with growth increasing in the high-income states of Gujarat, Maharashtra, and West Bengal, and in the middle-income states, except Rajasthan. At the same time, growth slowed in most of the low-income states, as well as in the two highest income states in 1990–1, Punjab and Haryana. The policy environment changed significantly after 1991 with the central government's liberalization of the trade and investment regime. These reforms and other policy changes allowed the states a larger role in determining their development paths and attracting investment. Gujarat, Maharashtra, and most of the middle-income states were able to take greater advantage of the new conditions because of better initial conditions, governance, infrastructure, and human resources, than the low-income states. Moreover, the poorest states, with the exception of Orissa, failed to improve their state-level policies to offset their initial disadvantage in attracting new investment. As a result, their growth has slowed and in Bihar,

¹ The analysis in this chapter covers 26 states (including Delhi), except in this section and the following one, where based on the real per capita income (1980–1 prices), the 14 major states have been grouped into three categories—high-income, middle-income states, and low-income states, accounting for, respectively, about 30 per cent, 30 per cent, and 40 per cent of the total population of the group. The states' GDP data used for the analysis is the old NAS, based on 1980–1 prices and weights. The analysis will need to be revisited once the GDP data for individual states is rebased to the 1993–4 prices and weights and with the additions to output in some of the sectors (see Chapter 8, fn. 1). However, given the changes in the National Accounts, it seems unlikely that the re-based accounts would change the conclusions much.

TABLE 3.1
Real Per Capita Income of the Fourteen Largest Indian States

(Rs 1980-1 prices)

	Per capita income						Growth rate (per cent)		
	1980-1	Rank	1990-1	Rank	1996-7	Rank	1980-1 1990-1	1990-1 1996-7	1991-2 1996-7
<i>High-income states</i>	2385		3269		4377		3.2	6.1	3.9
Punjab	3020	1	4163	1	4935	2	3.3	2.8	3.1
Maharashtra	2671	2	3826	3	5358	1	3.7	7.4	4.4
Haryana	2647	3	3864	2	4392	3	3.9	2.6	3.2
Gujarat	2200	4	3047	4	4221	4	3.3	8.6	4.2
West Bengal	1912	5	2349	6	3146	6	2.1	4.9	3.2
<i>Middle-income states</i>	1607		2159		2676		3.0	4.2	3.2
Karnataka	1690	6	2295	7	2988	7	3.1	3.4	3.6
Kerala	1690	7	2106	8	2705	8	2.2	4.9	3.0
Tamil Nadu	1677	8	2514	5	3297	5	4.1	5.2	4.3
Andhra Pradesh	1543	9	1997	10	2432	10	2.6	3.8	2.9
Madhya Pradesh	1508	10	1951	11	2205	11	2.6	4.1	2.4
<i>Low-income states</i>	1308		1725		1840		2.8	1.8	2.1
Uttar Pradesh	1418	11	1842	12	1997	12	2.6	1.8	2.2
Orissa	1415	12	1555	13	1833	13	0.9	1.5	1.6
Rajasthan	1373	13	2170	9	2533	9	4.7	3.9	4.3
Bihar	1062	14	1374	14	1245	14	2.6	-0.7	1.0
Average of 14 states	1715		2310		2842		3.0	4.4	3.2

Note: Using the 1980-1 based GDP series

Source: CSO; World Bank staff estimates.

the poorest state, GDP per capita has actually declined. Punjab and Haryana, with their dependence on agriculture where limited reforms occurred, also experienced slower growth.

The widening growth differential naturally translates into a widening dispersion of state per capita incomes, an unusual result compared to other countries.² As Table 3.2 shows, dispersion of average per capita real income among the fourteen major states, measured by standard deviation, has increased from 0.29 in 1980-1 to 0.40 in 1996-7.³ In 1980-1, the

² Widening inequality among Indian states is in sharp contrast with the evidence from other federal countries. Interstate inequality has declined in the USA, Canada, Europe, Japan, Australia, China (until 1992), and at a slow pace, Indonesia. In addition, inter-regional inequality is significantly higher in India compared to the other large federal states, with the exception of China. The standard deviation of per capita income was estimated at 0.28 in Indonesia (1993), 0.20 in USA (late 1980s), 0.15 in Japan (1980s), 0.25 in Italy (1990), 0.10 in the UK (1990), and 0.51 in China (1992) against 0.40 in India (1996-7). For a more detailed discussion of interstate disparities and a literature survey on the convergence issue, see Yagci (1998).

³ As noted in Chapter 1, this result need not be inconsistent with a minimal worsening of the Gini coefficient of (spending)

highest state per capita income (Punjab) was 2.8 times the lowest (Bihar). This ratio increased to 4.3 in 1996-7. If the trend continues, the ratio would reach 7.5 in the next fifteen years. Table 3.2 also show, that dispersion has increased in all three major sectors (agriculture, industry, and services), and accelerated after 1991.

Although the share of population below the poverty line declined and human development indicators improved in all states, progress was generally faster in the fast-growing states, which are mostly higher-income states (see Table 3.3). The standard deviation of poverty incidence worsened slightly and the disparity in health indicators (birth rate and infant mortality) widened noticeably, although the disparities in literacy fell.

Some states, notably Kerala and West Bengal, had the fastest rates of poverty reduction over 1978-94

distribution derived from NSS data, because the middle-income states grew faster than the highest-income states. Also, the increase in the standard deviation of per capita incomes, though an unusual result and worrisome, is not significantly different from zero. And, of course, the NSS data refer to individuals, not average statewide data.

TABLE 3.2
Standard Deviation of States' Per Capita Output
(Logs of output of 14 major states)

	State GDP	Agriculture	Industry	Services
1980-1	0.29	0.33	0.37	0.33
1981-2	0.29	0.34	0.37	0.34
1982-3	0.30	0.38	0.36	0.34
1983-4	0.29	0.34	0.36	0.34
1984-5	0.30	0.33	0.36	0.34
1985-6	0.31	0.36	0.39	0.35
1986-7	0.31	0.36	0.39	0.33
1987-8	0.31	0.39	0.37	0.34
1988-9	0.31	0.37	0.37	0.33
1989-0	0.33	0.37	0.37	0.34
1990-1	0.33	0.38	0.37	0.35
1991-2	0.33	0.39	0.35	0.36
1992-3	0.36	0.40	0.39	0.37
1993-4	0.36	0.39	0.40	0.40
1994-5	0.38	0.39	0.44	0.40
1995-6	0.39	0.40	0.45	0.42
1996-7	0.40	0.44	0.45	0.42

Source: RBI, using real GDP with a 1980-1 base.

(see Table 3.3), faster than several more rapidly growing states. For example, in Kerala, human resource development enabled Keralites to emigrate internationally and generate remittances that raised income and reduced poverty in ways that are not captured by Kerala's GSDP figures. However, the large poor states cannot adopt this strategy very well, given their poor levels of human development, their weak fiscal situations that limit the availability of funding for human development, and the difficulties of substantially affecting the workforce in these large states by emigration, even to other states. In the case of West Bengal, land reforms and high agricultural growth over the period may have been important causal factors. *Further analytical work on such issues (and the linkages between growth, poverty reduction, and governance) would help our understanding of the determinants of growth at state level. Also, further analysis of the performance of reforming states such as Andhra Pradesh, Gujarat, and Madhya Pradesh, focusing on the links between micro reforms and macro outcomes, would be useful.*

TABLE 3.3
State Poverty and Social Indicators and Their Standard Deviations

	Population below the poverty line ^a			Literacy ^b			Female literacy			Birth rate ^c			Infant mortality ^d		
	1978	1994	Rate of change (%)	1981	1991	1997	1981	1991	1997	1981	1991	1996	1981	1991	1997
Maharashtra	67.8	43.5	2.7	53.5	64.9	74.0	39.6	52.3	63.0	29.8	25.2	23.2	79	59	47
Punjab*	26.9	21.6	1.4	46.4	58.5	67.0	38.4	50.4	62.0	30.2	26.3	23.5	81	56	51
Haryana	—	—	—	41.7	55.9	65.0	25.8	40.7	52.0	35.9	30.9	28.8	101	75	68
Gujarat	39.9	33.8	1.0	49.9	61.3	68.0	36.9	48.6	57.0	34.2	28.0	25.5	116	67	62
Tamil Nadu	54.9	34.9	2.8	52.6	62.3	70.0	39.4	51.3	60.0	27.9	19.5	19.2	91	58	53
West Bengal	51.8	26.0	4.2	46.3	57.7	72.0	34.4	46.6	63.0	32.0	25.7	22.8	91	65	55
Karnataka	52.9	37.6	2.1	43.9	56.0	58.0	31.7	44.3	50.0	29.1	25.5	23.0	69	73	53
Kerala	53.2	29.2	3.7	78.9	89.8	93.0	73.4	86.2	90.0	24.9	17.4	17.8	37	17	12
Rajasthan	51.6	43.5	1.1	28.4	38.6	55.0	13.4	20.4	35.0	40.1	34.0	32.3	108	90	85
Andhra Pradesh	47.0	29.4	2.9	34.1	44.1	54.0	23.3	32.7	43.0	30.8	24.3	22.7	86	71	63
Madhya Pradesh	63.9	44.1	2.3	32.2	44.2	56.0	18.0	28.9	41.0	38.5	34.9	32.4	142	104	94
Uttar Pradesh	46.7	40.2	0.9	31.4	41.6	56.0	16.3	25.3	41.0	38.4	36.2	34.0	150	98	85
Orissa	62.1	40.3	2.7	38.8	49.1	51.0	24	34.7	38.0	34.0	27.2	26.8	135	115	96
Bihar	64.8	60.4	0.4	30.3	38.5	49.0	15.8	22.9	34.0	37.2	32.0	32.1	118	73	71
Standard Deviation	0.24	0.26	—	0.27	0.23	0.17	0.45	0.38	0.27	0.13	0.20	0.19	0.34	0.44	0.49

* Data for population below poverty line for Punjab include Haryana.

^a Per cent, based on World Bank India Poverty Assessment 1997.

^b Per cent of population of seven years and older.

^c Per thousand population.

^d Per thousand live births.

Source: MoF, *Economic Survey*; Ministry of Human Resources Development, Annual Report 1997-8; World Bank staff estimates.

State-level Reforms to Reduce Poverty

Accelerated, labour-intensive development in the states is needed to reduce poverty, particularly in the four poorest states (Bihar, UP, Orissa, and Madhya Pradesh). These states constitute almost 40 per cent of the population and have been a heavy drag on the efforts to reduce poverty and on national economic and social development. Speeding up India's development will depend heavily on better performance in these states.

The states' improved performance will depend largely on their own efforts, given their major roles in human development, intra-state infrastructure, and the intra-state regulatory framework. The states already receive large loans and transfers from the centre—Bihar and Uttar Pradesh, for example, fund only about 35 per cent of their revenue expenditures, with 65 per cent coming from the centre—and it is unlikely that large increases in support will be forthcoming given the need for overall fiscal prudence and the problems with many states' previous use of transfers. The central government can, however, provide a supportive overall framework that contributes to sustainable rapid growth in output and labour demand, including improved governance, reduced international trade restrictions, internal deregulation, improved infrastructure, a sound financial system, and fiscal and monetary prudence (see also pp. 42–4, and Chapters 4–8).

Accelerated development in states will depend on greater public and private investment to speed growth, greater efficiency in the use of investment, and improved human development. What specific state-level reforms might bring this about? In general terms, efforts will be needed to improve governance and institutions, for example, strengthening transparency, increasing accountability in service delivery, reducing opportunities for discretion, and improving expenditure management and tax administration. Physical and social infrastructure needs improvements, which will entail supporting reforms in state finances, power and irrigation, and the regulatory framework in general. Such reforms and development spending will create an investment-friendly environment to attract private capital that is needed for growth (see Govinda Rao *et al.* 1999). Recent state-level economic studies, undertaken with close cooperation between the state governments and the World Bank (Andhra Pradesh, UP, Karnataka, Orissa, and Rajasthan) and the National Institute of Public Finance and Policy (NIPFP) (Punjab, Haryana, Assam, Delhi, Tamil Nadu,

and Kerala) have helped outline key fiscal and sector reforms in more detail. These, along with fiscal decentralization, are discussed below.

Cutting the States' Fiscal Deficits and Raising their Development Spending

The Weakening of State's Fiscal Performance in the 1990s

The states marginally adjusted to the crisis of 1991, almost exclusively by cutting their capital and human development spending between 1990–1 and 1993–4 (see Table 3.4 and Annex Table 8.8). This pattern of adjustment raises questions about the sustainability of longer run development and poverty reduction. The states made only limited attempts to raise revenues by increasing user charges and bringing untaxed incomes into the tax net; indeed, Kurien suggests that states engaged in competitive populism and 'tax wars' to lure investment. The states also allowed their non-developmental spending to continue to rise as a percentage of GSDP. One element in the rise of revenue spending was the rise in states' interest burden. Interest costs rose, even as the deficit declined somewhat and states' debt stock remained roughly constant, because India's financial liberalization made the true cost of state borrowing clearer. After 1994, even this marginal improvement in the states' deficit was reversed, as the central government, as part of its efforts to control its own fiscal deficit, cut its grants to the states and the states made minimal adjustments.

By 1997–8, the deterioration in fiscal performance of states would have pushed the deficit back to the 1990–1 level but for the one-time injection of Voluntary Disclosure of Income Scheme (VDIS) revenues raised by the centre (see Table 3.5).⁴ In 1998–9, states' fiscal deficit worsened to 4.2 per cent, well above the 3.2 per cent in 1990–1, and is likely to remain high in 1999–2000 (see Table 3.5) as the central government's excessive wage settlement continues to cascade down to the states (see Kurien 1999 and World Bank 1998a). Moreover, the composition of state public spending has worsened even further, with a rise in revenue expenditure and the likely slowdown in development spending (see also Chapter 8).

⁴ In Table 3.4, VDIS revenues are not included in the 1997–8 figures (revised estimates) for state revenues. However, the actual figures, which are shown in Table 3.5, include the states' share of VDIS revenues, which reduces the fiscal deficit. See World Bank (1998a) for details on VDIS.

TABLE 3.4
Main Fiscal Trends in All States

	(per cent of GDP)							
	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8 (RE)
<i>Total revenue</i>	11.5	12.1	11.9	12.0	11.8	11.2	10.8	11.3
Own revenue								
Tax	5.2	5.4	5.2	5.3	5.4	5.2	5.0	5.4
Non-tax	1.6	1.9	1.7	1.8	2.1	1.9	1.7	1.6
Central transfers	4.6	4.8	5.0	5.0	4.3	4.1	4.1	4.3
Shared taxes	2.5	2.5	2.7	2.6	2.4	2.4	2.5	2.6
Grants	2.2	2.3	2.3	2.4	1.9	1.7	1.6	1.8
<i>Total expenditure</i>	14.7	15.0	14.7	14.4	14.4	13.8	13.5	14.6
Revenue expenditure	12.4	13.0	12.6	12.5	12.4	11.9	12	12.6
Interest payments	1.5	1.6	1.7	1.8	1.9	1.8	1.8	2.0
Education	2.7	2.6	2.5	2.5	2.4	2.4	2.3	2.5
Health and family welfare	0.8	0.8	0.7	0.8	0.7	0.7	0.7	0.7
Capital expenditure (net)	2.3	2.0	2.1	1.9	2.0	1.9	1.5	2.0
<i>Revenue deficit</i>	0.9	0.9	0.7	0.4	0.6	0.7	1.1	1.3
<i>Fiscal deficit</i>	3.2	2.9	2.7	2.3	2.6	2.6	2.7	3.3
<i>Debt stock</i>	18.7	18.6	18.4	18.3	17.8	17.4	17.2	18.2

Note: New GDPmp series is used (revised base 1993-4) and for years prior to 1993-4 rebasing is done assuming a linking factor. Fiscal year ending is 31 March.

Source: RBI States Supplement 1998, CSO.

The issue related to reform of state finances has assumed immense significance as the fiscal deficit of state governments has reached unsustainable levels. The gross fiscal deficit (GFD) to GDP ratio of all state governments touched a high of 4.2 per cent in 1998-9—the highest recorded in Indian fiscal history so far. The fiscal performance of individual states varied widely over the 1990s, with the most marked deterioration coming in some of the poorer states. In Uttar Pradesh, fiscal deficit rose from 4.5 per cent of GSDP in 1993-4 to 8.6 per cent in 1997-8; in Bihar, from 4.0 per cent to 6.2 per cent; and in Orissa from

5.7 per cent to 6.3 per cent. Of course, fiscal deterioration was not limited to the poorer states—in Kerala the deficit deteriorated to 7.3 per cent and in Rajasthan to 4.6 per cent.

As a result of their deficits, most poorer states have become highly indebted; in Uttar Pradesh, the debt-GSDP ratio rose from 26 per cent to 31 per cent; in Bihar from 35 per cent to 42 per cent; and in Orissa from 41 per cent to 43 per cent (see Annex Table 3.1 for deficit and debt ratios of individual states). Financing these large deficits has meant increased borrowings and guarantees (see Table 3.5 and Box 3.1).

TABLE 3.5
Financing of All States Fiscal Deficit

	(per cent of GDP)						
	1990-1	1994-5	1995-6	1996-7	1997-8	1998-9 (RE)	1999-2000 (BE)
Fiscal deficit	3.2	2.6	2.5	2.7	2.9	4.2	4.0
<i>Financing</i>							
Loans from Centre	1.7	1.3	1.1	1.2	1.5	1.8	1.9
Market term loans	0.5	0.4	0.5	0.5	0.5	0.6	0.5
Others (PFs, reserves, and deposits)	1.0	0.9	0.9	1.0	0.8	1.8	1.6
<i>Memo:</i>							
Revenue deficit	0.8	0.6	0.6	1.1	1.0	2.2	2.2

Note: GDP numbers are at the 1993-4 base. For 1998-9 GDP, revised estimates (July 1999) have been used.

Source: RBI Annual Report 1998-9 (Appendix 4.5 for 1997-9 figures); Supplement to RBI Bulletin on Finances of State Governments, CSO; World Bank staff estimates.

Box 3.1

FINANCING STATE GOVERNMENTS' DEFICITS: BORROWING AND GUARANTEES

The states are limited in their domestic borrowing by the central government and 60 per cent of their debt is to the central government. The central government passes on funds that it borrows on behalf of states at its average cost of funds, which has been rising with financial liberalization. The states are constitutionally prohibited from borrowing internationally and have reasonably tight limits on overdrafts at the Reserve Bank of India. Thus Indian states face a relatively hard budget constraint in the sense that they are unable to automatically access central bank funding, in contrast to Argentinian states whose access was a major factor in Argentina's inflation. (Brazilian states had automatic access to their own banks and also external capital.) However, Indian states have been able to ease the budget constraint through, in some cases, temporarily eased access to the Reserve Bank, build up of arrears to suppliers (a technique also used by state public enterprises—(SPEs), and campaigns to stimulate relatively high cost, small savings that are largely funnelled back to the state that mobilizes them—another factor in rising interest costs of state debts (see Box 3.3).

State government guarantees have also been used to circumvent the 'hard budget constraint'. Before 1994–5, SPEs were given separate borrowing allocations for each year as part of state-specific overall ceilings for the statutory liquid ratio (SLR) and market borrowing. With the removal of these limits, state guarantees given to the SPEs have become a convenient means for states to circumvent the ceiling imposed on borrowing by the central government. This issue has assumed growing importance in recent years because of rapid increase in these liabilities. The volume of state guarantees increased from Rs 403 billion in March 1992 to Rs 796 billion in September 1997, representing a compound rate of growth of 12 per cent a year. Total outstanding guarantees now account for about 9–10 per cent of states' combined GSDP. Variation among states is large—as a percentage of GSDP, state guarantees range from 4 per cent in UP to 14 per cent in Punjab.

The main reasons for the substantial increase in state government guarantees in recent years include: growing need for infrastructure at state level particularly in the power, irrigation, and road sectors; and a substantial decline in central government loans to the states from 3.4 per cent of GDP in 1995–6 to 2.2 per cent in 1997–8. These, together with a sharp fall in grant transfers from the central government from 2.7 per cent of GDP in 1993–4 to 1.9 per cent in 1997–8, have forced states to resort to off-budget financing of infrastructure through SPEs without making adequate provision for project-specific cost recovery.

A committee consisting of finance secretaries of a few state governments and RBI officials was formed in November 1997 to review the issues concerning state government guarantees. The committee completed its work and published its report in February 1999 (RBI 1999b). The main recommendations include setting ceilings on the use of guarantees with reference to NSDP, Consolidated Fund, or net market borrowing of the state. Andhra Pradesh, Gujarat, and Karnataka have already established ceilings for the volume of state guarantees. Monitoring state government guarantees would be a critical element in an enhanced dialogue of the central government with the states on fiscal reforms.

These states, and the others with large deficits, are on unsustainable development paths given the high real cost of borrowing and the crowding-out of development spending by interest costs, salaries, and subsidies. This is also indicated by rising revenue deficits and their increasing share in overall fiscal deficit. The political environment and weak reform record in some states suggest that it will be an enormous challenge to restore their fiscal health and strengthen the development impact of their public sectors.

FISCAL REFORMS

State-level fiscal reforms that would correct this deteriorating situation and enhance states' development potential would include efforts towards:

- *improving the tax system*—for example tax simplification, introduction of value added tax (VAT) (see

Box 3.2), introduction of taxes on agricultural incomes and land;

- *reforming public enterprises*—including private service provision, privatization, closure, retrenchment, and redeployment;

- *re-prioritizing spending*—increased social sector and infrastructure spending, consolidation of the numerous welfare programmes, better targeting of social subsidies, downsizing and upgrading the civil service; and

- *improving cost recovery*—particularly in power and irrigation, sectors that are key to the reform process (see next section).

Such measures would reduce fiscal deficit to a sustainable level, encourage private investment, and ensure that state public sectors contribute substantially to poverty reduction and development. In fact,

fiscal crisis has spurred some of the poor and most indebted state governments—such as Uttar Pradesh—to embark on a path of comprehensive reforms, similar to the economic restructuring programme launched by the Government of Andhra Pradesh. The reform efforts of these states are aimed at (a) restructuring state-level expenditure and improving governance so as to maximize the outcomes achieved by public spending and private investments in the state; and (b) enhance the revenue base through tax policy and administrative reforms and improved cost recovery from publicly provided non-merit goods and services.

intergovernmental fiscal relations. Unless supportive measures are taken in the poorer states, this second wave of reforms by the central government would continue benefiting mainly the higher-income states.

Recently, the centre has been attempting to help the states embark on the path to fiscal rectitude, in response to their plea for extraordinary financing to manage the impact of the recent hefty pay revision, in line with the award of the Fifth Central Pay Commission for federal-level services. The central government has signed MoUs with nine states so far, whereby extraordinary short-term advances have been

Box 3.2

INDIA'S EXPERIENCE WITH STATE-LEVEL VAT

Maharashtra is the only Indian state to adopt a (partial) VAT in 1995. It was recently repealed because of taxpayers' resistance and revenue loss. Reviews indicate that such implementation problems owed to inadequate design and preparation for VAT. VAT has been successfully implemented in over 100 countries including some federal systems with state-level VAT. The main weaknesses of the Maharashtra VAT included: (a) adopting one kind of VAT (the credit invoice method, where sellers receive a rebate on VAT paid by input suppliers on showing supporting invoices) up to the manufacturing gate, and another kind of VAT (the subtraction method, under which the amount of VAT on a transaction need not be stated on the associated invoice) to cover wholesale and retail trade. The different kinds of documentation required for the two methods resulted in Maharashtra losing the opportunity to have an unbroken record of the chain of sales and purchases from the manufacturing to the retail stage. Yet the key to achieving effective VAT compliance rests on the ability of the tax administration to cross-check records from one stage against the other; (b) adopting a subtraction VAT with more than one rate (Maharashtra had three rates), which is regarded as a fundamental design flaw and can lead to anomalous VAT computations; (c) the decision not to abolish the many tax holidays and tax deferrals when the VAT was adopted narrowed the base considerably and likely encouraged overinvoicing; (d) introduction of VAT by grafting of VAT features on the existing laws and administrative system; and (e) most damaging, the lack of adequate attention to staff and taxpayer education and strengthening the tax administration. Andhra Pradesh and Madhya Pradesh have adopted a different approach. Utilizing technical assistance, they are preparing legislation for a full-fledged VAT and emphasizing administrative renewal and staff and taxpayer education. The central government could support the more efficient taxation approach of VAT by itself moving to a national VAT. While there has been a decision to introduce VAT in all states by April 2001, preparations for that event are behind schedule.

A number of reform initiatives that are the responsibility of the central government would help improve the general policy environment for all states. They include agricultural reforms (such as reduction in distortionary subsidies, improved pattern of public spending, deregulation of the agricultural sector and rural finance, and empowerment of the poor through participation); elimination of small-scale industry reservation; removal of barriers to interstate trade; providing leadership and incentives in politically sensitive measures such as elimination of industrial incentives by state governments, harmonization of state taxes, improvement in cost recovery and the regulatory framework, and introduction of civil service and compensation reforms; and improvement in decentralization (see p. 42) and rationalizing and modernizing

made by the Central government in return for fiscal reform by the states. These efforts are a welcome complement to the efforts already under way on the part of some reforming states.

Reforming Power and Irrigation at the State Level

Power and irrigation sector reforms would be the centrepiece of the reform strategy in the states. Explicit and implicit subsidies (mainly to farmers) are the highest in these sectors—for example they amounted to about 5 per cent of GSDP in Andhra Pradesh in 1997. The subsidies are not only costly, but also induce inefficiencies, such as overpumping of aquifers, and

have unclear distributional impact. Without reforms and improved cost recovery, it will be difficult to encourage private provision of power or better use of canals. Therefore improvement in cost recovery in these sectors on a sustained basis and sector restructuring are essential to restore sustained growth (particularly in agriculture) and sustainable state finances.

The power sector in almost all the states faces a twin crisis: severe power shortages and heavy financial losses to the state electricity boards (SEBs), arising mainly from theft and provision of almost free power to farmers. These subsidies are a major element in the deterioration of state finances. Depoliticization of tariffs and management of the utilities, and restoration of creditworthiness in the sector are essential to attract private funds to reduce the acute power shortages in the sector. The needed reforms would typically involve separation of the generation, transmission, and distribution activities of the SEBs, setting up new independent companies operated commercially under the Companies Act to carry out these activities, privatization of distribution business, setting up an autonomous Electricity Regulatory Authority to establish and regulate tariffs, and enacting legislation to enable implementation of these reforms (see Chapter 5).

Effective expansion of irrigation is key to ensuring sustained agricultural growth and reducing rural poverty. The states normally allocate substantial public funds for the development of a canal irrigation network. However, the benefits of these investments are not fully realized, because these funds are thinly spread over too many new projects, leading to substantial time and cost overrun. In addition, Operations & Maintenance (O&M) activities are severely underfunded. The resulting deterioration of the network adversely affects the efficiency of the irrigation system. The main irrigation sector reforms would include: adequate budgetary provisions for O&M expenditure, substantial improvement in cost recovery, greater participatory involvement of farmers in irrigation systems management through constitution of Water Users' Associations (WUAs), transfer of revenue collection and O&M responsibility to WUAs, and improvement in the institutional and legal systems. Encouraging private sector participation in infrastructure through creation of a supportive legal and policy environment and improvement in delivery of social services by strengthening institutions and training staff are also priority reform areas. It is important for state governments to create an enabling environment that attracts fresh investments and improves private sector participation in the states' development process. Without these

sectoral reforms, both fiscal sustainability and accelerated growth would be very difficult to achieve.

Andhra Pradesh has emerged as the leading reforming state in the past three years, gaining considerable attention in India and abroad, and generating a strong demonstration effect amongst many other states in India. It has launched a comprehensive reform programme, which covers state finances (civil service downsizing, subsidy reduction, re-prioritization of expenditure, and a proposed adoption of VAT), public enterprise reform (privatization, closure of unviable companies, and employee downsizing with a supporting safety-net programme), power (unbundling of the APSEB, setting up a Regulatory Authority to determine tariffs, and privatization of distribution), and irrigation (improving cost recovery, increasing allocations for O&M, establishment of over 11,000 WUAs, and transfer of O&M responsibility to the same). So far, the reforms have been implemented effectively. The fiscal deficit has been brought down from 3.8 per cent of GSDP in 1994–5 to 3.0 per cent in 1997–8. The business community has reacted positively to these initiatives and Andhra Pradesh has become one of the leading states in attracting new local and foreign investment. Andhra Pradesh has demonstrated that, with sustained political commitment, states can improve their policy environment, embark on a path to higher growth, and narrow the disparities with higher-income states regardless of initial conditions.

Orissa is the pioneering state in power sector reform—it has served as an example for other states, in particular Haryana and Andhra Pradesh. It has recently sold off 49 per cent of its thermal-power-generating company—the first privatization of its kind in India and the largest by a state—and has also privatized majority stakes in its distribution companies (see Box 5.3). Orissa also has a reasonable record in public enterprise reform and private participation in the mining industry and infrastructure.

Other states showing an increasing commitment to reform include Haryana (power sector) and Gujarat (public enterprise reform, private sector participation in infrastructure). Rajasthan, UP, and Madhya Pradesh are also considering fiscal and sectoral reforms to improve their finances and promote growth. UP has also initiated work to improve governance and address environmental issues in the state. A worrisome development is the policy backtracking in Punjab and Maharashtra: Punjab started providing farmers with free power and water and Maharashtra promised free power to farmers. These developments make it

politically more difficult to improve cost recovery in these sectors in other states.

Decentralization: Emerging Issues and the Eleventh Finance Commission

Given its economic, demographic, and social diversity, India has developed a three-tier structure of government (centre, states, and local authorities) to promote political involvement, accountability, effective service delivery, and regional balance. States have considerable fiscal autonomy under the Constitution but, until recently, central planning and the dominance of national parties in national politics limited the full realization of decentralization.

Since 1991, three developments have initiated a process of further devolution of powers from the centre to lower levels of government. First, opening of the activities previously reserved for the public sector, elimination of industrial licensing by the central government, and weakening of central planning, have created an environment in which state governments assume larger responsibilities to define their development policies and to attract private investment in their respective territories. Second, weakening of the national parties has led to multi-party coalition governments at the centre, enabling smaller regional parties to participate in these coalitions and have a strong influence on national politics. Third, the Constitution Amendment Acts (73rd and 74th) in 1992 provided a strong legal basis for strengthening the local governments.

Fiscal Federalism

The Constitution specifies the expenditure responsibility of the central government and state governments in three lists defining central powers, state powers, and concurrent powers where both levels of government can exercise authority. Expenditures under states' responsibility include public health and sanitation, water supply, agriculture and irrigation, and road transport. Expenditure on education, social security, and supply of electric power is under joint responsibility with the central government. The Constitution also specifies the taxation powers of the central government and state governments. The states' list includes land revenue and agricultural income tax, state sales tax, state excise duty on alcoholic beverages, and taxes on motor vehicles.

While the states collect about 37 per cent of the consolidated government revenue, they account for

about 60 per cent of consolidated government expenditure net of state interest and central transfers. The states incur about 87 per cent of total expenditure on social services and 59 per cent on economic services. The resulting vertical fiscal gap is financed by grants from the centre and borrowing as limited by the central government (see preceding pages). There is a wide gap in the states' self-finance, ranging from Gujarat's 76 per cent to Uttar Pradesh and Bihar's 35–6 per cent.

The Finance Commission, which is appointed every five years, recommends how the proceeds of taxes collected by the central government should be shared with states, how this should be divided amongst states, and how to distribute grants-in-aid to the states. In the past, the size of these transfers has been largely determined by the need to fill the gap between the entire or non-plan 'current-account' revenues and expenditures of states, based on five-year projections. The Planning Commission, in consultation with the states, determines direct central government support (a mixture of loans and grants) for projects in states' development plans and the distribution of development grants from centre to states. Most transfers by the Planning Commission to states are block transfers composed of loans and grants. Official development assistance to states is passed on to states on the same terms as regular transfers, with full additionality since 1992. The central government also provides conditional matching grants for centrally sponsored schemes (CSSs) which are cost-shared programmes. Regional balance is a key consideration in determining transfers under these three mechanisms.

This system has a number of positive features. It provides a transparent rule-based framework, which makes states' own revenue and transfers from the centre predictable. As discussed above, by subjecting state borrowings to central government approval and precluding access to external finance, it also imposes a relatively hard budget constraint on states. However, the system also provides perverse incentives for states to increase the size of their development plans and current expenditure without adequate regard to expenditure priority, debt sustainability, and resource mobilization.

The main weaknesses of the system include:

(a) the 'gap filling' approach, traditionally adopted by the Finance Commission, in determining the grant awards, undermines fiscal discipline because it is not guided by the fiscal capacity of states, and encourages states to run revenue deficits;

(b) the block transfers by the Planning Commission in aid of state plans have an inherent bias in favour of new projects which crowd out expenditure for the maintenance of public assets;

(c) provision of central financing for wage components of new programmes for the first five years from inception encourages an unsustainable 'ballooning' of state civil services;

(d) proliferation of centrally sponsored schemes (over 180 programmes equivalent to 1.3 per cent of GDP) with their high administrative overhead costs and rigid eligibility criteria, undermines effectiveness and distorts state priorities;

(e) the high cost small savings mechanism, which has recently grown to be equivalent to 1.2 per cent

of GDP, far outstripping the financing contribution of market loans at 0.6 per cent of GDP (see Box 3.3);

(f) market borrowings arranged by the RBI with a single interest rate for all states constitute a barrier to the development of a competitive market for sub-national debt with state-specific risk premia leading to market-based fiscal discipline;

(g) borrowing ceilings for individual states are not determined with reference to state-specific debt sustainability analysis; and

(h) occasional central government loan forgiveness and refinancing without conditionality creates expectations of future debt relief which undermine financial discipline amongst states.

Box 3.3

THE GROWING IMPORTANCE OF SMALL SAVINGS IN STATE FINANCES

Small savings in India comprise ten financial instruments run by the post offices and public sector banks and amount to 1.6 per cent of GDP (in 1999–2000). Prior to the Budget for 1999–2000, 75 per cent of net collections from small savings used to be transferred from the Consolidated Fund of the central government to the state governments/union territories (UTs) in which the savings originate, in the form of non-plan loans. These loans are offered at a 13.5 per cent rate of interest for a tenure of twenty-five years, with state governments enjoying a five-year moratorium. Apart from the tax forgone on these tax-saving zero-risk financial instruments, small saving collections cost the Central government about 17–18 per cent (which includes administrative/transaction costs and, commission charges to the wide network of agents). Despite the fact that these are high-cost funds, states have been increasingly resorting to these loans in the absence of improved efforts at raising own tax revenues. In fact, most states oppose efforts to lower interest rates on small savings, essentially due to the fear of an adverse impact on mobilization. Following interest-rate deregulation of time deposits with banks, increased risk perception attached to competing deposit takers and a fall in stock market returns in recent years (except 1999), there has been a substantial jump in small savings as part of the capital receipts of the government.

In the past, the non-plan loans offered to state governments in lieu of small savings collections used to be part of the expenditure of the central government, adding to the already high fiscal deficit of the Centre. Largely based on the recommendations of the R. V. Gupta Committee Report, 1998, the Union Budget for 1999–2000 proposed a change in the accounting framework for small savings (see RBI 1998–9, Box IV.1). Accordingly: (i) small savings collections will be credited to the National Small Savings Fund (NSSF) in the Public Accounts, and not the Consolidated Fund; (ii) all withdrawals of small savings by the depositors would be made out of the accumulation to the NSSF; (iii) the balance in the NSSF would be utilized to make investments in 'special securities' of central and state governments; (iv) the interest earned on these government securities will constitute the income of the NSSF while the servicing cost and management cost of small savings will be the expenditure of the Fund; (v) these 'special securities' thus issued will add to the respective government's internal debt.

The changes thus effected are mere changes in accounting, leaving the basic issues unchanged, and simply shift the debt burden from central to state government books. On the other hand, the recent rise in small savings collections has increased the urgency of reform, since small savings, along with government guarantees (see Box 3.1), are avenues of partial escape from the relatively hard budget constraint established for states by the GOI and are an increasingly important source of internal debt. The hard budget constraint could be restored by delinking small savings from going to the states where it is collected, while continuing to permit states to have access to the savings pool. Other measures would need to address the high cost of this instrument, such as freeing up the interest rate and dropping the tax concession. It would also help to make explicit or do away with the implicit GOI guarantee on this instrument.

Many of these weaknesses are acknowledged by the central government in the Ninth Plan. Under the theme of cooperative federalism, the Ninth Plan proposes to move with the states to a more flexible approach to the transfer, design, and coordination of development strategies. Specifically, it proposes that the National Development Council suggest changes in the grant-loan formula while also considering the question of interstate distribution of central assistance. The Ninth Plan also proposes to remove the bias in favour of large plans by delinking the size of the Plan from the level of central assistance to states. This proposal, if fully implemented, would make a welcome reduction in the distinction between plan and non-plan expenditures. However, there is little sign that these proposals will soon be adopted.

Fiscal decentralization needs to match the ongoing devolution of powers with fiscal resources to enable local governments to spend on public goods and services they are responsible for. The central government intends to increase its dialogue with states on fiscal reform and Plan implementation and devote more attention to periodic fiscal surveillance and implementation of agreed commitments by states. It is thought that a more intense dialogue within the spirit of cooperative federalism will encourage better accountability and commitment of state governments to their constituents. This new initiative, which involves policy conditionality by the central government for their resource transfers to states, is a welcome development and a good initial step towards rationalizing and modernizing the system of intergovernmental transfers.

Another positive development is the terms of reference of the Eleventh Finance Commission (EFC), which is currently deliberating. In the past, Finance Commissions were discouraged from examining transfers other than the ones they award. But the terms of reference of the EFC explicitly enjoin it to 'review the finances of the Union and the states and suggest ways and means to... restore budgetary balance and maintain macroeconomic stability'. Complying with this request will require it to take a comprehensive look at all aspects of the transfer system including those overseen by the Planning Commission and particularly the debt and deficit sustainability position of highly indebted states.

Much scope exists for additional reform. Further liberalization of banking and financial markets would provide an opportunity for the creation of a competitive market for state government securities. But meaningful reform is unlikely to occur unless financial

institutions are free to reject the debt issues of financially weak states, and the central government rejects the implicit full guarantees against default and establishes a transparent set of rules for highly indebted states (perhaps with an element of co-insurance or partial guarantees). The states are ill-served by the still high-cost small savings system (see Box 3.3). Other policy options which could be considered include: (a) consolidating centrally sponsored schemes to reduce administrative costs and partly converting them into block funds; (b) clarifying the constitutional assignment of indirect taxes, and the exchange or rental of taxing powers to permit the implementation of a dual VAT; and (c) designing new financial institutions or market structures to intermediate the borrowings of state governments so that they can finance their increasing infrastructure needs without creating moral hazard problems for the central government. (A start could be made by increasing the proportion that states borrow directly from markets, without central guarantees).

Decentralization to Local Authorities

(See also Chapter 4). The 73rd and 74th Constitutional Amendments provide the local authorities with legal status as directly elected bodies and eliminate state governments' earlier discretion in determining the tenure and structure of these lower-level bodies. This is a major step towards strengthening of local governments, improving governance at the state level, transferring larger responsibilities to panchayats and municipalities, and making them accountable to their electorate. These amendments also make specific provision for the representation of women and other disadvantaged groups in the elected bodies in order to ensure greater participation of these sections of local communities.

Unlike for state governments, the Constitution does not specify any expenditure/functional responsibility or revenue powers to panchayats and municipalities but contains indicative areas which could be considered appropriate for devolution. Determination of these responsibilities and powers is left entirely to state governments. Given the economic, demographic, and social diversity, this approach allows state governments to design a structure which would better fit local needs, under the guiding principles set out in the 73rd and 74th Amendments.

Panchayats' own revenues are small, and do not cover more than 5-10 per cent of their expenditure (65-70 per cent in the case of municipalities). Therefore they rely heavily on transfers from the state

government. Local governments, with the exception of municipal corporations, also have no borrowing powers. The 1999 Union Budget sought to increase the reliance on and devolution of resources to gram panchayats for several key public services, including primary health care, primary education, and rural employment schemes. However, the overall weak financial conditions of most states clearly complicates the devolution of resources from them to local governments. Recognizing the need for stability, predictability, and transparency in state–local government fiscal relations, the 73rd and 74th Amendments provide for the setting up of a finance commission in every state to make recommendations regarding the devolution of expenditure responsibilities, tax powers, and the principles for determining grants-in-aid to local bodies. This provision provides a unique opportunity to restructure the existing state–local fiscal relations in

order to impart enough flexibility to meet the rapidly changing local needs and responsibilities. The finance commissions have been constituted, and their recommendations submitted in a number of states. However, state governments have been slow to accept and implement these recommendations and to take steps to enable local bodies to execute the newly the devolved functions. Recent assessments show steady progress in states such as Karnataka, Gujarat, Maharashtra, West Bengal, Kerala, and Madhya Pradesh in the devolution of powers to local governments. In some cases, states are experimenting with different or additional levels of rural government. In other states, progress has been slow—while the necessary legal framework has been created, clear expenditure responsibilities, adequate tax powers, and a transparent system of fiscal transfers from state governments to local bodies have not yet been established.

4

Good Governance: The Business of Government

Overview

Good governance is a necessity for development and poverty reduction, not a luxury. Various studies suggest that good governance is a major contributor to development, while people living in ineffective or venal states suffer from a lack of economic and social development.¹ Key institutional and capacity elements of good governance are a comprehensive legal framework defended by an impartial and competent judicial system, accountable, open, and transparent executive decision making coupled with a capable, flexible, and efficient bureaucracy, and strong civil society participation. Good governance ensures effective property rights and contract enforcement without excessively restrictive and arbitrary regulatory structures, and the delivery of an appropriate mix and quality of public services, with the inclusion of the poor and women, and without corruption. Good corporate governance (an issue dealt with in Chapter 7) is necessary for efficient allocation and use of resources within a more transparent framework, and so helps to promote

¹ See for example, North (1981, 1990), Olson (1996), Olson *et al.* (1997), Mauro (1995), Knack and Keefer (1995), Easterly and Levine (1997), Sala-i-Martin (1997), and Campos and Nugent (1999).

private investment. Concern with these issues has mounted after the recent experience of East Asia.

Weak or arbitrary property rights and contract enforcement are important factors in underdevelopment, according to Nobel Prize winner Douglas North; they deter saving and investment, especially foreign investment that is particularly handicapped in an opaque legal system.² The poor are hurt not only by lower investment and growth of labour demand, but because they cannot count on speedy, low-cost enforcement of their contracts and protection of their property, for example prevention of illegal evictions. Excessive limits on contracts and poor enforcement are likely to end up hurting the poor, for example by limiting credit access and employment growth (see Chapter 6). Corruption weakens contract enforcement and property rights and is anti-poor. Opportunities for corruption increase with the number and complexity of rules, licences, taxes, and subsidies which set up conflicting property rights and require complicated resolutions; liberalization, by decreasing the scope of controls, reduces the opportunity for and gains from corruption, provided competition is strong.³

² Mauro (1995) finds that corruption has a significant negative impact on the investment rate.

³ See Ahluwalia (1997) for a discussion.

The capacity to formulate good policies and efficient public service delivery are obviously critical for development and poverty reduction. An efficient, uncorrupt bureaucracy is a key factor and it tends to encourage investment (Mauro 1995). Efficiency of public services is particularly important for the poor, who depend on public services, such as primary education and health, to improve their lot and mitigate the risks they face. Non-transparent budgeting and spending, widespread subsidies, and corruption are likely to lower the efficiency and equity of public spending. Lack of accountability and properly directed incentives and disincentives in the government and civil service mean that such problems are likely to remain unresolved and responses to crises will be weak.

INTERNATIONAL AND DOMESTIC SURVEY ASSESSMENTS

While governance is clearly a critical development issue, its evaluation is complex and methods to do so are still in their infancy. The approach taken here is to evaluate procedural quality by comparing countries

These assessments are, however, not uniformly supported by surveys of domestic business (see Annex Tables 4.2–4.7).⁴ According to the survey done in 1999, over 50 per cent of domestic business firms see the government as inefficient. Of the different areas covered in the survey, telephone services, which have been liberalized to some degree (see Chapters 5 and 6), have the highest efficiency rating next to the armed forces (see Annex Table 4.3). Health, legislative services, and roads are worse with 49 per cent to 68 per cent of respondents rating services as inefficient to some degree. This survey also highlights business concern about the uncertainty surrounding legislation and the regulatory framework, despite its predictability having increased during the past three years (see Annex Table 4.4). Although India’s judicial and legal machinery ranks above the 50th percentile in the international cross-section, and is generally trusted by businesses, 64 per cent of domestic firms find the court system expensive and 88 per cent find it slow (see Annex Table 4.5). Next to inflation, the surveyed domestic firms consider labour regulation, corruption, poor infrastructure, and policy instability

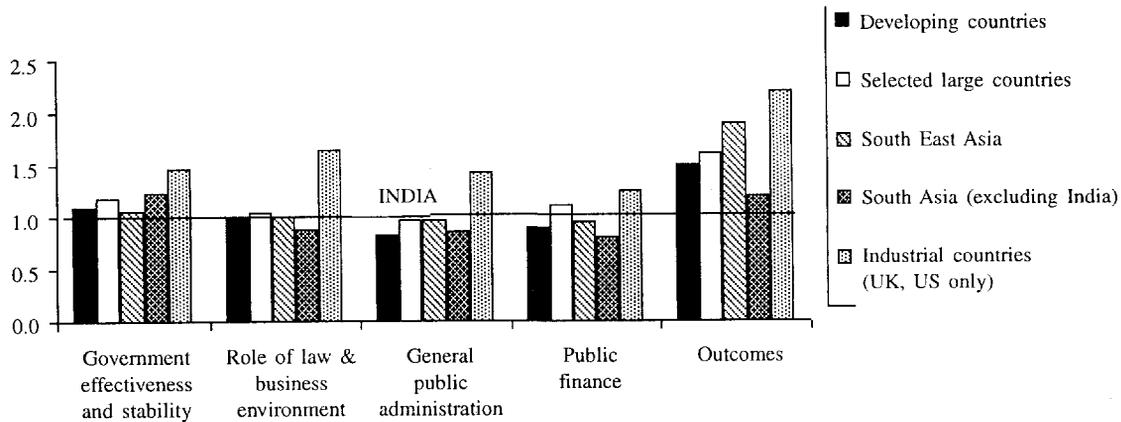


FIG. 4.1: India's International Ranking on Selected Governance Indicators (unweighted averages, scaled relative to India = 1.00, i.e. worse than India is below the line)

based on various survey metrics and results by key service outcomes. Since much of the data are from opinion surveys, often based on perceptions, and since they reflect differing cultural and legal milieus, they are subjective in nature and cannot be taken as definitive. In terms of such indicators from international sources, India fares about average among developing countries on governance though it ranks well below industrial countries (see Figure 4.1 and Annex Table 4.1). India's strong democratic traditions, free press, independent judiciary, and high calibre civil service are key strengths in governance.

as the most serious obstacles to operations and growth (see Annex Table 4.6). An encouraging sign is that the survey finds an improvement in overall government performance during the past three years with the improvement in the availability of telephone services standing out.

⁴ The discussion in this section is based on a survey of 210 firms carried out by the CII and supported by the World Bank as part of its World Business Environment Survey (1998–9). An earlier survey of fifty-three firms, based on an abridged version of the 1999 questionnaire, was carried out by the World Bank in 1996 for the World Development Report (1997).

India's 'outcomes' tend to be worse than the evaluations of its governance processes, particularly in public service delivery, which suggests implementation problems (see Annex Table 4.1). Over the last twenty years, India has done relatively well in achieving growth, achieving higher rates than all but the high-performing countries in East Asia. However, this growth has not been sufficient to substantially reduce the number of people living below the poverty line (43 per cent in 1983, 34.4 per cent in 1997, see Annex Table 1.1), and also the measured reduction has slowed recently (see Chapter 1). Less widely acknowledged is India's limited improvement in education, health, and gender equity. While improvements have occurred, performance in these areas is still low (see Annex Table 4.1), such as in the case of education despite its enshrinement in the constitution. Indeed, according to these indicators, performance has been worse than even some of the late starting and severely constrained countries in sub-Saharan Africa. Analysis is limited by weak data—for example, official enrolment figures, on which funding allocations are based, show gross enrolments of well over 100 per cent, but surveys of education typically show enrolments well below 100 per cent (see Box 8.1). Also, India's share of trade in GDP is low, compared even to other large countries such as China (see Annex Table 4.1), which reflects not only high levels of protection but red tape and weak infrastructure (see Chapter 5), as well as reported payments to customs officials (see Annex Table 4.7). These low levels of trade reduce India's benefits from international specialization and international competition, weakening the push to cut costs and improve quality for consumers and business. On the other hand, India's financial system is well developed for a low-income country (see Chapter 7).

The remainder of this chapter discusses some important areas where improvement of governance is likely to have a substantial payoff. To bring about improvements in property rights, contract enforcement, and the business environment, key reforms include an improved legal structure, more efficient judicial management, and reduced corruption. Problems with the legal structure are illustrated by drawing on important examples from bankruptcy and labour laws while the impact of judicial delays is illustrated by examining problems of debt recovery. Next, the discussion turns to public administration, and examines how it might be improved through a better incentive framework for the civil service. An important sectoral issue, management of public sector enterprises (PSEs), is also discussed here (see Box 4.2). Improvements in budgetary

and financial management, institutional arrangements to ensure accountability, and tax administration reforms are then examined. Finally, the prospects for decentralization of services as a way to improve service delivery are examined. The important area of weak governance at the level of states has already been dealt with in Chapter 3, problems of inappropriate regulation or over-regulation in key sectors such as banking, financial markets, and corporate governance are discussed in detail in Chapter 7, and international trade in Chapter 6.

Rule of Law, Contract Enforcement, and the Business Environment

India performs reasonably well in preserving the rule of law and protecting property rights in a 1995 cross-country comparison (see Figure 4.1 and Annex Table 4.1). However, ratings of the business environment by Business Environment and Risk Intelligence, Transparency International (for 1998), and from the International Country Risk Guide are less satisfactory. A major issue is actual contract enforceability, which presumably includes the problems in debt recovery and executing collateral that many banking institutions cite as a major factor in non-performing assets (see Chapter 7).

As many reports have highlighted, there are several key weaknesses in India's legal framework that are inhibiting the process of economic change (see Debroy *et al.* 1999, World Bank 1998a, and Box 4.1). These slow down industrial and corporate restructuring and contribute to corporate misgovernance (see Chapter 7 for a detailed discussion), are onerous for small-scale industry (which does not have the capacity to deal with excessive regulatory and disclosure requirements), and leave room for subjective interpretation and could hence lead to harassment and corruption. There is recognition of at least some of these deficiencies in the legislative agenda that has been put forward to successive Parliaments—while the Urban Land Ceiling Regulation Act was repealed and some important laws such as the Insurance Regulatory and Development Authority Bill, Foreign Exchange Management (FEMA) Bill, the Securities Contract Regulation (Amendment) Bill on derivatives trading, and Trademarks Bill were passed in 1999, many others were pending, such as the Patents Bill, Prevention of Money Laundering Bill (both referred to Select Committees), recovery of debts bill, etc. Other key reform areas, especially labour laws and key aspects of company law (see Chapter 6) are, however, still under discussion.

Box. 4.1

PROJECT LARGE

A research project on *Legal Adjustments and Reforms for Globalizing the Economy (LARGE)* was initiated in December 1993. This project was taken up under the Ministry of Finance/UNDP umbrella, with initial involvement of the National Law School of India, Bangalore. LARGE's mandate was to examine economic and commercial legislation in India in order to make it more market friendly, with a focus on central government legislation in the first phase (December 1993–December 1997). There were around 3000 Central Acts to consider and around 450 dealt with economic and commercial decision making, directly or indirectly.

The first phase of LARGE, which brought out thirty Policy Papers (some of which incorporate draft bills) and four books, largely addressed issues relating to the relevance of particular legal provisions in the light of reforms; any possible conflict or overlap with other legislation; resolution of such conflicts, if any; technical amendments necessary to prevent unintended loopholes; judicial interpretations running counter to the broad objectives of the law; level of transaction costs associated with any particular piece of legislation; enforceability and user friendliness of laws; comparable legislation in other countries, especially developing countries.

Several seminars to disseminate the results of research work as well as to increase the interface between lawyers and economists were held. Broadly, the work covered labour and land markets, the financial sector, the environment, direct and indirect taxation, intellectual property rights, and some assorted areas. The second phase of LARGE is expected to examine critical areas not dealt with in the first stage focusing on (i) state government legislation, with emphasis on laws relating to land, labour, and the environment; (ii) administrative law reform (government orders, rules, and regulations, etc.); (iii) alternative dispute resolution; (iv) reform of the court system (Limitation Act, the Evidence Act, or the Code of Civil Procedure); and (v) competition policy for infrastructure sectors (which have historically been public sector monopolies).

Turning to judicial management proper, India's judiciary is respected for its integrity and sagacity, but the issue of '*justice delayed is justice denied*' is a major one, much worse than in the quasi-judicial Board for Industrial and Financial Reconstruction (BIFR) proceedings. As noted above, these points are borne out in the survey of Indian firm's perception of the court system's efficiency. With 28 million cases pending and mounting arrears, it can take up to twenty years before a decision is obtained and enforced, putting judgements beyond the reach of the poor. Important causes of delays are under-supply of judicial resources, under-equipped courts, socially underpriced court services; cumbersome court procedures, perverse incentives to prolong litigation; and a vast body of non-transparent laws. Over 3000 Central statutes and ten times that many state statutes exist, many of them archaic and serving no purpose. This does not take into account the vast volume of subsidiary and administrative laws of which no estimate is available.⁵ Nor does this take into account the conflicting definitions and often incomprehensible language in which the law is written, leading

⁵ Recently, the government has begun reviewing its administrative laws. A Commission to Review Administrative Laws submitted its report in September 1998. It recommended 'action' in respect of over 1700 statutes. A follow up Standing Committee submitted a report on implementation of the Commission's recommendations in June 1999.

to the need for judicial clarification. Specific problems include factors contributing to delays and adverse incentive structures.

FACTORS CONTRIBUTING TO DELAYS

- Inadequate number of judges; for instance there are 10 judges per million persons in India compared to between 41 and 107 judges per million persons in Australia, Britain, Canada, and the United States. Given the backlog of cases, an at least 50 per cent increase in the sanctioned strength of judges in the eighteen High Courts and the Supreme Court will be needed to keep abreast of the workload. Furthermore, the large number of vacant posts will need to be filled. The situation in the lower courts is even worse.
- Overuse of oral arguments and limited use of written briefs and ex-parte judgements.
- Utilization of sitting rather than retired judges by the government for purposes other than adjudication, for example to head Commissions of Enquiry.
- Procedures for admission of cases and writs which bend over backward not to deny almost anyone a hearing, leading once again to excessive litigation.
- Easy procedural avenues to delay court decisions (such as through adjourned hearings) which entail no costs to the responsible party even though the costs to the opposing party (due to the delay), the court (due

to lost time), and society at large (due to continuing congestion) are considerable.

- Multiple appeals against lower courts.
- Failure to computerize and automate routine judicial procedures and court records to speed them up, and to reduce the opportunities for petty corruption among court functionaries (for example in allotting dates for hearings or in tampering with court records).
- Failures to reduce/bypass the backlog through alternative dispute resolution systems: arbitration, mediation, or conciliation techniques have not been well developed. Arbitration has typically led to judicial appeal (The Arbitration and Conciliation Act, 1996 may help). Also, the implementation of The Debt Tribunal Act, 1993 experienced numerous delays and as yet has had only minimal success. The innovative Lok Adalats have taken root only in some states and government agencies and even they have failed to bring about overall decrease in judicial delay.

ADVERSE INCENTIVE STRUCTURES

- Limited accountability and enforcement of sanctions against non-performance by judges leading to absenteeism and short workdays in many cases.
- Court fee schedules which have remained unchanged for decades leading to underpricing of judicial services and consequent overuse.
- Incentive systems for government servants making the government/the major litigator in civil suits (being involved in over 60 per cent of suits very often as plaintiff or appellant) without regard to either its own or citizen's costs. In fact, cases in which the government is both plaintiff and defendant are far from rare. Once admitted, there are implicit pressures for government suits to be appealed, lest the original suit appear meritless.
- Lawyer's fees based on hours spent in case preparation and court appearances rather than results, giving them the incentive to prolong judicial proceedings.

The outcome of slow judicial proceedings is inefficiency in the business environment. For example, a study examining 1849 companies that were in the process of liquidation in the High Courts shows that in 59 per cent of these cases the procedure took more than ten years and, in 32 per cent of the cases, more than twenty years. The result is that the value gets stripped by promoters and their middlemen, leaving little for unpaid workers or secured creditors. This

reflects insensitivity to the cost of time, and the distinction between sale proceeds and their distribution. The liquidation process is full of arcane legalities which, among other things, include the preparation of audited accounts that go back several decades. A weak legal and judicial mechanism for debt recovery has been a traditional source of high non-performing assets (see Chapter 7 for details).

To reform the system, a multi-pronged strategy is needed to ease supply bottlenecks, decrease incentives for frivolous or prolonged cases by changes in fee structures, and limit admission. Such a strategy has been spelt out by the National Task Force on Judicial Reforms, which submitted its report in November 1996. A high-powered body could be constituted to oversee the time-bound implementation of the Task Force's recommendations. These recommendations could be extended to various tribunals and not just courts. In addition, internal government incentives to penalize officials for filing meritless cases or appeals and speeding-up of the government programme to simplify laws, repeal redundant laws, and replace outdated laws with new ones, for example the new Company Law (see Chapter 7), would help.

Corruption is another major problem weakening the rule of law, particularly affecting the business environment, and is a rising concern of the central and state governments. India's Prime Minister devoted a substantial part of his address on the 50th anniversary of Independence to the problem of corruption and measures to address it. Transparency International's 1998 survey of international businesses' perceptions ranks India worse than China and other Asian countries, and somewhat worse than other large countries (see Annex Table 4.1), though its earlier surveys ranked India better than China. The 1995 Global Competitiveness Report also ranked India somewhat higher than China (see Annex Table 4.1). In the survey of local businessmen, 83 per cent reported paying bribes in transactions ranging from customs, taxes, and licences, to infrastructure connections and government contracts—91 per cent of the respondents say the payments were less than 10 per cent of the contract value, but 2 per cent said they paid more than 25 per cent. These results suggest that an important cause of unsatisfactory development outcomes and business dissatisfaction with government services, may be corruption.

Reducing corruption is not easy, particularly once it becomes 'part of the system'. A three-pronged approach encompasses most of the recommended policies:

- reducing opportunities for corruption by deregulation and privatization, placing greater reliance on competition to ensure low prices and good quality;
- improving incentives for good performance and disincentives for corrupt practices in government;
- improving administrative procedures to reduce the opportunity for corruption by increasing accountability, transparency, and the role of the citizen's voice. The central government has taken an initiative to get Citizen's Charters framed by various ministries/departments/organizations. The centre has framed 61 such Charters and six states/UTs have framed about 93.

The following sections discuss the last two parts of the above approach, and Chapter 6 discusses issues of deregulation and improving competition.

Improving Public Administration: Strengthening Performance Incentives and Accountability in a Downsized Civil Service

Successful public administration reform needs to be based on a vision redefining the role of the public sector in the economy (see Chapters 2, 3, 5, and 8), and a change in the corporate culture of public administration. Since the early 1980s, a number of countries, such as the UK, US, Australia, New Zealand, and Canada have launched a series of innovative reforms aimed at enhancing the productivity of the public service and improving its client focus and responsiveness. These reforms are now being pursued, in whole or in part, in a variety of other nations, ranging from Chile to Mongolia.⁶

The success of public administration will also depend on the quality of the civil service and its accountability. The initial capacity of India's civil service is among the highest anywhere, with meritocratic recruitment, a very high level of competition in civil service examinations (under 1 per cent of applicants qualified in recent years for the higher services) and a mix of technically and non-technically educated entrants (see Das 1998). Technical capability and occupational demands are reasonably matched within the three All-India Services and fifty functionally specialized central or state services given the existing

⁶ For a discussion see, for example, OECD (1997).

training facilities.⁷ Yet India's civil services, the principal 'face' of the government to the public and responsible for implementing government programmes, must shoulder some of the responsibility for dissatisfaction with government performance in providing a sound business environment, curbing corruption, and providing public services. The problem is not initial capability but institutional deficiencies. Non-transparency, limited accountability, low salaries, and inadequate performance appraisal weaken the civil service's administration, as do the standard problems of political interference in specific situations and government's widespread and intricate interventions that delay actions, create unwarranted power, and provide opportunities for corruption.⁸ Numerous government commissions have pointed out the particular problems of the civil service and made recommendations to tackle them, most recently the Fifth Pay Commission;⁹ recommendations that have largely been ignored.

In particular the following recommendations of the Fifth Pay Commission would substantially improve civil service and public administration:

- A multi-pronged approach to employment reduction in central government targeting a 30 per cent reduction over a ten-year period. Contrary to this recommendation and despite the modest measure abolishing four secretary-level posts announced by the Finance Minister in his 1999 Budget speech, central employment is expected to grow by 1.5 per cent in the current fiscal year, resulting in a projected increase in staff expenditure of 10.5 per cent over 1998-9 (RE).

- Restructuring and 'rightsizing' central government services by decentralizing functions to states and local government, by converting departmental undertakings such as the Indian Railways into public undertakings and by entrusting certain functions to NGOs, cooperatives, and autonomous bodies.

- Doing away with arbitrary and frequent transfers of bureaucrats, particularly those in All-India Services at state level by laying down minimum tenures for posts and the need to clear all premature transfers through a Civil Services Board, to be constituted for this purpose. The Annual Confidential Report (ACR), arbitrary transfers, and sale of posts are alleged by

⁷ Except, in certain cases, for the generalist Indian Administrative Service; see Das (1998).

⁸ For example, see Das (1998), Yugandhar (1998), Godbole (1997).

⁹ For listing and discussion see the works by Das (1998) or Yugandhar (1998) cited above and Khanna (1999).

many observers to be the principal means of subverting or circumventing the civil service, leading to corruption.¹⁰

- Restructuring performance appraisal to make the current ACR system more effective and open, coupled with a five-yearly high-level review of 'Group A' officers to decide whether the officer should undergo compulsory premature retirement or not.

- Increased transparency by passing a Right to Information Act and corresponding revision of the Official Secrets Act.

In addition, a closer link between performance and promotions or pay increases, improved procedures to ensure individual accountability for lapses, and improved enforcement of sanctions are needed.¹¹ More broadly, a simplification and liberalization of excessive restrictions, along with privatization, would reduce red tape and the scope for corruption. In addition, it would permit a downsizing of the civil services and a focus on fewer, truly public activities, where better delivery could be demanded. All these measures would be far more effective if they were conducted within the framework of a clearly defined and articulated vision for the reform of the public sector.

Sound Budgetary and Financial Management

India's ranking on its budgetary processes and efficiency and equity of revenues and expenditures in international comparisons is fairly high. However, in terms of the more general category of management of public finances, India ranks much lower, an appraisal that is borne out by India's high fiscal deficit, where India ranks among the worst 10 per cent of countries in the world; its high level of implicit and explicit subsidies that have negative efficiency effects and at best uncertain equity effects; and its tax system, which still has a limited base, and a heavy dependence on customs and excises (see Annex Table 4.2 and World Bank 1996a and 1998a).

An institutional framework conducive to overall fiscal discipline is one in which (i) there is a comprehensive annual budget of the government with few off-budget expenditures and sources of revenue; (ii) limited

earmarking; (iii) expenditures are planned in a medium-term (2–5 year) framework based on consistent macroeconomic forecasts to allow forward planning; (iv) there is a hard budget constraint on expenditure dictated by revenue availability; (v) there is a framework to reconcile actual outlays with the budget and impose sanctions for overspending and (where this implies inadequate service delivery) underspending; and (vi) the budget process is transparent, with accurate and timely information on the budgeted and actual revenue and expenditure being published, and open to public scrutiny.

In India, not all of these requirements are met. First, future revenue and expenditure implications, even for long-term capital projects are not reported or taken into account in the budget. Instead of revenue availability dictating expenditure ceilings, revenue and expenditure budgets are separate exercises, with additional resource mobilization (ARM) measures decided on if projected resources fail to meet expenditure projections. Second, the states are only engaged in short-term cash management with no medium-term perspective or framework; unlike the central government, the states continue to depend on the CAG of India, *both to prepare their accounts as well as to audit them*. Furthermore, instead of sanctions, additional, post-budget expenditures, which impact adversely on fiscal deficit, are incorporated in three supplementary budgets, one in each parliamentary session. Last, instead of transparency, published government accounts never permit actual aggregate expenditures to be determined.¹²

Given the overall budget, the next stage is allocation of resources in accordance with strategic priorities. To achieve this, (i) important stakeholders should be consulted during budget planning; (ii) allocations should reflect strategic priorities; and (iii) implementing agencies or spending ministries should have the capability and freedom to manage their allocations effectively, with little need for further consultation with the MoF. Accountability for spending can be ensured by (iv) the existence of a system of reporting service delivery outcomes, such as zero-base or performance budgeting and an evaluation of end-of-year outputs achieved, both of which are integral to the budget formulation process. Transparency is further facilitated through (v) institutional channels through which stakeholder groups can voice their concerns about budget allocations and their level of satisfaction with outcomes.

¹⁰ See the works by Das (1998) and Godbole (1997) cited above and also Wade (1985).

¹¹ For a possible strategy to strengthen enforcement, see Narasimhan (1997).

¹² For a description of infirmities in the Finance Accounts see Das-Gupta (1999a).

Box 4.2

PUBLIC ENTERPRISE GOVERNANCE—A SYSTEM THAT HAS NOT DELIVERED

Although public enterprises are part of the public sector, they are also commercial, for-profit organizations and, increasingly, are expected to operate more independently and without support from the government budget. Where private firms are allowed to compete with public firms, PSEs have generally come out second best. This is not surprising, since while liberalization has eliminated many of the constraints on the private sector, the public sector remains shackled. PSEs have higher average costs than comparable private sector companies, arising mainly from their structure of fixed costs, particularly employee costs. Another major difference is in the corporate governance structure. Shareholders of private companies are direct beneficiaries of profitable performance and, hence, their representatives have incentives to monitor management to maximize profit. In contrast, PSEs do not have a substantial body of informed private shareholders whose income depends upon the performance of these companies. PSEs are also subject to demands to carry out many 'social' activities, whose efficiency and impact on profits are not well monitored.

Government shareholding in PSEs is exercised by Members of Parliament (MPs), ministers, and civil servants. A sample survey of Parliamentary questions regarding PSEs shows that commercial viability, profitability, cost minimization, and optimal investment decisions only rarely reveal themselves as concerns. Civil servants, next in the hierarchy of shareholders' representatives, are typically *process oriented and risk averse, whereas firms have to be result oriented*, and this creates an inconsistency between the organizational forms of governments and those of modern financial and industrial entities. These non-commercial objectives of shareholders' representatives result in loss of motivation for most chief executives of PSEs, who quickly adopt the line of least resistance—loss-making plants are neither downsized nor closed, wages are not linked to productivity, and redundant workers are not retrenched. Above all this sits Article 12 of the Constitution of India, which defines 'the State' as 'the Government and Parliament of India and the Government and Legislature of each of the states and all local or other authorities within the territory of India or under the control of the Government of India'. Since most PSEs have more than 50 per cent government ownership, they fall under the ambit of 'the State'. This has affected PSEs in several adverse ways:

- All PSEs are constitutionally expected to achieve a wide variety of non-commercial objectives which are imposed by the Ministries and Parliament.
- PSEs are subject to an annual audit by the Comptroller and Auditor General (CAG) in addition to the audit by the statutory auditor. Owing to repeated allegations of financial impropriety by the CAG, PSE managers tend to be conservative and, for example in the case of purchases and tenders, tend to choose the lowest bid even if quality is poorer. In this case, PSE managers know that propriety dominates profitability.
- There exist constraints on appointment of senior management personnel, which can only be made through the Public Enterprise Selection Board (PESB) and, thereafter, clearance from the Department of Personnel, the Home Ministry, and, in many instances, by the office of the Prime Minister. This has led to delays, non-appointment of Chief Executive Officers (CEOs) and executive directors, and excessive emphasis on seniority—which means very few CEOs can enjoy their full term.
- Since PSEs are parts of 'the State', they are subject to writ petitions to the Supreme Court under Article 32, and High Courts under Article 226 of the Constitution.
- Again by virtue of being considered servants of 'the State', managers of PSEs are often subjected to criminal investigation by the Chief Vigilance Commissioner and the Central Bureau of Investigation.
- 'State' status limits managers from downsizing plants, retrenching, or re-deploying employees.
- Finally, the directors of PSEs have little autonomy in finalizing any large investment decisions (approved by the Planning Commission).

Under these circumstances, it seems unlikely that a PSE can achieve better governance standards and yet remain under majority government control. The experiments with MoUs have by and large failed. Improving governance and thus performance of PSEs is the most important argument for privatization of all but strategic PSEs to below 50 per cent (as the Budget speech of 1998 stated, to 26 per cent). In fact Dr Vijay Kelkar, then Finance Secretary, declared in a recent speech (Pune Spring Lecture, May 1999) that in his opinion 'the only strategic public sector enterprises should be those dealing with atomic energy, space and defense' and that PSEs in other areas should be privatized. With the resultant freeing up of both human and financial resources, the government can then improve on its core business of providing basic social and physical infrastructure.

In India, there is ex-ante rather than ex-post control of expenditure by line agencies through the institution of Financial Advisors in each department who report both to their own departments and to the MoF;

and the performance budgeting system for reporting of outputs and outcomes is divorced from financial reporting and budget preparation. A strength of the budgetary process, however, is the extensive

feedback from stakeholder groups in newspapers and television after the budget is presented for legislative scrutiny.

Given departmental allocations, operational efficiency, and effectiveness crucially requires accountability. This encompasses (i) fixing individual responsibility for delivery of defined service outputs; (ii) personnel policies linked to performance, with performance being measured by actual outputs in relation to prescribed service delivery standards and preset targets; (iii) independent internal and external, financial and performance auditing with mechanisms for effective corrective or disciplinary action based on audit findings; and (iv) 'customer' satisfaction surveys. Transparency requires (v) publication of programme performance reports and (vi) mechanisms to elicit client feedback on the quality of services provided. Apart from internal and external auditing, the institutional framework for service delivery in India meets none of these standards and, for example, sanctions linked to poor performance or programme modifications based on client feedback are sporadic, at best.

The result of deficiencies in expenditure management in India (see Annex Tables 4.8 and 4.9) is that aggregate fiscal discipline is severely lacking, with inefficient allocation of budgetary resources to competing needs; lack of incentives for efficient service delivery; and limited transparency and accountability. This has led to:

- the continued existence of implicit and explicit subsidies and heads of expenditure many of which are not transparently identified in the budget¹³ (If these are identified, they are not evaluated in terms of their return to society;¹⁴ and where evaluated are found to yield poor returns;¹⁵ see Annex 4.1);
- leakage and misuse of budgetary resources facilitated by poor expenditure control, and lack of accountability and corruption, according to the Comptroller and Auditor General (CAG) (see Annex 4.1);
- non-transparent budgets with budget estimates understating actual expenditures, the extent of understatement having increased in recent years, and,

¹³ For example, exemptions under Section 10 of the IT Act, value of perquisites to government servants, and intra-public sector litigation.

¹⁴ For example, income tax exemptions, excise and customs duty exemptions, and export subsidies.

¹⁵ For example, PDS; the Integrated Rural Development Programme; fertilizer subsidy; and poor cost recovery (10.3 per cent) in power, irrigation, higher education, and tertiary health.

conversely, revised estimates overstating expenditures (see Annex Table 4.10);

- borrowing requirements and the fiscal deficit being grossly underestimated in the budgets (see Annex Table 4.10);
- arbitrary across-the-board budget cuts or cutting of peripheral expenditures during budget preparation or later in the year;
- unrealistic development budgets with several departments failing to utilize allocations in recent years, leading to actual development spending falling short of targets, while, at the same time, expenditure management focuses on spending of appropriations rather than on efficient and effective service delivery (manifested in the 'March rush' to spend allocations);
- financial outlays that are based on unrealistic or outdated cost norms unrelated to the cost of services or delivery targets;
- poor maintenance in the case of capital projects and premature acquisition of capital goods and consumables leading to wasteful expenditure as identified by the CAG (see Annex 4.1);
- fraud and misappropriation of funds that occasionally come to light during audit which, however, has only selective coverage as identified by the CAG (see Annex 4.1).

To improve budgetary and expenditure management it would be desirable to constitute the Expenditure Reforms Commission announced by the Finance Minister's 1999–2000 Budget speech. To promote efficiency and effectiveness in government expenditure, thoroughgoing reform of the budget and financial management process is needed at the aggregate level, at sectoral allocation level, and at the level of programme implementation and service delivery. Key principles are: (i) improved transparency through reforms in accounts and budget presentation and linking of expenditures to physical outcomes in the budget; (ii) effective action to reduce employment and downsize departments that provide services outside the core competencies of the government; (iii) increased autonomy for line agencies in expenditure management and a switch from ex-ante control of expenditure to ex-post accountability; (iv) improved incentives for effectiveness and efficiency through individual accountability and also positive incentives for individual contributions to increased efficiency. A reform programme that the Commission might consider is suggested in Annex 4.2.

Improving Accountability: Increasing the Effectiveness of the Audit Mechanism

Independent audits by the CAG are a major institutional mechanism to ensure accountability of the executive. The reports of the CAG are tabled in Parliament and are scrutinized by its Public Accounts Committee (PAC). Yet this admirable institution too has been unable to curb mismanagement of expenditure:

- The CAG audit focuses mainly on financial irregularities and while systems or performance appraisals are carried out, these fall short of management audits and do not indicate how management can be strengthened. Also, physical inspection is rarely undertaken.

- There is no effective system to establish individual accountability for lapses pointed out by the CAG. The problem stems, in part, from the nature of programme management since individual responsibility is not easy to establish under existing management procedures.

- Responsibility for lapses and fraud is divided among three offices: the CAG, the Central Vigilance Commission (CVC), and the Central Bureau of Investigation (CBI). There is limited cooperation between the three offices, so that a coordinated examination of errors is made difficult, and only in relatively few cases is specific accountability established and sanctioned.¹⁶ Recently, the CBI was brought within the purview of the CVC through the CVC Ordinance, as an attempt to try to redress the above problem.

- The PACs scrutinize only a few of the CAG's reports and, furthermore, have a tenure of one year only.

- States have withdrawn over Rs 850 billion from their Consolidated Funds above what was budgeted over the last two decades without accounting for it. If spending exceeds the budgeted amount, governments are supposed to 'regularize excess spending' by the PAC. While Article 205 of the Constitution directs state governments to clear excess spending before their legislatures, this process is being bypassed through the system of regularization by the PAC.

- Besides 'Action Taken Notes' that ministries must submit to the CAG on audit observations, there is no effective system of follow up to ensure corrective management action. Even for Action Taken Notes, responses by ministries are delayed or not given. This

¹⁶ Further discussion in Narasimhan (1997).

absence of effective enforcement and a long-term perspective in accountability procedures means that, in practice, individual accountability for lapses is seldom established and sanctioned, and poor expenditure administration persists year after year.

Improving Tax Administration

Broader based, efficiently administered taxes are also an essential part of sound financial management. Tax reform in the 1990s has mainly focused on tax structure reforms and, within this, largely on rate reform. Though some progress has been made, most notably the curtailing of the power to issue exemption notifications in the 1999 Budget, widespread exemptions persist and new ones have been introduced in every budget in the 1990s (see Annex Table 4.11) with no mechanism in place to evaluate their economic benefits and render the cost to the exchequer of these implicit subsidies transparent.¹⁷

Progress in implementing administrative reform and institutional restructuring, as recommended by the Tax Reforms Committee (TRC) has been neglected (see Annex Table 4.12). Institutional reform to broaden the tax base, improve centre-state tax powers and tax-sharing, and the structure and administration of state taxes (discussed earlier in Chapter 3) would be highly desirable.

In the 1990s, though corporation tax has shown robust growth and personal income tax has performed almost as well, there has been a marked decline in the performance of both customs and excise duties (see Annex Table 4.12). The performance of customs duty can largely be attributed to the lowering of customs duties in line with the liberalization programme and recently the drop in oil imports, which account for 20 per cent of customs revenues. The performance of the central excise has shown a secular decline since the 1970s, which the recent rationalization of excise duty rates (continued in the Budget of 1999-2000) and limited base broadening, via removal of exemptions and the introduction of a service tax, has been unable to reverse.

Regarding tax concessions, assessment of the benefits to society from the resulting revenue sacrifice is

¹⁷ Misuse of these concessions is documented by the CAG in some cases and there is anecdotal evidence of misuse, for example of the backward area allowance (by attributing production to dummy factories in backward areas) and the concession for charitable contributions. Data to permit an assessment of returns in rupees of revenue sacrificed are not readily available, though some studies evaluating specific concessions exist.

difficult as the necessary information is not readily available. To enable assessment of the benefits from revenue sacrificed the government should, as a first step, begin compiling data on tax expenditures as part of its budget to increase transparency and to assist in the evaluation of their returns. Studies by research units of tax departments, based on samples of assessee, should also be conducted to assess the benefits from tax concessions. The government should ensure that removal of exemptions is taken up in its next Budget, in accordance with the recommendations of the committee to examine exemptions announced by the Finance Minister in his 1999–2000 Budget speech.

In tax (including customs) administration, while there has been some success in simplifying procedures, decreasing the incidence of non-filing and increasing automation, institutional and organizational reform still lag behind. The effectiveness of several procedural reforms is, however, questionable (see Annex Table 4.13 and Annex 4.3).

An important example of the adverse impact of poor tax administration procedures is the increased transactions costs borne by exporters and importers due primarily to cumbersome customs procedures (other sources of transactions costs, albeit less serious, are reviewed in Chapter 5). Indicative evidence shows (see Annex Table 4.14) that customs clearance time for imports in India varies from 48–120 hours, more than for comparable countries such as Indonesia (48–96 hours), Argentina (3 hours), Mexico (12–24 hours), and considerably more than the best practice of 15–25 minutes (Singapore). Also, India insists on 100 per cent inspection, while many other countries inspect on a

sample basis. Reduced delays are essential for India's competitiveness in today's time-sensitive markets.

The most important pending reform is implementing TRC recommendations for minimum tenure of Chairmen and members of tax boards and autonomy and control over expenditure allocations and personnel matters within their departments. Other administrative reforms that could be considered are outlined in Annex 4.4.

Improving Public Services through Effective Decentralization

Decentralization is becoming a standard remedy for improving public service delivery, especially to the poor. With service providers closer to recipients, it is argued that recipient's 'voice' will be better heard and service adapted to local conditions, thereby improving delivery (see Box 4.3). Of course, inherent in this argument are the issues of providing non-public goods through the market, that is by the private sector rather than by the public sector, and the possibility of providing even public services privately but financed by the government—for example a voucher system for private schools such as used in Chile. Another issue is the extent to which 'voice', as well as efficiency of delivery/use, is reduced by delinking service provision from taxes and user charges—an issue that experience suggests is important in India. Finally the success of decentralization depends on the enhancement of capacity at lower levels of government and a strong institutional framework not subject to 'capture' by the local elite.

Box 4.3

THE EFFECTIVENESS OF VOICE

In 1993, the Public Affairs Centre, a non-governmental organization in Bangalore surveyed 807 randomly selected households 'to obtain systematic feedback on the public's experience with different (government) service providers and on their assessment of the adequacy and quality of the services'. Among the major findings were that 'the level of public satisfaction with the performance of service providers in Bangalore is uniformly low...', and that 'Corruption is widespread in most agencies and has no doubt contributed to the severity of public dissatisfaction'.

The 'report card' on public services drawn up on the basis of the survey was given wide publicity, to government service agencies, the press, and citizens' groups. In follow-up activity, the news media, which had given prominent coverage to the report card ran several public service investigations. The report card was also replicated in other cities in India. In a follow-up survey of 100 persons drawn from citizens' groups conducted in 1997:

- 69 per cent of respondents felt that public pressure had resulted in improved services;
- 54 per cent felt that the public agencies were more responsive to citizen problems than three years ago;
- 49 per cent felt that there was increased sharing of information by public agencies;
- 47 per cent felt that the behaviour of staff in public agencies had improved as a result of public pressure;
- 29 per cent felt that corruption had declined though 46 per cent felt that it had not.

Source: Paul 1995.

India has made a promising beginning in decentralization following the 73rd and 74th amendments to the Constitution. However, decentralization is far from complete and cracks are already beginning to surface in the evolving systems of fiscal and functional decentralization, although strengthening the generally weak management capacity of the over 220,000 local governments (see Annex Table 4.15) to ensure adequate service delivery, and the setting up of accountability institutions has barely begun. Therefore, the overall picture is one of incomplete institutional development and inadequate capacity building (see Annex Table 4.16). Consequently the proposal in the 1999 Union Budget to increase the reliance on and devolution of resources to gram panchayats for several key public services, including primary health care, primary education, and rural employment schemes needs to be accompanied by effective steps to improve the management capacity of local government. Another area where decentralization, along with improved transparency, can help is environmental management (see Box 4.4).

functions, and economic base. Additional features include: an institutional framework in the form of District Planning Committees (DPCs) and Metropolitan Planning Committees (MPCs) for purposes of planning and development at local levels; rights of the state legislature to determine the functional and fiscal powers of local bodies; incentives to states in the form of XIth and XIIth Schedules to enlarge the functional space of local bodies; and mandatory State Finance Commissions (SFCs) to make recommendations for the finances of local bodies and state-local fiscal relations. Several problems remain with the effectiveness of decentralization:

- Local government's own revenue receipts constitute a very small proportion of total government revenues. In 1991-2, revenue raised by municipalities amounted to 4.6 per cent of the revenue raised by the central government and 8.05 per cent of the revenues raised by state governments. Currently, own revenue resources of gram panchayats are extremely weak.

Box 4.4

IMPROVING ENVIRONMENTAL GOVERNANCE

In efforts to improve environmental management in India, governance and public sector institutional deficiencies are the fundamental weak links, not the financial cost of environmental protection. Both inadequate environmental policies and poor enforcement prevent India from capturing the high net economic benefits available from environmentally friendly efficiency gains and policy reforms. For example, an important part of such policy reforms would actually be a *reduced* financial burden of the public sector in environmental management—through increased user fees to be collected from the beneficiaries of clean water supply, sanitation, and solid waste services, and an explicit shifting of the cost of pollution control to private polluters (see also Chapter 8). In addition, improved governance would reduce environment-related public interest litigation, hence reducing the burden on the courts.

To improve environmental governance, the priority focus areas are improved information disclosure and transparency, due judicial process, and decentralization. Both improved information and the decentralization of the monitoring and compliance functions to the state and local levels invite the participation of the private sector, NGOs, and communities. This in turn improves the accountability of the state and local regulators—where results can be measured on the ground. More than at the central level, state-level environmental and judicial authorities operate in close proximity to managers of infrastructure and industrial investments, to land-use planners, to health officials, and to the affected urban (in the case of pollution impacts) and rural (in the case of most natural resource use) stakeholders. Hence, a process of decentralization and transparency are highly correlated with improved governance by the various government agencies whose actions impact on the environment. Similarly, institutional strengthening efforts in environmental management, therefore, have the greatest impact at the state level.

The constitutional and legal framework of decentralization in India now consists of a three-tier structure of government: local, state, and federal. At the local level, there are village, block, and district panchayats and three grades of municipalities depending on predetermined factors such as population,

- Local government's own revenues meet only a part of their recurrent expenditure. In the case of panchayats, for which the data base is fragmentary, it is estimated that own revenues cover no more than 5-10 per cent of the expenditure making them almost wholly dependent on state governments (see Annex

Table 4.17). For municipalities, the average proportion of expenditure covered by own revenues ranges between 65 and 70 per cent.

- The administration of local taxes is unsatisfactory and reflected in poor collection to demand ratios, inability of local governments to periodically adjust the property valuation tax rates and user charges to inflation, as also the high cost of administration and enforcement. In the case of property tax, which is the principal source of revenue for municipalities in non-octroi levying states, the collection to demand ratio is likely to be, on average, no more than 40–5 per cent. Few panchayats and municipalities have taken steps to build property valuation records and to adjust them to market prices, despite legal powers being available. Similarly, user charges (including licence fee, fines, and permits), which have a large potential, are barely used.

- Local governments, by and large, do not have the autonomy to choose the tax rates, these being either laid down by state governments or approved by them.

- Except for municipal corporations, local governments have no borrowing powers and are wholly dependent on state governments for capital loans. The borrowing powers of municipal governments are governed by The Local Authorities Loans Act, 1914, which require them to borrow with the previous sanction of the state government.

- Many 'conformity acts' enacted by different states to give effect to the constitutional amendments seek to restrict the autonomy of local governments, particularly panchayats, with provisions that are possibly at odds with the amendments. Several state Acts treat panchayats as agents of the state government instead of self-governing bodies; devolution of functions shows wide differences and, furthermore, most states have retained the power to amend or withdraw functions, in some cases by executive order; and in several states functions either overlap with the state government or there is joint control.

- Few conformity acts specify adequate audit and accountability mechanisms, a matter which has, however, been dealt with by some SFCs. The existing accounting procedures and audit arrangements of the Panchayati Raj institutions are inadequate. The staff available to village panchayats is lacking in number and ability to maintain accounts, and the strength of the departmental audit staff is not enough to conduct audit, given the large number of local bodies. The 73rd amendment to the constitution envisages supervision of the panchayats by public audit (gram sabha) through information sharing and open discussion.

While widespread success of public audits has not yet been established (the rural population may not be familiar with accounting methods to detect misappropriation), there are a few cases where this has worked.

The states' weak financial status clearly complicates the devolution of resources from them to local bodies, and subsidies at state level reduce the resources available to provide services in general, whether or not through the panchayats. This has affected the approaches followed by the different SFCs, which are not uniform. While they have, largely, recommended continuation of the status quo in taxing powers of states and local bodies, with SFCs recommending greater local flexibility in setting tax rates, four different approaches exist for purposes of revenue-sharing: creation of a divisible pool of state resources; assigning predetermined shares of state taxes to local bodies; fixed transfers; and allocation of a portion of shared Central taxes to local bodies. Furthermore, the wide variation in recommendations concerning grants-in-aid, from maintaining the status quo to greater use of various specific purpose grants, does not include increased reliance on general purpose grants. A weakness in most SFC reports is that these have been drafted without SFCs having access to clear descriptions of the functional jurisdiction and service provision responsibilities of local bodies partly on account of the nature of conformity acts.

This situation would be improved by:

- a review of legislation and SFC reports in different states to highlight infirmities;
- a re-examination of the scope for enhancing financial powers of municipal corporations and district panchayats such as through bond issues (as in Ahmedabad);
- making available technical assistance to local government to devise sound local government systems based, perhaps, on promising models like the Mayor-in-Council system in West Bengal and the rural local government system in Kerala;
- providing technical assistance to local government for project design, costing, and planning such as through a recent NGO initiative in Kerala;
- strengthening communication between local government and local self-help and civil society groups.

Clearly, there are several gaps in our understanding of the risks posed by decentralization. *Further study of decentralization experiences, both positive and negative, would be a vital building block in improving the quality and effectiveness of the decentralization process.*

Annex 4.1

EFFECTIVENESS AND EFFICIENCY OF FINANCIAL MANAGEMENT: SELECTIONS FROM THE REPORTS OF THE CAG FOR 1997-8

1. Unutilized balances of grants or appropriations of Rs 10 billion, some of which has persisted annually for the past five years.

2. 'Hasty purchase' of electronic voting machines costing Rs 735 million, which were lying unutilized for the past eight years.

3. No tangible improvement resulting from the Rs 4.1 billion spent during 1992-7 under the 'Production and distribution of seeds and crop development scheme' due to use of older varieties and sub-standard seeds.

4. 45 per cent of the Rs 23 billion under the Member of Parliament Local Area Development Programme remained unutilized. Much of the spending was on inadmissible items or schemes, and without obtaining clearance from the MPs.

5. Large unutilized balances from funds released to state and district governments and other implementing agencies including sums retained in Personal Ledger Accounts, Civil Deposits, etc., in a performance audit of five schemes; large amounts diverted to other schemes and unauthorized items.

6. 90 per cent of the Rs 18.9 billion spent from the National Renewal Fund was on voluntary retirement schemes, making the scheme 'a non-starter'.

7. Total spending of Rs 30.7 billion on the Main Battle Tank development project against an estimate of Rs 1.6 billion. A 14 year (and still growing) delay in the completion of the 24 year old project.

Annex 4.2

BUDGETING AND EXPENDITURE MANAGEMENT: A SUGGESTED REFORM PROGRAMME

Regarding Aggregate Fiscal Discipline

- A multi-year expenditure framework.
- A budget procedure with revenue budgeting and revenue policy setting before expenditure budgeting.
- Removal of the Plan/Non-plan categorization as suggested by several experts.
- Clearly defined expenditure caps, if possible through a Constitutional Amendment.
- Creation of a contingency fund under the control of the MoF (different from the Contingency Fund of

India) from which genuine unforeseen expenditure increases can be met.

- A budget circular incorporating expenditure ceilings for departments.

- Introduction of zero-base budgeting as announced by the Finance Minister and eventual revision of Demands for Grants by a document giving past outputs and realistically linking costed current and projected outputs to multi-year expenditure estimates. Strict zero-base budgeting as introduced in the United States may not be appropriate in the Indian context especially for development programmes not directly executed by the centre. However, the principal of (i) linking past outcomes to current expenditure proposals and (ii) evaluating the social return and/or prioritization of expenditure proposals is important.

- Improved cash management to permit eventual emulation of 'just in time' inventory management, through positive and negative incentives to line ministry FAs to improve disbursement forecasts.

Regarding Strategic Allocation of Expenditures

- Effective individual accountability and sanctions (or rewards if merited) for overspending or overbudgeting and for underspending.

- Development and tracking of programme-wise output performance indicators *in the budgets* as is currently done in the annual reports of some departments and ministries.

- Positive incentives for efficiency improving reforms rather than pursuit of fortuitous savings.

- Enhanced public involvement of stakeholder groups earlier in the budget formulation and post-budget stages.

Regarding Effective and Efficient Service Delivery

- Improved control of disbursements to on-spending agencies through the use of contractual positive incentives and negative sanctions (rather than ex ante controls) and a reporting system providing information on both financial expenditure and physical progress.

- Improved internal audit capabilities and strengthening the role of external oversight to enable long-term pursuit of management improvements where weaknesses are identified by external audit review.

- Stepped up implementation of computerization of accounts down to the programme implementation level.

- The introduction of client satisfaction surveys, conducted by independent central and local agencies for each

government programme and feedback from client surveys to ministry budget allocations.

Regarding Implementation of the Reform Programme

- Setting up of a high powered reform management body to oversee implementation and deal with teething problems.

Annex 4.3

EFFECTIVENESS AND EFFICIENCY OF TAX ADMINISTRATION: SYSTEMS APPRAISALS BY THE CAG

1. *Implementation of invoice based system for MODVAT credit.* This system, introduced for registered dealers and manufacturers in 1994-5, was evaluated in 1996 for transactions up to September 1995. Among the deficiencies found in administration were: (i) issue of registration certificates to dealers without proper business premises in 12 per cent of cases checked; (ii) no tax recovery action for invoices issued by dealers whose registration had been cancelled; (iii) incorrect or incomplete invoices or invoices not signed by authorized signatories in over 82 per cent of cases checked; (iv) undervaluation of goods in invoices in about 15 per cent of cases; (v) MODVAT credit allowed against invalid documents in 15 per cent of cases checked.

2. *MODVAT capital goods scheme.* Improper credit was allowed before capital goods were installed and, in other cases, on goods that did not qualify for capital goods treatment. In eight per cent of cases checked in 1997, credit was allowed before installation; in 65 per cent of cases MODVAT credit was incorrectly given; in 36 per cent of cases interest on collections not transferred to the treasury was not charged; and the authorities failed to 'deface' many invoices on which duty had been claimed, opening the possibility of their being fraudulently used a second time.

3. *100 per cent export-oriented units:* This customs duty incentive scheme, introduced in 1980, allows for 100 per cent exemption of customs duties for capital goods imported by units achieving a minimum value addition and exporting all their output. However, the verification of value addition and export compliance was under the Ministry of Commerce, leading to the need for coordination between it and Customs, which, expectedly, did not work efficiently. Consequently a large number of cases came to light during audit where customs exemptions were granted but where value addition and export stipulations were not met. This example illustrates both the

administrative complexity of export incentives and possible limits on export gains that result from them.

4. *Export processing zones.* This scheme was audited in 1997. Of the functioning units examined, 28 per cent failed to achieve their export and value addition obligations even after five years. Regarding units that had closed down, 27 per cent failed to meet their export obligations before shutting down, but forgone customs duty was not subsequently recovered. The CAG also concluded that the scheme was unviable and failed to achieve its objectives. While there may be debate about the method of assessment the CAG used, they also pointed out that no assessment of this scheme had yet been made by the Commerce Ministry.

5. *Income tax summary assessment.* All income and corporation tax returns filed are supposed to be assessed summarily by the administration and a small fraction of summarily assessed returns is then subjected to in-depth scrutiny. The summary assessment scheme was examined by the CAG in 1996-7. They found that the percentage of returns remaining to be summarily assessed at year end increased from 16.5 per cent in 1992-3 to 23.6 per cent in 1994-5 due to the sharp increase in workload per assessing officer. This situation is likely to have since become worse due to the increased volume of filed returns by the growing number of assessees and the wider filing requirements for assessees. Furthermore, the total extra revenue from assessment during these three years amounted to only Rs 62.3 crore, or 0.1 per cent of total tax collections. The CAG also found on test checking about 1 per cent of filed returns, that the department failed to detect numerous errors resulting in a tax loss of Rs 192.3 crore from checked cases alone. Many of these errors were due to the failure of assessing officers to follow prescribed procedures. Consequently, the CAG recommended stepped up efforts to computerize summary assessment and a review of summary assessment procedures.

6. *The presumptive tax for small businesses.* Under this scheme a tax of Rs 1000 was to be paid by specified businesses with turnover of between Rs 300,000 and Rs 500,000. The scheme was examined in 1997 by the Audit. The CAG found that this scheme was not being implemented uniformly, with, in some cases, Commissioners having direct responsibility for the scheme. The major strategy to 'attract' taxpayers was via publicity campaigns on which about Rs 1 crore were spent. The result of this was, for example, about Rs 31 crore in tax in 1995-6 from 223,000 taxpayers. This number of taxpayers was far below the target of the scheme of 15 million tax-payers. There were no enforcement actions taken against assessees filing returns under this scheme. The CAG found several cases of taxpayers using the scheme despite being ineligible, due to a large turnover or

their status (for example professionals). The CAG also found discrepancies between tax figures entered by the computer centre and tax payments recorded at the zonal accounting office raising the possibility of misappropriation of taxes paid.

7. *Penalty, interest, and prosecution for direct taxes.* The efficiency of assessing officers in levying these extra dues was assessed by the CAG in 1996. The review found many cases of overpayment, underpayment, and non-levy or underassessment of interest; low and declining disposal of penalties initiated; failure by assessing officers to record why they had failed to levy (discretionary) penalties in several cases, despite being required to do so; delays in launching prosecutions of up to eight years; an acquittal rate in prosecutions of 53 per cent; and incomplete or defective maintenance of records.

8. *Functioning of internal audit in direct tax administration.* Internal audits are conducted by a special wing of the income tax department to catch and correct mistakes in assessment and improve the quality. The CAG found, in 1997, that these objectives were not being achieved. It also found an absence of audit planning (which is required); poor manpower management and frequent staff transfers contrary to instructions; an outdated audit manual which had not been revised since 1987; and large arrears (77 per cent) in assessing officers following up audit objections. With respect to an earlier appraisal of the internal audit wing conducted in 1989, the CAG concluded that 'the current review does not show any improvement in the working of Internal Audit over the last review'.

Annex 4.4

A SUGGESTED REFORM PROGRAMME FOR CENTRAL TAX ADMINISTRATION

Basic Organizational Reforms

- Minimum tenure of Chairmen and members of tax Boards.
- Autonomy and control over expenditure allocations and personnel matters within their departments.
- Budgets for tax administration with revenue budgets linked to measured revenue and equity performance and capital budgets linked to long-range strategic plans in the medium term.

- Legislative amendments to remove the statutory powers of assessing officers, and instead vesting powers in Board Chairmen with subordinates having only delegated powers to facilitate further functional specialization, especially at the level of field offices.

Improving Performance Assessment and Accountability

- Improved reporting of administrative data to enable tax administration performance to be assessed.
- A thoroughly revamped system of performance evaluation with performance-based pay linked to it and implementation of TRC recommendations for interim rewards.
- Strengthening the role of the CAG by a greater focus on management improvements and strengthening the existing system of legislative review to permit ongoing monitoring of administrative measures to correct weaknesses. Improved cooperation between audit and vigilance agencies and better reporting in these areas.
- Legislation to introduce a tax ombudsman.
- Strengthening the role of the public in providing feedback and monitoring of tax administration.

Procedural and Management Reforms

- Decreasing opportunities for direct contact between tax officials and taxpayers and making certain procedures, such as the levy of interest and penalty, non-discretionary.
- Refocusing computerization plans of tax departments with external technical assistance and stepping up the pace of introduction by setting up of a high powered change management unit.
- Improving the selection of cases for post-clearance checks in customs.
- Introduction of a receipts lottery to increase compliance by small business.
- A review and reform of appeals procedures, including the structure of fees, cost awards, and filing of appeals by tax departments.
- Improved cooperation between direct and indirect tax administrations starting with the use of common taxpayer identification numbers.
- Review and strengthening of regulations and codes of conduct governing tax professionals and clearing agent.

Improving Infrastructure to Reduce Poverty and Support Growth

Overview

Improved Infrastructure would Help India's Poverty Reduction and Growth Substantially

Sixty-two per cent of the respondents to the 1999 CII survey rated India's infrastructure as a hindrance, with roads rated the worst of all public goods and services. However, the overall rating of infrastructure, notably telephone availability and roads, seems to have improved since 1996 (see Annex Tables 4.3 and 4.6). International investors also rank India's infrastructure very low—the 1998 Global Competitiveness Report of the World Economic Forum rated India 53rd out of the 53 countries surveyed in the context of infrastructure. Household connections to power and water are limited, telephone-density is among the world's lowest, and transportation services do not meet the needs of an increasingly mobile population. Moreover, as growth proceeds, exports (and imports) increase, and urbanization rises from its currently low level (25 per cent), even larger infrastructure needs will develop for transport networks and urban infrastructure, to transport goods and provide a livable urban environment. In 1996, the Mohan Committee estimated that a 45 per cent increase in infrastructure investment would be desirable as well as feasible macroeconomically (vol. I, p. 4; vol. II, pp. 44–50).

The poor quality of India's infrastructure services (see Box 5.1) reduces growth directly, hindering specialization, continuous process industries, and firms that depend on good quality water and power. Poor quality transport facilities raise transport costs and contribute to uncertain delivery times, forcing businesses to hold large inventories and reducing the attractiveness of India's exports to foreign buyers. Safety problems in transport (see Mohan Committee 1996, vol. III, p. 142) and health problems related to water availability represent major issues in the economy. Businesses in India routinely provide their own utility services, in the form of captive power and water facilities, to offset the poor quality of public service. However, this duplication of investment increases the capital intensity of India's growth. Moreover the small private facilities are less efficient than could theoretically be achieved with well-maintained, high quality, larger-scale works providing service through effective transportation and distribution networks.

Poverty reduction would benefit from increases in infrastructure, as shown by the experiences of Punjab and Haryana, as well as various statistical studies.¹ Improved infrastructure will be needed to allow the hinterland, such as Uttar Pradesh and Bihar, to benefit

¹ See for example, Ravallion and Datt (1996a), Govinda Rao *et al.* (1999), and Lall (1999).

Box 5.1

PROGRESS IN INFRASTRUCTURE PROVISION

Telecommunications: The waiting list for a connection is higher now than at the start of the decade, at over 2.8 million, around 20 per cent of the present number of lines. Only 50.1 per cent of villages had public telephone service by end March 1998 (GOI 1999e). India's growth in the number of mainlines is slow compared to China. Telephone density in India (at 1.72 per cent) is below that of the neighbouring Asian countries such as Thailand (11.4 per cent), China (7.3 per cent), and Indonesia (2.9 per cent) (TRAI).

Power: India-wide, the shortfall in meeting demand is conservatively estimated at 11 per cent for regular and 18 per cent for peak energy demand (GOI 1997c), although the variation amongst states is substantial. In order to cope with irregular supply, and also in part due to the high tariffs levied on industrial consumers to cross-subsidize agricultural and residential consumers, industry has increasingly relied on captive generation. The SEBs have become a chronic financial drain upon the government budget because of inadequate and unbalanced tariffs, high levels of power theft, non-payment and non-collection of bills, and inefficiency.

Urban Water: Of 27 Asian cities with populations over 1 million, India's four largest cities are ranked amongst the five worst cities in terms of water availability hours per day. Physical losses are typically high, despite low pressure, ranging from 25 per cent to over 50 per cent. Low pressures and intermittent supplies allow back-siphonage and contamination. Every year about 1.5 million children under the age of 5 years die in India because of water-borne diseases. The lack of availability of water affects the urban poor disproportionately. In Delhi, for example, even though the official per capita water supply is about 200 litres per day, about 30 per cent of the city's 9 million people have access to less than 25 litres per day.

Ports: By government estimates, the current capacity at the major ports is overstretched. Total tonnage handled during 1997–8 was 251 million tonnes, as against a capacity of 217 million tonnes (Ministry of Surface Transport). India's ports have struggled to keep up with the increase in demand. The total costs of moving a container through a terminal are on average 70 per cent to 80 per cent higher than those in Japan and in the US, where labour costs are much higher. Productivity at container terminals in the Jawaharlal Nehru Port Trust (JNPT) is less than half that of Colombo. External trade procedures, in particular customs, also play a part in reducing overall port productivity, with customs clearance taking on average three or four days (see Chapter 4).

Roads: Private road projects are being constructed in India, with successful examples so far being largely limited to toll bridges and bypasses in urban or semi-urban areas. Expansion of national highways through private funding is being pursued, with the government also considering a form of shadow-tolling with little traffic risk to private investors/operators. However, the development of the road network will require public funding, for both maintenance and capital expenditures. To this end, the last two budgets announced measures to increase resources for the roads sector through levies on fuel. The 1998 budget cess of Re 1 per litre on petrol is to be used for National Highways, while 40 per cent of the 1999 budget cess of Re 1 per litre on diesel is to be used for roads, mainly for highway expansion rather than maintenance.

from liberalization, along with the coastal areas.² A major expansion in the availability of safe water would greatly improve health among the poor. Finally, construction of infrastructure would increase labour demand, given the labour intensity of construction. However, experience suggests that attempts to increase labour employment through public works programmes typically do not provide good quality infrastructure without substantial capital and managerial inputs.

Infrastructure investment in India would thus yield large benefits, both in terms of supporting higher growth, improving the lot of the poor and the population generally, and yielding high rates of

² See Chapter 3, and Bajpai and Sachs (1998).

return.³ Without such investment, growth could well slow down and become increasingly concentrated in coastal areas and states with good infrastructure.

³ Various studies suggest that the returns to infrastructure are very high (see World Bank 1994, p. 15, for a summary of some studies). Criticism of aggregate estimates of infrastructure's productivity suggest that the historically estimated returns are inordinately high, and there is little evidence that additional investment would yield such returns. Some authors have tried to respond to these criticisms by noting that historical aggregate estimates are based on the initial estimates in infrastructure networks—which is what applies to developing countries like India. On the other hand, say, duplicating road or railroad networks in developing countries would not yield very great returns.

India's Public Provision of Infrastructure

India relied almost completely on public sector provision of infrastructure until the early 1990s. For example, power (except for some auto-generation and limited private distribution), railways, roads, and telecoms were all public sector monopolies.⁴ The trend towards private sector provision of infrastructure, in particular power, telecom, ports, and airports, gained momentum worldwide in the 1980s. This trend was precipitated by the recognized failings of the public sector in this area, as well as technological developments which enhanced the possibilities for competition, especially in telecom and power. Recognizing the need to attract more investment in infrastructure, India opened that sector to private investment as part of the country's 1991 reform programme. The success of the government in attracting private investment, and the evolving policy response, are assessed in the following section. It has to be recognized, however, that a large part of India's infrastructure needs will continue to be provided by the public sector. For example, private investment may contribute to the expansion of the roads sector, but the public sector will have to continue to fund this area.

Public sector spending on infrastructure has fallen from about 3.5 per cent in the first half of the 1980s,

compared to the planned 27,728 MW.⁵ Railway investment has fallen by about 0.3 per cent of GDP while other transport (including roads) has remained a low 0.3 per cent of GDP. Only communications investment has shown an increase in the 1990s, of about 0.3 per cent of GDP.

Moreover, it is generally recognized that maintenance expenditures are too low. In power, low maintenance partly explains plant load factors and plant availability that are well below international standards,⁶ although there has been some improvement in these areas. In roads, the neglect of maintenance is very costly, particularly given the deterioration caused by increased traffic and heavy loads—World Bank (1988) estimated that, in 85 countries, an erosion of \$ 45 billion in road assets occurred that could have been avoided at a cost of \$ 12 billion in maintenance. For India, even in 1988, inadequate road expenditure and maintenance is estimated to have cost the country at least Rs 30 billion per year in excess wear and tear of vehicles, accidents, fuel costs, etc.,⁷ and this figure can only have gone up with the major increase in traffic volumes thereafter.

High explicit and implicit subsidies and low user charges limit internally generated resources and are major factors in the slowdown in public infrastructure investment. In power, for example, average revenues are only about 80 per cent of costs,⁸ reflecting low

TABLE 5.1
India: Investments in Infrastructure and Other Investments

	(per cent of GDP)						
	1981-2	1985-6	1991-2	1992-3	1995-6	1996-7	1997-8
<i>Gross domestic investment</i>	23.1 (13.4)	23.5 (13.0)	21.0 (12.4)	22.0 (13.6)	24.0 (16.7)	21.4 (14.7)	22.4 (15.5)
<i>Infrastructure</i>	4.8 (1.4)	4.8 (1.2)	5.4 (1.4)	5.2 (1.6)	4.2 (1.0)	4.4 (1.5)	4.6 (1.6)
Electricity, gas, water supply	2.5 (0.4)	2.6 (0.2)	2.9 (0.3)	2.6 (0.5)	2.0 (0.2)	1.8 (0.2)	2.0 (0.2)
Railways	0.6 (0.0)	0.6 (0.0)	0.5 (0.0)	0.6 (0.0)	0.4 (0.0)	0.4 (0.0)	0.3 (0.0)
Other transport	1.3 (1.0)	1.2 (0.9)	1.4 (1.0)	1.3 (1.0)	1.4 (1.1)	1.4 (1.2)	1.3 (1.1)
Communications	0.3 (0.0)	0.4 (0.0)	0.5 (0.1)	0.7 (0.1)	0.4 (0.0)	0.7 (0.1)	0.9 (0.3)
<i>Other</i>	18.4 (12.0)	18.8 (11.8)	15.6 (10.9)	16.8 (12.1)	19.9 (15.7)	17.0 (13.2)	17.9 (13.9)
<i>Memo:</i>							
<i>GDPmp</i> (Rs billion at current prices)	1728.1	2836.6	6671.6	7635.6	12,179.6	14,098.5	15,635.52

Note: Private sector investment within parentheses.

Source: National Accounts Statistics.

and 4 per cent in the later half of the 1980s, to about 3 per cent currently (see Table 5.1). Electricity, gas, and water investments have fallen by about 0.8 per cent of GDP since the late 1980s–early 1990s. For the Eighth Plan covering 1992–7, actual spending on power was only 80 per cent of the planned, and the increase in public capacity generation was only 14,992 MW

⁴ See Mohan Committee (1996), vol. III, pp. 54–5, 100, 141.

⁵ Compared to the original targets, the percentage shortfall in transmission was nearly as great; however, targets for transmission capacity were scaled down as the shortfall in generation capacity became clear (Ahluwalia 1998).

⁶ Another factor is high ash, low quality coal.

⁷ According to a road users' cost study quoted in Kathuria (1996), p. 375.

⁸ See Mohan Committee (1996), Ahluwalia (1998), and Parikh (1999).

collections⁹ and subsidies to agriculture and small consumers. Agriculture and domestic consumers pay, respectively, Rs 0.21 and Rs 0.91 per KWh on average, with free power or flat fees prevailing for agriculture in many states. The supply cost of power is estimated at Rs 1.86 per KWh (Parikh 1999, p. 121); moreover, this average cost is understated because it reflects a low rate of return at 3 per cent, which is substantially below the cost of capital in India. India's average power tariff is also very low by international standards, which are typically equivalent to Rs 2.5–3.0 per KWh. The low user charges generate heavy losses for most SEBs—the average rate of return was estimated at –4 per cent in 1996–7. Even while charging industrial consumers much higher tariffs, the SEBs are unable to cover costs, let alone generate internal surpluses to finance investment. Hence they have been unable to invest and have, in fact, become an enormous burden on state governments' budgets and have run up large arrears with the central government enterprises such as Coal India and National Thermal Power Corporation (NTPC).¹⁰

The situation in the other sectors is similar. The states have also allowed irrigation charges to decline sharply in real terms. States' typical charges for water are far less than delivery cost; in Punjab, for example, drinking water is free. This encourages water losses in a water-scarce country. In roads, central and state governments traditionally finance construction and maintenance; there is no tradition of tolls even on major highways (tolls are charged only for major bridges to recoup construction costs). While road-related taxes (road tax, registration tax, taxes on fuels and vehicles, etc.) yield 2.1 per cent of GDP, lack of earmarking means that only 48 per cent of these are used for roads. Only in ports and telecommunications have user charges generated substantial internal funds for financing investment (Ahluwalia 1998).¹¹

⁹ Low collections show power theft, distribution losses, and increasing payment delays. In UP, for example, receivables from the sale of power have been increasing from about 6 months' sales in 1990–1 to nearly 12 months sales in 1996–7; of these receivables, nearly 40 per cent are accounted for by the public sector.

¹⁰ See Chapters 3 and 8, and Mohan Committee (1996), vol. II, p. 72.

¹¹ Telecommunications tariffs currently contain a substantial cross-subsidy from long distance to local users. However, the TRAI has taken steps to reduce the cross-subsidy through its 1999 Tariff Order, taking into account the liberalization of long distance services and the impact this will have on DoT's ability to subsidize local rates from this sector.

Increased public spending on infrastructure, as well as increased private provision, will be needed to meet India's infrastructure needs well into the twenty-first century. As private spending grows in some areas, in response to improvements in the regulatory framework (see the next section for a discussion of current developments in key sectors), public sector spending can be realigned. And public spending will be particularly needed in sectors where private interest is low, where there are substantial externalities, where difficulties exist in closely linking charges to services, or where there are strategic or distributional considerations. Even in these cases, the problems of limiting access, and lost time and safety considerations of toll plazas (as demonstrated by the problems of octroi taxes), suggest alternative approaches such as shadow tolling and payments to operators for construction and maintenance out of a 'Road Fund', which the government is considering. Other examples are urban infrastructure—such as roads, flyovers, storm drains, solid waste disposal, provision of basic needs for water and sanitation—rural roads, and infrastructure in strategic areas of the country.¹² Even in these cases, the infrastructure could be constructed and maintained by the private sector, while being funded by government contracts that provide appropriate incentives for timely delivery and good quality services.

A drastic reduction of implicit and explicit subsidies, including cross-subsidies (see also Chapters 3 and 8), is a key to funding the needed increase in infrastructure, as well as improving the efficiency and distributional aspects of infrastructure (see Box 5.2). For example, according to the Mohan Committee, the biggest barrier to efficient use of power by consumers is the SEB pricing policy that extends unsustainable levels of subsidies to large consumer segments (vol. III, p. 65). These subsidies include not only low prices but also flat fees and lack of peak load pricing. Funding for roads, public and private, could be increased by further increasing the cess paid by consumers on petrol and diesel fuel for road construction, a step that was begun in the last two budgets.¹³ Water charges could be raised to remunerative levels, and could include a fee for

¹² In some cases, for example urban roads, particularly for access to the city centre, a mixture of high tech and low tech user charges may be applied, not only to pay for construction and maintenance, but to relieve congestion. Parikh (1999; ch. 6), summarizes many of these approaches.

¹³ The funds collected by the 1998 and 1999 cesses have not yet flowed to the road sector—for this to happen, an executive decision by the Ministry of Finance is needed. In this context, suitable enabling legislation on the lines of the Maharashtra State Road Fund would help.

sanitary disposal of water. A number of countries link assessments for local taxes to improvements in, for example, availability of water and disposal of sewerage networks. Irrigation operations and maintenance charges could also be raised. Any subsidies that remain should be limited, clearly specified and targeted (for example basic water requirements), and paid for by the government rather than through cross-subsidies. The long history and political sensitivity of subsidies in India suggests a need to accompany subsidy reduction with a clear linkage between use and cost (which may be facilitated by privatization and decentralization), an emphasis on the unsustainable nature of the current approach that leaves infrastructure funding to 'someone else', and an improvement in the quality of supply.

risks, private providers often demand guarantees that, unless carefully specified, can reduce their incentives to evaluate projects, perform effectively and take appropriate risks, and can therefore take away much of the benefits associated with private service providers.

Attracting Private Investment in Infrastructure—Evolving Policies

Recognizing the need to attract more investment into infrastructure, as part of the 1991 reform programme, India opened the infrastructure sectors to private investment. Progress in increasing private participation in infrastructure has, however, been slow. While fiscal

Box 5.2

THE PERVERSE IMPACT OF SUBSIDIES

Subsidies as applied in India are distortionary, have hindered private provision of services, and have non-transparent distributional effects. In terms of inefficiencies, power subsidies encourage over-pumping of aquifers, reduce the availability of aquifers for drinking water, and, in a macroeconomic sense, encourage production of water-intensive crops in a country where water is scarce. The implicit subsidy in the failure to distinguish between peak and non-peak tariffs increases pressures to overbuild capacity—the World Bank estimated in 1991 that various measures to reduce peak usage could reduce peak generation requirements by about 12 per cent over a 10 year period. Since part of the power subsidy comes from not covering operations and maintenance, outages are frequent (reducing utilization) and users that require good quality power are forced to invest in low efficiency generation sets. Since power subsidies are partly financed by higher charges to industrial users, they are encouraged to self-generate power, which is less efficient than generation in large-scale power plants, but less costly to them because of (a) the inflation of charges to them by cross-subsidies and (b) outages. Subsidies in canal user charges have led to lack of operations and maintenance spending, and correspondingly an overly rapid deterioration of the capital. In addition, lack of maintenance contributes to waterlogging and salination of soils.

The subsidies' distributional effects may contribute to inequalities and are far from clear. The beneficiaries of the subsidies may or may not have higher incomes than the taxpayers. Moreover, a part of many 'subsidies' (for example in power and water) reflects 'non-technical' losses, and another part reflects the abilities of firms and individuals to define themselves as part of the subsidized group. Thus, the incidence of the subsidy is almost impossible to define. In addition, subsidies to one group of users are partly covered by other users in the same sector (either as a cross-subsidy or as deterioration of the service they receive). This is a politically easy way to fund the subsidy but has unclear distributional consequences and little support on efficiency or equity grounds in tax theory.

In the case of power, the poorest are involuntarily paying for power supply to the richer people. Since SEBs are not allowed to charge realistic tariffs, their accumulated deficits are at least partly serviced by deducting their dues from Central Plan assistance to the states. The impact of this reduced central assistance as well as direct state subsidies to power is that the poorest in India, who typically do not have access to power, are involuntarily and indirectly (by not receiving adequate supply of basic services like health and primary education) made to pay for the cost of power services to richer segments within society.

The linkage between reducing subsidies and increased public funding is clear. But reduced subsidies are also critical to efficient private provision of services. Prices that do not cover costs carry the clear implication of political interference in providers' cost recovery, which generates risk for providers. To offset such

pressures meant that public investment in infrastructure declined from 4 per cent of GDP in 1991–2 to 3 per cent in 1997–8, the anticipated private sector investment has not been realized, rising from 1.4 per cent to only 1.6 per cent over the same period, so that overall infrastructure investment declined

(see Table 5.1). Indians still largely receive infrastructure services—such as electricity, telecommunications, ports, and water—through public entities, which are usually part of a government department or, relatively infrequently, a corporatized entity operated on commercial lines.

The full potential of the private sector in meeting India's pressing infrastructure needs is as yet largely untapped. With relatively few exceptions, principally in the power sector in Orissa, there has been little in the way of privatization of existing companies. Both central and state governments have perceived the private sector's role largely in constructing new facilities—for example independent power producers (IPPs) and greenfield port sites; or in establishing new companies competing with public operators—as in the case of the telecommunications sector. However, this largely neglects the productivity and efficiency gains that could be obtained via private management and ownership, under an appropriate regulatory regime and with competition introduced wherever possible, and which would go some way towards relieving the present infrastructure constraints.

Telecommunications

This sector witnessed some of the first attempts to introduce the private sector into service provision. Although there are over 1 million cellular subscribers, and the first private basic service providers have begun a network roll-out, the impact of the private sector has been substantially less than anticipated. The main reason for the slow network roll-out is the high level of licence fees payments, which are difficult to sustain under present market conditions. Most of the licences were bid for by the private sector and represent a combination of genuine overestimation and deliberate overbidding in the hope of renegotiating the fee at a later date.

The New Telecom Policy, released in March 1999 represents a substantial move by the government to further modernize the Indian telecommunications sector. Under this, the government has now publicly committed to the corporatization of DoT, introduction of competition into long-distance services, and expansion of competition in basic and cellular services. It also addresses some of the implications of convergence. The government has also taken steps to permit the existing licence holders in basic and cellular operations to migrate to a revenue-sharing scheme which will be more compatible with the revenues that can be generated from the sector. The next stages of reform

will increasingly involve competition between publicly-owned service providers and private companies for the more profitable long-distance and, eventually, international services. A successful opening of the sector will require the development and enforcement of the rules of the game (for example interconnection) by a party which faces no conflict of interest. Recent moves by the government, including the commitment in the new policy to a strong and independent regulator, have strengthened the regulator, but the overall policy and regulatory framework still allows for ad hoc policy interventions by the government in some of the details of the rules of the game. In the context of interconnection, it should be noted that the New Telecom Policy states that the Telecom Regulatory Authority of India (TRAI) will be involved only as an arbitrator in disputes between the policy maker and the licensee, when international practice is more for the policy maker to state the general principles underlying interconnection pricing, and will let the regulator, along with the service providers, handle the detailed issues. Moreover, although the policy recognizes the principle of Universal Service Obligation (USO), it is not clear why DoT should be refunded any cellular licence fees it pays (as proposed by the policy), as opposed to being reimbursed for its USO.

Power

Government attention initially focused on private investment in generation. The fundamental sector problems—high levels of losses due to theft and heavily subsidized tariffs to agricultural and, to a lesser extent, residential consumers—were unchanged. Faced with buyers who were largely bankrupt, relatively few IPP developers have been able to obtain financing for their projects. As of June 1999, 3000 MW of privately financed IPPs, selling to the SEBs, had been commissioned, with a similar level of capacity presently under construction. Implementation difficulties—related to signing bankable fuel supply and transportation contracts—have also slowed down some projects which had received central government counter-guarantees.

Far-reaching power sector reform is being attempted by a number of states. This involves divestiture of existing assets to private operators in combination with the establishment of a regulatory framework for the sector which will allow the recovery of cost-based prices. Orissa has been the pioneer in these efforts. Legislation was enacted in 1995 to create the Orissa Electricity Regulatory Commission and corporatize

the Orissa State Electricity Board, Gridco, which is responsible for transmission and distribution. An existing state-owned corporation, the Orissa Power Generation Company, has since been the subject of a successful divestiture, with 49 per cent of equity being sold to the AES, the highest bidder. More significantly, the government has recently completed the privatization of the distribution business of Gridco (see Box 5.3). Gridco will continue as the bulk transmission entity, and will in the transition period also be the bulk purchaser (single buyer) of power on behalf of the distribution companies operating in the state, a situation which will be reviewed, at a later date, by the Regulatory Commission. The states of Haryana and Andhra Pradesh have enacted and made effective reform legislation similar to that developed in Orissa. Under their respective reform acts, they have restructured (unbundled) their power sectors and established their regulatory commissions. The legislative assemblies in the states of Uttar Pradesh, Rajasthan, and Karnataka have enacted similar reform legislation, expected to become effective by April 2000. Reform programmes in all these five states include distribution privatization, and some of them are expected to move

level transmission utilities to similarly contract private transmission. Following the September 1999 national elections, the government is reviewing and accelerating its disinvestment plans. In the power sector, POWERGRID and the National Thermal Power Corporation (NTPC) have been identified as possible candidates. Were the state power reform process more advanced and spread across India, the government could create a competitive wholesale power market and at the same time realize high privatization proceeds by selling off NTPC, plant by plant, through competitive bidding processes.¹⁴

Water

This sector has not as yet seen any privately financed projects of substantial size reach financial closure, although the Tirrupur project, supplying water predominantly to industrial customers, is nearing this point. All projects attempted thus far have been bulk supply projects. Where these are selling to a municipality or board, the main concern of potential investors is the ability of the purchaser to pay for the services to be supplied; where these are selling to industrial consumers who have the ability to pay for the services,

Box 5.3

PRIVATIZING DISTRIBUTION IN ORISSA

In July 1997, Gridco, the utility responsible for transmission and distribution services in Orissa, decided to offer the entire distribution business in the state (divided into four zones) for privatization simultaneously, instead of sequentially, as envisaged earlier. The Orissa government and Gridco decided to offer majority stake and management control to strategic investors. Eleven consortia, including some major international utilities and leading Indian power companies, were prequalified to bid for 51 per cent of the shares in each of the distribution companies. Bids from three consortia—Bombay Suburban Electricity Supply Ltd. (BSES), Grasim Industries/Singapore Power consortium, and Tata Electric Companies (TEC)/Viridian Group PLC consortium—were received for three out of the four zones in January 1999. The BSES emerged as the successful bidder for all three zones; majority equity and management control in these distribution companies have been transferred to it, generating disinvestment proceeds of Rs 1.2 billion for 51 per cent of the equity in the three companies, representing a premium of 50 per cent over book value. The Government of Orissa has recently completed the sale of 51 per cent of equity in the fourth zone to the AES.

very actively in this area during the year 2000.

At the national level, the government unbundled its utilities in 1993, by consolidating the transmission activities of several central and joint sector generators into a separate transmission company, the Power Grid Corporation of India Ltd. (POWERGRID). India opened the power transmission sector to private investment under The Electricity Laws (Amendment) Act, 1998. POWERGRID is preparing the first projects for implementation by independent power transmission companies, to be contracted through competitive bidding processes. The Act also provides for state-

¹⁴ Government disinvesting its equity in NTPC to below 50 per cent would obviously lead to NTPC becoming a private company, which at 18,000 MW and growing, would remain in the foreseeable future a dominating force in the sector and, as such, would probably make any future plans to introduce more advanced competitive wholesale power markets very difficult to implement successfully. While plant-by-plant privatization would avoid this potential risk, it does raise some additional caveats: (a) if private shareholders have a say, they could complicate the restructuring of the system; (b) unless plant-by-plant privatization sees a change in management, efficiency gains will be minimal; and (c) even plant-by-plant sales to private management may need some voluntary staff reduction before sale.

additional complications arise such as the requirement to provide water at subsidized rates to residential consumers located near the project.

The poor operational performance of this sector shows strong parallels with the power sector. The current emphasis upon bulk supply facilities financed by the private sector and selling either to a public body or to industrial consumers also mirrors the initial emphasis upon IPPs in the power sector. The provision of urban water supply in India suffers because of the lack of a commercial orientation. The private sector can, under an appropriate regulatory framework, provide the management expertise and incentives to reduce losses and expand service. However, India has yet to embark upon the introduction of private management in this area. The appropriate strategy for doing this will have to combine tariff increases with improvements in service standards and water availability—the latter in some cases requiring substantial investments.

Management contracts may be a possible entry point. However, without full management control and the ability to shed workers and to provide incentives for good performance, such contracts are unlikely to produce the substantial improvements in operating performance that would come from more substantial forms of private sector participation such as leasing or concessioning. If the private sector is to be responsible for investments, then the issue of cost recovery needs to be addressed. If price increases have to be phased in over time so that they more closely match the improvements in water availability and quality, and provide a transition from the very low present levels, there may be need for phased and targeted government support. The strategies adopted need to take account of two additional factors: (i) provision of a policy framework where informal water providers can continue to provide services to the poor; and (ii) addressing of water resource and allocation issues, particularly in the water-deficient areas of India.

Transport

At ports, toll roads, and airports, privately financed facilities are being constructed and commissioned. However, at ports and airports, thus far, the focus has largely been on the creation of new facilities rather than privatizing operations at existing facilities. The government envisions demand growth for port services of around 200 million tons, with estimated throughput of around 415 million tons in 2001–2. It is therefore planning to add 122 million tons of port capacity over the Ninth Plan period (1997–2002). Approximately

45 million tons, or around one-third of capacity, is expected from the private sector, in addition to 31 million tons from captive schemes.¹⁵ In the case of airports, the government has announced that it is planning to lease out operations at four major airports to the private sector. The successful commissioning of the Cochin airport represents a landmark for private investment in this sector.

Privately financed toll roads are now under operation, with more being commissioned in India. Thus far these have been relatively small facilities such as bridges and bypasses, although larger projects are coming on stream. However, these projects typically have extensive recourse to the public sector, with debt being largely guaranteed by the concessioning public authority. It would be expected that a successful programme of projects would see a reduction in the risk being borne by the public sector. Without a reduction in the liabilities being borne by the public sector, the benefits of obtaining private investment will be diluted. (Nevertheless, for the expansion of national highways, the government is also considering an approach whereby the private sector faces little demand risk in that it would be paid shadow toll revenues that would largely be independent of the volume of traffic using the road). As far as the expansion and maintenance of the road network is concerned, it will continue to be largely funded through public resources.

Developing Specialist Regulatory Agencies

Specialist regulatory agencies now exist in three infrastructure sectors within the economy—telecommunications, power, and ports.¹⁶ The actions of regulatory agencies, such as the TRAI and the Orissa Electricity Regulatory Commission, to date, have already introduced enhanced scrutiny of the performance of existing public sector service providers, and transparency in the prevailing tariff structure.¹⁷ However, the experience of regulatory bodies thus far provides certain lessons about the political economy of regulation within India,

¹⁵ Capacity increases are expected at the major ports of JNPT, Kandla, Mormugao, New Mangalore, Mumbai, Chennai, and Paradip.

¹⁶ In other sectors such as gas, airports, and water economic regulation continues to be exercised through government departments and public sector service providers.

¹⁷ The tariff rulings issued by both of these bodies have come at the end of substantial interaction and discussion with the consumers, service providers, and government.

and the design of regulatory bodies to ensure that they can effectively fulfil their mandate as independent regulators. In particular, it shows the need to have effective delineation of responsibilities between regulator and policy maker and to place the creation of an independent regulator within a broader restructuring of the sector (see Box 5.4).

for example, enjoy greater security, as, being created by legislation, they cannot be eliminated by de-notification; they have a broad range of powers over and above tariff setting, including licensing, regulation of the quality of service, and dispute resolution (see Annexes 5.1 and 5.2). Insulating the regulator from

Box 5.4

DESIGN OF REGULATORY AGENCY POWERS: LESSONS FROM TELECOM

The experience of the telecom sector in India shows the advantage of clearly demarcating the responsibilities of regulator and policy maker. Under the Act that established it, the TRAI enjoys a range of powers that is comparable to those held by regulatory bodies in a number of dynamic telecommunications markets. Its responsibilities include recommending the need for and timing of the introduction of new service providers and recommending the terms and conditions of licences. It is also charged with effective interconnection between service providers and regulating revenue-sharing arrangements.

Four cases have been filed with the High Court which centre over the extent to which TRAI can intervene in issues between DoT and a service provider. In addition, DoT has moved that TRAI cannot hear any disputes involving DoT, given that the latter acts in a policy-making role. The High Court, on a single bench ruling, has upheld DoT's granting of a licence to MTNL to enter the Mumbai and Delhi cellular markets, arguing that DoT is not obliged to seek TRAI's recommendation on the entry of new service providers, and that any such recommendations would not be binding. The High Court has also ruled that the TRAI has no role in the dispute between the licence holder and the licensor regarding provision of Internet services. High Court rulings, which are the subject of appeal in a higher court, thus far, suggest that TRAI has relatively limited power in disputes between licence holders and the licensor, and in the grant of licences. There are concerns that the former has implications for TRAI's role in interconnection, since these arrangements are specified as part of the licence agreement. These tensions have arisen largely because of DoT's multiple roles as service provider, policy maker and, on behalf of the President of India, licensor of its private sector competitors.

Controversy following TRAI's 1999 tariff order has highlighted the issue of whether, under its establishing legislation, TRAI is adequately protected from political interference. TRAI's first tariff order of 9 March 1999 mandated a substantial rebalancing of tariffs, reducing long-distance and international call charges and increasing the cost of rentals and local calls. Subsequent to the tariff order, the Minister for Communications directed TRAI to suspend implementation of tariffs for the time being. In the final analysis, the government respected TRAI's pricing order, with DoT facing the lowered price caps on long-distance charges, and rural connections priced at the previous, lower rates, as allowed for in TRAI order.

Although the fact that the TRAI's pricing order was respected has strengthened the regulator, the possibility exists that in the future the government could use its powers to issue policy directives to overturn TRAI's orders.

*Power—Creating Genuinely
Independent Regulators*

The Electricity Regulatory Commissions Act, 1998 provides for the establishment of State Electricity Regulatory Commissions. The moves by a number of states, including Delhi, Madhya Pradesh, Maharashtra, Tamil Nadu, and West Bengal, to establish regulatory agencies following the Act are welcome initiatives. However, most of these state commissions are established by notification of the state government, rather than through legislation, and can be eliminated via de-notification. They also have a relatively limited range of powers, although again, more can be granted by notification by the state government. In contrast, the regulatory commissions in Orissa and Haryana,

political pressures by establishing their independence will be extremely important given that the price regulatory mechanism grants a relatively high degree of discretion to the regulator.

The Electricity Regulatory Commissions Act, 1998, also provided for the establishment of the Central Electricity Regulatory Commission (CERC), to promote competition, efficiency, and economy in the electricity industry. The tariffs of central generating companies, the tariffs of other generators with a composite scheme for generation and sale of electricity in more than one state, the transmission of energy by POWERGRID, and the interstate transmission of electricity, including tariffs, are within its regulatory mandate (see Annexes 5.1 and 5.2). The CERC has started its operations in an impressive manner. Among

its major outputs are: (a) the order on the Indian Electricity Grid Code in October 1999, following preparations by POWERGRID and hearings by the Commission; and (b) a consultation paper on bulk electricity tariffs in September 1999, followed by extensive regional consultations in September–November 1999. CERC expects to issue its order on bulk power tariff principles by early 2000, including an innovative frequency-linked power pool for unscheduled interchange. The new bulk power tariffs and the pool are expected to help improve the operational discipline in the regional grids and promote power trading.

Regulators Alone Will Not Solve the Problem

It is also clear that the creation of an effective and independent regulator alone will not transform an inefficient or loss-making company or sector. Regulation is an imperfect alternative to competition, where

the latter can be introduced, since a government department or board has little concern about bottom lines and the parameters set by regulators to achieve efficiency. In the power sector, this means that the privatization of distribution, where losses due to theft and mismanagement are so pronounced, is key to turning the sector around and meeting consumers' needs. In telecommunications, DoT's present status as a government department handicaps it in its role as service provider, giving it little mobility to counter competition or to innovate to meet emerging demands. Corporatization would be an essential first step in giving it more freedom. In the ports sector, the separation of operations from public statutory activities at the major ports will be an essential first step. The introduction of competition within ports, either from different terminals or services such as stevedoring, will be key to ensuring that consumers get better deals for port services.

Annex 5.1

FUNCTIONAL CHARACTERISTICS OF REGULATORY BODIES

	<i>Appointment and removal of commissioners</i>	<i>Funding</i>	<i>Consultative process</i>	<i>Appeal of decisions, relation to government policy</i>
<i>Telecom Regulatory Authority of India</i>	Appointment by Central government. Removal: Central government, following recommendation of dismissal by Supreme Court.	Presently funded through central government Budget. Provision to charge fees, establish Telecom Regulatory Authority of India General Fund to meet expenses.	Art. 11: 'The Authority shall ensure transparency'. Consultative review on methodologies and proposals (e.g. recent tariff-setting exercise).	High Court. Central government can issue policy directives and can decide whether an issue constitutes policy.
<i>Central Electricity Regulatory Commission</i>	Selection committee established by Central government. Removal: President of India, following recommendation of dismissal by Supreme Court.	Consolidated Fund of India.	Central Advisory Committee. Art. 37: Commission shall ensure transparency.	High Court. Central government can issue policy directives and can decide whether an issue constitutes policy.
<i>Orissa Electricity Regulatory Commission (also Haryana and Andhra Pradesh)</i>	Selection committee constituted by state government. Removal: state government, following report by judge of High Court of Orissa.	State Consolidated Fund.	Commission Advisory Committee. Public tariff hearings. Consultative paper on tariff approach.	High Court for appeal on question of law. State government can issue policy directives. Central Electricity Authority resolves dispute between OERC and state government over what constitutes policy.
<i>State Electricity Regulatory Commission, by notification following 1998 Act</i>	Selection committee appointed by state government. Removal: Governor, following recommendation of dismissal by High Court.	State Consolidated Fund.	State Advisory Committee Art. 37: Commission shall ensure transparency.	High court. State government can issue policy directives, and can decide whether an issue constitutes policy.
<i>Tariff Authority for Major Ports</i>	Appointed and removed by central government.	Central government, through Ministry of Surface Transport.	Public tariff hearings, public consultations on tariff principles (although there are no specific legislative clauses relating to this).	Central government has right to require Authority to charge certain rates. Central government has right to require Authority to charge certain rates. Central government can suspend Authority on notification in Official Gazette.

Annex 5.2

RESPONSIBILITIES OF REGULATORY BODIES

	<i>Pricing</i>	<i>Licensing</i>	<i>Dispute resolution</i>	<i>Other</i>
<i>Telecom Regulatory Authority of India</i>	<p>Notify tariffs for all telecommunications services.</p> <p>Regulate revenue sharing between service providers, technical aspects of interconnection.</p>	<p>Recommend need, timing, and terms and conditions of new service providers.</p> <p>Recommend revocation of licence.</p> <p>Ensure compliance of terms and conditions of licence.</p>	<p>Settle disputes between service providers, and between them and consumers.</p>	<p>Ensure effective compliance with universal service obligations.</p> <p>Render advice to government on telecommunications.</p> <p>Protect consumers' interests.</p> <p>Facilitate competition and efficiency in the sector.</p> <p>Maintain register of interconnect agreements.</p> <p>Monitor quality of service, conduct periodical surveys of this.</p>
<i>Central Electricity Regulatory Commission</i>	<p>Generation: plant owned or controlled by central government; or selling to more than one state.</p> <p>Interstate transmission.</p> <p>Frame guidelines for tariff-setting by SERCs.</p>	<p>Interstate transmission entities (under the amendment to the 1948 Electricity Supply Act passed in 1998).</p>	<p>Settle disputes between generators and/or transmitters which come under its tariff regulation purview.</p>	<p>Promote competition, efficiency, and economy.</p> <p>Associate with environmental agencies to develop environmental regulations for the sector.</p>
<i>Orissa Electricity Regulatory Commission (also Haryana and Andhra Pradesh)</i>	<p>Regulation of prices charged by licensees.</p>	<p>Licensing of entities involved in transmission and distribution of power.</p> <p>Regulation of quality of service of licensees.</p>	<p>Settle disputes between licensees.</p>	<p>Promote efficiency, economy, and safety.</p> <p>Promote competition and progressively involve the private sector.</p> <p>Collect relevant data, forecast demand, require licensees to formulate required plans in coordination with others.</p>
<i>State Electricity Regulatory Commission, by notification following 1998 Act</i>	<p>Determine rates for wholesale, bulk, grid and retail; use of transmission facilities.</p> <p>Regulate power purchase and procurement process of transmission and distribution utilities, for in-state sources.</p>	<p><i>By notification of state government:</i> Issue licences.</p> <p>Regulate workings of licensees, and exit and entry into industry. Require licensees to formulate plans for meeting state electricity needs, including power purchase scheme.</p>	<p><i>By notification of state government:</i> Settle disputes between licensees and/or utilities.</p>	<p>Promote competition, efficiency, and economy.</p> <p><i>By notification of state government:</i> Regulate investment approval in sector. Regulate operation of power system. Set and enforce service and safety standards for sector. Promote privatization. Coordinate with environmental agencies to develop environmental standards.</p>
<i>Tariff Authority for Major Ports</i>	<p>Set tariffs at all major ports, including for private licensees at ports.</p>			

Increasing the Demand for Labour: Deregulation to Increase Export Growth, Agricultural Growth, and Labour Market Flexibility

Overview

Sustained poverty reduction depends on rapid growth in both quantity and quality of labour demand. In turn, rapid growth in labour demand depends on rapid output growth. There is a strong association between output growth and rising real wages in agriculture and manufacturing (see, for example, World Bank 1995c for cross-country evidence). Economic growth has also promoted labour shifts from low productivity self- and informal employment in agriculture and services to higher productivity and higher wage, formal employment in industry and services (for cross-country evidence, see Fig. 2.3 in World Bank 1995c). Of course, broad-based human development, inclusive of females, is needed to maximize the impact of rapid growth in output and labour demand on poverty reduction, as well as to sustain rapid growth. These relationships are illustrated in the rapidly growing East and South East Asian economies, where poverty fell sharply and labour incomes rose rapidly as education became more widespread (World Bank 1993; World Bank 1996b discusses

Indonesia in detail). The recent crisis in South East Asia, although painful, was small relative to the long history of benefits from growth, and left the vast stock of infrastructure and education in place. Moreover, since the crisis, growth has rebounded surprisingly fast in most of these countries.

Poverty reduction also depends on the labour intensity of growth—a sustained increase in labour demand per unit of GDP. Little additional labour demand comes from capital-intensive growth fostered by protection of inefficient industries and subsidized investment. Moreover such a development strategy eventually slows investment and growth because of the limited size of the domestic market and the lack of competitive pressure to upgrade capital (see World Bank 1998a and Bhagwati 1998). At the same time, such a strategy forces consumers to buy low quality/high cost goods, and producers of potential exports to use high cost inputs. Such concerns were major factors in India's reforms in the early 1990s. However (i) tariff and non-tariff barriers in India still remain very high, making it one of the most protected economies in the world;

(ii) labour market flexibility in the organized sector remains low and has discouraged the creation of formal employment, while the dominant unorganized sector remains outside the purview of labour legislation that regulates work standards and social security benefits to workers; and (iii) agriculture, which employs 62 per cent of the workforce, remains the least deregulated sector in the economy and subject to inefficient and unsustainable public spending. These factors contribute to constraining the growth of labour demand.

Thus, from the standpoint of poverty reduction, a key issue is the combined effect of growth and its labour intensity. In that regard, labour demand is unlikely to be stimulated by specific policies supporting labour, such as those favouring small-scale industry or workers in the formal sector, when the overall incentive and regulatory framework encourages capital-intensive growth. A more effective approach to reduce poverty and increase labour demand in general is likely to be a deregulated, general incentive framework that encourages economy-wide growth and makes the best use of India's abundant labour.

Along these lines, this chapter examines how India can use further deregulation to increase growth in labour demand and output in three key areas:

- Encouraging more exports, *and imports*, as a percentage of GDP, since India's exports tend to be more labour-intensive than import-substituting industries;
- increasing labour market flexibility to stimulate general growth of labour demand, and
- increasing growth in the agricultural and rural sector, which still provides incomes for 73 per cent of the population.

Deregulation to Increase Trade, Growth, and Labour Demand

Despite improvements, India's trade and industrial policies continue to impose a heavy cost in terms of slower export growth that feeds back into slower growth in labour demand, output, and productivity. This section discusses how increased export growth, with its consequent benefits in terms of poverty reduction and higher growth, will depend on a second phase of reforms that includes reducing protection, reducing bureaucratic transaction costs and logistic delays for exporters, eliminating small-scale industry reservation, and improving the environment for Foreign Direct Investment (FDI).

Trade, Growth, and Employment

Increased trade is positively related to growth according to numerous studies that use a variety of methodologies.¹ Moreover international trade also increases the demand for labour in areas where it is best able to compete internationally and raises real wages in the manufacturing sector (see Fig. 8.1 in World Bank 1995c). Increases in exports *and imports* shift resources into industries where productivity is higher (measured at world prices), thus generating a higher national output. In addition, higher exports allow firms to exploit economies of scale. Higher exports *and imports* encourage competition and innovation; together with FDI, they encourage technology transfer, all of which contribute to sustained increase in growth. The East and South East Asian countries provide an example of the benefits associated with rapid export growth. Moreover, it is worth noting that their export growth reflects a massive shift in the nature of exports—from primary products, to labour-intensive manufactures, to high-tech and capital goods (Yeats 1999)—a steady progression up the technology ladder that was associated with a steady rise in labour demand for an increasingly educated labour force.

India's Limited Use of Trade Benefits

The share of trade in India's GDP has been low, less than half of South East Asia's in the 1980s,² or even China's (see Box 6.1).³ Between 1977 and 1986, India's share of world exports declined from 0.61 per cent to 0.47 per cent, and did not recover its 1977 level until 1996. It lost market share in major products to East Asian countries. In some products (including jewellery), where its share rose, others, including Pakistan and Bangladesh, did better (Srinivasan 1998, and Kathuria and Taneja 1986). This performance reflected India's well-known, severe anti-trade bias in tariffs, quotas, licences, etc. Nonetheless India's main export industries—textiles, leather, metal products, and 'other' manufactures—demonstrated the benefits of exporting. Over the periods 1973–83 and 1984–93,

¹ See, for example, Bajpai and Sachs (1998); GOI (1999e), Stiglitz (1998); and Srinivasan (1998), which summarizes recent studies.

² In 1985, India's trade to GDP ratio was 15 per cent, compared to Indonesia's 44 per cent, Thailand's 49 per cent, and Philippines' 46 per cent.

³ In fact, as a share of PPP GDP, India's trade was only 4.5 per cent in 1996 (World Development Indicators), since India's PPP GDP is much higher than the nominal dollar value of its GDP.

these industries exhibited rising labour productivity, capital deepening, and falling unit labour costs which were accompanied by a rise in the rate of growth of employment and wages (Gangopadhyay and Wadhwa 1998). The performance of these industries suggests that export markets provide the scope for rapid, employment-intensive industrial expansion. More generally, India's export industries are more labour-intensive than its import industries (see Annex Table 6.1), as well as more productive (see p. 78). These facts suggest that an expansion of India's exports (and imports) would increase output and labour demand.

India's 1990-1 balance-of-payments crisis led to major reductions in tariffs, licensing, and trade-related bureaucratic procedures and to a substantial exchange-rate devaluation, all of which increased export growth sharply. From 1992 to 1996, India's share of world exports increased every year (see Figure 6.1). Export growth (in dollars) averaged 15.3 per cent per annum,

similar to South East Asia's (Indonesia, Malaysia, Philippines and Thailand) 15.8 per cent. These years coincided with a sharp rise in total (aggregate) factor productivity (see Chapter 8 and Annex 8.1), as would have been predicted by the analyses noted earlier. In 1997, India's share of world trade declined (marginally) for the first time in six years, and the decline continued in 1998. This decline coincided with a slowdown in GDP growth and a fall in total (aggregate) factor productivity. Despite the prior major reductions in protection, in 1997 India was still one of the most protected countries in the world (see Box 6.2). And in 1997 and 1998, tariff protection rose (see Fig. 6.1)—tariffs were raised across the board (except for petroleum) by 3 percentage points in September 1997, and the 1998 Budget imposed an additional duty of 4 percentage points (which translated into about a 6 percentage point increase in average tariff, since the duty is levied on the c.i.f. price including all tariffs;

Box 6.1

CHINA'S EXPORTS AND INDIA'S FORGONE EXPORTS

Trade has been a key element in growth even for a country as large as China. China's exports of goods and services grew from 6.3 per cent of GDP in 1980 to 21.0 per cent of GDP in 1996 and total trade reached nearly 40 per cent of GDP, thus contributing increasingly to its very impressive GDP growth of 10 per cent per annum over this period. In contrast, India's exports of goods and services grew from 6.5 per cent to only 11.6 per cent of GDP over 1980-96, while average GDP growth was 5.8 per cent per annum (see also Annex Table 6.2). India did not take advantage of long periods of world trade growth, such as in the 1970s. Although India was one of the largest developing country exporters in the 1950s, its share of world exports steadily declined and it was overtaken by the fast-growing East Asian economies in export markets.

It is interesting to make a very crude assessment of India's forgone opportunities. India and China started out at roughly the same level of exports, with competition existing between them in many exports (see Kathuria and Taneja 1986, and Srinivasan 1998). Thus China's exports can be used as a rough proxy for India's potential export level. In just one labour-intensive product, garments (comprising about 14 per cent of India's exports), India's total exports were \$ 4.6 billion in 1996, compared with \$ 25 billion for China. If the two countries had maintained the same share of exports (that is India and China had split their current sales evenly), then India's garment exports would be about \$ 15 billion. Thus *India's anti-trade policies contributed to a potential loss of \$ 10 billion of exports in one product alone (equal to over 25 per cent of current exports)*. This translates into millions of lost jobs and opportunities to make a real impact on poverty. The same would be true for many other Indian exports, which are largely labour-intensive (see Annex Table 6.1).

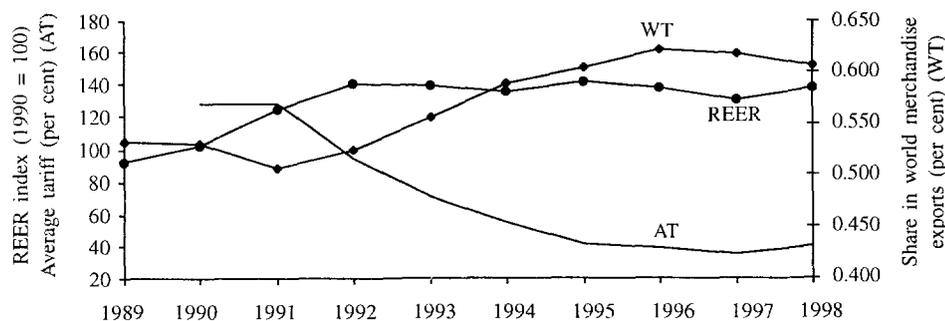
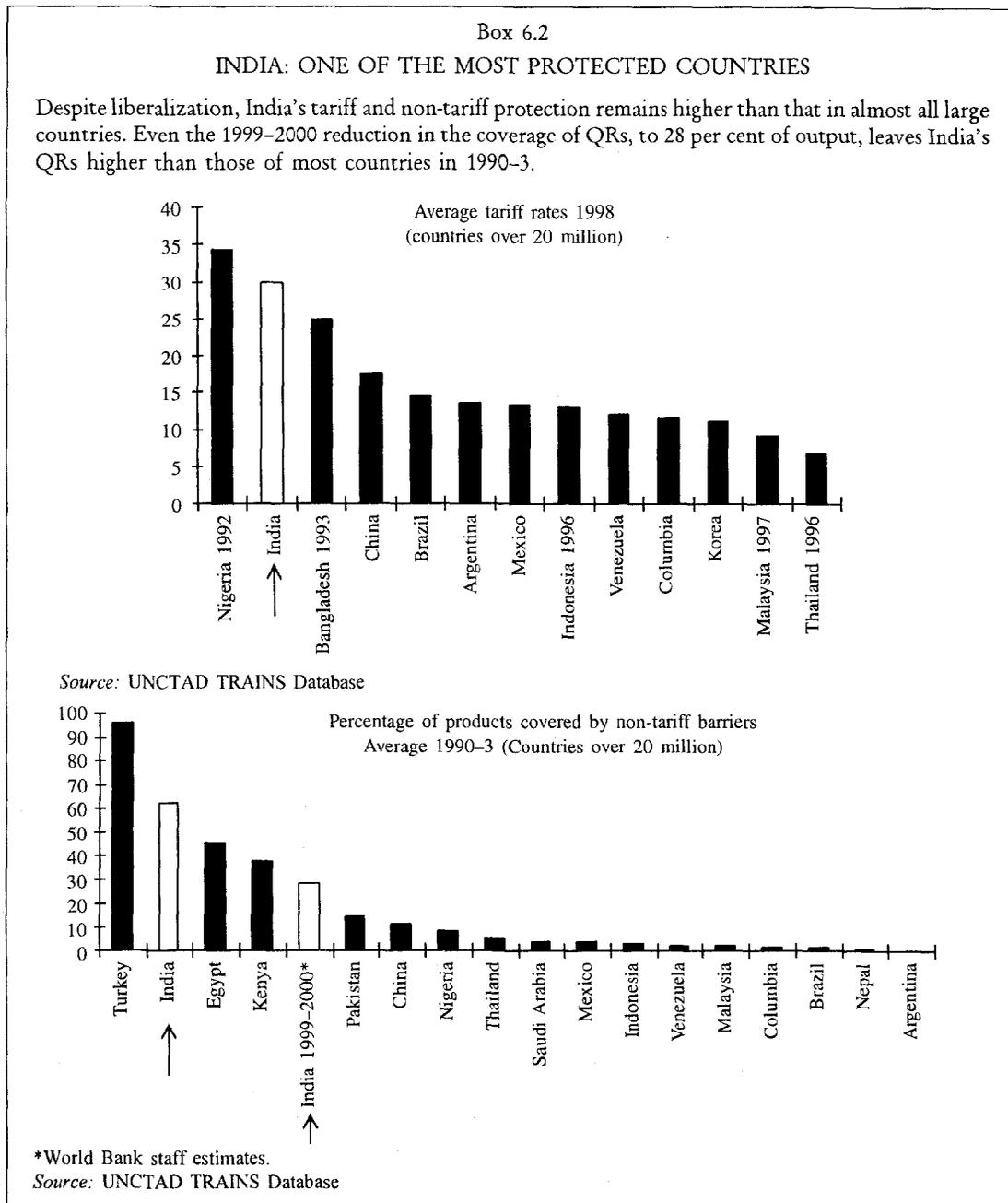


FIG. 6.1: India's Share in World Trade, REER, and Tariffs

Source: IMF for REER, WTO for trade, and World Bank for tariffs.



see World Bank 1998a for a discussion). Quantitative Restrictions (QRs) remained roughly constant in 1997 and 1998 (see Annex Table 6.3). The average annual real exchange rate for 1998 was about the same as in 1993, with some depreciation occurring after July 1997 (see Fig. 6.1 and Annex Table 6.4).

Getting Exports Back on Track

Radelet *et al.* (1997) conclude that with a proper policy environment, South Asian export growth and GDP growth could increase to the rates achieved in East

Asia. With only a 0.61 per cent share in world exports in 1998, Indian exports could keep growing faster than world trade for some time, as the East Asian countries have done in the past and some, such as China and Korea, continue to do even today (see Annex Table 6.5). What policies would India need to get back to a sustained high export growth that increases labour demand? The best way would be to create an overall environment for export growth. This will ensure that India makes best use of its abundant labour resources. Since a high export growth rate and

share of exports in GDP also means a high import growth rate and share of imports in GDP, it will also ensure that firms, including domestically-oriented firms, face competition from the world market, thereby encouraging them to improve product quality and innovate. Finally, it will ensure that firms can invest with a view towards the export market. One-shot policy changes only induce temporary boosts in exports. Schemes to offset the anti-export bias of high protection, typically work poorly and fail to generate the general benefits of competition and export-oriented investment because of their complexity, fears of withdrawal on the part of investors, and potential leakages in the benefits.

Moreover such schemes are susceptible to charges that they are export subsidies—even if that is not the case—as has been happening over the last year, and invite retaliatory action. Thus the best policy is to *create an environment where an export policy is not needed*, as the Commerce Minister stated in his EXIM Policy speech on 31 March 1999 ('EXIM Policy by itself cannot achieve a very high export growth rate.') Many of the issues raised here are echoed in the Minister's speech.

Specifically, action along the following lines will help reduce the anti-export bias and thereby increase exports on a more sustained basis than in the past:

- reducing protection to low and uniform levels and limiting anti-dumping—a new form of protection;
- maintaining an exchange rate that supports export competitiveness;
- reducing the bureaucratic transaction costs borne by exporters;
- reducing logistic and infrastructural delays;
- providing a more hospitable environment for FDI;
- eliminating product reservation for small-scale industry; and
- increasing labour market flexibility.

These issues are discussed below in more detail.

Reducing Tariff Protection to Relatively Low and Uniform Levels

Tariffs have been increased over the last two years, and anti-dumping (which also protects inefficiency) is on the rise (see Boxes 6.3 and 6.5). High protection hurts exports by making *import substitution more profitable than exports*, diverting scarce resources to

import substitution, making inputs for exports more expensive and keeping the exchange rate relatively appreciated. Rapid export growth requires low protection and rapid import growth, so that more of the scarce labour, capital, and other factors of production can move out of import-substitution and into exports. Moreover this policy makes imported inputs cheaply available and subjects domestic producers of inputs for exports to the discipline of import competition. Rapid export and import growth raises output, as well as labour demand, since the factors of production can produce more output, valued at world prices, in exporting industries than in import-competing ones. For example, the effective rate of protection on the secondary sector (mainly industry) was 47.6 per cent in 1998–9, implying that on average, the use of land, labour, and capital in the secondary industry was 47.6 per cent less efficient than in the production of exports (NCAER 1999). Also, by allowing more imports, a reduction in protection increases the demand for foreign exchange and, therefore, leads to a depreciation of the exchange rate, which has a positive impact on exports. An exchange rate appreciated by high tariffs keeps both exports and imports low, and thus sacrifices much of the gains from trade. Apart from this, there is great administrative merit in moving to relatively low and uniform protection, since it reduces incentives for classification disputes and bribery. In addition, low tariffs make duty exemption schemes redundant, which would greatly reduce transaction costs for exporters. Simplification of duties would also call for substitution of the complex and non-transparent system of basic duty, surcharge, and special additional duty by a simple and single rate of duty.⁴

The 1999 EXIM policy reduced quantitative barriers significantly, and the remaining restrictions are to be eliminated (except for 533 out of 10,220 items on environmental, security, and religious grounds) by April 2001 (see Box 6.3). The 1999 reduction in import restrictions saw the QR coverage ratio (see Annex Table 6.3) falling to 28 per cent in 1999–2000 from 38 per cent in 1998–9, and 88 per cent in 1988–9.⁵ Until

⁴ See World Bank (1998a). The imposition of the special additional duty in 1998–9 and its special exemptions have led to greater opacity rather than transparency in the duty structure.

⁵ These calculations involve aggregation by simple arithmetic mean (Method 1). On the basis of value-added weights, the QR coverage is 22 per cent in 1999–2000, compared to 61 per cent in 1998–9. The large drop is on account of substantial declines in sectors, such as 'other' crops, sugarcane, and milk and milk products, which have a large weight in the 1989–90 input–output table.

Box 6.3

RECENT DEVELOPMENTS IN TRADE POLICY

The EXIM Policy announced on 31 March 1999, has heralded the second generation of reforms by announcing an accelerated phase-out of QRs. Of the 2714 items notified under the BOP cover by the Indian government (not including items excluded on safety, environmental, and security considerations), as many as 1285 items (892 in the 1998 Policy) have been moved to the free list of imports, as against 1146 in the phase-out schedule agreed to in the WTO, and another 685 items (414 in the 1998 Policy) have been put on the SIL list. On the restricted list 1429 items now remain (685 SIL, 744 restricted/canalized). This policy move is extremely desirable on the grounds of efficiency, revenue generation, and export promotion. Protection through QRs gives unlimited protection, unlike tariffs which define the upper limit of protection and inefficiency that a country is willing to live with. To the extent that actual imports increase, customs revenue will also go up. As mentioned earlier, this will also depreciate the exchange rate and improve export prospects. Nonetheless, the US preferred a faster phase-out of QRs, and obtained a dispute panel ruling in the WTO in its favour. In December 1999, India and the US reached an agreement to phase-out QRs on the remaining 1429 items by April 2001 (714 of which will be removed by April 2000), ahead of the originally agreed date of April 2003. Other steps in the EXIM Policy include recognition of service exports' potential by treating service exports on a par with merchandise. Steps not taken, but mentioned by the Commerce Minister as needed for export growth, include removal of export restrictions on agricultural and processed goods.

Unlike QRs, tariff protection has not declined in the last few years. Average (unweighted) *tariffs at 39.6 per cent in 1999–2000 are about the same as in 1995–6* (see Annex Table 6.6). Tariffs declined quickly after the 1990–1 level of 128 per cent, slowed down after 1995–6, and reversed since September 1997 (World Bank 1998a). As a result of the 1999–2000 Budget proposals, which replaced the special duty of 5 per cent with a surcharge on basic duty of 10 per cent, and retained the non-transparent special additional duty of 4 per cent, the total duty remained almost unchanged (unweighted tariff declined from 40.2 per cent in 1998–9 to 39.6 per cent in 1999–2000, but tariffs weighted by 1995–6 imports rose from 29.7 to 30.2 per cent). Positive aspects of the Budget proposals include a decline in the dispersion of tariffs (which reduces classification disputes and makes for less distorted production incentives), and a reduction in the peak rate. But the negative consequences of high tariffs remain, as outlined on p. 78. Indian tariffs remain amongst the highest in the world (World Bank 1998a). Announcing a clearly articulated tariff reduction schedule as part of the second generation of reforms will reduce investor uncertainty and the tariff-hopping type FDI (which, along with domestic investors, can later create pressure against tariff reform).

such time as the QRs are eliminated, the high level of QRs—particularly in agricultural products, textiles, and some consumer goods—provides unlimited protection to investments and constrains efficient investment decisions. QRs are particularly costly because they impose no limit on cost/quality differences and, thus, allow even more protection to inefficiency over time than tariffs. By switching fairly quickly to tariff-based protection and gradually reducing it in a predefined way, India could reduce the degree of domestic inefficiency, ease the adjustment process, and capture some of the benefits, that currently go to producers, in terms of increased revenue.

Exchange Rates

Previous export booms, notably during 1986–90 and 1993–6, have been associated with depreciation of the REER. Roberts and Tybout (1997) indicate that sustained export growth depends on an exchange rate that maintains export profitability, as well as a commercial policy that is not biased against exports. In this context,

reducing fiscal deficit is important. A high deficit leads to higher interest rates, higher inflows of capital, which keeps the exchange rate relatively appreciated. While there has been some depreciation since July 1997, the rupee's REER in September 1999 was more appreciated than in 1993 (see Annex Table 6.7). Moreover, India's exchange rate has appreciated against some of its potentially strongest competitors, such as Indonesia, Malaysia, Thailand, and Korea. From a longer-run standpoint, however, continuous depreciation faster than domestic inflation is likely to feed back into accelerating inflation, and is therefore not a panacea to sluggish exports. In the long run, only increases in productivity can bring about sustained increases in export growth.

Reducing the Bureaucratic, Transaction Costs

To reduce these costs borne by exporters is a daunting task, given the complexity of the regulations, their multiple origins (revenue protection, foreign exchange control), their interaction with other elements such as

cargo logistics and customs procedures (see Chapter 4 for evidence), and widespread entrenched vested interests.⁶ A reduction of transaction costs would need to address customs clearance procedures for both imports and exports, as well as duty- and tax-free access to imported inputs, which could be based on a modern systems approach relying on self-compliance (tax payers), risk analysis, and management (customs), supported by periodic ex-post audits of records. Electronic Document Interchange (EDI) techniques could be aggressively used to lock in simplified procedures, automate routine procedures, and minimize face-to-face contacts.

Reducing Logistic and Infrastructural Delays

A reduction in logistic and infrastructural delays is essential for India's competitiveness in today's time-sensitive markets. The simplification of cargo handling and customs procedures is one part of the solution. This should be accompanied by the privatization of port management, the adoption of a landlord port approach—where the port authority owns the land and basic infrastructure and leases it out to operators—and finally the full privatization of ports. Data for containerized sea freight in Mumbai suggest that dwell time for imports could be from 10–19 days (and it is worse at all other ports except for the JNCP), which is far more than the best practice of less than thirty hours. Apart from the JNCP, which is starting operations, no major International Container Line (ICL) has scheduled stops in India, so that container cargo has to be shipped via feeder lines to either Singapore or Sri Lanka, which means further delays.

Providing a More Hospitable Environment for FDI

By discriminating between core and non-core FDI, India's access to global production networks and intra-firm trade was severely restricted. In 1995, for example, almost one-third of world exports were accounted for by foreign affiliates. US data, if extrapolated to the rest of the world, suggest that more than a third of world exports are between affiliated firms. A recent econometric study of fifty-two countries suggests that there is a positive and significant correlation between foreign direct investment (FDI) and manufactured

⁶ See Maxwell and Export-Import Bank of India (1998). Both the Commerce and Finance Ministries have voiced their concern about the impact of high transaction costs on exports. The Finance Minister has set up a Committee headed by the Revenue Secretary to suggest measures to reduce high transaction costs in foreign trade licensing, tax procedures, and the banking system.

export performance (UNCTAD 1999, pp. 246–7). In China, foreign affiliates' share in total exports rose from 17 per cent in 1991 to 41 per cent in 1997. In India, foreign affiliates have played a much smaller role—in 1996, FDI inflows accounted for only 2.9 per cent of gross fixed capital formation (GFCF) in India against China's 17.0 per cent, and the FDI stock to GDP ratios were 2.6 per cent and 24.7 per cent, respectively (UNCTAD 1999, p. 232 and UNCTAD 1998, pp. 6, 204, 394, 408). This has meant that India has lost out on potential labour-intensive and other exports, as well as opportunities for far greater spread of technology and, thus, increase in productivity.⁷

FDI is also deterred by the very poor state of infrastructure (including ports, roads, phones, and power) where India ranked the lowest among fifty-three countries in the 1998 Global Competitiveness Report. Apart from infrastructure, post-approval implementation in India remains slow, which deters investment and the conversion of approvals into inflows. Other deterrents to FDI in India are its rigid labour laws and poor industrial relations (see the following pages). India is attempting to tackle some of these problems, for example, by seeking to attract FDI in infrastructure. However, the expected changes in infrastructure regulation have been slow in coming (see Chapter 5), which has been a factor in the worrisome slowdown in FDI (see Annex Table 6.8).

Unshackling the Small-scale Sector

The small-scale industry (SSI) sector successfully produces labour-intensive export items, and provides the second highest employment after agriculture (roughly 50 million in 1996–7). In 1997–8, there were over 3 million SSI units in India which accounted for about 40 per cent of the total production of the manufacturing sector, 35 per cent of exports, and 80 per cent of additional employment in manufacturing

⁷ Of course, the benefits of FDI can be fully realized only if domestic markets are competitive, protection levels low, and quantitative restrictions non-existent, and if subsidies and incentives are transparent and small. In the absence of these, foreign firms may indulge in 'tariff-hopping' type FDI, turn rent-seekers (and often do a better job of that), and could even join the protectionist lobby. One instance is provided by the car firm Maruti-Suzuki. Granted early access to the domestic market two decades ago, Maruti quickly went on to dominate the market, facing little domestic or import competition (imports are subject to strict QRs). Since the mid-1990s, and especially since 1998, it has faced increasing domestic competition, forcing it to slash prices of its largest selling model, and introduce newer models at a much faster pace than hitherto, which has been highly beneficial for the consumer.

(16.8 million people) (RBI 1998a, Kapur Committee 1998). However, in trying to promote the growth of SSI firms, Indian policy has not had the desired effect, and instead has given rise to a number of negative outcomes.

The Abid Husain Committee Report and the Commerce Minister's speech have argued for the phase-out of *reservation for the SSI sector*. Reservation has led to capacity fragmentation, and suboptimal production scales in many cases, and reduced exports and, hence, employment. *Many key export products for India such as garments, shoes and leather products, and potentially key ones like toys are on the reserved list*. This, along with labour rigidity, has been a major export constraint for India and allowed China, for example, to outperform India in these sectors. In spite of de-reservation of a few products (such as seed drills, reapers, some agricultural machinery, and sole leather crowbars) in February 1999, recent policy moves have been against the spirit of liberalization. As feared in the World Bank's 1998

Macroeconomic Update, the Cabinet in February 1999 decided to lower the investment ceiling for small-scale industry from Rs 30 million to Rs 10 million (notified by the government in December 1999), which will constrain further the already constrained firms. Moreover, the latest EXIM policy, announced on 31 March 1999, has added about 159 items to the existing list of about 563 items that were on the reserved list but also freely importable (making a total of 722 out of a total of about 1040 reserved items that are freely importable), further skewing the playing field against large domestic firms—while large domestic firms continue to be barred, *large foreign firms will enter via imports and compete with small Indian firms, which is both inequitable and inefficient*. This inequity adds to the already powerful case for de-reservation, which is now essential if India is to successfully compete in both the export and domestic markets (see Box 6.4; see also Box 5 in World Bank 1998a).

Box 6.4

GOKALDAS EXPORTS CONSTRAINED BY SSI RESERVATION

The Bangalore-based Gokaldas Exports group is the largest exporter of garments in India. During 1997, the flagship company of the group, Gokaldas Exports, exported garments worth Rs 657 million while exports of another major group company, Unique Creations, were even higher at Rs 781 million. Unlike a number of medium and large Indian garment exporters, Gokaldas Exports depends entirely on in-house manufacturing and does not subcontract production to smaller units. It manufactures standard products like shirts, trousers, shorts, jackets, coats, parkas, rainwear, and suits, using assembly-line factory systems of production. Its factories are equipped with imported, power-operated sewing machines and other modern special equipment that transforms assembly line production into state-of-the-art manufacturing. The group also has strong in-house computer-aided design capabilities (assisted by foreign designers who are enlisted to develop patterns and contemporary styles). Given the large magnitude of its investments in manufacturing, Gokaldas is able to skirt small-scale reservation of the garments sector only because of its high export-orientation. Till 1993, large units could enter this sector only if they undertook an export obligation of 75 per cent of new or additional production—this was reduced to 50 per cent in 1993 (though this was constrained by the requirement that at least half had to be exported to non-quota countries). While this has enabled Gokaldas to expand production and exports, Gokaldas' director, Mr Rajindra Hinduja, says that he and his top officials have had to spend a great deal of time and effort in Delhi to fulfil the onerous procedures and formalities required to get such exemptions based on export commitments. Over the years, the group has set up as many as thirty-two manufacturing units (employing, in total, over 15,000 workers) for many of which it has had to get such exemptions. Several of these factories are dedicated to producing only customer-specific garments of leading foreign clothing companies all year through. According to Mr Hinduja, Gokaldas may have missed several export opportunities because of the hassles involved in getting such approvals. In the case of smaller orders, it is not even worthwhile for the company to invest a great deal of time and effort in seeking exemptions. Further, large foreign importers are put off by the fact that Indian companies have to get special permissions before they can commit large and regular export orders—this affects their perception of the reliability of Indian suppliers and their ability to deliver on time. While Gokaldas is now a large company and has significant influence in Delhi, other Indian companies which wish to get exemptions face a more difficult and harassing task. In general, Mr Hinduja feels that SSI reservation seriously handicaps Indian garment exporters in competing with large modern units in countries like China (or even Bangladesh).

Source: Field Study by Uday Sekhar.

*Getting Indian Industry Ready for the
Phase-out of QRs and the Multi-fibre
Arrangement (MFA)*

As part of its WTO commitments, India has agreed to phase out all QRs on imports (except those imposed on strategic or environmental grounds) by April 2001, and on half of these by April 2000 (see Box 6.3). The Agreement on Textiles and Clothing (as the MFA is now called) is scheduled to end in 2005. Is industry ready for the increased competitive pressure, domestically and internationally, that this will entail? There is a wide variety of industries that are very competitive, and can hold their own in any market. But there are many, such as some of the capital-intensive, continuous process industries, that may be less able to compete with imports (Kathuria 1995). With trade liberalization, there is bound to be some restructuring of industry, with resources being drawn away from import-substituting to exporting industries. Domestic rigidities and policy distortions need to be phased out to enable domestic industry to compete more effectively. As discussed earlier, these would include the need to deal with labour markets, small-scale reservation, and tariff and non-tariff barriers. Unless these are dealt with expeditiously, Indian firms will increasingly have to compete with imports that are not subject to such constraints (as we have seen, exports are also similarly constrained).

For example, textiles and garments, one of India's most important industries, faces several opportunities as well as threats. Opportunities will open up as developing country exports will no longer be subject to quotas after 2005. However, this also means that the most competitive suppliers will ease out those who had survived only because of the quotas. India stands to make substantial gains provided it creates the right policy environment⁸—including dereservation of garments for exclusive SSI production, a flexible labour policy with safeguards, removal of policy bias against synthetic fibres, automatic approval of FDI in garments up to 51 per cent foreign equity (see pp. 77–82). On the other hand, slow/lack of action on these issues could mean not only a loss of export markets but also increasing import penetration in the textiles and garments industry.

The pressure is already being felt. Partly because of having to cope with continuing domestic policy distortions in the face of increasing competition, Indian

⁸ See Pigato *et al.* (1997) and references therein for the gains from the MFA abolition, and Kathuria and Bhardwaj (1998) for the industry analysis.

firms have successfully lobbied for a significant increase in the use of anti-dumping AD (see Box 6.5).

More importantly, *a response that deals with India's own structural policies will yield greater dividends than one which seeks to fine-tune the AD system.* A system that responds to the increasing competition from imports (as QRs and, presumably, tariffs decline) by trying to create an environment for quicker and more flexible responses—by, for example, making labour laws less rigid, improving bankruptcy and foreclosure, and not bailing out industries or sectors that are in trouble—should in the longer run make the economy less vulnerable to competition. Of course, these responses will have to be accompanied by a much improved system of retraining, lay-off compensation schemes (see following pages), and so on, to take care of the sectors that will be affected. On the other hand, a response that involves substantial use of protection, will, as seen above, increase the anti-export bias and reduce exports, render related industries less competitive, induce retaliatory protection amongst trading partners, and eventually lead to a higher cost and more vulnerable economy.

In this context, further analytical work on options before India in the next round of trade negotiations would help India make more informed and strategic choices. Policy making would also benefit from further analysis of the linkages between growth, exports and imports, labour demand, and education.

Improving Labour Market Flexibility

Any strategy to improve the condition of the poor hinges on improving the labour market, since income from work and quality of work are the main determinants of the living conditions of the poor (World Bank 1995c). India is endowed with an abundant and technologically skilled (especially engineers and scientists) labour force, and is ranked first among fifty-three countries for both these criteria in the Global Competitiveness Report (GCR), 1998. However, India's labour market is ranked forty-fifth for degree of labour market flexibility in the GCR 1998. Rigidities include rigidities in the deployment of human resources, in work practices, and in wages. Various studies suggest that such rigidities constrain the effective redeployment of labour during the process of adjustment to changes in demand and technology, and more importantly, act as a disincentive towards future employment creation, that is, there appears to be a trade-off between creating better paying, low turnover jobs and the overall

Box 6.5

THE ADVERSE CONSEQUENCES OF ANTI-DUMPING IN INDIA

There has been a *striking increase in the use of anti-dumping* in India, which can have serious adverse consequences (see below). Prior to reforms in 1991, import licensing and high tariffs meant that AD was redundant. Even after trade reforms, the rupee depreciation shielded domestic industry from widespread import competition, and strong growth of demand meant that imports were not growing at the expense of domestic industry. With the slowdown in industry (growth declined from 12.2 per cent in 1995–6 to 6 per cent, 5.9 per cent, and 4.7 per cent, respectively, in the next three years), appreciation of the real exchange rate, and decline in world prices, particularly after the East Asian crisis, the pressure for protection began to increase. Between 1992–3, when the first three AD cases were initiated, and mid-1997, 21 cases were initiated in India. The pace increased markedly thereafter, and between mid-1997 and March 1999, thirty-three cases had been initiated, and in 1998 a separate Directorate General of Anti-dumping was established. The most targeted country has been China, followed by Japan, South Korea, and the US. AD duties, which come on top of normal import duties, are currently being applied to a wide range of intermediate materials and inputs, including basic steel, petrochemicals, other chemicals, synthetic rubber, synthetic fibres, and industrial sewing needles.

As experience in other countries has shown, AD can have serious adverse consequences for India:

- First, the foreign firms penalized by the AD cases are almost always (as in other countries) those that are most competitive and have the largest and/or fastest growing market shares. This in turn signals other exporters to charge 'reasonable' prices or also face AD actions, and results in a real terms-of-trade loss to India. For a number of products, AD duties have first been imposed on imports from firms in one or a few countries, and then, later, a new case has been initiated and AD duties imposed on imports from firms in selected other countries.
- Second, the AD cases have greatly increased the (already high) protection of industries producing important and widely used intermediate materials (such as basic steel, petrochemicals, other chemicals, synthetic rubber, and synthetic fibres).
- Finally, AD duty, or protection to a single industry in general, implies the adoption of a producer viewpoint, neglecting both user industries as well as consumers. It is also often the case that AD can reinforce market power—in India, in many of the products on which AD duties have been imposed, there were just one or two producers. It can also set in motion a chain of demands for increased protection, as industries that have to face increased input prices arising from AD duties find themselves becoming less competitive. For example, the imposition of AD duties as well as floor prices and the resultant rise in landed prices on HR coils in November 1998 has resulted in protests by the directly affected CR coil industry, and will also feed into higher costs for a wide range of other steel-using industries. More generally, increased protection and prices of intermediates increases the production costs of consumer goods just as India is rapidly phasing out QRs, and will provide arguments and pressures for higher tariffs.

In India, as in other countries, the use of AD is justified by arguing that it is needed to deal with predatory pricing by foreign firms, which otherwise will undercut and drive Indian firms out of business, and then raise their prices and exploit Indian buyers. Detailed studies of AD cases in other countries (see Finger 1993, 1998) have shown that the alleged dumping firms have almost never had sufficient market power to eventually raise their prices, even supposing their alleged dumping would cause the firms in the importing country to close. The existence of such market power is also quite implausible in the Indian cases. In a number of these, imports were coming from twenty or more countries, and in others, even though fewer supplying countries were involved, some of these were very large (USA, China) with a number of strongly competing domestic firms. The AD cases already decided in India, and the potential for unrestricted AD to undermine the liberalization of the trade regime that has been achieved so far, suggest a review of current AD policies. Else, the momentum of AD would significantly add to the anti-export bias that already exists. The present impetus of AD could be stopped or slowed in a variety of ways (see discussion in Finger 1998, pp.14–16, and in Finger 1993):

- Using the safeguards provisions as the main safety valve for responding to protectionist pressures and maintaining them as a temporary, short-term tariff-based instrument to provide extra protection to firms while they adjust.
- Incorporating a buyer/consumer interest in the AD and safeguards laws and requiring cases to be decided on the basis of the overall economic costs and benefits of imposing duties.
- Explicitly including an anti-trust type filter in the AD law, which would make predatory pricing and the likelihood of subsequent market power a precondition for the imposition of AD measures.

creation of good jobs (see for example, Fallon and Lucas 1993; OECD 1995; ILO 1999). The industrial relations scenario, as reflected by man-days lost due to strikes and lockouts, has been confrontational as compared to international standards. However, industrial relations have been improving significantly—man-days lost fell from an average 28.6 million per annum over 1989–92 to 17.1 million per annum in the post-reform period of 1993–8.

Current Labour Regulations Impede the Growth of Formal Employment

Only about 9 per cent of India's workforce is in the organized sector. Of course, to a large extent this reflects the still high share of agriculture (62 per cent in 1993–4) in the workforce, owing partly to the low growth in manufacturing employment. However, even in manufacturing, formal sector employment is only at 25 per cent of the workforce. In the private manufacturing sector, formal sector employment is even lower, at 15.5 per cent of the workforce.

This segmentation of labour can be explained by the pattern of growth in which domestic regulation and protection from imports encouraged increasingly capital-intensive industries (see Gangopadhyay and Wadhwa 1998), while labour legislation (see the following pages) and public sector employment gave employment protection and relatively high wages to the few employed in the formal sector. In addition, labour mobility across sectors has been hindered by the pension system in the formal sector—generally speaking pensions are not mobile across jobs and many years of work are needed before an employee becomes eligible for a pension.

Employment growth in the organized sector was only 1.6 per cent per annum during 1981–91 and industrial sickness increased even as manufacturing output was rising rapidly (Anant 1998).⁹ The employment elasticity for the organized manufacturing sector during 1981 to 1991 was only 0.09 (0.14 for 1981–97) and 0.30 for the organized sector as a whole (0.23 for 1981–97). Over the period 1991–5 the growth rate of formal employment dropped even lower, to 0.6 per cent per annum. While the most recent period partly reflects the cyclical slowdown and recovery, the developments over the whole period are in large part explained by the low flexibility of labour use

⁹ One important reason for industrial sickness is believed to be the poor link between wages and productivity (Anant and Goswami 1997).

and the consequent reluctance of employers to create formal employment. This is borne out by an industry survey, which identifies labour regulation as the second highest obstacle to the operation and growth of business (Annex Table 4.6) and discussions with industrialists.¹⁰

The other side of the rigid, high-cost organized labour market was a low-cost unorganized sector with a flexible, unorganized labour market which absorbed the growth of labour. Average labour intensity in unregistered manufacturing increased from an average of 59.3 per cent over 1988–9 to 1990–1 to 62.4 per cent over 1993–4 to 1995–6 (see World Bank 1998a, Annex Table 12). Hence, had labour markets functioned more flexibly, pensions been more mobile, and legislation been more conducive, the organized sector might have occupied a more prominent share of the workforce. Formal sector employees might have grown more rapidly and been more mobile, and the benefits of more formal employment shared across a larger number of employees, including women, who have been unable to participate fully in the labour market (see Box 6.6). All this means that while India's comparative advantage lies in labour-intensive products, labour laws and procedures militate against efficient use of that advantage.

Labour Legislation

The main rigidities in the labour laws include a very wide scope for initiating industrial disputes (which can be initiated on the basis of 'interests' rather than 'rights'), long procedures for settlement of industrial disputes, inflexible provisions relating to change in conditions of service (instead of being part of the collective bargaining process), and provisions enabling government interventions in areas such as lay off, retrenchment and closures.¹¹ This legislative

¹⁰ Mr Mukesh Ambani, Vice-chairman of Reliance Industries, India's largest private sector company, recently declared in a meeting with World Bank staff that Reliance could increase its textile and garments business tenfold, from its current \$ 0.5 billion to \$ 5 billion—provided labour laws, which he considered the single biggest barrier to India's industrial growth, were eased.

¹¹ The principal legislation covering employment security are the *Industrial Disputes Act 1947* (provides for settlement of disputes in cases of termination) and the *Industrial Employment Act 1946* (sets rights and obligations of employees and employers relating to service rules). Industrial sickness is dealt with under the framework provided by the *Industrial Disputes Act 1947* (and the 1976 Amendment), the *Companies Act 1956*, and the *Sick Industries Companies Act 1985*.

Box 6.6

WOMEN IN THE INDIAN LABOUR MARKET

Women are a particularly vulnerable segment of Indian society. While females represented 32.4 per cent of the labour force in 1993–4 (33.9 per cent in 1977–8), their labour force participation rate was about half that of males (28.8 per cent for females and 55.6 per cent for males). The female labour force grew at 1.8 per cent per annum between 1977–8 and 1993–4 (2.2 per cent per annum for males). Whereas the low female participation rate is partially due to the statistical invisibility of women's work (housekeeping, tending cattle, etc.), there is evidence that they face discrimination in the labour market. For example, while the recorded rate of unemployment for females (at 1.8 per cent in 1993–4) is lower than that for males (2.6 per cent), this conceals large female underemployment (87.8 per cent of the subsidiary workers, that is, those working for only a small part of the reference period, or 'discouraged' workers, were women in 1993–4). Furthermore, the quality of female employment is lower than that of males. A large proportion of females are employed in the agricultural sector (74.5 per cent of total females in 1993–4, compared to 56.9 per cent of total males), and as casual labour. In 1997, only 16.4 per cent of total organized labour was female (14 per cent of the public sector and 22 per cent of the private sector). Females also earn lower wages than males in similar occupations (for example, they earned 71 per cent of the daily wage earned by males in casual agricultural labour).

The above features are partly a result of inequalities in educational attainment. The average number of years of schooling for females was 2.3 in 1993–4 (1.5 in 1983), about half that of males (4.3 in 1993–4 and 3.3 in 1983). Inequalities are also present in the political systems (the 33 per cent women's reservation in local governments is not utilized), the legislative framework (for example equal rights of inheritance in property rights laws are not enforced; in Andhra Pradesh, legislation has been passed to enable land titles to be given solely to women, with good results), and the credit market (women lack the collateral needed to raise loans). As a result, women are largely poorer than men in India. Any strategy targeted at poverty reduction in India will necessarily have to redress the constraints faced by women in participating fully in the political, legal, and economic systems.

Sources: Ghosh 1999; GOI 1999e.

framework impedes large-scale industrial restructuring, relocation or exit, and even the relocation of labour within an enterprise and often even in the same city/town. In the private sector, these rigidities are circumvented by the setting up of smaller units which are beyond the purview of labour legislation, or the increasing use of contract labour, which further increases the divergence between the organized and unorganized sectors. Future policies aimed at strengthening voluntary arbitration, conciliation, collective bargaining (by allowing recognized representative trade unions),¹² and promoting tripartite dialogue, will reduce disputes and litigation. Also the implementation of labour laws, in particular labour welfare laws, results in the 'Inspector Raj' syndrome, which affects SSIs disproportionately. For example, SSIs are constrained by excessive regulatory burdens and disclosure requirements—80 per cent therefore operate without incorporating (World Bank 1998a). A key impact of not

¹² Under the Trade Unions Act 1926, a minimum of seven employees can form and register a trade union—this results in a multiplicity of trade unions. In addition, though the Industrial Disputes Act 1947 refers to the term 'recognized union', this is not defined—hence employers only recognize the majority union for the purpose of collective bargaining.

incorporating is that it *forecloses access to formal credit markets including capital markets*.

As many as 165 labour legislations exist in India, including 47 Central Acts (Debroy 1997), and substantial need exists for harmonizing and rationalizing them. For example, as the Acts have evolved, definitional variations have developed in concepts such as employee, workman, wages, factory, and industry. The term 'wage' has been defined in 11 different ways in as many labour laws. The greater part of labour legislation is in the Concurrent List of the Seventh Schedule of Article 246 of the Indian Constitution, giving both Central and state governments the power to legislate for items that are on this list. State-level amendments were actively introduced, for example by West Bengal, Andhra Pradesh, Maharashtra, Gujarat, and Madhya Pradesh.¹³

¹³ Special provisions have been incorporated by states in the *Trade Unions Act 1926* (for example Gujarat, Madhya Pradesh, Maharashtra, Orissa, Uttar Pradesh, and West Bengal) and *Industrial Disputes Act 1947* (for example Andhra Pradesh, Karnataka, Kerala, Gujarat, Maharashtra, Madhya Pradesh, and West Bengal)(Venkata Ratnam 1999). Wage protection under the *Minimum Wages Act 1948* covers 79 job categories in Orissa, while only 8 in Manipur (Anant 1998). In addition, the range of minimum wages varies from the highest in Maharashtra to almost none in Haryana.

Differences among states also arise in the institutional framework¹⁴ and the industrial relations scenario.¹⁵ However, state governments are required to refer their amendments to legislations to the Centre for the assent of the President of the Indian Union. This procedure has been slow, and proposals submitted by Tamil Nadu and Andhra Pradesh a few years ago, for example, have still not been processed. To bypass this process, some states have substituted the term 'appropriate government' with 'state government' in the Industrial Disputes Act 1947. Furthermore, it is difficult to gauge truly the labour situation in the states, as over half the states do not submit even the statutory returns (such as number of registered unions) to the Labour Bureau.

Reducing Child Labour

Reducing child labour is an area where efficient labour legislation must be complemented by effective economic measures. India already has well-framed child labour laws (though there is lack of harmony in the definition of 'child'). However, 11 million children were working according to the 1991 census. Moreover, this figure may well be an underestimate—a study by the Indian Operations Research Group quotes a figure four times larger. India ranks 52nd out of 53 countries in relation to the perception as to whether child labour is strictly prohibited (World Economic Forum, *The Global Competitiveness Report 1998*). While income poverty reduction provides the most sustainable solution to eliminate child labour, policies to improve the health status of working children and broaden educational opportunities are also needed. Improving the quality of education will help stimulate the demand for education, thus diverting children from work. In addition, expanded production of labour-intensive products based on reduction in protection, increasing FDI, dereservation, etc. (see pp. 75–82) will

¹⁴ In Kerala, Industrial Relations Commissions operate in industries such as plantations, and various welfare funds are in place for unorganized workers. In Maharashtra and West Bengal, special employment guarantee schemes have been implemented, while welfare schemes are available in Tamil Nadu. The Rajasthan Roadways has a profit-sharing scheme with its employees and Rajasthan has a renewal fund for redeployment of sick industries employees.

¹⁵ For example, while politically affiliated unions are common in West Bengal and independent enterprise level unions are widespread in Maharashtra, most industries in Karnataka (particularly in Bangalore) are union-free. As central legislation provides for trade union registration, but not recognition, Andhra Pradesh has been using the secret ballot system for recognition, and Orissa and West Bengal have recently introduced this system through legislation.

increase the demand for labour endowed with basic education, and, in turn, increase the opportunity cost of child labour. Concomitantly, the proper enforcement of domestic child labour laws will contribute to reducing the demand for child labour.

Improving Agriculture's Contribution to Development

Agricultural growth has been a major factor in reducing poverty (see Chapter 1 and references therein). Over the 1990s, agricultural GDP trend growth of 3.3 per cent per annum was (statistically) similar to that in the 1980s, according to the new National Accounts Statistics, and foodgrains production trend growth was 2.6 per cent per annum (both well in excess of (declining) population growth, estimated at 1.6 per cent per annum (GOI 1999b), although still subject to substantial year-to-year volatility).¹⁶ Yet rural poverty declined much less in the 1990s as compared to the 1980s.

Two elements may partly explain agriculture's limited impact on poverty in the 1990s, and raise questions about the sustainability of current agricultural growth unless policy changes occur. First, the overall picture conceals an agricultural slowdown in the northern and eastern states, which has probably contributed to their slow reduction in poverty. Second, the pace and pattern of technological change in agriculture may have changed. There are some indications that agricultural productivity growth has begun to slow. These changes are both related to the inefficiencies in, and unsustainability of, the current pattern of public spending in agriculture, and to the limited reform in agriculture (see World Bank 1999b for a fuller discussion of these issues and what follows; note that much of the analysis of regional growth and technical progress is based on the old GDP Accounts, which showed a slowing of agricultural GDP growth).

¹⁶ Both trend growth rates are calculated using time-series regressions, starting in 1978 to avoid beginning in a trough or boom year. The regressions were calculated using the new NAS for 1993–4 onward, and calculating a corresponding figure for pre-1993–4 GDP in agriculture by applying the growth rates from the old NAS to the new base. No statistically significant break exists between the 1980s and the 1990s, although growth seems less variable in the 1990s than the 1980s, which included a major drought of 1987. Both point-to-point and trend growth rate estimates are highly sensitive to starting and ending points. Note that the old NAS do show a statistically significant decline in agricultural GDP growth (though not foodgrains) in the 1990s. The difference reflects the inclusion of new agricultural products in the new, 1993–4 based, NAS.

Broadly speaking, the public policy approach to agriculture, particularly in the 1990s, has been to subsidize power, water, and fertilizer inputs, implicitly or explicitly, in order to keep down the increases in food price, including the costs of the massive PDS that is used by many of the non-poor. The equity, efficiency, and sustainability of the current approach remain open questions. The subsidies also have unclear impacts on income distribution and the demand for labour. The boost in output from subsidy-stimulated use of fertilizer, pesticides, and water may partly be coming at the expense of deterioration in the aquifers and soil—an environmentally unsustainable approach that may partly explain the rising costs and slowing growth and productivity in agriculture, notably in Punjab and Haryana (see, for example, Chand 1999). Moreover, the limits on public finance (see Chapters 3 and 8) have meant that subsidies have, in effect (a) ‘crowded-out’ public agricultural investment in roads and irrigation and expenditure on technological upgrading, (b) limited maintenance of canals and roads, and (c) contributed to the low quality of rural power. These problems are particularly severe in the poorest states. Although private investment in agriculture has grown, this is partly a substitute for lower public investment and deteriorating quality of public services, in some cases involving macroeconomic inefficiencies

(such as private investment in generating sets). At the same time, power capacity is underutilized because of poor distribution and maintenance, and excessive use of capital on farms encouraged by low-cost credit (Binswanger and Khandakar 1995). The Centre’s and states’ fiscal problems suggest that subsidies cannot continue to grow and rural capital and technological basis for growth will be limited by the past pattern of spending.

In addition, agriculture has seen much less reform than the other sectors. While overall reforms related to the exchange rate and industrial protection have helped, agriculture is still constrained by central and state regulations that limit price movement and intra-state trade, public procurement, and canalization of trade (see Table 6.1). For example, simply allowing greater private trade in products would help reduce price fluctuations; more general reforms would improve the productivity of labour and land use and stimulate agricultural exports. Removal of small-scale reservation would help the growth of domestic agro-industry, which in some cases is now facing increased competition from larger size offshore producers as a result of lower protection. Cotton and textile policies effectively tax cotton producers by 15 per cent, and oilseed policies effectively tax oilseed producers by 30 per cent (World Bank 1997e, 1999b).

TABLE 6.1
India’s Regulation of Agricultural Markets and Agro-industry

	Rice	Wheat	Sugar	Oilseeds	Cotton textiles	Dairy
<i>Central government</i>						
FCI/TPDS (pan-seasonal & territorial price)	✓✓✓	✓✓✓	✓✓✓	—	—	—
Dual markets	✓✓✓	✓✓✓	✓✓✓	—	—	—
Forced procurement (levy)	✓✓✓	—	✓✓✓	—	—	—
Essential Commodities Act	✓✓✓	✓✓✓	✓✓✓	✓✓✓	(✓✓✓)	—
Selective credit controls (RBI)	(✓✓✓)	(✓✓✓)	✓✓	(✓✓✓)	(✓✓✓)	—
Size reservation (SSI)	—	—	—	✓✓✓	✓✓✓	—
Barriers to entry	—	—	(✓✓✓)	—	—	✓✓✓
Administered prices (sugarcane, ginning)	—	—	✓✓✓	—	(✓✓)	—
Ban on forward & futures markets	✓✓	✓✓	✓	(✓✓✓)	(✓✓)	—
Health safety legislation & enforcement	—	—	✓✓	✓✓	—	✓
<i>State governments</i>						
Movement controls	✓✓	✓✓	✓	✓✓✓	✓✓	—
Storage controls	✓✓	✓✓	✓✓	✓✓	✓✓	—
Regulated markets management	✓✓	✓✓	—	✓✓	—	—
Control on cooperatives	—	—	✓✓	—	✓	✓✓
Non-unitary & multi-point taxation	✓	✓	✓	✓	—	—

Note: The number of ‘✓’ indicates the intensity of the inefficiencies imposed by the corresponding policy or regulation; ‘(✓)’ means either lifted or recently repealed.

Source: The World Bank.

Future agricultural growth could be speeded by policy and institutional reform in the sector, namely (a) an improved pattern of spending and a reduction in distortionary subsidies; (b) deregulation of the sector and of rural finance, with a greater role for the private sector in credit and termination of the use of credit subsidy as a transfer mechanism; and (c) empowerment of the poor by improving their access to land and common resources, increasing their control over services and infrastructure in rural areas, and improved safety nets.

The above-mentioned policy reforms would help reduce poverty. For example, increased public spending on rural roads, agricultural technology improvement, rural education, safety nets, and irrigation would all help reduce poverty (IFPRI 1998). Growth in the rural non-farm sector would also benefit from improved infrastructure (roads, power, communications) and social services. More efficient and competitive markets can deliver better prices and greater market opportunities to farmers, without raising consumer prices, that would help farmers offset the impact of cuts in subsidies. Better markets together with futures markets and eased restrictions on commodity movements and private participation in international trade can help reduce price fluctuations.

Poverty reduction will also be enhanced by empowerment of the poor—shift from top-down, centralized management to bottom-up, demand-driven participatory processes for the provision of rural infrastructure and support services. Numerous successful individual programmes (including World Bank financed projects) in rural water supply, minor irrigation, watershed development, and joint forest management are demonstrating the benefits of such a strategic shift. A wider adoption of this principle, particularly in the numerous government safety net programmes (such as JRY, EAS, and MWS) would help such programmes better meet their primary goal of poverty alleviation.

Another area where policy and institutional reforms are required to better meet the needs and aspirations of the poor is in policies related to the management of forest resources. The government needs to rethink its role in downstream production and marketing where the private sector, including community interest groups, could be brought in much more effectively. Instead the policy focus should be more on the management of externalities and provision of public goods, the definition and enforcement of property rights, resolution of conflicts, and improving the access of the poor to natural resources of importance to them (particularly non-timber forest products).

Raising and Using Capital Well: The Financial System and Corporate Governance

Capital is scarce in India and other developing countries. Mobilization of investible resources at reasonable cost, their allocation in a manner that yields the best combination of risk and return, and efficient management of these resources are critical issues in growth and poverty reduction. All countries' financial systems play a key role in mobilizing and allocating resources for the private sector as well as raising resources for the public sector. Corporate governance and information play key roles in the allocation and efficient use of resources. Finally the financial sector and corporate governance play key roles in the vulnerability of the economy to economic crises, as evidenced by recent developments in South East Asia. This chapter looks at ways to improve India's financial and corporate systems' allocation and use of resources and ways to reduce vulnerability. The next chapter continues this discussion with regard to the public sector's use of resources and reducing macroeconomic vulnerabilities.

India's deep financial system has undergone significant reform and improvement in prudential regulation and supervision since the early 1990s, though much remains to be done as indicated by various recent

government committees (see Box 7.1). India's financial system resisted contagion from the East Asian crisis because of limited foreign exchange exposure in the financial institutions and corporates and the financial institutions' large public sector debt holdings (see also Chapter 8). Despite the improvements, the financial system could be a constraint to renewed 7 per cent per annum growth. India mobilizes resources very well but much of the resources are absorbed by public sector borrowings. These borrowings increasingly finance public consumption and push up the cost of funds to and 'crowd out' the private sector. Although banks have low ratios of non-performing assets (NPAs) (largely because of the high share of public debt in the system), the still-high NPAs on lending to the private sector (advances) push up the cost of funds and suggest the allocation of funds could be improved. And the capital markets and non-banks are unlikely to provide as much finance as they did in the recent past. A second wave of reform, taking off from the recommendations of the second Narasimham Committee (henceforth Narasimham II; see Box 7.1 for a summary of its recommendations as well as those of other recent committees on financial reforms), would ease the

finance constraint and reduce the economy's potential vulnerability to financial sector problems. Key areas are:

- a better legal and judicial framework for debt recovery,
- a reduced public sector deficit to reduce crowding out in the financial system,
- further tightening of regulation and supervision to reach best international practices,

- greater private ownership and management under the improved regulatory framework, to increase incentives for better lending and collection, and
- an improved payments system.

Capital markets would benefit from continuation of the improvements in transactions and settlement practices and, especially, from a shift towards fully funded pensions that would provide long-term funds for development as well as good retirement incomes.

Box 7.1

THE NARASIMHAM II, KHAN, GUPTA, AND RBI REPORTS ON THE FINANCIAL SECTOR

The Narasimham I Committee Report, in 1991, along with other reports issued at the time, provided an outline for reform of India's financial system. In 1998, the Narasimham II Committee Report on banking, the Khan Committee Report on harmonizing banks and development finance institutions, and the Gupta Committee Report on rural credit, along with the 1997 Tarapore Committee on capital account convertibility, suggested approaches for broadening and deepening reforms in the financial system. In 1999, the RBI issued a report on the role of banks and development banks, which suggested that a gradual, orderly move towards universal banking might take place, as the institutions consider appropriate (RBI 1999a).

Narasimham I's recommendations followed the best practices of the period, focusing on reduced controls on interest rate and credit allocation; tougher capital requirements, supervision, and classification of NPAs; and easing entry, including that of foreign banks. The implementation of many of these recommendations and worldwide problems with public sector banking and bank crises mean that there is a new set of challenges. Narasimham II brings to bear the best current practices to these issues. Appropriately, it focuses, even more than the last Report, on upgrading banks' performance through improved incentives for prudent behavior rather than by relying solely on regulation and supervision.

Narasimham II's major recommendations along these lines are as follows:

- Reduce government and RBI equity stake in banks to 33 per cent, by market sales that dilute government ownership.
- Separate RBI from its role in bank boards.
- Raise bank capital to 9 per cent of risk-weighted assets by 2000 and 10 per cent by 2002; mark-to-market and give government securities a 5 per cent 'risk weight' to begin to deal with their interest rate risk. Give open foreign exchange positions a 100 per cent risk weight (that is 8 per cent of the open position would have to be matched by capital, up from the current, separate 5 per cent requirement).
- Reduce NPAs sharply; tighten definitions, avoid further recapitalization by the government; any 'hiving off' of NPAs to new institutions should involve major operational restructuring to prevent the problem's recurrence; closure of weak banks that cannot be revived, with safeguarding of depositors' and employees' interests. (A high-level committee has recently submitted recommendations to the government on the issue of NPAs in weak banks.)
- Give banks (that have gone to the market) more autonomy in bank management and pay-setting, lengthen terms for top managers, restructure and develop voluntary retirement schemes as appropriate, upgrade staff, and computerize faster; improve risk management; improve disclosure.
- Leave deposit insurance coverage as is, but move to risk-based premia.

The Khan Committee's principal recommendation was a move towards universal banking, with a progressive elimination of the boundary between banks and development finance institutions. Narasimham II also supported this convergence. Both committees noted the need for harmonization of the cash reserve and statutory liquidity requirements over time. The Khan Committee also recommended lowering the cash reserve ratio (CRR) (as did the Tarapore Committee) and abolishing the statutory liquidity ratio (SLR). Both the Khan Committee and Narasimham II called for improvement in the legal framework for loan recovery.

The Gupta Report, and the Khan and Narasimham II Committees have recommended further deregulation of priority sector lending. The Gupta Report has recommended allowing banks to set interest rates on agricultural loans and speeding up the credit process by allowing branches to approve most loans. It also recommended replacing the priority sector lending target with a system of annual targets.

Sound Financial System to Allocate Credit and Reduce Vulnerability

Resource Mobilization

India has a 'deep' financial sector (see Annex Table 7.1 for the structure of the system). Broad money (M3)¹ is over 50 per cent of GDP and capital markets are large (see p. 98). As early as the mid-1980s financial depth was similar to that of middle-income countries (World Bank 1989). This mobilization reflected high private saving rates, avoidance of high inflation, and a massive bank branch network.² However, M3:GDP growth temporarily stopped after 1987.

(2.4 per cent per annum) than in 1980 to 1987 (3.2 per cent per annum). Probably, part of this slower growth reflects the growth of less-regulated corporate deposits³, and especially, non-banking financial companies (NBFCs) that provided increased housing and consumer credit, a growth that slowed recently following problems in the NBFCs.⁴

Large Government Debt Holdings Crowd Out Private Credit

The public sector absorbs much of the funds mobilized by the financial system. In 1998-9, schedule commercial banks held 45 per cent of their aggregate deposits (or 39 per cent of their total liabilities) in government debt and the CRR. In fact, banks hold more govern-

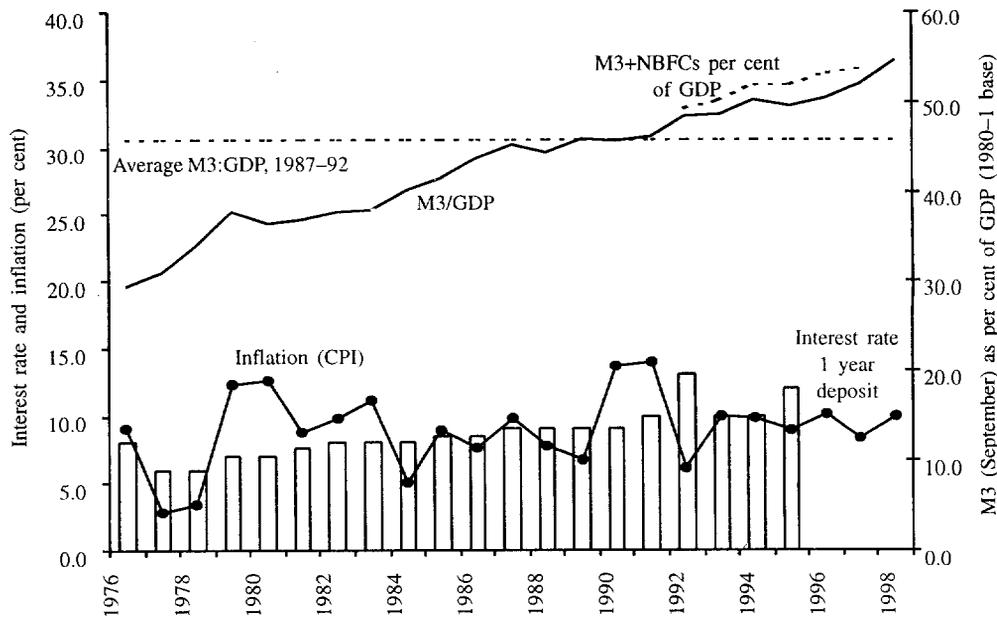


FIG. 7.1: India M3:GDP, Deposit Rate, and Inflation

The ratio of M3 to GDP began to rise once again in 1992, as stabilization and financial liberalization (which gradually freed interest rates, reduced directed credit to the government, and tightened regulation and supervision, see Reddy 1999, and Narasimham Committee 1991, 1998, and Annex Table 7.2 for a discussion) took hold. The stock market and new issues also picked up dramatically (see p. 98). However, the M3:GDP ratio has grown less rapidly since 1992

¹ M3 includes currency with the public and demand deposits with the banking system plus 'other' deposits with the RBI (M1), plus time deposits with the banking system.

² Banks' branches grew rapidly in the 1970s and early 1980s, then slowed. Branches numbered about 64,000 in 1998.

³ India traditionally permitted non-financial companies to take deposits from the public, as a way around the high costs of bank borrowing. The amounts are limited to 25 per cent of the company's paid-up capital and free reserves and are not covered by deposit insurance. Many large companies are, in effect, small financial intermediaries, raising funds from the public (and the financial system) and on-lending to suppliers. As competition heats up and bankruptcy becomes more likely, pressures may develop for the government to guarantee corporate deposits. However, the government has so far refused to extend deposit guarantees to 'sick' companies and non-banking financial companies.

⁴ In 1997 a major NBFC failed and deposit outflows hit the sector. Appropriately the government refused to provide deposit insurance *ex-post* and RBI limited weak NBFCs' deposit taking and required them to wind up activities. In January 1998, RBI

ment liabilities now than in the late 1980s (as a fraction of GDP or deposits), despite the cuts in CRR and SLR; correspondingly, banking sector credit to the private sector has been limited (see Annex Tables 7.2 and 7.3). NBFCs, regional rural banks (RRBs), development banks, insurance companies, and provident funds are also required to hold a large part of their portfolios in government debt, and their liquidity ratios remain high. Moreover, much of the bond market consists of government debt bought in the primary market by financial intermediaries and held to maturity.

The financial intermediaries' large government debt holdings mostly reflect a macroeconomic constraint: 'someone' must hold this debt, and absorb the increases generated by the still-high public sector deficits.⁵ In addition, financial intermediaries, including insurance companies, pension funds, and provident funds, are attracted to public sector debt by a number of factors, including higher interest rates on it than in the 1980s,⁶ low capital and priority sector requirements,⁷

announced a new framework for regulating NBFCs, which retains the minimum capital of Rs 2,500,000, requires NBFCs accepting public deposits to undergo the full range of supervision, links the maximum level of deposits to the NBFC's rating, and limits the deposit rate to 16 per cent. About 9000 companies that applied for NBFC status met the minimum capital requirement—of those only about 800 were considered eligible for receiving deposits, compared with about 10,000 at the end of 1996.

⁵ Another factor in the large holdings of public sector debt is the use of (non-marketable) government debt to recapitalize the banks over the last few years. The stock of these securities was equal to about 1 per cent of GDP in 1998–9 (see Chapter 8). Although provision of capital in this form spread out the fiscal cost of recapitalization over time, it also meant that the recapitalization did not increase the availability of funds for new private investment. Another factor is the elimination in the 1990s of liabilities of non-government entities, mostly public enterprises, from eligibility for the Statutory Liquidity Requirement, and their replacement by government debt. Such liabilities represented 11.2 per cent of banks' 'selected assets' in 1989–90, but only 4.3 per cent today (see Annex Table 7.3). Yet another factor in the rise of banks' holdings of public debt is the sharp drop in the RBI's holdings (as a per cent of GDP) since the early 1990s, as the RBI reduced its role as financier of the government and built up its international reserves (see Chapter 8).

⁶ Interest rates on public sector debt were raised in the latter part of the 1980s to reduce the burden of the SLR. With liberalization, the shift to auctions of government debt and the reductions in the liquidity requirement further increased rates on public sector debt.

⁷ For example, banks' investments (in government or corporate bonds) are considered investments rather than lending, and so do not attract priority sector lending requirements, which are set at 40 per cent of lending.

low transactions costs, easy justification as an asset choice in case of any investigation; and lack of credit risk—a factor that partly explains why Indian banks were less hard hit than East Asian banks. These factors generate a 'safe lending bias' and increase the demand for government debt relative to private sector debt. The demand is particularly great when there is pressure to reduce NPAs, as for example occurred recently in the case of regional rural banks (RRBs). However, it is important to note that this 'safe lending bias' affects the relative terms on which financial institutions hold government debt voluntarily. It remains true that 'someone' must hold the large government debt, be it either the public, in which case it would deposit less in financial institutions, or financial institutions, whether because of requirements that implicitly tax financial intermediation (as in the 1980s) or attractions described above (as in the 1990s). Correspondingly, private sector credit is crowded out (as discussed in Chapter 8 and World Bank 1998a). If, for example, banks or provident funds were to suddenly invest more in corporate debt and equity, then someone else would have to hold the public sector debt they sell (or do not buy). Thus increased credit for sustained, private sector-led growth can only come if the government reduces its borrowings/deficit.

Bank Performance and NPAs

These have improved substantially since the early 1990s, but remain short of best practices. NPAs, at end 1998–9, were about 6 per cent of total assets and 3 per cent net of provisions⁸ for the commercial banks; the public banks which still account for over 80 per cent of commercial bank assets have slightly higher figures (RBI 1999e). The public banks' NPA figures reflect the limited growth of NPAs after 1993, when the tightening of regulation revealed gross NPAs of 11.8 per cent of assets, and the substantial increase in provisioning begun in 1993. The private and foreign banks have lower NPAs than public banks but their performance has deteriorated somewhat over the last two years. The development banks'⁹ portfolios have a higher ratio of net NPAs to assets than commercial

⁸ Settlements on and write-offs of NPAs are made difficult by Indian laws and public bank managers tend to avoid these actions to avoid any possible political problems or accusations of favouritism. The result is that NPAs stay on the books while provisions are built up, and remain on the books even after full provisioning, increasing gross NPAs.

⁹ As used here, the development banks include the IDBI, ICICI, and IFCI.

banks (9.9 per cent on average) and their portfolios deteriorated in 1998–9, even after some restructuring (RBI 1999e). The small RRBs and cooperative ‘banks’¹⁰ have much higher NPAs than commercial banks although RRBs have improved somewhat recently. For the banking system as a whole, reported gross NPAs are probably less than 3 per cent of GDP, a fairly low figure. Of course, in all countries NPA figures depend on the accounting and supervisory standards and are backward looking, which means they have proved to be lower bounds when a crisis occurs.

Other standard indicators of bank performance show improvements. Capital is up, with the large recapitalizations of public banks from 1992 to 1999, eight public banks’ raising capital in the market, and capital increases from retained earnings. At the end of March 1999, 26 of 27 public banks and 99 of 105 commercial banks met or exceeded the 8 per cent Basle capital adequacy guideline; over 70 per cent of both public and private banks exceeded 10 per cent (RBI 1999e). Profits after provisioning are low however, and declined from about 0.8 per cent of assets in 1997–8, to 0.5 per cent of assets in 1998–9, reflecting provisions of nearly 1 per cent of assets (RBI 1999e).

India’s ongoing industrial slowdown largely affected private banks and development banks, while public banks have reduced their NPA ratios slightly. Development banks have grown fairly rapidly in recent years and they have large exposure to some of the industries that are undergoing a shake-out of excess capacity (see Chapter 8). They have already restructured some loans to the steel industry in 1999.¹¹

More importantly, from a long term-perspective, India’s capital and NPA ratios are substantially improved by the large holdings of (performing) government debt.¹² Because government debt has a low

risk weight,¹³ risk-weighted assets are only about half of total assets. In turn, this means that public banks’ actual capital is not much larger than their net NPAs.

Similarly, with so much government debt in the portfolio, the quality of Indian banks’ lending is better measured by the ratio of NPAs to credit (advances in Indian terminology) rather than NPAs to assets. India’s public banks’ gross NPAs were 15.9 per cent of credit and 8.1 per cent net of provisions in March 1999. Private and foreign banks have lower ratios—NPAs to assets was 5.8 per cent for ‘old’ private sector banks, 2.3 per cent for ‘new’ private banks and 2.9 per cent for foreign banks in March 1999. The figures for foreign and new private banks reflect the low NPAs typical of new banks. As noted above NPA ratios of private banks rose in 1998–9. Finally, RRBs’ NPAs were 33 per cent of outstanding credits in March 1998 (RBI 1999e).

Improving Credit Delivery and Reducing Vulnerability

NPAs tie up substantial credit in unproductive activities and raise the cost of credit—the current average rates of provisioning alone (about 1 per cent of assets) can increase the cost of credit by 1–2 percentage points.¹⁴ Moreover, the foregoing analysis suggests any increase in lending to the private sector (a) will require much more capital (as the average risk weight of the portfolio increases) and (b) runs the risk of increased NPAs and macroeconomic vulnerability unless substantial improvements occur in lending and collection. Such improvements will depend on action in three areas:

- improving the legal and judicial framework for debt recovery,
- further reducing the burden of priority sector lending, and

¹⁰ Cooperative ‘banks’ often operate like transfer agencies for government funds and have very high arrears.

¹¹ In March 1999, the IDBI announced loans of Rs 10.8 billion to 6 steel companies for completion of ongoing projects, conditional on promoters’ up-front infusion of new equity equal to one-third of the new loans, return of funds to the projects that had been diverted to other activities in the group, the right to convert the loan to equity at par, and improvements in management, corporate governance, and auditing. The ICICI is considering a new loan to some of the firms.

¹² Government debt is considered fully performing. However, the RBI, in 1998, announced that government guaranteed debt which fails to meet income recognition standards should not be accrued as income and provisions on state-government-guaranteed debt should be made over a period of four years beginning in 2000 (Reddy 1999).

¹³ In its October 1998 Credit Policy, the RBI announced that government/approved securities will carry a risk weight of 2.5 per cent, with effect from the year ending 31 March 2000; an additional weight of 20 per cent on investments in the government guaranteed securities of government undertakings which do not form a part of the market borrowing programme will also be introduced with effect from the financial year 2000–1.

¹⁴ The degree to which provisions increase the cost of credit depends on (a) whether banks include the provisioning costs in all decisions to buy assets (–) or only advances (+), (b) the degree of competition from banks with low NPAs (–), and (c) the willingness of shareholders, notably the government for the public banks, to accept low returns on equity (–).

- improving incentives for sound banking, which in turn will involve both a greater private sector role and improved regulation and supervision, key areas for a second wave of reform, that build on Narasimham II's recommendations.

Improving the Legal and Judicial Framework

Weak legal and judicial support for loan recoveries is identified by bankers and Narasimham II as a major factor in NPAs. Although most loans are collateralized, a judgement to 'execute' collateral may take ten years and then may prove difficult to enforce (RBI 1999c).¹⁵ Once a company is declared sick, it can escape legal demands for repayment for some time and collateral can be diverted. These difficulties in the legal framework, as well as the current recession, may explain the rising NPAs and weakening profits in some of the private and foreign banks. The setting up of specialized debt tribunals, as recommended by Narasimham I was intended to speed up judgements and bypass the logjam in the courts (see Chapter 4). However, a recent RBI review emphasized the need for substantial improvement in the tribunals; as of June 1997, only about 9 per cent of cases had been decided, and less than Rs 2 billion of the Rs 89 billion involved had been recovered (RBI 1999c).¹⁶

Setting up additional tribunals, as was done following the proposals in the last two Budget speeches, will reduce some of the problems. However, action is also needed to clarify and streamline procedures. Even with the new tribunals, the backlog of cases is overwhelming and the possibility of filing an appeal contradicts the objective of quick settlements—one possibility would be to reduce incentives for frivolous appeals by imposing additional penalties for the loser of the appeal. Action is also needed to improve the process and shorten the time during which a company can remain sick, and to improve the implementation of procedures for protecting priority creditors' rights.¹⁷ Finally, as discussed later in this chapter, bankruptcy and liquidation laws need improvement.

¹⁵ Of course, banks typically do not wish to take over collateral. However, their inability to do so as a last resort increases their dependence on relationships for obtaining debt service and can pressure them to send good money after bad in hopes of eventual payment.

¹⁶ Implementation of the Debt Tribunal Act, 1993 was delayed by legal challenges, one of which is pending in the Supreme Court, and administrative problems.

¹⁷ The slow resolution partly relates to the understaffing and slow resolution in the BIFR, and the often-stated political problems of dealing with the staff of sick firms, although given

Reducing the Burden of Priority Sector Lending

Priority sector lending which comprise 40 per cent of credits, has about a 35 per cent higher NPA rate than non-priority lending.¹⁸ Direct agricultural lending is a particular problem.¹⁹ Political pressures, targets for priority sector lending, use of credit to offset poor harvests, etc., have led to loans to uncreditworthy borrowers and easing of lending standards (see Ahluwalia 1997). At the same time, the credits' use has often not led to increases in the productive capacity of the economy.²⁰ The burden of priority sector credits on the banks has been reduced by the rise in interest rates on them and the widened eligibility of credits for priority status. Nonetheless, the 'safe lending bias' noted above is leading to a shift towards government debt, safe corporate bonds, and to other investments such as stocks (which RBI has permitted up to 5 per cent of capital) which do not carry priority sector obligations (see p. 92, and Annex Tables 7.3 and 7.4).

Better lending to the current priority sectors, as opposed to political transfers, could be stimulated by a further reduction in political interference, improved legal remedies for recovery, and better incentives for

the delays in settlement, most of the firms' workers have actually found other activities. Another, unstated factor may be the unwillingness to sell off the sick firms' valuable land assets, because they would depress land prices.

¹⁸ Priority sector lending of public banks accounted for 47.8 per cent of NPAs on credit at end 1998 (RBI 1998a, p. 27) and were about 40 per cent of credits, yielding the estimated NPA rate of 19; by similar calculation, the NPA rate for non-priority lending was 13.9 per cent.

¹⁹ For example, public sector banks recovered only 60 per cent of direct agricultural lending (that is excluding loans to NABARD, Infrastructure Rural Development Fund, etc.), and 30 per cent of IRDP loans in 1993-5 (RBI 1996, pp. 35, 37). Partly, the better performance of private and foreign banks on NPAs may reflect their lower direct agricultural lending. Because of their more limited branch network they are permitted to satisfy more of their priority sector agricultural lending through lending to NABARD, and through loans to small-scale industry. Moreover, foreign banks have a 32 per cent, rather than 40 per cent, priority sector requirement of which export credits account for 10 percentage points.

²⁰ Studies suggest that the directed credit had little impact on agricultural growth and was a poor substitute for the physical inputs needed for growth; rather much of the credit seems to have gone to increase the capital intensity of production (see, for example, Binswanger and Khandakar 1995). Regarding lending to small-scale industry, as with agriculture, those firms that accessed low cost credit seem to have used it to adopt more capital-intensive technology, rather than expand and increase employment (see, for example, Sandesara 1988).

sound banking, including a greater private presence. This is particularly the case in the rural sector. Subsidies on priority sector lending should be made explicitly through the budget, not implicitly through credit. Crop insurance and employment schemes, rather than credit, should be the main instruments of disaster relief. More fundamentally, changes in the approach to agricultural lending and micro-credits are needed. For small-scale agricultural and rural lending, institutions like the Grameen Bank, that are beginning to be formed in India can play a more important role (for example the Self-employed Womens' Association (SEWA) programme). For larger loans, the success in providing credits, as opposed to subsidies, will depend on incentives to make sound loans and collect, as for example the 'credit desa' programme of Bank Rakyat Indonesia where repayment rates have remained over 95 per cent despite the economic crisis. Either model is likely to require much higher interest rates than the prime rate (see Yaron *et al.* 1994 and 1997, and World Bank 1999b). Further investigation is needed of ways to strengthen institutions and improve the vehicles for micro-credits and agricultural loans, and ensure their repayment.

A particular priority sector credit issue is the explicit or implicit inclusion of infrastructure finance. Generally speaking the arguments against directed credit are well known, in terms of diverting credit from/implicitly taxing other sectors. In the particular case of infrastructure, neither India's banks nor development banks have much experience in evaluating such projects and their rapid expansion into these areas is likely to increase NPAs, as well as expose the banks to a major term transformation risk.²¹ Moreover, problems with private sector infrastructure may relate more to the 'bankability' related to issues in the regulatory framework and cost recovery (see Chapter 5). Channelling more credit to infrastructure would not resolve these problems, only transfer their cost to the banks or the guarantor of the credits.

Improving Incentives, Regulation, and Supervision

Priority sector lending is, however, far from the whole explanation of high NPAs—NPAs on non-priority lending are estimated at about 14 per cent, well in excess of best practices.²² Another factor in NPAs, suggested by experience around the world, is probably

²¹ Such risks can be transferred to the borrowers through variable rate lending; however, the possibility of bankruptcy limits the transferability of the risk.

²² See fn. 18 in this chapter.

the system of incentives for sound lending and recovery, particularly in the public banks, including the regulatory and supervisory framework. Worldwide experience suggests that inappropriate incentives make it difficult for public sector financial institutions to carry out good lending and collection practices. Public sector employees have less stake in sound lending and collection than private sector employees. Pressures exist to lend for non-market objectives and to go easy on collections. Directors and the owner—the government—seem unable to obtain reasonable rates of return on capital or even to maintain capital. In addition, there is limited market discipline because of the government's implicit guarantee.²³ Moreover, when public banks dominate the system, regulation and supervision often become principally aimed at checking malfeasance and ensuring directives are fulfilled, since additional profits from high-risk high-return lending do not recur legally to the institution or its employees.²⁴ Of course, private banking has its own problems, as good accounting, auditing, and frequent reporting are needed to increase market discipline. Private banks may choose high-risk high-return loans, reflecting fractional banking, low capital, and limited liability, and with market discipline limited by deposit insurance and inherent limits on information. Thus regulation and supervision of private banking is needed not only to reduce malfeasance, including non-arms length lending, but also to limit imprudent behaviour.

Despite India's major steps in improving bank performance and regulation and supervision (see Reddy 1999), the foregoing considerations, recognized by Narasimham II and the government, suggest a second wave of reform is needed, particularly in three areas:

- dealing with the stock of NPAs and large new ones without creating incentives for poor performance,
- going beyond international norms to reach best practice in regulation and supervision, and
- privatization to improve incentives.

Net NPAs in public banks remain a burden and, as noted above, are similar to capital. Moreover, in some

²³ Illustrating this point is the worldwide tendency for depositors to switch from private to public banks in times of financial crisis, despite public banks' typically inferior balance sheets.

²⁴ It is generally agreed that the moral hazard for imprudent lending increases when equity stakes drop in banks, an example being the US Saving and Loan Crisis. This is also a concern for public banks when they perform badly—managers may act imprudently in hopes of offsetting bad performance.

cases, for example Indian Bank, large new NPAs have developed. Dealing with the stock of NPAs will depend on the government's political will to recover loans, in spite of the current industrial recession, and putting greater pressure on the banks to resolve NPAs without exception. The government will need to assess the likelihood of collection and settlement on a bank-by-bank basis, reward banks that exceed the targets, and put in new capital as needed. General principles for settlements will be needed, to protect management from accusations of favouritism.

Leaving collection of NPAs to individual banks in this way is likely to result in greater reduction of NPAs and less cost to the government²⁵ than transferring them to a general asset reconstruction fund. The announcement of such a general fund will itself generate incentives for more NPAs, as bankers try to clean their balance sheets and debtors switch to what they are likely to perceive to be an easier regime, based on their experience with the BIFR. Any transfer of loans and collateral will be subject to errors and legal challenge. Debtors will not even have the incentive to pay for maintaining relations with their bankers. Finally, the success of such a fund will depend on taking the best work-out specialists from the institutions. General asset reconstruction funds typically have been used only in general crises, they have only worked well when fairly draconian measures were taken to collect and execute collateral, and the fund was wound up quickly, for example the US Resolution Trust Corporation. A further problem with a general fund, suggested by the experience with the BIFR, would be its likely long life, and the negative incentives generated to bank managers for sound lending and collection by the possibility of additional transfers of NPAs to a long-lived fund.

With regard to banks that generate large new NPAs, better regulation and supervision and quicker government action may provide some help. For example, US regulatory authorities intervene in banks well before all their capital is lost. However, regulation and supervision can only be a second line of defence and

²⁵ The cost to the government will depend only on the success of collection, and not on whether the NPAs are in the banks or a general asset reconstruction fund. By transferring the NPAs to the fund at par, the true costs can be obscured and additional capital for the banks will be unnecessary. However, to provide the banks with actual new capital, as opposed to the non-marketable securities that have been used for past recapitalizations, the fund will have to be actually capitalized and its losses on less than par recoveries will have to be paid by writing down its capital.

cannot prevent all failures. Moreover, some of the regulatory-based incentives to prudent private banking may even work perversely for public banks; for example, higher capital requirements may be treated simply as low cost funds by public banks unless the managers can be held responsible for returns on capital. The standard remedy for weak public banks—transferring management—has some effect, but it remains difficult to provide either strong incentives to the staff or market discipline through the providers of funds. One option for public banks that continually perform poorly is to turn them into narrow banks, holding only government debt, and gradually wind them down (Tarapore Committee 1997, Tarapore 1998, 1999). This approach would limit new losses, and could be a non-monetary incentive to other banks to avoid large NPAs, lest they too become narrow banks.

Regulation and supervision have improved substantially, to largely reach international norms in areas like the 8 per cent capital requirement (RBI has mandated 9 per cent by 2000), Basle Core Principles of Banking Supervision, etc.²⁶ Market pressure has also been increased through competition with the licensing of 9 new Indian banks and 22 new foreign banks since 1992, and the reduction of limits on competition such as mandatory consortium lending and the restrictions on switching banks and multiple banking relationships.

The issue now is to move to best practices, which will be especially desirable in the context of further privatization. Particular issues are: (1) removing the various current exclusions from the 180-day rule for recognition of income²⁷ and moving to a 90-day rule, as practised in countries like Argentina and Chile; (2) further increasing provisions, including raising the specific provisions that currently are lower than most

²⁶ In terms of regulation, India increased the capital requirement to 9 per cent (by March 2000), moved toward recognition of NPAs after 180 days, increased provisioning, is gradually imposing mark-to-market on securities, introduced systems of credit, foreign exchange, and risk management, and increased information requirements (including data on NPAs). In supervision, a CAMEL system has been introduced to better identify weak banks, on-site inspections have improved, and India fully complies with 14 of the Basle Core Principles of supervision, and is implementing its compliance with the 11 others, which mainly relate to procedures for licensing of banks, implementation of risk management in the banks and its evaluation, and consolidation of accounts and the sharing of information on them, both internally and internationally. See Reddy (1999) for more details.

²⁷ These inclusions contain an almost automatic exception for an additional thirty days, exceptions related to agricultural harvest cycles, and exceptions related to delays in project completions that particularly benefit development banks.

countries, and increasing the recently instituted general provision of 0.25 per cent as a cushion against general portfolio deterioration or shocks; and (3) increasing capital to 10 per cent, as recommended by Narasimham II. In addition, it would be desirable to use specific additional capital requirements on potentially risky activities such as the recent imposition of a 100 per cent weight on foreign exchange positions. In addition, (a) the current high exposure limits (as percentages of capital)²⁸ should be reduced substantially, including the exposure on infrastructure projects, (b) rules on lending to director-related activities should be tightened, and (c) the minimum capital (less than \$ 25 million for banks, \$ 60,000 for non-banks) should be raised substantially to encourage economies of scale (risk reduction) and scope, and be in the form of cash or government securities. Finally, the issue of quicker sanctions for non-complying banks needs to be addressed—public and private banks have been allowed to operate for some time with low capital. Best practice suggests quick intervention is needed to reduce the risk of additional losses.

In supervision, one issue is how to move from analysis on an historic basis to a forward-looking basis, which will include an evaluation of how the credit and risk management systems are being used. This change will require significant upgrading of supervisory capacity and, in the current environment, it may be difficult to retain supervisors who can carry out such functions effectively. The licensing procedure needs to be more transparent and include a discussion of applicants' intended activities and formal background checks. More fundamentally, the RBI will need to continually re-examine the appropriateness of its guidelines for risk management. Finally, accounting and auditing standards, while much improved and moving towards international standards (Reddy 1999), would require greater improvement to reach best practices. An important accounting issue is the consolidation of firms' and banks' activities. Another issue is fragmentation of the accounting industry, which raises the issue of the franchise value of providing sound reports.

Privatization, under a sound regulatory and supervisory system can provide incentives for better credit allocation and injections of much needed capital, as recognized by Narasimham II. However, significant political will is needed to (a) induce the government and managers to give up their highly concentrated

power to allocate credit under the current arrangements,²⁹ (b) carry out the legal changes needed for even gradual privatization through the market, and (c) use the more effective approach of strategic sales.

Currently, eight public banks have sold shares and further sales by them would begin to approach the lower legal bound on government ownership. But lack of new capital for growth, the higher new requirements mandated by the RBI, and NPAs write-offs will strap the performance of these banks. Banks are already trying to meet their capital needs by the risky approach of selling each other subordinated debt. Raising new capital solely through the market could easily mean more than 50 per cent of equity would be publicly held, requiring changes in the Banking Companies and State Bank of India Acts that would face major parliamentary opposition. Moreover, many factors make even the best banks' attractiveness to the market unclear—the partially divested banks' share prices have lagged behind the indices, representation of private shareholders on bank boards is still under implementation, banking has become a much more competitive activity, and banks' actual capital is not much larger than unprovisioned NPAs. The status of bank staff (currently treated as 'de-facto' civil servants), if the government were a large minority shareholder, would also be an issue. Finally, even if government shareholdings were reduced to 33 per cent, as recommended by Narasimham II, the government's position as dominant shareholder could allow it to run the bank effectively. These considerations suggest that sales to strategic shareholders would not be much more difficult than the gradual privatization recommended by Narasimham II, and could yield more revenue from the sale, as well as more efficiency. Whatever the method chosen, it is likely that the government will need to resolve issues of staffing through voluntary retirement packages, and to inject more capital to write-off unprovisioned NPAs, as in the privatization case of Philippines National Bank concluded recently. *Further analytical work exploring possible paths to privatization of banks, while decreasing the vulnerability of the banking system through regulation and supervision that approached best practices and improvements in accounting, auditing, and corporate governance, could help the privatization process in India.*

²⁸ Currently, limits are 25 per cent of capital to a single borrower, 50 per cent to a group of related borrowers, and an additional 10 per cent for infrastructure projects.

²⁹ Depending on the bank, Chairman and Managing Director personally approve all loans exceeding about \$ 7.5 million, with General Managers responsible for loans between \$ 2.5 million and \$ 7.5 million and Assistant General Managers for loans between \$ 2.5 million and about \$ 600,000.

Payments System

The payments system affects everybody—individuals, enterprises, financial institutions, and government agencies. While the RBI has been taking steps to improve it, the system still lags behind international standards as well as developments in the rest of the financial sector. Some of the problems include delays between the receipt of payment instruction and the completion of payment; reconciliation problems, sometimes remaining unsolved for months and even years; risk exposure due to delay in the finality of settlement, which could lead to systemic risk; low security level of the systems, which may facilitate fraud. Improvements in these areas would lead to a more stable financial system and faster developments in financial markets, which are heavily dependent on the payments system.

Capital Markets

India has one of the largest stock markets in the developing world, with more companies listed than in the US and market capitalization about 36 per cent of GDP. The market was a major source of funding for companies in the mid-1990s and boomed with the inflows from opening up to foreign institutional investors (FIIs). There were also major improvements in transparency, with the computer-based National Stock Exchange (opened in 1994) now accounting for about 60 per cent of trading,³⁰ and the Securities and Exchange Board of India (SEBI) requiring that shares in the major indices be 'dematerialized' in the depository, in order to ease settlement and verification problems. For most of 1998 the market was in decline, reflecting the slowdown of industry and capital inflows, the major settlement/payments problem in the Bombay Stock Exchange, in June 1998, and then, in the later part of 1998, the redemption problems of the Unit Trust of India (UTI) (the government-run mutual fund) over concerns that its guarantee of high returns could not be met. Many of the new issues of the mid-1990s have not only collapsed in price (a problem that also occurred in the US after its new issue boom), but are also minimally traded and have difficulty in meeting the exchanges' requirements for information. However, the stock market has picked up in 1999. The 1999 Union Budget reduced taxes on equity-based mutual funds, including the UTI. The Budget also proposed

³⁰ The fifteen regional stock exchanges have announced their intention to move to linked, computer-based trading.

injecting additional funds into the UTI.³¹ Although the market has rebounded after the 1999–2000 Budget speech, it remains true that new foreign flows are unlikely to match the increase that occurred when the market was first opened, and new issues are likely to be scrutinized more carefully than in the past.

The capital market would benefit from increased transparency in the UTI's activities, given its magnitude relative to the market and the numerous private placements it accepts. A critical issue is eliminating the UTI's guarantee of returns, given the government's revealed political difficulties in denying responsibility for the UTI's performance. Further improvements in the settlement process, with the ultimate aim of gradually shortening settlement to five days after transactions, would avoid the necessity of trying to harmonize settlement dates and reduce the pressures that currently arise from the bunching of settlements. More importantly it would improve transparency and reduce the risk of non-settlement and payments crisis which have hit the equity markets from time to time. More fundamentally, accounting and auditing need significant improvement, as discussed below, to encourage investment in the market.

The bond market is also large; it would be large even for a middle-income country (World Bank 1995a). It includes an active primary market for public and private debt, although public debt (notably government-dated securities) dominates the market. The secondary market is, however, much less active, reflecting financial intermediaries' tendency to hold government bonds to meet liquidity requirements, apart from holding these instruments to maturity. The bond market could be enhanced by the RBI's taking a less active role in setting rates in the primary market, moving to the dematerialized depository system used for stocks, and harmonizing stamp taxes across states, as is the case for stocks. A really major growth in the capital market would occur if the private and public pension system moves towards fully funding, under appropriate regulation and supervision. This would raise demand for longer-term debt substantially. Fully funded pensions, linked to individual employees, would also reduce problems of vesting and allow pensions to move with workers, improving labour's mobility (see Chapter 6). The public sector would be a major area to implement more fully funded pensions. However,

³¹ The proposal was to invest Rs 48.1 billion in UTI securities, which the UTI would use to buy back government of India bonds. With the market reacting positively to the Budget announcements, the government has put in a lower amount of Rs 33 billion.

this would increase the measured fiscal deficit (as opposed to the implicit contingent liability that now exists), because the government would have to contribute to funding current workers' pensions as well as pay pensions to existing retirees.

Strengthening the Framework for Corporate Governance

Corporate Governance refers to the procedures and rules, explicit and implicit, that provide the incentive framework for companies to attract financial and human capital, perform efficiently, and avoid corruption (World Bank 1999f). The crisis in East Asia has highlighted the importance of corporate and financial governance systems supportive of market processes and competition—and the huge costs stemming from the weakness of such institutions. Most macroeconomists failed to appreciate that the devil could also be in the micro. In an era of instantly mobile global capital flows, East Asia has shown how macroeconomic collapse can be exacerbated by systemic failure of corporate governance—excessive corporate leveraging, poor financial disclosure, misallocation of corporate funds, bad banking practices, unregulated capital markets, and absence of expeditious bankruptcy procedures. With investors in emerging markets becoming more cautious, good corporate governance will be critical to attracting foreign investment. For India, it will also be vital in bringing the small investor, back into the capital market, whose confidence has been shaken by scams and vanishing companies.

Corporate governance has received some public attention in India in recent years. The Confederation of Indian Industry (CII), published a voluntary code of governance (*Desirable Corporate Governance: A Code, 1998*). The Working Group on the Companies Act incorporated more stringent disclosure and fiduciary standards as well as more streamlined liquidation procedures in the draft Companies Bill, 1998. However, the Bill is yet to be presented to Parliament. The current standards of corporate governance would need substantial improvement to reach best international practices. In what follows, five key issues/concerns relating to private corporate governance are considered; governance of public enterprises is also briefly analysed.

First, the quality of financial and non-financial disclosures mandated by law, while stronger than almost all East Asian countries, many developing

countries, and even many countries in continental Europe, needs strengthening. Consolidation of corporate groups' financial statements to eliminate misleading reporting of intra-group transactions, needs to be mandated by law. On other issues, the CII code recommends that large listed companies have Audit Committees to supervise the company's audit procedures; domestic public disclosure be the same as for ADR and GDR issues; and SEBI mandate a corporate governance compliance certificate along with the annual report. In addition to this, best practices suggest voluntary disclosures beyond those mandated by the Companies Act. For example, few Indian companies give information on debt composition, economic value added, foreign currency management, etc. Related issues, noted earlier in this chapter, are improvement of accounting and auditing, and the small size of most accounting firms, which means franchise values for establishing a record of sound accounting and auditing are likely to be low.

Second, oversight³² is limited in most publicly listed companies. Currently, most boards of listed companies are dominated by management or 'grey outsiders',³³ and stockholder representation is limited. Moreover, the Companies Act allows persons to hold up to 20 directorships (the US average is 3.5, the CII code recommends no more than 10), which is far too many if the directors are to play an informed, active role. Also, non-executive directors are often not given adequate corporate information.

Third, banks and other financial intermediaries have not been able to exercise effective corporate governance and assertion of their rights as major debt and equity holders. Nominee directors of financial intermediaries, who are neither rewarded for good monitoring nor punished for non-performance, have little personal incentive to monitor their companies, and to demand accountability, disclosure, or transparency. Adding to this is a long-standing practice of financial intermediaries to support existing management except in extreme circumstances, making the stability of existing management a virtue by itself, which could be at odds with the objectives of greater transparency, cleaner practices, and higher shareholder value. Supporting existing management implies not

³² The extent to which corporate boards exercise fiduciary responsibilities to maximize long-term shareholder value.

³³ 'Gray outsiders' are family members of executive directors, attorneys who represent the company, investment or commercial bankers who have close financial relationship with the company, long-term consultants, or directors who have substantial business dealings with the company.

questioning managerial decisions, not suggesting ways in which the company can improve its profits, and more or less going along with every board resolution in a way which the management desires. Although nominee directors are generally becoming more assertive and demanding, it remains true that they are not very vocal until a company is in trouble. Another problem of nominee directors, often admitted by the chief executives of financial intermediaries, is that they do not have enough senior staff who can *properly* discharge their obligations as good corporate governors. All this means that the institutions which, in theory, could play a proactive role in corporate governance (as in the case of German lead banks), have been preoccupied with issues that are not at the heart of maximizing corporate and shareholder value. But the real solution needs to recognize that in the long-run it will be difficult to strengthen corporate governance when banks, financial institutions, and the major mutual funds remain under the control of the government. These institutions are not sufficiently concerned about adverse income and wealth consequences arising out of wrong decisions and inaction; their poor incentive structures do not reward performance and punish non-performance; and, most of all, they remain highly susceptible to pulls and pressures from various ministries that have little to do with commercial accountability, and which often destroy the bottom line. Therefore, a stable environment for good corporate governance probably requires the government to become a minority shareholder in financial institutions.

Fourth, although the quality, transparency, fairness, and efficiency of the capital market and the rules that govern corporate takeovers have improved substantially, procedural issues remain. There are no longer restrictions on transferability of shares in the Companies Act—barriers that were used in the 1970s and 1980s to entrench promoters in management despite small shareholdings. Moreover, the SEBI Takeover Code has made takeovers far more transparent and offers a much fairer deal to minority shareholders, while the RBI has allowed banks to fund takeovers. These are substantial improvements. However, there are still a few procedural problems. The most important of these has to do with jurisdiction. On the one hand, SEBI is supposed to have jurisdiction on all capital market matters for listed companies. Yet the Company Law Board and Ministry of Finance have the powers to overrule. In addition, SEBI is not empowered to give legally binding decisions and to impose penalties and punishment. Ideally, the Ministry of Finance should not be the

appellate authority, since it is an executive wing of the government. Instead, the appeal should be heard by a division bench of the High Court. In spite of many improvements, the present division of authority can prove to be detrimental to takeovers as more complex bids become common.

Fifth, India's bankruptcy and liquidation laws and procedures, are inadequate, time-consuming, and contribute to corporate misgovernance. Poor protection of creditors' rights allows companies to reallocate funds to highly risky investments (since management fears neither attachment nor bankruptcy), raises the cost of credit, debases the disciplining role of debt, and risks the health of the financial sector. In India, bankruptcy reorganization of large industrial companies is governed by the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA), and the process is directed and supervised by a quasi-judicial authority, the BIFR. Several steps could be taken to improve the system:

- *Early detection.* The current recognition of financial distress as erosion of net worth rather than 'mere' debt default reduces the probability of a successful turnaround. Between July 1987 and November 1998, only 11 per cent of the 1954 cases that BIFR has considered 'maintainable' are no longer sick.

- *Speedier and streamlined procedures.* Currently, the mean delay in arriving at a decision in the BIFR exceeds two years. Delays are caused by tedious quasi-judicial procedures that confer additional bargaining power to company management at the expense of secured and senior creditors.

- *Reduced rights for debtor in possession.* Neither SICA nor the BIFR recognize that incumbent management always has a great informational advantage compared to outside creditors, and allow existing management to run a bankrupt company during the period of reorganization. Studies of companies under the BIFR show that, in the final reorganization decision, secured creditors had to make large write-offs on their exposure, while management and shareholders did not.

- *Adherence to priority creditor rule.* The BIFR procedures violate the principal of senior debt priority often by rewarding incumbent management and old shareholders (despite net worth being negative) at the expense of fully secured creditors.

The Sick Industrial Companies Bill, 1998, recognized these problems and proposed a more market-

determined bankruptcy system. But it has not been passed in Parliament.

Liquidation poses even more problems than bankruptcy. As discussed in Chapter 4 most liquidation cases take between one and two decades, reflecting a complex and arcane legal process that results in a system that favours promoters at the expense of workers and secured creditors.

The Draft Companies Bill, 1998, and the Report of the Working Group on the Companies Act suggested new liquidation procedures that were transparent, time bound, and reflected the view that rapid sale of productive assets is good not only to settle the dues of workers and creditors, but also for the economy. Unfortunately, as stated, the Companies Bill remains outside Parliament.

Growth, Macroeconomic Developments, and Policies

Overview

India's trend growth of 5.8 per cent per annum since 1980 is the highest outside South East and East Asia among large developing countries. However, despite this relatively high growth, poverty incidence is still 34 per cent (World Bank estimate, see Annex Table 1.1) and its economic structure remains relatively unchanged. By comparison, even after the South East Asian crisis, Korea, Thailand, and Indonesia have substantially higher per capita incomes and social indicators, and considerably lower poverty than India, although the countries had similar per capita incomes in the 1960s. The experience of South East Asia suggests that India needs sustained, higher, more labour-using, outward-oriented growth, coupled with improved social service delivery, in order to reduce poverty.

Moreover, the sustainability and vulnerability of India's current approach to development are a concern. Substantial reforms in the early 1990s led to high growth. More recently, however, growth has declined while reforms have slowed and in some cases reversed, for example tariffs and the fiscal deficit. The key agricultural sector remains highly regulated (see Chapter 6). Export growth, which could provide more employment, has slowed, not only because of the slowing world economy but also because policy is

reducing the profitability of producing exports compared to import substitutes and because of the deteriorating infrastructure. These issues raise questions about India's ability to take advantage of the next upswing in world growth, the domestic opening up under agreements with the WTO and the end of the Multi-fibre Arrangement. Agricultural and urban growth face environmental problems. The general government deficit (as a percentage of GDP) deteriorated in 1998-9, rising to about the 1990-1 level, raising concerns over macroeconomic instability that could hurt the poor. The deficit also limits private investment through crowding out keeping real interest rates high. Within government budgets, consumption spending, which is increasingly financed by borrowing, is crowding out critically needed social and infrastructure spending (see also Chapter 3). Large implicit and explicit subsidies and inefficient public enterprises deter private-sector-led development and contribute to inequalities and inefficiencies, and raise questions about the sustainability of agricultural growth that is so critical for poverty reduction.

A rapid reduction in India's poverty and increased growth will depend on a second wave of reform, as all recent governments have recognized. As discussed in the previous chapters, reducing poverty and increasing development will depend on a comprehensive

framework that improves access of the poor to education and health services, improves infrastructure, and provides good governance, transparency, a sound legal and judiciary system, a strong financial system, and human and environmental sustainability. As discussed in this and the previous chapter, sustained development will also critically depend upon continued sound macroeconomic policy, that is:

- greater openness to trade, to encourage more efficient resource use and increase labour demand, and
- sounder public finance, namely reduced subsidies and deficits and the realignment of government away from non-core public sector activities and consumption spending and towards more and better infrastructure and basic social services.

Economic Growth in 1998–9 and over the Longer Run

In 1998–9, India's GDP grew 6 per cent, one of the highest growth rates in the world and up from 5 per cent in 1997–8, according to the new NAS.¹ Agriculture accounted for all of the rise in GDP growth, growing 7.6 per cent compared to –1.0 per cent in 1997–8. Growth in all other major sectors declined in 1998–9 (see Table 8.1). This pattern, and other recent developments, suggest that India's growth and poverty reduction continue to depend heavily on good

¹ All 1998–9 figures are revised estimates. All GDP-related figures in this chapter from 1993–4 onward are based on the new NAS except, as noted, when it is necessary to make comparisons with pre-1993–4 data. The growth rates in the new NAS are somewhat higher than the old. Moreover, there is an absolute difference in the new and the old (nominal) estimate in 1993–4 of 9.0 per cent, correspondingly reducing the ratios of most items to GDP, such as budget figures, investment, and trade, by about 8.0 per cent. This difference in the new NAS reflects a rebasing to 1993–4 prices and sectoral value added coefficients, plus the inclusion of some new products; the old NAS series was based on 1980–1 prices and value added coefficients. The largest absolute sectoral differences between the old and the new series are in agriculture (8 per cent higher than the old NAS estimates in 1993–4), real estate, including owner-occupied housing (10 per cent), and trade (13 per cent). The fishing and mining sectors are also much larger in percentage terms in the 1993–4 based series, but their small absolute size means they contribute little to the difference in overall GDP between the old and new figures. Since the CSO has not yet revised the pre-1993–4 GDP figures, this Report reestimates them by applying the old growth rates to the new 1993–4 figures, which leaves the pre-1993–4 year-to-year growth rates unchanged.

monsoons and harvests, albeit less than in the 1970s and 1980s (see Chapter 1 and Ahluwalia 1991). This dependence, coupled with the inefficiencies and unsustainability in rural public spending, limited reforms in agriculture, and potential environmental problems related to water and heavy fertilizer use, raise concerns about the sustainability of current growth and poverty reduction (see Chapters 1 and 6, and World Bank 1999b).

Manufacturing growth slowed for the third consecutive year in 1998–9, to 5.2 per cent compared to 6.8 per cent in 1997–8. The slowdown partly reflects a shake-out and consolidation in capital-intensive sectors like autos, steel, cement, synthetic fibres, etc. Another factor may be the difficulties of the non-bank financial sector (see Chapter 7), which had been a major source of consumer and housing finance in the boom years. Domestically, large capacity increases have come on line; internationally, competition has increased, notably from East Asia in steel. In autos, these pressures have led to lower prices and greater model choice that have benefited consumers while putting pressure on older models like the Maruti 800. In steel, in contrast, protection has been increased for investment projects that were undertaken despite worldwide excess capacity. The steel industry is now suffering from large losses and many firms have already required financial restructuring (see Chapter 7). Moreover, the protection-induced rise in steel prices will hurt consumers and worsen the international competitiveness of Indian users of steel. The case of steel represents one reversion to the inefficient approach of the 1980s, in which scarce capital was allocated to internationally uncompetitive, capital-intensive industries that required protection and did not generate much employment. Similar concerns exist regarding the projected expansions in petrochemicals and refining.

Another factor in manufacturing's slower growth was the further slowdown in India's exports in 1998–9, reflecting not only the slowdown in world trade but also the further loss in India's share of world exports after 1996 (see Chapter 6). From the standpoint of demand, without sustained higher export profitability and growth, Indian businesses are likely to invest only enough to supply a domestic market that can be expected to grow at about the post-1980 trend rate of 5.8 per cent per annum, thereby making 5–6 per cent growth a self-fulfilling prophecy (Bhagwati 1998, World Bank 1998a). From the supply side, a more open economy—more exports *and* imports—is needed to encourage better resource use, faster productivity growth, and higher labour demand.

TABLE 8.1
GDP Growth 1981-99

	(per cent per year)									
	1981-90 Avg.	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8 ^a	1998-9 ^b
GDP ^{fc}	5.7	5.4	0.8	5.3	6.2	7.8	7.6	7.8	5.0	6.0
Agriculture and allied	3.6	3.8	-2.3	6.0	3.7	5.4	0.2	9.4	-1.0	7.6
Industry	7.1	7.6	-0.7	4.0	6.1	9.3	12.2	6.0	5.9	4.1
Mining and quarrying	8.5	10.7	3.7	1.1	1.7	9.2	7.4	1.2	2.7	-2.0
Manufacturing	7.6	6.0	-3.6	4.1	8.5	10.6	15.0	7.7	6.8	5.2
Electricity, gas, and water	8.8	6.5	9.6	8.4	6.3	9.3	6.7	5.7	6.6	6.3
Construction	4.9	11.6	2.2	3.4	0.9	5.3	8.2	2.9	4.1	2.1
Services	6.7	5.2	4.1	5.4	8.0	8.5	9.8	8.0	8.2	6.2

^a Quick estimates.^b Revised estimates.

Notes: 1. Based on the new series with 1993-4 as base year.

2. Figures for 1981 to 1992 are staff estimates.

Source: Central Statistical Organization, National Accounts Statistics 1998, and Quick Estimates 1999.

From a longer-term perspective, India's post-1980 trend growth rate of 5.8 per cent per annum is the highest outside South East and East Asia among countries with over 20 million population. During the 1990s, India rebounded rapidly from the 1990-1 balance-of-payments crisis, returned to the post-1980 trend growth rate in 1992-3 and 1993-4, then, led by surging private sector production and investment, achieved an unprecedented 7.7 per cent per annum average growth. However, in 1997-8 and 1998-9, average growth fell back to the post-1980s trend and is below the (statistically) significant rise in growth that occurred from 1993-4 to 1996-7 (see Annex 8.1).

The years of rapid growth were associated both with greater factor productivity in a macroeconomic sense (see the discussion in Annex 8.1) and a higher investment rate, which was also encouraged by liberalization. The increase in productivity probably reflects three factors. First, more efficient use of resources was encouraged by greater openness to trade. Liberalization increased incentives to export *and import* substantially, raising the share of both exports *and imports* in output. In a relative sense, resources shifted out of industries competing with imports and shifted into exports, where they are more productive in a macroeconomic sense. Estimates suggest that on average the productivity of land, labour, and capital in exports is over 47.6 per cent more than in the secondary industry,² and

² The effective rate of protection in secondary industry is about 47.6 per cent. In other words, the average 'margin' available to pay for land, labour, and capital in the secondary sector is 47.6 per cent more than to produce a unit of exports. Thus switching to export production would generate 47.6 per cent more output (valued at world prices) with the same resources.

that exports use more labour than imports (see Annex Table 6.1). Second, increased competition probably raised the firm-level efficiency of resource use. Third, the rise in productivity also probably reflects better and more efficient use of capital, also associated with greater openness. Protection on capital goods was reduced and FDI rose dramatically, while domestic private sector investment rose to an annual average of 16.5 per cent of GDP (old series) over 1993-6, as compared to an average of 14.6 per cent in the previous five years (see also Annex Table 8.1). A possible indicator of India's increased productivity, in the macroeconomic sense, was the rapid growth of exports and increased market share from 1992 to 1996, despite the slow growth of and intense competition in world markets in products that India exports (World Bank 1998a).

Correspondingly, the recent slowdown in growth may be explained, at least partly, by exhaustion of the benefits of the first stage of reform and the slowdown, and in some cases reversal, of reforms (World Bank 1998a, Chapter 6). In particular, as India has raised protection in the last two years, it has lost market share in world exports (see Chapter 6), and exports and imports have declined as a percentage of GDP. Private and foreign investment remain higher than in the past. However, more protection encourages domestically-oriented investment, lowers job creation and output growth, and correspondingly makes the development process less sustainable, as Brazil's example in the 1960s and 1970s suggests.³

³ From 1957 to 1977, Brazil was a 'miracle' economy, with growth over 7 per cent per annum. The oil price shocks and the debt crisis exposed the fundamental unsustainability of this growth. Not only was there macroeconomic instability that manifested itself in severe inflation and balance-of-payments

From a longer run perspective, India's 5.8 per cent per annum average growth is a relatively good performance; however, it must also be recognized that twenty years of growth at this rate has not changed India much. For example, 73 per cent of the population still live in rural areas; poverty has declined, from 43 per cent in 1983 to 34 per cent in 1997 (see Annex Table 1.1), but the incidence of poverty remains high even in the rapidly growing states.

The example of the rapidly growing East Asian economies, as well as the cross-sectional analysis of Indian states (see Chapter 3) suggests that sustained, faster, labour-using growth, along with inclusive education and health services, will contribute to reducing poverty (see Table 8.2 and Annex Table 4.1). India, Indonesia, Korea, and Thailand all had similar per capita GDPs (in \$ terms) in the late 1960s (see IMF, *International Financial Statistics*, various issues). However, the Asian 'miracle' economies grew faster than India from the late 1960s to the mid-1990s, particularly in the 1970s. Their fast growth reduced poverty dramatically with little worsening of income distribution (World Bank 1993). The recent crisis was serious and did reduce the South and East Asian economies' lead over India, but, except for Indonesia, these countries are recovering surprisingly rapidly. Even Indonesia, the country hardest hit by the crisis, had a poverty incidence below 20 per cent in 1998 (World Bank 1999a). Generally speaking, East Asia's growth was associated with higher investment rates and higher and greater increases in the average education of the labour force than India. East Asia also had a much greater degree of outward-orientation than India, which, through the gains from trade, external competition, and access to imported technology, tended to ensure more productive use of capital and greater growth of labour demand in the macroeconomic sense. Part of Indonesia's growth reflects the shift of females from

deficits, but also Brazil's improvement in education was one of the lowest among large developing countries. Resource allocation followed an inefficient, forced import-substitution model, with protection and subsidies shifting resources into high-cost, capital-intensive sectors (the contribution of these sectors was overestimated in GDP because their contribution to output was not adjusted downward to reflect their higher prices compared to imported goods). Despite FDI in many of these sectors, productivity growth in import-substitution was actually less than in the economy as a whole. The limited employment produced by these industries along with the low levels of primary education resulted in one of the most unequal distributions of income in the world. See Coes (1995) and works cited there.

informal, rural labour to formal labour in the export-oriented sector (World Bank 1996b).

The comparison with East Asia suggests that India needs higher, more labour-intensive growth, and improved social sector delivery to faster reduce poverty. Key elements in increasing growth and reducing poverty will be (a) further reduction in India's still-high protection, in order to encourage greater labour demand, more efficient use of resources, and greater productivity growth through greater international specialization and competition; (b) liberalization of internal markets, particularly agriculture and labour markets;⁴ (c) improved infrastructure to better the links between domestic and international markets and spread the impacts of liberalization throughout the country; and (d) widespread improvement of social services (see Chapters 2, 5, and 6 for discussions of policies along these lines).

Moreover, even India's current growth rates may be difficult to sustain without significant changes. One concern is the possible slowdown in total factor productivity growth in agriculture, associated with possible environmental problems (see Chapter 6 and Annex 8.2). Also, environmental degradation arising from inefficient and distortionary energy, water, and fertilizer subsidies adversely affects the economy's capacity to grow (see Annex 8.2 for a fuller discussion of the relationship between environment, economic growth, and poverty). A second concern is the apparent slowdown in growth in the poorer states (see Chapter 3). Continuance of these trends would slow the growth of overall factor productivity and the rise in incomes, as well as push up the relative price of agriculture from the cost side, to the detriment of poor consumers.

Macroeconomic stability and vulnerability to internal and external developments are also important issues in sustaining India's growth. India's still-large fiscal deficit and the increasing use of borrowing to finance public sector consumption, notably inefficient subsidies

⁴ In East Asia, more than elsewhere, governments resisted the temptation to intervene in the labour market to counter outcomes unpalatable in the short run or to particular group.... A relatively high level of efficiency in the allocation of labour was achieved by allowing wages and employment to be determined largely by the interaction of those supplying and those demanding labour services, rather than by the government legislation, public sector leadership, or union pressure.... In East Asia, wages were pulled up by increases in the demand for labour, whereas elsewhere there was a greater tendency for wages to be pushed up artificially. [World Bank 1993, p. 266]

It is also worth noting that the rapidity of growth in labour force demand reduced the impact of limits on labour force flexibility in East Asia. See also the discussion in Chapter 6.

TABLE 8.2
India and High-growth East Asia: A Statistical Comparison

	GDP per capita 1997		National GDP			Openness ^a		Investment rate ^b		Literacy rate ^c	
	PPP \$	Current \$	1996/1970	1996/1970 Growth p.a.	1997/1977 Growth p.a.	1970	1997	1970	1996	1970 (Female)	1997 (Female)
India	1510	451	3.4	4.7	5.2	7.2	17.8	14.6	22.9	33.6 (18.1)	62.6 (50.0)
China	3120	745	5.9 ^c	10.5 ^d	10.4 ^e	11.2 ^e	35.4	28.3 ^f	33.8	51.7 (35.8)	82.9 (74.5)
Indonesia	3490	1079	5.6	6.9	6.4	22.9	44.1	13.6	31.8	56.3 (44.0)	85.0 (79.5)
Korea	13,580	9623	8.1	8.4	7.8	32.2	63.6	23.0	35.0	86.6 (79.8)	97.2 (95.5)
Malaysia	8190	4544	6.3	7.3	7.1	77.8	159.7	17.7	42.4	58.3 (46.1)	85.6 (81.0)
Thailand	6690	1959	6.5	7.5	7.3	28.4	77.3	23.7	35.6	80.0 (72.7)	94.7 (92.8)

^a Openness equals total trade (exports + imports) as share of GDP.

^b Gross fixed investment as a share of GDP.

^c Figures in the brackets are female literacy rates

^d Data pertain to 1978–96.

^e Data pertain to 1978–97.

^f Data pertain to 1979.

Sources: IMF, *International Financial Statistics*, World Bank, *World Development Indicators*.

that often probably increase inequality, raise concerns. The rest of this chapter discusses India's commitment to macroeconomic stability, areas of potential vulnerability and policies to reduce these problems.

Inflation and Monetary Policy

Recent *Inflation* history illustrates both India's still-high dependence on good harvests, which is magnified by the rigid food distribution system and controlled agricultural trade, and India's continued commitment to keep inflation under double digits. The wholesale price index (WPI)-based inflation (year on year) was 4.8 per cent in March 1999, down from 5.3 per cent in March 1998, and dropped further to less than 3 per cent in October 1999. Consumer price indices for industrial workers (CPI-IW) rose from 8.3 per cent in March 1998 to 8.9 per cent in March 1999, but dropped sharply to 0.9 per cent in October 1999. These numbers do not reveal the sharp intra-year variations during 1998–9. Earlier, between June and October 1998, WPI inflation exceeded 8 per cent, while CPI inflation rose to as much as 18–20 per cent in October–November 1998, following poor harvests and lack of imports. Specifically, there were sharp rises in the (wholesale) prices of onions (247 per cent from November 1997 to November 1998), potatoes (157 per cent), mustard oil (103 per cent), chillies (70 per cent), and,

more importantly, rice (13 per cent) and other cooking oils (about 30 per cent). Beginning in December 1998, food prices actually fell as the good 'winter' harvest brought inflation down to low levels. Indeed, onion prices fell so far that exports were allowed to resume. The transitory rises in food prices hit the poor hard, particularly the urban poor. A more elastic agricultural distribution system, with greater private participation, better futures markets, and liberalized imports (World Bank 1999b) would help reduce the structural problem of temporary rises in prices from harvest shortfalls. In fact, price variations over the last four years have largely reflected variations in primary articles and fuel—'core inflation', as represented by the WPI for manufactured products, has been relatively steady. (Between 1995–6 and 1998–9, the WPI at end March was 5 per cent, 4.9 per cent, 4 per cent, and 3.7 per cent respectively. Similar rates for primary articles were 5.4 per cent, 7 per cent, 5.5 per cent, and 7.8 per cent, and for fuel and power 3.7 per cent, 16.9 per cent, 11.4 per cent, and 1.7 per cent respectively).

Over the last few years, inflation has trended downward, although the decline has been erratic (see Fig. 8.1) because of supply shocks to food prices. It is also important to note that the price data as well as other data, need substantial improvement (see Box 8.1). The weights in the CPI are outdated, and the WPI includes numerous items whose prices have not recently changed.

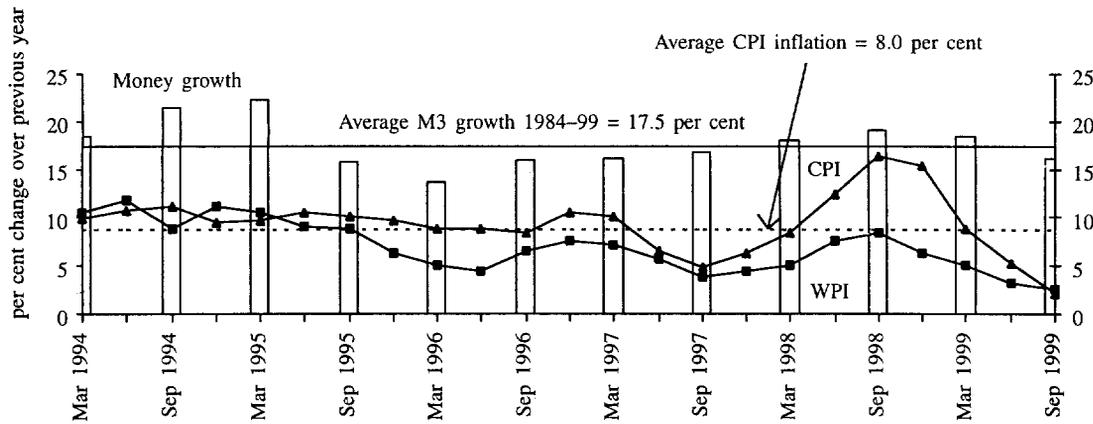


FIG. 8.1: India: Inflation and Money (M3) Growth 1994-99

India has consistently tried to keep inflation below double digits, by tightening *monetary policy* when inflation exceeded 10 per cent, most recently in 1995-6. The recognition of the vulnerability of the poor to inflation (see Chapter 1), reiterated in Prime Minister Vajpayee's Lucknow statement (3 February 1999) that 'Inflation is the single biggest enemy of the poor', explains Indian policy-makers' commendable commitment. Higher inflation increases relative price variability, as worldwide experience shows, and India's poor lack the resources to offset even a temporary rise in the relative prices of the necessities they consume. Experience worldwide also suggests that the inflation tax is regressive, because the poor hold much of their assets in currency, and currency bears the brunt of the inflation tax. Hence maintenance of low inflation is a key anti-poverty measure.

Broadly speaking, *monetary policy* has been well-managed recently, given the increasingly complex environment, but the continued large fiscal deficit places limits on central bank independence. In 1998-9, broad money (M3)⁵ growth continued the rise that began in 1996-7, and reached twelve-month growth rates of 19-21 per cent from August 1998 to February 1999. However, in March 1999, the twelve-month growth of money slowed to 18.4 per cent, somewhat higher than the fifteen-year average of 17.5 per cent per annum. In the first five months of 1999-2000, M3 growth remained above 18 per cent until August 1999, when it slowed to 17 per cent.

The pattern of money growth within 1998-9 reflected (a) the repatriation of the Resurgent India Bond (RIB) proceeds, (b) the resumption of the RBI's role

as residual financier of the rising government deficit, and (c) year-end foreign exchange inflows and the RBI's net sales of government debt. The RBI eased credit for the private sector, although much of the repatriations ended up in holdings of government debt through reserve and liquidity requirements and banks' voluntary purchases of government debt. In 1998-9, the RBI's holdings of government debt rose 12.9 per cent, faster than 8.8 per cent in 1997-8. The growth of RBI credit to government was particularly rapid from June to November 1998, representing absorption of deficit-induced government debt that the banks and other buyers were unwilling to buy at interest rates that the RBI and the government considered appropriate. Money growth was also rapid, in the 19-21 per cent range, from August 1998 to February 1999. However, credit growth slowed in March 1999, when RBI claims on government actually declined by nearly 3 per cent, which contributed to slowing down of money growth. Also in March 1999, following the Budget Speech and the Finance Minister's expression of hopes that monetary policy would 'do its part', the RBI cut the Bank Rate and repo rates and lowered the (cash) reserve requirement to 10.5 per cent. This led to a small reduction in public banks' lending rates.⁶

In the April 1999 monetary policy statement, the RBI reaffirmed its commitment to low inflation. Effective 8 May 1999, the CRR was further reduced to 10 per cent, which enhanced the lendable resources of banks. In the first five months of 1999-2000 (compared with end March 1999), RBI credit to the government actually declined by 1.2 per cent (in the same period of 1998-9, it had increased 4.1 per cent), while banks'

⁵ M3 includes currency with the public and demand deposits with the banking system plus 'other' deposits with the RBI (M1), plus time deposits with the banking system.

⁶ Also, small saving rates were reduced on 1 January and 20 March 1999, with the cuts ranging from 0.5 to 1.0 percentage points.

credit to the commercial sector showed a pickup of 2 per cent (in the same period of 1998–9, it showed no increase).

Lending and deposit rates drifted downward in 1998–9, but money market and government securities' rates, by and large, rose over the year (see Annex Table 8.2). Lending rates of major public sector banks, which are more sensitive to the RBI's Bank Rate and government policy, declined from 14 per cent in March 1998 to about 12 per cent in April 1999, following the cut in the Bank Rate from 10.5 per cent to 9 per cent in April 1998, and to 8 per cent in March 1999. On the other hand, short-term rates such as the call money and ninety-one day treasury bill rates, sensitive to monetary interventions and the foreign exchange market, moved in a general upward direction. Also, longer-term yields on government securities, both in the primary and secondary markets, moved up over the year, reflecting the market sentiment and the large and growing volume of central government borrowing. Such large government borrowing, along with large non-performing loans, crowds out the private sector and puts a floor on real interest rates that the private sector has to pay (see Chapter 7). Since June 1999, rates seem to have been tending upward again (see RBI 1999e).

Monetary policy-making is increasingly complicated by India's more open economy, as well as domestic financial liberalization.⁷ Some examples illustrate the growing importance of international factors in monetary developments: (a) since August 1997, an important objective of monetary policy has been to limit excessive pressures on the exchange rate, even though this required transitory increases in interest rates

⁷ As shown in Fig. 7.1, NBFCs grew sharply after financial liberalization, providing credit and contributing to a slower than usual rise in the M3:GDP ratio (the demand for M3 did not rise as fast as expected because of demand for NBFC deposits) that made it difficult to target monetary tightness. Then, in early 1997, problems began in the NBFCs, and the demand for their deposits shifted to components of M3, at least at the margin. This contributed to a faster rise in the ratio of M3 to GDP than in the recent past. Again, monetary targeting was complicated, particularly in the context of the problems associated with the East Asian crisis and the rising fiscal deficit. Thus, while M3 was growing fast because of the switch-back from the NBFC deposits, overall credit growth (including credit from the NBFCs) was not growing as fast. In other words, the varying growth of the NBFCs contributed to instability in the M3 to GDP relationship. Kannan (1999), Vasudevan (1999), and Mohanty and Mitra (1999) discuss problems of monetary targeting in the Indian context (see also RBI 1999d, Boxes III.1, III.2, and III.3).

during a period when manufacturing growth was falling;⁸ (b) the 1998–9 growth of money was boosted by the RIB sale and year-end capital inflows; (c) variations in base money are increasingly linked to variations in international reserves and, from time to time there has been an offsetting movement between reserves and the RBI domestic claims, characteristic of open economies (see Annex Table 8.3). This changed empirical relationship suggests that India may increasingly face what Obstfeld calls the 'open economy trilemma'—it is difficult to carry out an independent monetary policy while maintaining an exchange rate target when the capital account is (even partially) open. Of course, India's large international reserves (over \$ 30 billion), low short-term debt, and limitations on capital flows leave it with a fair degree of monetary independence from international developments. Nonetheless, monetary policy is likely to be increasingly affected by external objectives and developments. Correspondingly, unless the authorities adopt a free floating regime, the RBI's ability to finance the government will increasingly be reduced.

Reducing the Fiscal Deficit and Realigning Government to Speed Up Development and Reduce Vulnerability

Overview of Fiscal Developments

*India's general government deficit (consolidated Centre and states excluding disinvestment revenues)*⁹ worsened nearly 2 per cent¹⁰ of GDP in 1998–9 (see Fig. 8.2), and it had previously been among the world's largest

⁸ To limit pressure on the exchange rate, which had depreciated from Rs 36.4 per \$ in August 1997 to Rs 40 per \$ in January 1998, the RBI raised the repo rate (from 9 per cent to 11 per cent) and increased the CRR (from 10 per cent to 10.5 per cent), despite slower industrial growth. Exchange market pressures emerged again, particularly after the nuclear explosions in May 1998, which further depreciated the exchange rate to about Rs 43 per \$ by mid-August 1998. However, with the inflow of \$ 4.2 billion from the RIB and a further rise in the CRR to 11 per cent in August, the rupee appreciated slightly to stabilize at about Rs 42.5 per \$ from end-August 1998 until March 1999.

⁹ Speaking broadly, capital revenues from disinvestment reduce state assets and are not sustainable; they are more like a financing item than tax revenue.

¹⁰ All the figures in this section have been rounded-off and therefore may not match with the figures in the graphs and tables.

Box 8.1

THE NEED TO IMPROVE INDIA'S DATA

India has a long tradition of good statistics and statisticians. India was one of the first developing countries to undertake regular household surveys, beginning in 1951, in order to track poverty reduction and household living standards. Recently, India has begun to publish much more economic and social data with a much shorter lag. For example, much of RBI and Commerce data are available on the Internet (although there is a longer lag on RBI data on trade, and this needs to be improved, see below), the WPI is available with a minimal lag, and the various RBI reports show banking developments, including non-performing assets, in much greater detail. India is compliant with the Special Data Dissemination Standards of the IMF, and has begun publishing quarterly GDP estimates, as well as monthly fiscal accounts for the central government.

Over time, however, the usefulness of Indian statistics for policy making has declined. The economy's increased complexity and liberalization have complicated data collection, as has occurred in many countries.

In many cases, however, India's data problems also reflect limited use of new methods and lack of efforts to achieve consistency between different data-collecting agencies. The resulting data problems also complicate policy making. For example, in the area of poverty, the consumption (and foodgrains consumption) estimates in the NSSO sample surveys and the NAS have *increasingly* diverged (see Chapter 1), and consumption in the National Accounts may itself be underestimated (see below), making it hard to say whether poverty has declined or stagnated. It is difficult to say how well programmes to improve school enrolments are proceeding, when official figures for gross enrolment ratio are higher than the NSS figures for gross attendance ratio, especially for classes I–V where the difference is about 20 per cent (GOI 1998b). Similarly, unofficial sample surveys suggest much less participation in employment schemes than official data relating to employment generated by such schemes.

Anti-poverty and anti-inflation policies are complicated by the lack of a good indicator of inflation. The CPI is based on outdated weights, including those for some food items that have declined in the household's market basket (simply shifting to more up-to-date weights makes a major difference in estimates of poverty changes; see Dubey and Gangopadhyay 1998). The WPI includes a large number of goods that have shown no increase in prices for some time. Not surprisingly, there are substantial differences in inflation estimates from year to year. Some of the problems are sought to be addressed in the revised, 1993–4 base, WPI. A CPI revision exercise has also begun.

The National Accounts have been updated and rebased recently for the years 1993–4 onward. Such rebasing is appropriate to take into account the economy's changed structure and India does it every ten years or so. The new National Accounts appropriately reflect new types of agricultural production, and rises in owner-occupied housing and trade (see fn. 1 in this chapter). The state National Accounts now need to be rebased as well. The old National Accounts series was well coordinated between estimates of state GDP and national GDP—national GDP has remained a fairly constant 15 per cent larger than the sum of state GDP estimates for the fourteen largest states, but until the State Accounts are rebased, that link will be broken. The rebasing of the state data is particularly important given the major difference between the old and the new estimates of agricultural production, which is important in most states. Second, the pre-1993–4 GDP data need to be 'officially' rebased. As part of that rebasing it may be possible to resolve the increasing 'residual' in the old National Accounts estimates between production and expenditure estimates of GDP (6.5 per cent of GDP in 1995–6). The direct estimates of investment by type and sector were about 2 per cent of GDP less than the estimates derived from the equality with saving (this divergence is part of the divergence between production and expenditure based estimates of GDP); in the 1980s, the divergence was about the same size but of the opposite sign. Moreover, the estimates of 'household' investment varied substantially from year to year. The residuals are much smaller in the new National Accounts, but the prior years remain a problem and efforts will be needed to ensure the gap does not widen again. Regarding specific sectors, the estimates of GDP in the key agricultural sector are based on combining yield and acreage estimates, both of which could be subject to large errors—it might be possible to use satellite estimations at least as a check. The industrial production index, the responsibility of the Ministry of Planning and Programme Implementation, shows large month-to-month swings in individual industries that make it difficult to interpret the direction of this increasingly important sector. Hopefully the new index, rebased to 1993–4, will resolve some of these problems.

Finally, in trade, RBI estimates of imports have typically exceeded customs estimates—in 1996–7 and 1997–8, they exceeded by 23–5 per cent (around \$ 10 billion), but in 1998–9 the gap fell to \$ 5.7 billion (see Annex Table 8.4). Less than a third of this seems to be explainable by the shift of gold and silver imports into customs data following the liberalization of such imports in October 1997.

These examples suggest that major efforts are needed, not only to publish data quickly but to improve its quality and consistency, both internally and with other data sets, supported by analytical work. This would make the large amounts of data being collected more useful to policy makers and the public. Another, more fundamental problem, on which there is wide agreement, lies at the stage of primary data collection itself, and will need to be corrected in order to create a lasting solution.

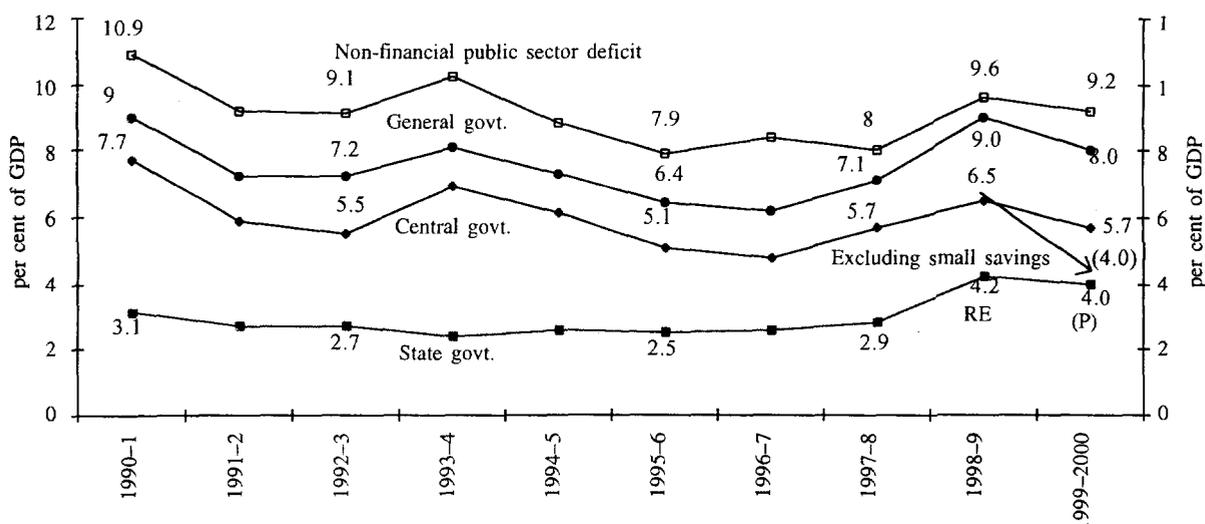


FIG. 8.2: Public Sector Deficits 1999-2000 (excluding disinvestment revenues)

Notes:

1. For centre, the 1998-9 figures are Provisional Actuals (adjusted for actual tax returns and expenditures).
2. General government fiscal deficit Central fiscal deficit (excluding disinvestment revenues) plus state government deficit, and excludes net lending from the centre to states.
3. Non-financial public sector deficit includes general government deficit, oil pool balance, and market-financed central public enterprise deficit (on-lending from central government to central public enterprises is netted out).

Source: Budget Documents, RBI Bulletins, RBI Annual Report (1998-9).

(see Fig. 8.3).¹¹ The general government deficit of 9 per cent of GDP in 1998-9 is the same as that of the crisis year of 1990-1; the public sector deficit is slightly lower than in 1990-1, but only because of improvement in public enterprise finances (see pp. 115-17) and the oil pool. *The revenue deficit, at 6.2 per cent of GDP, is substantially higher than that of the crisis year of 1990-1.* For 1999-2000, the Central Budget has targeted fiscal deficit reduction at 4.0 per cent of GDP, but these targets have proved optimistic in the two previous Budgets. In the first seven months of 1999-2000,

¹¹ Comparison of public sector deficits is complicated by the differing role of public enterprises across countries. Government deficits are more easy to compare, since they include more similar activities across countries, plus government contributions to public enterprise losses that private enterprises would be expected to cover. Different degrees of federalism affect the location of the deficit, but not the size of the general government deficit. The IMF's *International Financial Statistics* provide easily accessible data on central government deficits (which, for India and other countries where the central government intermediates borrowing by the states, includes much of the state deficits). These data show that India's government deficit averaged 6.2 per cent of GDP between 1986 and 1997, topped only by Brazil, Pakistan, and Nigeria, among countries with over 20 million population. Two of these countries suffered macroeconomic crises recently. See also Fig. 8.3 and World Bank (1998a).

preliminary figures suggest that revenues are somewhat less than projected and expenditures are more. Even if the Budget targets are reached, *the Centre's deficit will be no lower than in 1996-7* (on the same accounting basis). Moreover, states' and public enterprises' deficits are likely to continue to be high because of the continued effects of the excessive central government wage settlement of 1997-8 on their wage bills and pension costs.

The high deficits have several adverse effects. They crowd out private sector borrowing, keep interest rates higher than they would otherwise be, raise risks of macroeconomic instability, and crowd out public development spending within government budgets because of the high interest cost of the large stock of government debt. Hence the high fiscal deficits represent a risk to the development process and its sustainability. This is especially true given the link between the deficit and the large inefficient, inequitable subsidies (implicit and explicit) and the pattern of public spending and revenue (consumption) deficits. A major reduction in the central and state government deficits, to reduce crowding out and private sector borrowing costs, by reducing subsidies, by privatization, and by realigning government to focus on infrastructure and basic social sector spending, is critical to India's sustained development.

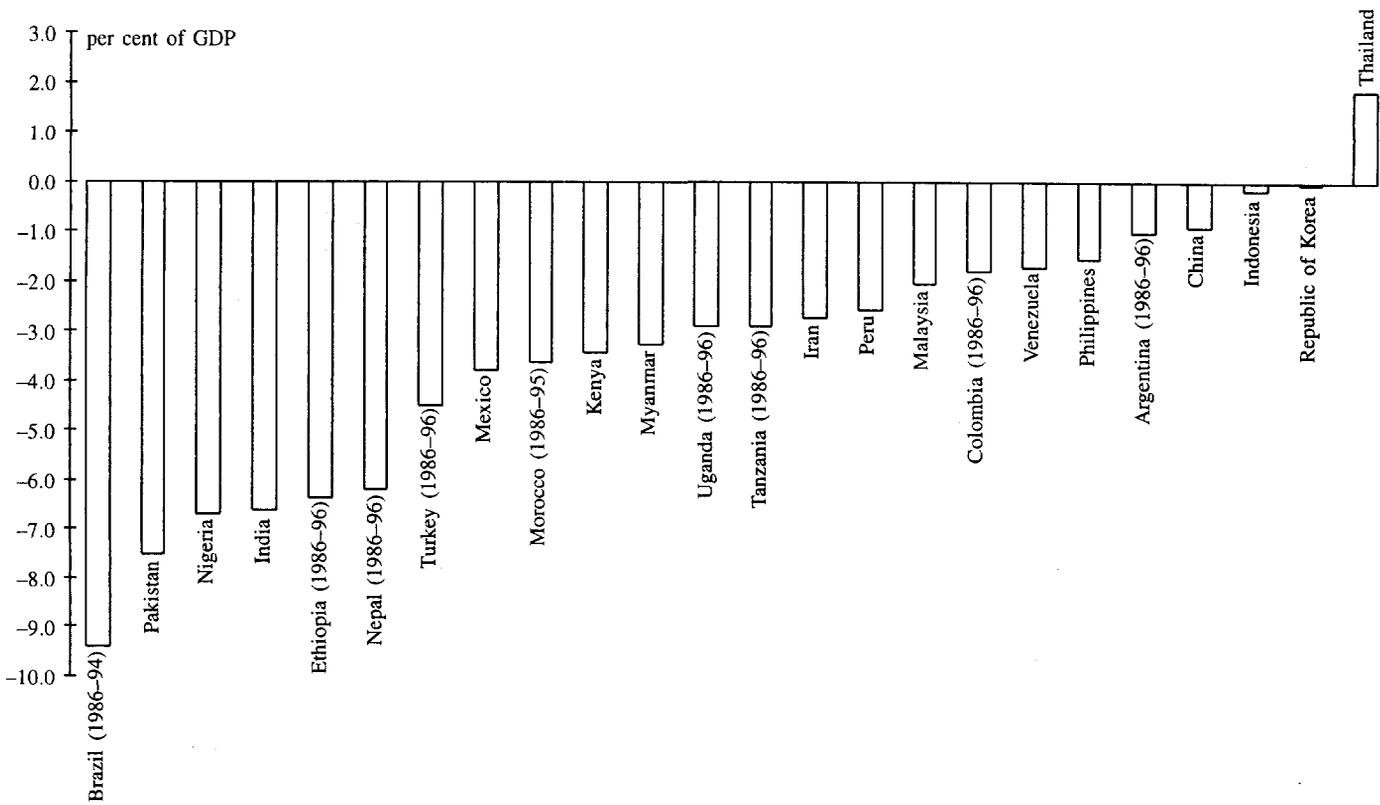


FIG. 8.3: Central Government Surpluses/Deficits: Developing Countries with over 20 million Population (Average 1987-97)

Source: IMF, *International Financial Statistics*.

The 1998-9 Central government deficit was 6.5 per cent of GDP excluding disinvestment capital revenues (provisional figure including post-budget revisions in revenues and expenditures, see Table 8.3).¹² This represented a large slippage compared to the Budget target of 5.3 per cent. The deficit was also 0.8 per cent of GDP worse than that in 1997-8, which in turn was 1.0 per cent of GDP worse than that in 1996-7. For 1998-9, the current (revenue) deficit deteriorated to 4.0 per cent of GDP, the worst in the 1990s, continuing the long-run trend of increased government dissaving/borrowing to finance consumption. Of the slippage compared to the Budget, revenue shortfalls accounted for 0.6 percentage points of GDP while an expenditure overrun accounted for 0.6 percentage points (see Table 8.3).

Regarding revenues (see Annex Table 8.5),¹³ collection of custom duties fell short of target by 11 per cent because of the slowdown in imports, with petroleum

¹² All ratios are relative to the new GDP; the deficit was 7.2 per cent of the old GDP in 1998-9.

¹³ Details of revenues and expenditures are only available as revised estimates, not the provisional actuals. Unless otherwise stated, comparisons in this paragraph are between the 1998-9 Budget and the revised estimates.

imports' taxes especially reduced by the fall in international oil prices. Excise duties, corporate taxes, and income taxes fell short of Budget targets by about 3.3 per cent, reflecting the slowdown in industrial growth. However, compared to 1997-8 realizations, corporate tax collections in 1998-9 rose substantially in rupee terms, despite the ongoing recession, suggesting improvements in tax administration (see Chapter 4). The main items in the expenditure overrun were small savings loans to states (0.5 per cent of GDP more than budgeted), 'other' spending (0.1 per cent), and subsidies (0.1 per cent). Non-defence capital spending was only 0.5 per cent of GDP, lower than budgeted but about the same as in 1997-8.

From a longer-term perspective, India's deficit reduction was largely confined to the first two years after the crisis, and much of the reduction came from reductions in capital expenditures. The revenue deficit has increased since 1990-1, from 3.2 per cent to 4.0 per cent of GDP in 1998-9, meaning that the government is increasingly borrowing to finance consumption. The central government responded to the 1991 crisis initially by cutting expenditures on non-food, non-fertilizer subsidies and loans to the states and

TABLE 8.3
Fiscal Slippage 1998-9

	Budget Rs bn	% GDP	Revised Rs bn	% GDP	Actuals (P) Rs bn	% GDP
<i>Revenue</i>	1620	(9.0)	1577	(8.7)	1505	(8.3)
Tax revenue (net)	1169	(6.5)	1095	(6.1)	1051	(5.8)
Non-tax revenue	451	(2.5)	481	(2.7)	454	(2.5)
<i>Revenue expenditure</i>	2101	(11.6)	2181	(12.1)	2162	(12.0)
Interest payments	750	(4.2)	773	(4.3)	786	(4.4)
Subsidies	220	(1.2)	247	(1.4)	219	(1.2)
Defence	308	(1.7)	310	(1.7)	306	(1.7)
<i>Capital expenditure</i>	216	(1.2)	169	(0.9)	169	(0.9)
Net lending	263	(1.5)	353	(2.0)	356	(2.0)
Disinvestment in PEs	50	(0.3)	90	(0.5)	59	(0.3)
<i>Gross Fiscal Deficit^a</i>	911	(5.3)	1037	(6.2)	1123	(6.5)

^a World Bank definition

Note: (P) Refers to Provisional Estimates

Source: World Bank estimates based on Comptroller General and MoF data.

public enterprises¹⁴ (as percentages of GDP, see Annex Tables 8.5 and 8.6). The jump in the deficit in 1993-4 was mainly corrected by further cuts in capital spending and grants to states. In addition, wage costs were allowed to decline relative to GDP and the number of central government employees declined about 4 per cent until 1996-7 (see Annex Table 8.7). However, wage costs since then have been substantially pushed up by a pay settlement in 1997-8 that was well in excess of the Pay Commission recommendations. In addition the pay settlement rejected the Pay Commission's recommendations to reduce staff by 30 per cent over ten years and eliminate positions that had remained unfilled for some time. Between 1991-2 and 1998-9, revenue expenditures remained unchanged around 12.0 per cent of GDP (of which interest payments rose from 4 per cent to 4.3 per cent of GDP). Meanwhile, capital expenditure declined from 1.7 per cent to 0.9 per cent of GDP over the same period.

Over the last two years, the *Oil Pool Account* (administered by the Oil Coordination Committee (OCC), and excluded from the central government accounts)¹⁵ has been a major factor in tightening public sector fiscal accounts. The oil pool account represents the government's obligation to compensate oil companies for the difference between their revenues from domestic sales and the cost of oil internationally;

¹⁴ The public enterprises switched to borrowing on their own account, albeit controlled by the central government and with an implicit central government guarantee.

¹⁵ In Annex Table 8.6, the central fiscal deficit has been defined both without the oil pool deficit (as the government does), and with the oil pool deficit.

the companies typically finance the difference and, from time-to-time, the government has retired its debt to them. Domestic oil prices were liberalized in September 1997 by moving them closer to prevailing international prices and providing for future adjustments in line with international prices. Following this policy change, the oil pool ran a surplus in 1997-8 and 1998-9, a development that was helped by the drop in world oil prices.¹⁶ However, beginning around the middle of 1999, the oil pool once again began to run a (flow) deficit, as a result of the rise in international oil prices and delays in increases in domestic prices, particularly of diesel. On 5 October 1999, the government raised diesel prices sharply, in an attempt to correct for the potential deficit in the oil pool.

The 1999-2000 central government Budget projects a deficit reduction of 0.9 per cent of GDP, and also includes an accounting change that switches the states' 75 per cent share of small saving deposits (1.2 per cent of GDP in 1999-2000) from a loan by the Centre to a loan from a 'National Small Savings Fund' in the Public Accounts, thereby producing a projected central deficit of 4 per cent of GDP (see Table 8.4). This Budget target will be difficult to achieve; it is based mainly on a projected rise of nearly 0.7 percentage point of GDP in tax revenues over (actual) realizations in 1998-9 (see Annex Table 8.5). Moreover, *the projected deficit reduction will*

¹⁶ The surplus has been used to pay down most of the accumulated deficit on the account (which confusingly is also sometimes referred to as the deficit of the OCC). The (public) oil companies had financed this accumulated deficit by borrowing until September 1997, when the central government issued debt in the amount of the accumulated deficit to the companies.

TABLE 8.4
Fiscal Deficit in the New Accounting Framework 1999–2000

	1990–1	1991–2	1992–3	1993–4	1994–5	1995–6	1996–7	1997–8	1998–9 prov. actuals	1999–2000 BE
Centre (old definition)	446.3	363.4	401.7	602.6	583.9	612.8	667.3	889.4	1122.8	1050.8
Less states' net small savings	70.3	54.8	42.6	50.0	96.8	99.9	106.7	150.6	237.9	250.0
Centre (new definition)	376.1	308.6	359.1	552.6	487.2	512.9	560.6	738.8	884.9	800.8
Memo: (% GDP)										
Centre (old definition)	7.7	5.4	5.3	6.9	5.6	5.0	4.7	5.7	6.2	5.2
Less states net small savings	1.2	0.8	0.6	0.6	0.9	0.8	0.8	1.0	1.3	1.2
Centre (new definition)	6.5	4.6	4.7	6.3	4.7	4.2	4.0	4.7	4.9	4.0

Source: Budget Documents Controller General Accounts, MoF.

only get the centre's deficit back to its 1996–7 level (defined correspondingly, according to the new definition). And although the different accounting treatment of small savings reduces the central government's deficit, it has no effect either on the central plus state government (general government) deficit or the consolidated public sector deficit. In the absence of improved efforts at raising own tax revenues, most state governments are likely to continue their dependence on the high cost small savings to fund their increasing deficits.¹⁷ Thus future policy towards small savings will be a very important element in the evolution of states' fiscal deficits (see Box 3.3).

The 1999–2000 Budget rationalized customs tariffs, leaving the average unweighted tariff roughly constant but reducing the disparities in effective protection (see Chapter 6). It also rationalized excise taxes from 11 rates to 3 rates plus 2 surcharges (which maintained the highest rates at 30 per cent and 40 per cent respectively), and imposed 10 per cent surcharge on top of two personal income tax rates and the corporate tax rate. It also included a Re 1 per litre cess on high speed diesel (raising Rs 50 billion), half earmarked for rural and social development and the other half, plus the Re 1 imposed in the last fiscal year, to go to central and state highways and the railways. The Budget also made some tax changes that benefited mutual funds, housing, and mergers and acquisitions, including allowing carry-forward of allowances for losses.

¹⁷ Although in some sense, the new treatment of small savings is a decentralization measure, as recommended by the Gupta Committee, the Budget approach does not deal with the ultimate liability for the debt, or how interest rates will be set, or the disposition of the interest differential (about 2 percentage points) between the earnings of small savers and the higher on-lending rate charged by the Centre to the states, which will determine whether the change would be neutral, or benefit the states at some cost to the Centre.

Nominal revenue expenditures by the central government were projected to rise only 9 per cent on a comparable basis. Non-defence capital expenditure was projected to rise slightly faster than GDP, but would still reach only 0.6 per cent of GDP. Total defence spending (including capital spending) was projected to remain a constant 2.3 per cent of GDP, which is much lower than the 3.1 per cent average for 118 low- and middle-income countries in 1995 (World Bank 1998c). Explicit subsidies were projected to decline by 0.2 per cent of GDP, back to the 1997–8 level, as a result of the rises in PDS prices to the non-poor and fertilizer prices announced in January. However, some of this projected decline was offset by the post-budget roll-back of some of the price increases in fertilizer, as is evident from the recent provisional estimates. Finally, it is worth noting that the reported figures for the public sector deficit do not include the recapitalization of the public banks, which has averaged about 0.25 per cent of GDP each year since 1992–3, nor any funds for the Unit Trust of India in 1999–2000. This funding is treated as an exchange of assets in the capital budget, which affects the revenue and expenditure budget only as debt service is paid on the bonds that have been given to the institutions. Finally, an unrecognized contingent liability is the government's guarantee of most of the foreign exchange risk on the 1998 RIBs (see also fn. 27 in this chapter).

Post-Budget developments suggest that it may be hard to reach the deficit target. Preliminary estimates through October 1999 suggest that revenues are less and expenditures are sharply higher compared to the same period last year. Some of the increase in expenditures is due to support and lending for the states in the form of advances of tax revenue in return for fiscal reform in the states. (see Chapter 3 for details on these recent MoUs signed between the centre and

select state governments). Also, some unprogrammed expenditures related to the Kargil war have been incurred.

Unsustainable State Finances Keep the General Government Deficit High and Reduce Social and Infrastructure Spending that is Critical to Poverty Reduction

The states' deficit in 1998–9 widened even more than that of the centre, to 4.2 per cent of GDP (see Annex Table 8.8), and is projected to be as high as the centre's deficit (under the new accounting for small savings) in 1999–2000 (see Fig. 8.2). *The states' deficit in 1998–9 was the highest in India's fiscal history. The magnitude of states' deficit indicates that states can no longer be neglected from the standpoint of macroeconomic instability.* Much of the state governments' recent and projected deterioration reflects the cascading down of the Central government's excessive 1997–8 wage increase—the widening of states' deficit is largely due to the deterioration in the revenue deficit. However, the wage increase has only intensified an underlying problem. But for the one-time transfer of Voluntary Disclosure Income Scheme (VDIS) revenues in 1997–8, the states' deficit would have been higher than in 1990–1.

States' fiscal crisis/lack of adjustment reflects their continuation of large, inefficiency-inducing subsidies, implicit and explicit, in power, water, transport, and secondary and tertiary education (see also Chapters 2 and 3). User charges are low, collections are weak, and costs are inflated by overstaffing and inefficiencies in the state public enterprises. In power, average revenues are only about 80 per cent of costs (Ahluwalia 1998), reflecting low collections¹⁸ and inefficiency-inducing subsidies to agriculture and small consumers. For example, in UP the burden of the power subsidies can be seen in a net flow of funds to the Uttar Pradesh State Electricity Board (UPSEB) of 5.6 per cent of UP's revenues in 1996–7, and loans—loans that are in perpetuity and on which no interest is being paid—to the UPSEB equivalent to 42 per cent of UP's debt. Regarding the other sectors, the states have also allowed irrigation charges to decline sharply in real terms. States' typical charges for water are far less than the delivery cost. Secondary and university education charges are far less than costs (NIPFP 1997, GOI 1997b).

Subsidies encourage inefficiency. For example, they contribute to overexploitation of ground water,

¹⁸ Low collections reflect power theft, distribution losses, and increasing payment delays (see fn. 9 in Chapter 5).

waterlogging, and soil erosion. Lack of funds reduces needed operations and maintenance. Because the power tariffs are not related to peak use, they require increased spending on capacity to meet demand and, because the lack of such capacity and lack of maintenance lead to load shedding and poor quality power, they encourage purchases of generators as well. The fertilizer subsidies encourage use of an inefficient combination of nitrous, potassic, and phosphatic fertilizers. *Moreover the subsidies have not even fulfilled their distribution objectives* and may in fact contribute to inequalities, since they are subject to capture by the better off. In higher education they go mostly to the better off (see Kurien 1999). In fertilizer, they may now go largely to the firm, not the farms (see Gulati 1998). Subsidies in rural power may go to better off farmers who can then sell the water drawn by use of free power to others. Moreover, part of the subsidies are in the form of/ascribed to 'non-technical losses' in power and water or to those who are able to define themselves as part of the subsidized group. Finally, the subsidy is also partly paid through higher charges to other producers, who in turn factor it into the costs of the products they sell. Hence the incidence of the subsidies is in fact almost impossible to estimate (see also Box 5.2).

States have also not Improved their Tax Base

Although state tax revenues have grown about as fast as income (more buoyant than central revenues), states' approach to taxes induces inefficiency, and their revenue base is limited, in part because of their unwillingness to tax agricultural incomes,¹⁹ in part due to the difficulties of setting up a value added tax that would be harmonized with the central government's MODVAT (see Box 3.2). The states have thus fallen back on sales taxes and various fees that cascade into higher production costs and weaken India's international competitiveness, compared to a VAT system.

Perhaps most importantly, states' fiscal crisis severely weakens the fight against poverty, by limiting their social and infrastructure spending. States are responsible for over 90 per cent of economic infrastructure and social service spending under India's federal

¹⁹ India's federal Constitution divides the country's taxing powers. Customs are a central revenue, income and indirect taxes were ceded to the Centre when the country was formed, with part of the proceeds reverting to states as determined by the Finance Commissions every five years. States can levy (state-level) excise and sales taxes and have the sole constitutional right to tax agriculture.

system. They have slowed this spending, relative to GDP, as their subsidies have risen, transfers and loans from the centre have declined, and interest costs of their rising deficits have ballooned (see Annex Table 8.8 and Table 8.5) in order to meet what is a relatively hard budget constraint.²⁰ High cost small savings, which are now nearly twice the annual market borrowing for states, represent one way around the budget constraint; another is state guarantees, which have mounted and which RBI has now proposed be limited (see Chapter 3, Box 3.1 and Box 3.3).

TABLE 8.5
Change in Social and Economic Infrastructure and
Interest Spending 1991-2 and 1997-8
(change in percentage points of GSDP)

States	Social ^a	Economic ^b	Interest Payment
Andhra Pradesh	-(1.4)	0.0	(0.6)
Bihar	1.6 ^c	-(0.1)	(1.1)
Gujarat	-(1.0)	-(1.2)	(0.1)
Haryana	-(0.1)	-(0.5)	(0.2)
Karnataka	0.5	-(1.5)	(0.3)
Kerala	0.7	0.3	(0.5)
Maharashtra	-(3.6)	-(0.6)	(0.6)
Madhya Pradesh	0.8	0.1	(0.0)
Orissa	0.2	-(0.7)	(0.7)
Punjab	-(0.3)	-(0.9)	(2.3)
Rajasthan	0.5	-(1.8)	(1.0)
Tamil Nadu	-(0.6)	(0.6)	(0.5)
Uttar Pradesh	0.5	-(0.7)	(1.0)
West Bengal	0.0	1.0	(0.7)
14 States Average	-(0.1)	-(0.4)	(0.7)

^a Refers to total expenditure on health and education.

^b Refers to sum of capital outlay and (gross) loans to power, irrigation, and transport.

^c The positive increase reflects a strong rise in current spending in education in the revised estimates of 1997-8.

Note: 1997-8 is revised estimate. Brackets indicate deterioration.

Source: RBI Bulletin various issues.

²⁰ States' borrowings are largely limited by the centre's loans to them and the Centre's allocation of a share of the market borrowings that qualify for the SLR. WMAs from the RBI must be cleared in ten days, although some states, notably Bihar, have often exceeded this limit. The borrowing constraint is judicious; in some Latin American countries, state deficits financed through access to the central bank were a major factor in inflation. Although market discipline might provide an incentive for better state performance, it would be difficult to exert in the Indian context because of the central government's unwillingness to allow a state to go bankrupt, and the large role that public financial institutions would play in the purchase of any state bonds.

Non-financial Central Public Enterprises (CPEs)

Their performance has improved since the early 1990s, mainly reflecting developments in petroleum and telecoms; other enterprises have been allowed to languish. The CPEs combined deficit has declined to about 1.3 per cent of GDP in 1998-9 and a projected 1.5 per cent in 1999-2000, from about 3.0 per cent in 1990-1 (see Table 8.6).

This decline reflects two factors: (a) the steady fall of public enterprise investment as a percentage of GDP from about 4.8 per cent in 1990-1 to about 3.4 per cent currently and (b) the growing importance of petroleum and telecoms public enterprises that now account for 45 per cent of (Plan) investment by the CPEs and an even larger 68 per cent share in internal resource generation by CPEs (see Annex Table 8.9). These two groups of enterprises dominate the CPEs and, correspondingly, the CPEs are now largely financed with internally generated funds and go to the market for the remainder.²¹ The declining investment of the other CPEs accounts for most of the decline in CPEs' investment, and even that is increasingly financed through the market in one way or another—central government loans to public enterprises (and support for losses) have dropped sharply as a percentage of GDP.

The CPEs had long been sheltered from competition by reservation of products for them and by protection from international competition. The removal of the reservation and the cuts in protection, along with increased autonomy and pressures for performance have led to increased efficiency in some sectors. Pricing has come closer to covering costs, notably with the movements toward international prices in the petroleum sector—fertilizer represents the major remaining CPE subsidy.²² Nonetheless, the developments in the petroleum and telecoms PSEs described earlier partly reflect their residual regulatory advantage. In telecoms, cuts in costs and more realistic pricing have increased access to funding and allowed a substantial improvement in service (see the discussion in Chapter 4 of the survey of businessmen; and Ahluwalia 1998).

Although the return on capital employed in CPEs has been pushed up to about 8 per cent before taxes (GOI, *Public Enterprises Survey*, various issues), it is 3-5 per cent below the interest paid on government bonds, implying a massive implicit economic loss, including a loss of taxes, to the country on the capital invested

²¹ These figures neglect the oil pool account discussed earlier.

²² See the discussion in Gulati (1998) for an analysis of the impact of the subsidy and its incidence.

TABLE 8.6
Finances of CPEs 1990–2000

	(in billions of rupees)									
	1990–1	1991–2	1992–3	1993–4	1994–5	1995–6	1996–7	1997–8	1998–9 (RE)	1999–2000 (BE)
A. Net internal resources	107.2	120.1	161.3	188.5	241.5	290.8	252.5	279.7	335.1	386.1
B. Plan expenditure	280.5	294.2	366.6	438.9	485.9	521.8	542.5	549.6	578.0	681.6
C. Overall balance (B–A)	173.3	174.1	205.3	250.4	244.3	231.0	290.0	269.9	242.8	295.4
<i>Memo: % GDPmp</i>										
CPE deficit	3.0	2.6	2.7	2.9	2.4	1.9	2.1	1.7	1.3	1.5
CPE investment	4.8	4.4	4.8	5.0	4.7	4.3	3.8	3.5	3.2	3.4

Source: Budget Documents.

in public enterprises over the years. Moreover, the high returns in petroleum and telecoms boost the average rate of return of CPEs substantially; manufacturing plants and nearly half of all public enterprises are unprofitable (GOI, *Public Enterprises Survey*, various issues). Of course, public enterprises' low profitability has been attributed to their attempt to carry out non-economic objectives, often at the behest of government. However, the efficiency with which these social activities are carried out, the contribution to public welfare, and their impact on firms' returns are neither transparent nor well monitored. And public enterprises, staffed by de facto civil servants cannot easily downsize or close down when demand for their production falls.

The need to reduce the burden of public enterprises and the possibility of realizing capital revenues from their sale have been recognized by all recent governments. Since 1991, government has been divesting minority stakes in CPEs through the stock market (see Annex Table 8.10), but that process appears to have slowed. The Disinvestment Commission, which was set up in 1996 and whose term has now lapsed, has submitted twelve reports to the government. But, as its reports have pointed out, most of its recommendations have yet to be implemented—in the first eleven reports, strategic sales or trade sales or partial equity sales or closure have been recommended in 41 cases, but only 13 of these recommendations have even been partially implemented (see Annex 8.3 for an analysis of India's progress in privatization).

The benefits from the sales are thus far largely limited to capital revenues and improvements in transparency in making companies ready for disinvestment. Generally speaking, the new shareholders are passive investors and are not represented on the companies' boards. Moreover, the arrangements for dealing with possible problems in these companies, such as the handling of new injections of funds, are unclear.

Experience worldwide suggests that a shift from public to private management will raise efficiency and returns on capital while reducing the burden on the government by reducing transfers, debt relief, and capital injections to the companies, and increasing their tax payments (Galal *et al.* 1994, Megginson *et al.* 1995, World Bank 1995b). This holds true when domestic and international competition exists to protect consumers and stimulate innovation, and it is also true in many sectors once thought to be natural monopolies, such as power generation and distribution.

Both the 1998 and 1999 Budget speeches declare the government's intention to move ahead on privatization of CPEs. However, progress has been slow (see Annex 8.3), and continues to be largely motivated by capital revenue considerations, rather than reducing costs and improving quality of goods and services, reflecting political difficulties in full disinvestment. In the run-up to the 1999–2000 Budget, the government raised disinvestment revenues by encouraging the public oil companies to buy some of each others' capital, an approach that simply transferred funds from the enterprises to the centre.

Several key issues on privatization face the government. *One*, the weak enterprises, which can expect little loan/equity support from either the government or the market, are unable to invest enough, and are thus getting weaker, and hence more difficult to sell off, over time. Delays would mean lower revenues to government, and more difficult restructuring decisions by the new owners. *Two*, privatization issues are even more serious for state-level public enterprises, since state governments are even less equipped to continue supporting loss-making units (some states, such as Andhra Pradesh, Gujarat, and Orissa in its power distribution, have made progress in privatization, see Chapter 3). *Three*, it is unlikely that public enterprise governance can improve much while government remains a majority owner—the 'Navratna' experiments

have not worked (see Box 4.2). Indeed, the experience of firms such as Maruti (49.8 per cent government, 50.2 per cent Suzuki, 0.2 per cent employees)²³ might make the private sector hesitant to invest in firms where government has a more than 26 per cent stake (which is enough to block key resolutions), especially when the dominant financial sector institutions, which will also hold shares, are government owned.

Reducing Public Sector Deficit to Reduce the Risk of Macroeconomic Instability and the Crowding out of Private Investment, and to Improve the Sustainability of the Growth Rate

The large public sector deficit raises three concerns. One is the so-called 'debt trap'—high real interest rates associated with large public borrowings will generate a cumulative rise in the ratio of public debt to GDP—a risk pointed out by the RBI in various Annual Reports, and most recently in its 1998–9 Report on Currency and Finance ('the present level of government sector debt is not consistent with the medium-term sustainability of fiscal policies [p. v-13]). Prior to the financial reforms that began in the early 1990s, increasing financial repression limited the interest cost of the growing public debt by directing increasing credit to the public sector at low cost, crowding-out credit to the private sector and taxing financial intermediation. With financial liberalization, the true interest cost of the high deficit became clearer—the interest costs of the central and state governments have risen by over 1 per cent of GDP since 1990–1. Nonetheless, up to 1996–7, there was a fall in government's debt to GDP ratio, belying the debt trap worries. This reflected the lower average deficit since 1991–2 (even taking into account the higher interest payments), and the fall in the external debt ratio, because declining external borrowing and favourable exchange rate movements more than offset the depreciation of the rupee. However, the ratio of central government debt (including small savings) to GDP now appears to be rising; it has already risen from 58 per cent in 1996–7 to about 60 per cent of GDP in 1997–8 and 1998–9 (see Statistical Appendix Table 4.12), which the Maastricht Treaty in

²³ There have been differences in the past between the government and Suzuki Motor Company over Maruti's debt-equity structure, the appointment of senior management, and the pace of expansion. Maruti is by far India's largest car manufacturer, but its pre-eminence in the Indian market is threatened by new and agile entrants from the private sector, both domestic and multinational.

Europe considers a limit for macroeconomic stability. The ratio of total debt servicing (interest plus principal repayments) to current revenues is estimated to have risen from 116 per cent in 1997–8 to 123 per cent in 1998–9, as new debt on harder terms has replaced old debt that was contracted on softer terms. Moreover governments are extending increasing guarantees, with state guarantees up 23 per cent in the last two years (see RBI 1999b and Chapter 3).

Investors and rating agencies, since the 1980s debt crisis, have a concern that governments might resort to *inflation or unsustainable foreign borrowing* to finance high fiscal deficits and cut the burden of large domestic fixed interest debt, for one reason or another. India has one of the highest fiscal deficits in the world. In 1991, it suffered a run on its meagre international reserves, in the context of a high deficit and despite its closed capital account. More recently, Brazil and Pakistan, two of the three major countries with fiscal deficits as high as India's (World Bank 1998a), suffered attacks on their fixed exchange rate. As noted above, India has traditionally maintained macro-stability, which along with its large international reserves and limits on capital mobility, decreases risks of such attacks. Nonetheless investors' concerns will tend to increase the international risk premia and lower the bond ratings that India faces,²⁴ keeping real interest costs up, even if macro-stability is maintained.

India's large fiscal deficits and public debt stock also *crowd out private sector* investment, by raising interest rates above what they otherwise would be and reducing the amount of funds available for the private sector.²⁵ A simple regression (see Fig. 8.4) suggests that

²⁴ Moody's lowered India's rating from Baa3 (investment grade) to Ba2 (speculative) in June 1998, following the Budget and the imposition of sanctions on multilateral lending after India and Pakistan's nuclear explosions. Standard and Poor's lowered its rating from BB+ (speculative) to BB (speculative) in October 1998 (GOI 1999e, p. 90).

²⁵ As noted above, financial repression, such as prevailed in India in the 1980s, crowds out private sector borrowing by fiat, and pushes up the interest rate to the marginal private borrower, without raising the rates that the public sector pays for its funds. Moreover the increasingly high rates that private borrowers have to pay, in order to ration the increasingly limited amount of credit they receive, stimulate demands for protection from high interest rates through directed credit, reducing the productivity of credit allocation to the private sector and, often, having unclear distributional effects. In addition to this crowding-out in financial markets, public sector production, financed by borrowing, supplies outputs that, in many cases, could be provided more effectively by the private sector, thus reflecting a crowding out in goods and services markets.

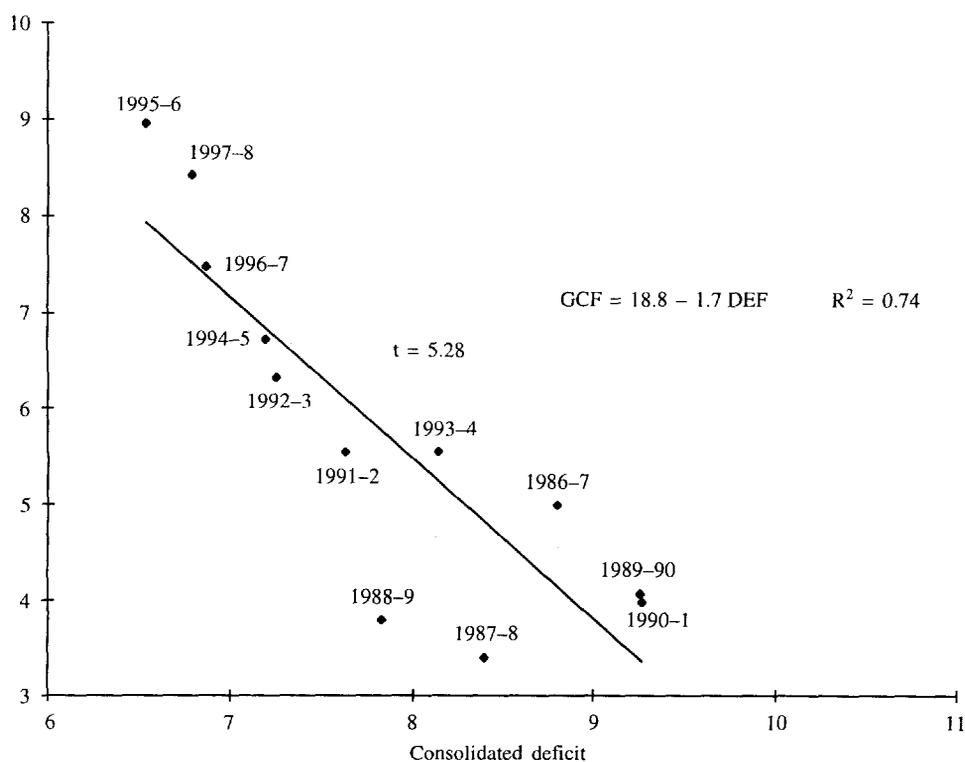


FIG. 8.4: Gross Capital Formation by Private Corporate Sector and Consolidated Deficit of General Government (including OCC, excluding disinvestment)

the reduction in the consolidated public sector deficit in the early 1990s was accompanied by an at least one-for-one increase in corporate investment (see also World Bank 1998a, pp. 8 and 9; and RBI 1997, pp. 76 and 86), which was the engine of the three high growth years. Of course, these empirical results not only reflect the lower central government deficit after 1992-3, which reduced the ratio of public debt to GDP, but also the liberalization and the large inflow of foreign funds—FIIs, GDRs, and liberalized offshore corporate borrowing in 1994-5 to 1996-7. In 1997-8, however, the rising fiscal deficit has pushed up the debt to GDP ratio, while the escape valve of external flows has become narrower (see Annex Table 8.11) and is likely to remain so given external circumstances. In this environment, even a constant fiscal deficit (as a percentage of GDP) is likely to put more upward pressures on real interest rates and ‘crowd out’ more private investment than in the past.

Reducing the Deficit by Cutting Implicit and Explicit Subsidies

Much of the reduction in the deficit could be achieved by reducing the large implicit and explicit subsidies,

which the Finance Ministry estimated at 14.4 per cent of GDP in 1994-5. Some progress has been made, notably in petroleum products (a central subject), and to a much lesser extent in power, irrigation, and fertilizer (centre and states). However, much more effort is needed, particularly in the states since most of the explicit and even more of the implicit subsidies are in their domain. Without action in states to reduce subsidies (their deficit now matches that of the centre, see p. 112), the general government deficit will remain a key problem area (see later discussion). As noted, these subsidies and cross-subsidies have had negative effects on efficiency, unclear distributional implications, and have hindered private provision of services (see earlier discussion in Box 5.2; and Ahluwalia 1998).

In addition, the deficit could be lowered by further efforts at *broadening the tax base, improving tax administration, civil service reform* (see Chapter 3), and greater reliance on the *private sector*, including privatization that would enhance the productivity of investment, reduce the need for public transfers and guarantees to fund investments, and generate higher tax revenues. Gains could also be made through better *expenditure management*, which links spending to well-defined objectives and results (see Chapter 3).

Realigning Government and Creating Conditions for Reducing State and Central Deficits

India's sustained development would be furthered by a reduction in the general government deficit similar to 1992–3, combined with government realignment that relies more on the private sector and focuses on basic human development services, infrastructure, and maintenance of competition and legal and regulatory frameworks to make the market work better. In not doing so as part of the reforms over the 1990s, India has lost an opportunity to grow faster (since private sector investment is more efficient), reduce poverty faster, and make higher growth more sustainable.

Centre and State Reforms

Some states, notably Andhra Pradesh, Haryana, and Orissa, are initiating reforms with more realistic user charges, turning over irrigation to water-user groups, and privatizing of power distribution at various stages. However, others, such as Punjab and Maharashtra, are unfortunately making unsustainable cuts in user charges and taxes in a bid for political popularity. The Centre could play a catalytic role in improving the policy environment in states, by providing leadership in areas like civil service and public sector reform and improving intergovernmental fiscal relations. The Centre is already doing some of this and the eleventh Finance Commission has been given a broader-than-usual mandate to 'review the state of the Finances of the Union and the states, and suggest ways and means to restore budgetary balance and macroeconomic stability'. This is a welcome move away from the past gap-filling approach, which had discouraged own tax collection efforts by states, to a more normative approach to tax sharing (an approach recommended by the ninth Finance Commission) that would *reduce the disincentives for improved state tax collections* inherent in gap-filling exercises. The central government has signed MoUs with nine states so far, whereby extraordinary short-term advances have been made by the central government in return for fiscal reform by the states. The multiple centrally sponsored schemes could be consolidated to reduce bureaucracy, and be at least partly converted into block grants, and the distinction between plan and non-plan expenditures reduced, as has often been recommended. Also the Finance Minister's recent proposal to move towards a full VAT system would permit states to 'piggy back' on this fairly efficient tax and reduce their distortionary sales taxes. Another *major issue which will require substantial analysis is states' devolution of revenue and taxing powers*

to local (panchayat) governments to decentralize services (see Chapter 3).

Much more analysis is needed on the 'how' of realigning government. *In this context, a study of the possible paths to fiscal adjustment, taking into account the linkages between fiscal deficits, growth, and poverty reduction, and drawing on international experience, would be useful.*

Balance of Payments

India managed to limit the contagion from the East Asian crisis, as did many countries. In India's case, much of the insulation came from the limited short-term external debt of its banks and corporations, and its limited capital account convertibility; portfolio investment also declined much less rapidly in India than in East Asia, and has rebounded in 1999. Moreover India's banks are less exposed to losses than East Asian banks, because of their large holdings of government debt (see Chapter 7). The pressures on India's *exchange rate* after the East Asian crisis were adeptly managed by the RBI, but the rupee has become somewhat appreciated with the recent decline of the Euro, as well as relative to East Asian competitors in third markets (see fn. 8 and Annex Table 6.7).

India's vulnerability to balance-of-payments problems, thus, seems less as compared to East Asian countries, or its neighbour Pakistan. Although it did suffer a balance-of-payments crisis in 1991, when the capital account was even more closed than today, it has much less short-term exposure than East Asia did, and very large external reserves. Nonetheless, there are some structural concerns in the balance of payments, notably the dependence on remittances, the large excess of imports over exports that will tend to increase current account deficit once imports resume their growth, and, above all, the slowdown in exports.

Generally speaking, the external environment facing India has worsened over the last two years, with the slowing of international trade and capital flows, as well as the sanctions following India's nuclear tests (for a discussion of the prospects in 1999–2000, see Chapter 9). The bright spots have been falling oil prices, until recently, and rising demand for software exports. At the same time, trade reforms, which increased India's gains from international trade and investment (see Annex 8.1), have slowed and in some cases even been reversed (see Chapter 6). Despite these problems, current account deficit fell to about 1.0 per cent of GDP in 1998–9, from 1.4 per cent in 1997–8, because of the fall in oil prices and the drop in non-customs

imports (see Annex Table 8.4), while reserves increased by \$ 3.9 billion, buoyed by the \$ 4.2 billion proceeds of the RIBs (see Table 8.7).

Merchandise export growth was negative (-3.9 per cent) in 1998-9 (although it turned positive since January 1999). This continues the slowdown in export growth that began in 1996-7. Partly, this decline reflects the slow growth of world trade. However, India has lost market share for the second consecutive year (see Annex Table 6.4). If India had maintained its 1996 share of world exports (0.63 per cent in April-March 1996-7), its exports would have been higher by 1.3 per cent (\$ 0.43 billion).

Merchandise imports declined 7.1 per cent in 1998-9, compared with a 4.6 per cent growth in 1997-8. This decline reflects (a) falling oil prices for a second consecutive year—oil imports fell 21.2 per cent, and if oil prices had not fallen, the oil import bill would have been similar to 1997-8; and (b) a massive decline in non-customs imports (which include ships, aircraft, oil rigs, and defence equipment), which fell by about \$ 4 billion or 41.4 per cent. Gold and silver imports, which were liberalized in October 1997, grew by about \$ 1.7 billion²⁶ or 54.6 per cent (see Annex Table 8.4). Finally non-oil, non-gold customs imports rose only 1.2 per cent (see Annex Table 8.4), reflecting slow industrial growth, with much of the increase coming from imports related to projects that were moving to completion.

Computer service exports have been a bright spot after 1997-8. Software exports continued to grow rapidly, although that partly reflects demands from the Y2K problem and Euro conversion—sustained growth depends on improved telecommunications and access to low cost hardware, as well as continued freedom from red tape. Remittances declined slightly, to about \$ 10.3 billion.

Current account deficit declined to 1.0 per cent of GDP (\$ 4.3 billion), reflecting the trade deficit's decline (to 3.0 per cent of GDP) and the continued strong service exports.

The capital account, in 1998-9, ended up with a surplus much larger than current account deficit despite the sanctions and worldwide loss of confidence in emerging markets. In August 1998, India mobilized \$ 4.2 billion through the retail sale of RIBs (five

²⁶ After liberalization in October 1997, gold and silver imports were recorded as part of customs imports, as opposed to earlier, when they were imported under the baggage route. The Ministry of Finance's *Economic Survey 1998-9* estimates that about 90 per cent of gold was imported under the customs route in April-October 1998, as opposed to only 15 per cent in April-October 1997.

year maturity, 7.75 per cent in US dollars, in units of \$ 1000, with the guarantee of the government) to non-resident indians, which boosted reserves. Although the sale was intended not only to offset the sanctions but also to generate resources for infrastructure, the cash reserve and statutory liquidity requirements absorbed about 35 per cent of it, and banks temporarily invested much of the remainder in government debt.²⁷

Other types of capital inflows slowed, continuing the slowdown that began in 1997-8 (in Table 8.7, RIB proceeds are included in long-term borrowing). The slowdown reflected the tightening international capital market facing developing countries, the sanctions on India, the completion of investors' portfolio adjustment to the partial liberalization of India's capital account, and investors' expectations about India's prospects. Of particular concern is the decline in FDI to about \$ 2.5 billion, down from \$ 3.6 billion in 1997-8, although this figure is still far higher than in the 1980s and early 1990s.

Portfolio capital outflows occurred in May and June 1998 as FIIs withdrew \$ 413 million following the sanctions, the Budget, and the downgrading by Moody's.²⁸ Smaller portfolio outflows occurred for most of the rest of 1998—surprisingly, there was little additional outflow after either the default on Russian bonds or Brazil's devaluation. However, *portfolio inflows turned positive in calendar 1999*, and were as high as \$ 511 million in March 1999 alone. For 1998-9 as a whole, there was a marginal outflow of \$ 68 million dollars. *Aid-related flows* slowed as a result of the sanctions. *External commercial borrowings* slowed in gross terms over the year and dropped to almost zero in net terms, with some firms taking advantage of the discount on Indian debt abroad to buy back their bonds; other firms allowed their external commercial borrowing authorizations to lapse because of their potentially high cost.

The government responded agilely to the pressures on the currency over the year, by allowing the exchange rate to depreciate, selling some reserves to limit the depreciation, and tightening monetary

²⁷ The foreign currency interest rate on the bond was relatively low, especially given the turmoil in world capital markets at the time of sale. However, on proceeds that were used to buy government debt, the government effectively paid the rupee rate for foreign currency, because of its foreign exchange guarantee.

²⁸ Standard & Poor's and the Japanese Bond Research Institute also downgraded India's long-term foreign currency rating in October 1998.

TABLE 8.7
Balance of Payments 1999-2001

(US \$ billion)

	Actuals									Projected		
	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9	1999-2000	2000-1	2001-2
Total exports of GNFS	23.0	23.3	23.6	27.9	33.0	39.7	41.6	45.1	47.5	50.7	5.3	60.0
Merchandise (FOB)	18.5	18.3	18.9	22.7	26.9	32.3	34.1	35.7	34.3	37.0	40.8	45.0
Non-factor services	4.6	5.0	4.7	5.3	6.1	7.3	7.5	9.4	13.2	13.7	14.5	15.0
Total imports of GNFS	31.5	24.9	27.9	31.5	41.4	51.2	55.7	59.3	58.6	64.9	71.5	79.0
Merchandise (CIF)	27.9	21.1	24.3	26.7	35.9	43.7	48.9	51.2	47.5	53.4	59.0	65.8
Oil imports	6.0	5.4	6.1	5.8	5.9	7.5	10.0	8.2	6.4	10.8	10.0	10.1
Non-oil imports	21.9	15.7	18.2	21.0	30.0	36.1	38.9	43.0	41.1	42.6	49.0	55.7
Non-factor services	3.6	3.8	3.6	4.7	5.5	7.5	6.7	8.1	11.0	11.5	12.5	13.2
Resource balance	-8.5	-1.6	-4.3	-3.5	-8.4	-11.6	-14.1	-14.2	-11.1	-14.1	-16.2	-18.9
Net factor income	-3.8	-3.8	-3.4	-3.3	-3.4	-3.2	-3.3	-3.5	-3.5	-3.1	-3.1	-3.4
Factor receipts	0.4	0.2	0.4	0.4	0.9	1.4	1.1	1.6	1.9	2.2	2.3	2.4
Factor payments	4.1	4.1	3.8	3.7	4.3	4.6	4.4	5.1	5.5	5.2	5.5	5.8
Interest (scheduled) ^a	4.0	3.5	3.5	3.5	4.1	4.3	4.0	4.5	4.8	4.5	4.5	4.6
of which interest payments on NRI	1.3	1.0	0.9	0.9	1.0	1.2	1.6	1.8	1.7	1.8	1.9	2.0
Other factor payments ^b	0.2	0.5	0.3	0.1	0.2	0.3	0.4	0.6	0.7	0.8	0.9	1.2
Net private current transfers	2.1	3.8	3.9	5.3	8.1	8.5	12.4	11.8	10.3	10.6	11.0	11.9
Current receipts	2.1	3.8	3.9	5.3	8.1	8.5	12.4	11.9	10.3	10.6	11.1	12.0
of which workers remittances	1.7	3.5	3.4	4.4	7.5	7.2	11.7	11.7	9.4	9.7	10.0	10.9
Current payments	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1
Current account balance	-10.1	-1.6	-3.9	-1.5	-3.8	-6.3	-5.0	-5.9	-4.3	-6.6	-8.4	-10.4
Official capital grants	0.5	0.5	0.4	0.4	0.4	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Foreign investments	0.1	0.1	0.6	4.2	5.1	4.9	6.1	5.4	2.4	5.5	6.5	6.8
Direct foreign investments	0.1	0.1	0.3	0.6	1.3	2.1	2.8	3.6	2.5	2.5	3.5	3.8
Portfolio investments	0.0	0.0	0.2	3.6	3.8	2.7	3.3	1.8	-0.1	3.0	3.0	3.0
Net long-term borrowing	4.8	3.5	2.6	2.7	1.7	2.4	6.6	5.3	6.1	0.5	0.8	4.8
Disbursements (net of NRI) ^a	7.6	7.5	4.5	6.4	7.3	7.2	10.6	10.3	10.0	8.2	7.5	9.8
Repayments (scheduled) ^{ac}	4.4	4.2	3.8	4.9	5.8	5.9	7.4	6.1	5.6	9.2	8.2	6.5
Other long-term inflows (net) ^{ac}	1.5	0.3	2.0	1.2	0.2	1.1	3.4	1.1	1.7	1.5	1.5	1.5
Other capital flows	1.8	0.1	0.1	2.9	3.3	-3.4	-1.9	-0.9	-0.2	2.5	1.6	-1.3
Net short-term capital	1.1	-0.5	-1.1	-0.8	0.4	0.0	0.8	-0.1	-2.7	n.a.	n.a.	n.a.
Errors and omissions	1.9	1.9	2.0	4.7	3.9	-2.5	-2.0	-0.1	3.4	n.a.	n.a.	n.a.
Capital flows n.e.i. ^d	-1.2	-1.2	-0.9	-1.1	-1.0	-1.0	-0.7	-0.8	-0.8	-0.7	-0.6	-0.6

(Contd.)

(US \$ billion)

	Actuals									Projected		
	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9	1999-2000	2000-1	2001-2
Changes in net international reserves ^e	3.0	-2.6	0.3	-8.5	-6.8	2.0	-6.2	-4.2	-4.3	-2.2	-0.8	-0.2
IMF (net)	1.2	0.8	1.3	0.2	-1.1	-1.7	-1.0	-0.6	-0.4	-0.3	0.0	0.0
Change in gross reserves	1.8	-3.4	-1.0	-8.7	-5.7	3.7	-5.2	-3.6	-3.9	-2.0	-0.8	-0.2
<i>Memorandum items:</i>												
Current account balance/GDP	-3.1	-0.6	-1.5	-0.5	-1.1	-1.7	-1.3	-1.4	-1.0	-1.4	-1.7	-1.9
Gross foreign exchange reserves ^f	2.3	5.7	6.7	15.5	21.2	17.4	22.7	26.3	30.2	32.2	33.0	33.2
in months of imports (goods)	1.0	3.3	3.3	6.9	7.1	4.8	5.6	6.2	7.6	7.2	6.7	6.1
External debt (% of GDP)	25.9	31.4	34.2	33.8	31.0	25.9	23.5	22.4	23.0	22.0	21.0	20.2
Debt service												
(% of total current receipts)	32.1	28.8	27.6	24.8	26.1	27.3	21.7	21.2	17.3	18.3	15.4	14.9

^a World Bank Debt Reporting System (DRS). Includes RIBs for 1998-9 (\$ 4.2 billion).

^b Includes interest on military debt to the FSU, returns on foreign investments and discrepancies between DRS and RBI data.

^c Net flows in NRI deposit schemes, except the non-repatriable NR(NR)D Scheme.

^d Servicing of the Russia debt.

^e (-) = indicates increase in assets.

^f Includes foreign currency assets, SDRs, and IMF reserves.

Source: Government of India; RBI; Ministry of Commerce; World Bank staff estimates.

policy.²⁹ Then, in March 1999, the Budget's cuts in taxes on the capital market and moves toward resolving the Unit Trust's problems brought some capital inflows. It appears that banks also brought back substantial funds at the end of March.

Gross foreign exchange reserves (comprising foreign currency assets, SDRs, and reserve position in the Fund) rose by \$ 3.9 billion during 1998–9 to reach \$ 30.2 billion (nearly 7.6 months of imports) at end-March 1999; reserves reached \$ 33.2 billion including gold. In terms of 'volatility cover', reserves were about 169 per cent of potential short-term claims—recorded short-term debt, trade credit, and the book value of portfolio investment³⁰ (which, when translated into dollars, is worth far less than the book value of the investments, owing to depreciation of the rupee; another shock absorber is the likely decline in the stock market if FIIs choose to liquidate their investments together).³¹

After peaking in 1992–3 at 34.2 per cent, India's *external debt* to GDP ratio has fallen steadily to 22.4 per cent in 1997–8, and has increased marginally to 23 per cent in 1998–9.³² The debt service ratio has similarly declined. Careful monitoring by the government and changes in the underlying economic factors have meant that the short-term debt has declined substantially, from over \$ 8.5 billion (10 per cent of external debt) in 1991 to \$ 4.3 billion (4.4 per cent) in March 1999. The concessional element in debt is also declining, and was 37.9 per cent at the end of March 1999 (see GOI 1999f for a fuller discussion).

Developments in April–October 1999

Merchandise export growth turned positive in April–October 1999 (10.0 per cent dollar value increase over the corresponding period). Merchandise import growth over the same period also turned positive (7.5 per cent) stemming mainly from rising international oil prices leading to a greater than 50 per cent increase in oil imports; non-oil imports rose only marginally (0.3 per cent).³³ Declining FDI inflows (to \$ 1.09 billion from \$ 1.43 billion in April–September 1998)

²⁹ See fn. 8 in this chapter.

³⁰ Total portfolio investment until March 1999 was \$ 8.7 billion (RBI), not including \$ 6.8 billion worth of GDRs raised by Indian firms in foreign stock markets. GDR investment would impact India's reserves only if it was converted into the underlying Indian stock, and then repatriated (in dollars).

³¹ Recent data show that portfolio investment increased to \$ 16.8 billion in September 1999.

³² Data are from the World Bank's Debt Reporting System, and the numbers are slightly different from those of the Government of India.

³³ DGCIS data.

continued to remain a concern, but portfolio inflows, at \$ 1.35 billion, recorded a significant turnaround. Foreign exchange reserves (including gold, Fund reserves, and SDRs) rose to \$ 34.5 billion by October.

Annex 8.1

ANALYSING INDIA'S GDP GROWTH AND THE ROLE OF REFORM

One simple way to analyse India's recent GDP growth is Lucas' supply-side model (Lucas). This model of growth explains the current level of GDP by a trend growth rate and allows for any tendency for the economy to return to the trend rate of growth by also including a lagged term. The statistical estimation for the period 1979–80 to 1998–9¹ yields:

$$\text{Log (GDP}(T)) = 3.7 + 0.581 \text{ Log (GDP}(T-1)) + 0.0234 \text{ (Time Trend)}$$

(t-statistic)	(1.99)	(2.7)	(1.99)
---------------	--------	-------	--------

This yields a trend growth rate of 5.75 per cent per annum for the period 1979–80 to 1998–9.²

After the 1990–1 crisis, India experienced a period of rapid growth. In the Lucas Model, growth would be higher after a recession, given the tendency for the economy to return to trend, so the interesting question is whether the growth was higher than would come from only a normal rebound, and whether there was a fall-back from these years of growth to the old growth path. To investigate this question, a second equation is estimated using an additional time trend for the years 1993–4 to 1996–7. This additional time trend allows the GDP growth rate to exceed the basic growth path for those years and then allows the growth path to remain above the basic growth path, paralleling it, in 1997–8 and 1998–9.³

$$\text{Log(GDP}(T)) = 5.8 + 0.35 \text{ Log (GDP}(T-1)) + 0.034 \text{ (Time Trend)}$$

(t-statistic)	(1.66)	(3.04)
	+ 0.012 (Trend 1993–4 to 1996–7)	
	(2.47)	

¹ The GDP series with 1993–4 base is used; to estimate GDP in the years before 1993–4, the old GDP figures are multiplied by the ratio of the new to old GDP in 1993–4.

² The equation yields a logarithmic trend growth = $(0.0234 / (1 - 0.58)) = 0.05587$, equivalent to 5.75 per cent per annum.

³ The additional time trend takes the value 1, 2, 3, and 4, respectively, for the four years 1993–4 to 1996–7; 0 for all years prior to 1993–4; and 4, 4 for 1997–8 and 1998–9. The year 1993–4 is included in the 'reform' years to avoid biasing the results toward the impact of reform, as it is known that growth was high in 1994–5 to 1996–7. The reason for the use of the same value for the dummy in 1996–7, 1997–8, and 1998–9 is that reforms slowed, and so the additional impact on the trend growth disappeared; hence, the new growth path parallels the basic growth path, but at a higher level, that is a higher constant which is modelled by a larger, constant 'time dummy'.

The additional trend turns out to be strongly significant, adding 1.8 per cent per annum to growth annually over 1993–4 to 1996–7. In other words, growth was faster than the ‘normal’ rebound from a recession, and the economy shifted upward to a new growth path, parallel to the old, after the rapid growth of 1993–4 to 1996–7.

Looking beyond simple time series analysis of GDP, both higher investment and higher ‘macroeconomic’ productivity account for the jump in growth over 1994–5 to 1996–7, according to the standard Harrod–Domar growth model. India’s real rate of gross investment averaged 27.1 per cent of GDP over 1994–5 to 1996–7, about 10 per cent higher than in the previous five years and 23 per cent higher than over 1984–5 to 1988–9 (1980–1 base data). The growth rate over 1994–5 to 1996–7 was about 65 per cent higher than in the previous five years, and 33 per cent higher than over 1984–5 to 1988–9. Hence, part of India’s higher growth seems to have come from higher productivity of capital, and labour, in a macroeconomic sense—better use of capacity, better use of resources, and more productive new investment. Other investment series suggest the increase in investment was less and, correspondingly, the increase in productivity even greater.⁴

The standard Solow model/total factor productivity calculation provides more sophisticated accounting for

⁴ India’s GDP accounts contain two estimates of investment figures. The ones discussed in the text include inventories and the error in estimating investment in the NAS—the difference between direct estimates of investments by type made by the public sector, the private corporate sector, and households (which varies substantially from year to year) and what is implied by estimates of domestic and foreign saving. Estimates of investment either (a) excluding the error, that is using only investment that can be directly identified by investor and type of goods, or (b) of fixed investment, that is excluding estimated changes in inventories, yield similar or lower increases in investment in the boom period and, correspondingly, similar or higher increases in productivity.

	% GDP			% increase in the boom years versus	
	1996–7 to 1994–5	1993–4 to 1989–90	1988–9 to 1984–5	1989 to 1993	1984 to 1998
Investment	27.1	24.7	22.0	9.8	23.0
Investment excluding estimated error	25.8	23.5	23.1	10/1	12.2
Fixed investment	23.6	22.4	21.0	5.4	12.3

Source: National Accounts.

the sources of growth; it also suggests that increased productivity played a major role in the boom. The Solow model is based on the idea of an underlying aggregate production function, or at least constant elasticities of output with respect to capital, labour, and other inputs, which may include an augmentation for quality improvement (Jorgensen and Griliches 1967). There are, of course, well-known criticisms of this model in terms of the theoretical issue of calculating an aggregate capital stock figure.

India estimates an aggregate capital stock figure through a fairly careful use of the permanent inventory method, that is applying estimated depreciation rates to the various types of fixed investments (necessarily excluding the statistical error). Labour force growth may be estimated from estimates of (declining) population growth and slowly rising participation rates.⁵ As shown in the following table, the capital stock grows 4.9 per cent per annum on average and 6.2 per cent per annum in the boom years, while labour grows 2.3 per cent per annum on average and 2 per cent per annum in the boom years. Use of output elasticities of 0.65/0.75⁶ would suggest, as in the other approaches, a clear increase in the estimated total productivity in the boom years. Further analysis could obviously be done on the role of higher human capital in the labour force. Analysis might also be done

⁵ Recent work (CSO) suggests that participation rates of labour force in the population increased marginally and at a decreasing rate between 1987–8 and 1993–4. This is because positive factors (the labour force is still growing faster than population, because the slowdown in population growth affects the working age population only with a lag, but this difference is narrowing because the slower population growth in the past is now beginning to affect the growth of working age population) slightly outweigh negative factors (there has been a slow shift from rural to urban areas and females in urban areas tend to have lower participation rates than in rural areas). This gradual change in participation rates was extrapolated for the period 1980–1 to 1997–8.

⁶ The 65 per cent/75 per cent output elasticity of capital, 35 per cent/25 per cent output elasticity of labour reflects the underlying assumption that aggregate production is characterized by constant returns to scale. Typically it is hard to statistically separate estimates of total factor productivity (TFP), non-constant returns to scale, and variations in output elasticities. The output elasticities used here appear reasonable by international standards. Indian data suggest that the share of labour is about 38 per cent, which, under well-known assumptions, is equal to the output elasticity of labour. Attempts to estimate output elasticities directly with regression equations were not very successful—at least in part reflecting the data characteristics: the ‘statistically noisy’ GDP series, the estimation errors in GDP and investment, and the ‘smoothness’ of a labour force series derived from interpolation between a few points.

of individual sectors; for example substantial work exists on agriculture (see references cited in World Bank 1999b); Ahluwalia analyses growth in some industrial sub-sectors.

Estimates of Growth of Capital, Labour, and Total Factor Productivity (TFP)

	1979-80 to 1997-8	1994-5 to 1996-7
Average growth of capital stock (1980-1 prices)	4.9	6.2
Average growth of labour force	2.3	2.0
Average growth of GDP (1980-1 prices)	5.5	7.5
TFP (residual) with capital elasticity = 0.75	1.3	2.4
TFP (residual) with capital elasticity = 0.65	1.5	2.8

Source: World Bank estimates.

The boom of the mid-1990s thus seems to reflect a clear upward shift using three different approaches to explaining GDP growth, a much larger unexplained 'residual' in Solow's terminology. What might explain this upward shift? Correcting for possible underestimates of labour growth or increased labour quality (education) would not reduce the residual much—increased labour force utilization (an underestimate of labour participation) might add one or two percentage points to labour force growth over the boom period, but that would add only marginally to the part of growth explained by the included factors, given the low output elasticity of labour. The stock of education in the employed labour force changes slowly; it might be increased if more educated females were drawn into the labour force or workers with higher than average education returned to India, but again the impact of this is likely to be small. The higher productivity certainly does not reflect a rise in capacity utilization arising from higher aggregate demand based on government spending—although higher government deficits may account for other, briefer episodes of rapid Indian growth, the government deficit was roughly constant and much lower on average in the boom years than in the previous five years. To some extent the boom is partly explained by better than average harvests, especially in 1996-7; but overall this added less than 0.5 per cent per annum to output directly. Higher private investment partly explains the higher growth in that it provided an

increase in demand, but that begs the question of why investment rose.

The impact of reform, perhaps, provides the most consistent explanation of the increase in growth and productivity, an endogenous explanation for the rise in private investment, and an explanation of why the growth slowed. First, the reforms encouraged investment by opening up opportunities for profitable investment and reducing taxes on it. Second, rising FDI and imports of capital goods, encouraged by deregulation, suggest that not only was there an increase in new vintage capital, but that the new vintage was even more productive than usual. Third, the reforms encouraged a shift of resources towards exports, which increases the productivity of resources. The estimated effective rates of protection in industry suggest that primary inputs in exports are on average 47.6 per cent more productive than in import-substituting industry (see Chapter 6). Hence a switch of resources into exports and out of imports—a rise in the ratio of trade to GDP such as actually occurred—can generate substantial increases in output.⁷ The reforms not only allowed India to take advantage of a booming export market, they led to an increase in India's share of world markets (see Chapter 6). Finally, the reforms encouraged an increase in private construction, that provided more productive employment to many workers.

The same set of explanations applies to the slowing of the boom. Although investment remained fairly high after 1996-7, exports slowed as cuts in protection stopped and world trade slowed. In 1997, India lost its share of world markets for the first time since 1991. Without further reallocation of resources, growth in total productivity slowed. Added to this explanation is the slowing of agriculture in 1997-8, and the development of excess capacity in industries like steel, cement, and autos, reflecting large new investments and a slowing of finance from non-bank financial corporations. This excess capacity could not be utilized to increase exports because overseas sales had become unprofitable.

This explanation suggests that a second phase of reforms will be needed to re-stimulate growth. Of course, from a longer-term perspective, the gains from reallocating resources will always be exhausted. In the longer term, per capita income growth depends on investment in steadily improving capital goods and improvement in the capacity of the labour force. The comparative experience of East Asia and India suggests that competitive pressure from overseas is an important factor in this process (see Chapter 6).

⁷ Some recent work in the US suggests that, partly, this reflects exporting firms' more efficient use of resources.

Annex 8.2

ENVIRONMENT, ECONOMIC GROWTH, AND POVERTY

In India as elsewhere, there exist strong linkages between economic growth and the environment. Growth, associated with large-scale industrialization, spread of transport and communications, and urbanization, exerts pressure on the environment in the form of pollution and depletion of natural resources. Environmental degradation, in turn, adversely affects the economy's capacity to grow, because growth relies on the sustainable productivity of natural resources and the health of the population. 'Sustainable development' is development that does not harm the prospects for maintaining or improving living standards in the future.

There exist strong linkages between poverty and the environment. While the poorest segments of a population generate less pollution than do the rest through higher levels of consumption, energy use, and vehicle ownership, the poor do contribute significantly to rural resource degradation (land, forestry, fisheries) because of their greater use of these resources to meet their need for food, fuel, fodder, and medicines. In addition, the poor bear a disproportionate burden of the costs imposed by environmental degradation, and this contributes to their further impoverishment (UNDP 1998; GOI 1999e). First, the poor are more vulnerable to the health effects of pollution due to their inadequate nutrition, poor access to health care, and owing to where they live (particularly in urban slums that often have the worst air, water, and solid waste problems). Second, the poor are more immediately affected by degradation of natural resources because of their greater reliance on them to meet basic needs.

India faces the full range of environmental problems, from water pollution, air pollution, and solid and toxic wastes, to soil degradation, deforestation, wetland, and biodiversity loss. It was estimated that, in 1995, the total costs arising from such environmental problems amounted to \$ 9.7 billion on average, or 4.5 per cent of GDP (GOI 1999a). Overall, the most significant problem, as measured by its economic impact, is that of widespread water pollution and lack of sanitation. According to the above-mentioned estimate of environmental damage in India, health costs due to water degradation amounted to \$ 5.7 billion in 1995. Air pollution is serious in both urban and rural India, although for different reasons. The health impact of *rural indoor* air pollution, attributable to the heavy use of bio-fuels in poorly ventilated houses, exceeds even the health impacts of high levels of *urban ambient* air pollution, attributable to transport, industry, energy, and refuse burning. Overall, in 1996, air pollution was

responsible for an estimated 673,000 deaths in India, of which 589,000 were due to indoor pollution (UNDP 1998).

On the resource side, soil degradation is a major problem: out of the total geographical area of 329 million hectares, nearly half can be considered degraded (GOI 1999e). Forests in India are also under pressure: in 1991, only 23.4 per cent of the total geographic area comprised recorded forest area, and only 19.5 per cent comprised actual forest cover (GOI 1997a), as against the target of 33 per cent stipulated by the National Forest Policy, 1988. The biodiversity of India is also under threat as is evident from the fact that the list of threatened species in 1996 included 75 mammals, 73 birds, 16 reptiles, 3 amphibians, and 1236 higher plants (World Bank 1999c).

The above discussion points to the urgent need to act in order to protect the environment. The following steps would help:

- The *negative link between economic growth and the environment* can be weakened by encouraging efficient use of resources across all sectors. Energy subsidies encourage excess fuel and electricity use with associated pollution impacts at all stages of the energy and power chain. Water subsidies encourage excess water use, with resulting groundwater depletion and land waterlogging or salinity. Fertilizer and pesticide subsidies lead to excess use and run-off of agricultural chemicals. Reduction of such explicit or implicit subsidies would help to reduce these negative environmental effects, while also improving the financial health of the supplying entities and encouraging private sector participation (see Chapter 5). In the industrial sector, a competitive and open investment and trade environment encourages private investors to adopt more efficient, and therefore more environmentally sound, technologies.

- As regards the *link between poverty and the environment*, four types of measures are required to mitigate the disproportionate burden of environmental degradation borne by the poor: first, those that allow more efficient resource use by the rural poor, such as research, education, and awareness of more sustainable resource-based production techniques; second, measures that encourage rural non-farm income reduce rural dependence on the resource base through higher and more inclusive growth; third, public health infrastructure investments, particularly in safe drinking water and sanitation (see Chapter 2); and fourth, measures to increase public awareness of the magnitude of the indoor air pollution problem to help stimulate demand in rural and urban households for modern forms of energy and alternative stove or kitchen designs.

• The *environmental policy framework* needs to be strengthened. In most cases, environmental degradation occurs because environmental costs are external to the market, and policies do not exist to internalize those costs. Not only should environmental fines or taxes being paid by polluters (such as polluting firms and vehicle owners) be higher, but certain commodity prices, such as diesel fuel, should be raised to internalize the public health damages associated with its use (see Box).

• Environmental regulations cannot be effective without proper *enforcement*. However, as is recognized by the *Economic Survey 1998–9*, enforcement is hampered by the weak enforcement capabilities of environmental institutions and lack of accurate information on which to base both monitoring and compliance. Furthermore, greater decentralization of the monitoring and compliance functions to state and local levels, along with greater public participation in protecting the environment, would significantly improve both (see also Box 4.4).

PETROL AND DIESEL PRICES

Distorted relative prices of petrol and diesel have created perverse incentives to encourage diesel use, which has negative economic and environmental implications. In 1997, the ratio of the price of petrol to diesel was 2.4 in India, compared to 1.1 in Canada, 1.5 in Germany, 1.3 in Mexico, and 1.7 in Japan (see Table in this box). The justification for keeping relative diesel prices low has traditionally been that it is used in the agricultural sector for irrigation pumps, and for public and commercial transport. However, it is now known that per litre of use, diesel is more polluting and toxic for human health than petrol. In addition, standards for both diesel fuel and vehicle emissions (especially particulates, sulphur, and aromatics) are lax in India, but an even bigger problem is enforcement. The undesirable effect of the fuel price distortion has been to encourage a rapid growth in urban diesel use. Fiscal measures, such as increasing diesel prices or a differential excise on diesel cars, can correct the bias. For example, in Sweden, a high annual tax on diesel cars was effective in bringing down the number of diesel cars to only 2 per cent of total cars. Such pricing and taxation measures, combined with an improved vehicle emissions programme, could reduce pollution and also add to the exchequer. Recent upward revisions in diesel prices (April and October 1999), maintained despite pressures for roll-back the second time, have brought the ratio of petrol to diesel down to 1.73 (Delhi retail price), which though still high, is moving in the right direction.

International Comparisons of Diesel and Petrol Prices

Country	Automotive diesel for commercial use (\$ per litre)			Regular leaded gasoline (\$ per litre)			Ratio petrol prices/diesel prices (\$ per litre)		
	1987	1991	1997	1987	1991	1997	1987	1991	1997
India	0.280	0.247	0.289	0.601	0.603	0.690	2.15	2.44	2.39
Thailand	0.245	0.311	0.303	0.318	0.362	—	1.30	1.16	—
Japan*	0.500	0.556	0.518	0.837	0.914	0.863	1.67	1.64	1.67
Mexico*	0.146	0.189	0.294	0.187	0.342	0.388	1.28	1.81	1.32
Germany*	0.454	0.574	0.622	0.536	0.767	0.935	1.18	1.34	1.50
Canada*	0.350	0.492	0.402	0.373	0.507	0.428	1.07	1.03	1.06

* gasoline prices refer to regular unleaded.

Sources: Energy Prices & Taxes, Quarterly Statistics, Third Quarter 1998, International Energy Agency Centre for Science and Environment, New Delhi; International Energy Agency.

Annex 8.3

INDIA'S PROGRESS IN PRIVATIZATION 1991-9

The New Industrial Policy announced in July 1991 envisaged disinvestment of a part of government shareholding in selected PSEs with the objective of raising resources, encouraging wider public participation, and improving the performance of PSEs by subjecting them to stock market discipline. Accordingly, during the period March 1991 through March 1998, a part of government shareholding in 39 enterprises out of the 240 non-departmental CPSEs has been divested (see Annex Table 8.10). As of March 1998, a total amount of Rs 112.57 billion has been realized through eleven rounds of disinvestment (GOI 1998b). However, in none of the cases has government shareholding been reduced to less than 51 per cent through disinvestment. In 20 of the 39 cases disinvestment has been less than 10 per cent, and in 10 cases, it has been less than 5 per cent. Further, the process of sales seems to have slowed since March 1995, with sales exceeding 2 per cent of government holding numbering only 5 in 1995-6, 7 in 1996-7, and 1 in 1997-8, as opposed to 10 in 1994-5 and a high of 26 in 1991-2. The same trend is also discernible if one examines the disinvestment proceeds, which amounted to only Rs 3.62 billion in 1995-6, Rs 4.55 billion in 1996-7, and Rs 9.06 billion in 1997-8, after a high of Rs 50.78 billion in 1994-5 (GOI, 1999d). In 1998-9, however, the disinvestment proceeds seem to have picked up once again with the amount realized equal to Rs 53.71 billion against the budget target of Rs 50 billion. But the fact is that the greater part of the 1998-9 disinvestment proceeds have come from an equity swap between three oil PSEs—IOC, ONGC, and GAIL—a move which had an adverse impact on the market capitalization of these enterprises. The government was able to raise only about Rs 11.87 billion through market disinvestment in CONCOR, GAIL, and VSNL. Moreover the government failed to act on its Budget 1998-9 promises of disinvestment in IOC (which was slated for February 1999, reportedly due to low prices of the scrip on the secondary market at that time), reducing government shareholding in Indian Airlines to 49 per cent over the next three years and to 26 per cent in non-strategic PSEs. Buoyed by its success in 'exceeding' the 1998-9 target, the government has doubled the disinvestment target to Rs 100 billion for 1999-2000. To that end, the government raised Rs 0.75 billion through disinvestment in VSNL in September, which brought down its share to 52.97 per cent in that enterprise.

To advise the government on the extent, mode, and timing of disinvestment in PSEs, the Disinvestment

Commission was set up in August 1996. The Commission's role was diluted in January 1998 with removal of its powers to monitor and supervise the overall disinvestment process. The term of the Commission expired on 30 November 1999. The Commission submitted its twelfth Report to the government in August 1999 and, with that, it completed examination of 58 of the 64 PSEs referred to it by the government (in the case of the other 6 PSEs, there are jurisdictional problems as they were already under reference to the BIFR before they were referred to the Disinvestment Commission). In its first eleven Reports, which contain recommendations on 53 of the 64 PSEs referred to it, the Commission had suggested trade sales in 8 cases, strategic sales in 24 cases, partial equity sales in 5 cases, closure/sale of assets in 4 cases, and no disinvestment/deferred disinvestment in 12 cases. However, these recommendations were implemented or are being implemented in only 13 cases. The Commission also recommended setting up of a 'Disinvestment Fund' out of the proceeds of share sales, to restructure PSEs and fund voluntary retirements, in order to make disinvestment easier. Though such a Fund was set up in September 1996, it is not operational till date.

The Commission has also made a number of recommendations on corporate governance, notably graded increases in autonomy for PSEs, depending on their performance. Till March 1998, the government had granted enhanced autonomy to 11 selected PSEs—IOC, IPCL, ONGC, BPCL, HPCL, NTPC, SAIL, VSNL, BHEL, GAIL, and MTNL—referred to as 'Navratnas'; it had also granted operational, financial, and managerial autonomy to 97 other profit-making enterprises referred to as 'Mini-Ratnas'. The government has also begun to follow up on the Commission's recommendations to include non-official part-time Directors in the Board of Directors, to modify MoUs to allow better evaluation of performance, and to grant greater autonomy in investments. However, the government has not acted on the Commission's recommendations to provide for election of Directors to represent minority shareholders and election of employee representatives on the Board of Directors in proportion to employee shareholding, to bring salaries of top management in line with industry, to give greater autonomy to PSEs in determining their product prices, to set up an independent institution—the Pre-investigation Board—to evaluate instances of malfeasance in PSEs, to enable PSEs to set up investor relation group to deal with investor queries, and to make the Public Enterprise Selection Board more broad-based and allow it greater autonomy in selecting CEOs and other functional directors. Besides, as long as the government continues to retain over 51 per cent of the capital, the PSE and its employees will remain subject to

the legal framework as government employees. This entails constraints which continue to hamper the performance of public enterprises even as removal of reservation and cuts in protection from international competition have led to increased competition for public enterprises.

To address the problem of slow implementation of the recommendations of the Disinvestment Commission, a new Department of Disinvestment, with greater executive powers, was created in December 1999. The new Department is expected to accelerate the privatization process.

India's Development Prospects

Short-run prospects continue to depend heavily on the agriculture sector, both in terms of GDP growth and inflation. Even if agricultural output remains high, agricultural growth is likely to decline relative to the boom year of 1998–9, when record *rabi* and total foodgrain harvests produced a sectoral growth of 7.6 per cent. Other sectors will probably continue trend growth. Industrial growth may pick-up due to the normal winding down of industrial sluggishness and higher consumption from the good agricultural harvests and the state government wage increases of 1998–9. On the other hand, public investment is likely to fall, especially in the states, given their fiscal pressures. Moreover, even if the new central government manages to meet its budget targets (which will be difficult owing to the unforeseen defence expenditure), crowding out is likely to continue to dampen corporate investment. Uncertainty about the pace of reforms and limited profitability of exports will also inhibit corporate investment. And, on the supply side, lack of new reforms over the last few years suggests that a major increase in macroeconomic productivity, similar to that in the mid-1990s (Annex 8.1), is unlikely. Hence a reasonable projection is that GDP growth in 1999–2000 will be similar to the long-run trend (1979–98) growth of 5.8 per cent, assuming no acceleration of reforms. The large 1998–9 harvests are also likely to limit any price increases, so inflation should remain under control, that is under 5 per cent for the WPI as well as for the CPI.

India's BOP will continue to be comfortable in 1999–2000, in spite of current account deficit widening slightly, and coverage of imports declining somewhat, to 7.2 months of goods imports from 7.6 months for 1998–9. Export performance deteriorated over 1997 and 1998, with India losing export market share. Although export growth has picked up in 1999, except for the 1999 EXIM policy's reduction of quantitative restrictions, little has been done to improve incentives for exports or pressures that will make India internationally competitive—labour market rigidities and small-scale industry reservation remain a burden and higher tariffs and increased anti-dumping actions have probably increased protection for the inefficient. From a longer-run perspective, India has not prepared itself to take advantage of an upsurge in world export demand, nor is it ready for the increasing competition that declining protection would engender (quantitative restrictions have to be phased out by 2001), nor the end of the Multi-Fibre Arrangement in 2005. Increases in international oil prices have raised the oil import bill by over 50 per cent in the first seven months of 1999–2000. Any increase in growth in the non-agricultural economy will eventually increase demand for imports. And it is unlikely that there will be further declines in the difference between the RBI and customs imports. Hence, the likely outcome is a widening of the merchandise trade deficit to \$16.4 billion and current account deficit to 1.4 per cent of

GDP or \$ 6.6 billion (1 per cent of GDP in 1998-9, see Table 8.6).

On the capital account, increases in portfolio investment and 'other' capital inflows (Table 8.6), which appear strong thus far in 1999, will offset a decline in net long-term borrowings after the one-time rise from the RIB. Hence reserves will continue to increase in 1999-2000, although less than in 1998-9, so that the reserve cover, in terms of imports, is likely to decline slightly. In 1998-9, India financed its current account deficit and increased reserves by \$ 3.9 billion, largely through its \$ 4.2 billion RIB issue. Other sources of capital were limited, with both public and publicly guaranteed borrowings (other than the RIB) and private borrowings minimal, no major offshore privatizations, and a net withdrawal of funds by FIIs. More worrisome was the decline in FDI to \$ 2.5 billion (though this is still a large figure compared to the early 1990s). For 1999-2000, international capital flows may remain low worldwide. Although there has been a substantial pick-up in flows into India, this may partly reflect a response to the Budget measures that reduced taxes on the capital market. FDI is likely to continue to remain close to last year's levels. The composition of foreign investment has also shifted toward more volatile portfolio investment. (In 1996-7, \$ 5.4 billion of foreign investment had 67 per cent FDI, while a similar amount of investment in 1999-2000 is likely to have less than 50 per cent FDI). On the debt side, there seems little reason to expect India's private offshore borrowing to increase. Companies, on comparing the likely relative cost of funds, have been allowing their approvals for external commercial borrowing to lapse. Finally, the effect of the sanctions on new donor projects may begin to slow down disbursements of bilateral and multilateral funds.

Reserves will continue to be comfortable. By the end of March 1999, foreign exchange reserves were \$ 30.2 billion, including \$ 29.5 billion in foreign exchange assets and \$ 0.7 billion in SDRs and IMF reserves (equivalent to 7.6 months of imports) and rose further to \$ 31.3 billion by end-September 1999 (including gold, reserves were \$ 34.5 billion). The size of these reserves relative to India's low short-term foreign currency obligations and foreign portfolio investment, along with India's capital controls, limit the risk of a currency crisis.

The longer-term challenge is faster poverty reduction and development—the Indian government's traditional concerns. Although India's growth has been among the fastest in the world and poverty has fallen in the last

twenty years, the poor still number over 300 million, more than in all of sub-Saharan Africa. And, despite the growth, little has changed structurally: trade remains a much smaller percentage of GDP than in East Asian countries including China, almost 73 per cent of the people still live in rural areas, and social indicators, despite improvement, are still low. India's human development and per capita consumption have not risen nearly as fast as in East Asia, even taking into account East Asia's recent crisis.

And if changes do not occur, even current rates of growth may slip. Current rates of investment have supported an average 5.5 per cent growth in the last two years and should be able to do so in the future, provided productivity continues to grow at the same rate in the aggregate. However, the large fiscal deficits continue to worry external investors, crowd out private investment and, within the public sector budgets, the associated interest payments displace much needed public development expenditure. The infrastructure gap is increasing, especially considering the additional urban infrastructure needed to keep pace with urbanization and reduce urban environmental problems. Agricultural growth and productivity in agriculture may be slipping as a result of limited reforms, the focus of public spending on subsidies rather than infrastructure, and environmental issues in some areas. The poorest states are particularly subject to these problems, and in some cases have governance problems—unless they can resolve these problems and speed up their growth, their large weight in the nation may pull down overall average reduction in poverty and the rate of development. Hence reforms are particularly critical in the poorest states, where 40 per cent of the population live and which have lagged behind in the upswing in growth and accompanying poverty reduction.

A second wave of reforms will be needed to achieve this poverty-reducing growth and banish the risk of a slowdown including macroeconomic, structural policy reform, governance and institutional concerns, as highlighted in previous chapters and the Overview. That reforms can lead to higher growth is shown in Annex 8.1, where post-1991 reforms supported a significant addition to a growth of 1.8 per cent per annum in the mid-1990s. Reforms leading to higher growth would be accompanied by more favourable BOP indicators, such as higher growth of exports and imports, and more capital inflows, including FDI.

The last few months of 1999 have heralded changes favourable to the initiation of the second wave of reforms, both at the centre as well as the states. The

new Central government installed in October 1999 has passed important economic legislation, such as opening up insurance and liberalizing foreign exchange regulation. Also, since the government enjoys a more comfortable majority than the previous one, it is better placed to carry out subsidy cuts, government realignment, and other reform. At the state level, reforming

governments attracted more electoral support than non-reforming governments. If reforms along the lines suggested in this Report as well as in official documents and committee reports are indeed implemented, then India has a real opportunity to speed up sustainable growth and substantially reduce poverty in the new millennium.

Bibliography

- Ahluwalia, D. (1991). 'Drought Proofing in the Indian Foodgrain Economy', *Indian Journal of Agricultural Economics*, vol. 46, no. 2, pp. 111-20.
- Ahluwalia, I. J. (1991). *Productivity and Growth in Indian Manufacturing*, Oxford University Press, New Delhi.
- (1997). 'Governance Issues in India's Economic Reforms', Workshop on Governance Issues in South Asia, processed, Yale University.
- Ahluwalia, M. S. (1998). 'Infrastructure Development in India's Reforms', in I. Ahluwalia and I. M. D. Little (eds), *India's Economic Reforms and Development*, Oxford University Press, New Delhi.
- Anant, T. C. A. (1998). 'Labour Markets', in *Agenda for Change: Action Plan for the Economy*, Rajiv Gandhi Institute for Contemporary Studies, New Delhi.
- Anant, T. C. A. and O. Goswami (1997). 'Getting Everything Wrong: India's Policies Regarding Sick Firms', in D. Mookherjee (ed.), *Indian Industry*, Oxford University Press, New Delhi, pp. 236-88.
- Bajpai, N., and J. Sachs (1998). 'Strengthening India's Strategy for Economic Growth', Development Discussion Papers No. 641, Harvard Institute for International Development, Harvard University.
- Barro, R. (1991). 'Economic Growth in a Cross Section of Countries', *Quarterly Journal of Economics*, vol. 106, pp. 407-44.
- Barro, R. J., and J. W. Lee (1993). 'International Comparisons of Educational Attainment', *Journal of Monetary Economics*, vol. 32, pp. 363-94.
- Bhagwati, J. (1998). 'The Design of Indian Development', in I. J. Ahluwalia and I. M. D. Little, *India's Economic Reforms and Development*, Oxford University Press, New Delhi.
- Binswanger, H., and S. Khandakar (1995). 'The Impact of Formal Finance on the Rural Economy of India', *Journal of Development Studies*, vol. 32, no. 2, pp. 234-65.
- Business India* (1998). 'Heart of Darkness', 8 February, pp. 58-68.
- Campos, N. F., and J. B. Nugent (1999). 'Development Performance and the Institutions of Governance: Evidence from East Asia and Latin America', *World Development*, vol. 27, pp. 439-52.
- Chand, R. (1999). 'The Emerging Crisis in Punjab Agriculture', *Economic and Political Weekly*, vol. 34, no. 13, pp. A-2-A-9.
- Chaudhri, D. P. (1979). 'Education and Agricultural Productivity in India', Ph.D. Thesis, University of Delhi, New Delhi.
- Coes, D. V. (1995). *Macroeconomic Crises, Policies, and Growth in Brazil 1964-90*, World Bank, Washington, DC.
- Confederation of Indian Industry (CII) (1999). 'Survey of Indian Business Environment', processed, CII.
- Das, S. K. (1998). *Civil Service Reform and Structural Adjustment*, Oxford University Press, New Delhi.
- Das-Gupta, A. (1999a). 'Expenditure Management and Budgeting', processed, World Bank.
- (1999b). 'Tax Structure and Administration Reform', processed, World Bank.

- Datt, G. (1997). *Poverty in India and Indian States: An Update*, International Food Policy Research Institute, Washington, DC.
- (1998). 'Farm Productivity and Rural Poverty in India', *Journal of Development Studies*, vol. 34, no. 4, pp. 62–85.
- (1999). 'Has Poverty in India Declined during the Post-Reform Period', processed, World Bank. Also published in *Economic and Political Weekly*, December, pp. 3516–18.
- Datt, G. and M. Ravallion (1997). 'Macroeconomic Crises and Poverty Monitoring: A Case Study for India', *Review of Development Economics*, vol. 1, no. 2, pp. 135–52.
- Debroy, B. (1997). 'Labour Market Reform', Project LARGE (Legal Adjustments and Reforms for Globalizing the Economy), Policy Paper No. 22, UNDP, New Delhi.
- Debroy, B., S. Gangopadhyay, and W. Wadhwa (1999). 'Judicial Reforms in India', processed, World Bank.
- De Long, B., and L. Summers (1991). 'Equipment Investment and Economic Growth', *Quarterly Journal of Economics*, vol. 106, no. 2, pp. 445–502.
- Drèze, J. P., and J. Loh (1995). 'Literacy in India and China', *Economic and Political Weekly*, 11 November, pp. 2868–78.
- Drèze, J. P., and P. V. Srinivasan (1996). 'Poverty in India: Regional Estimates 1987–8', Working Paper No. 36, Centre for Development Economics, Delhi School of Economics, Delhi.
- Dubey, A., and S. Gangopadhyay (1998). 'Counting the Poor', *Sarvekshana Analytical Report*, No. 1, Department of Statistics, Ministry for Planning, Statistics and Programme Implementation, New Delhi.
- Easterly, W., and R. Levine (1997). 'Africa's Growth Tragedy: Policies and Ethnic Divisions.' *Quarterly Journal of Economics*, vol. 112, no. 4, pp. 1203–50.
- Export-Import Bank of India (1998). 'Transaction Cost of Indian Exports: An Analysis'. Export-Import Bank of India, Occasional Paper No. 64, Mumbai.
- Fallon, P. R., and R. E. B. Lucas (1993). 'Job Security Regulations and the Dynamic Demand for Industrial Labor in India and Zimbabwe', *Journal of Development Economics*, vol. 40, pp. 241–75.
- Filmer, D., and L. Pritchett (1998). 'What Educational Production Functions Really Show', Policy Research Working Paper No. 1795, World Bank, Washington, DC.
- Finger, J. Michael (ed.) (1993). *Antidumping: How it Works and Who Gets Hurt*, University of Michigan Press, Ann Arbor, Michigan.
- (1998). 'GATT Experience with Safeguards', Policy Research Working Paper No. 2000, World Bank, Washington, DC.
- Foster, J., J. Greer, and E. Thorbecke (1984). 'A Class of Decomposable Poverty Measures', *Econometrica*, vol. 52, pp. 761–66.
- Galal, A., L. Jones, P. Tandon, and I. Vogelsangh (1994). *The Welfare Consequences of Selling Public Enterprises: An Empirical Analysis*, Oxford University Press for World Bank.
- Gangopadhyay, S. and W. Wadhwa (1998). 'Economic Reforms and Labour', *Economic and Political Weekly*, 30 May 1998.
- (1999). 'Civil Service Reforms in India', processed, World Bank.
- Ghosh, A. K. (1999). 'Current Issues of Employment Policy in India', *Economic and Political Weekly*, vol. 34, no. 36, pp. 2592–608.
- Godbole M. (1997). 'Corruption, Political Interference and the Civil Service', in S. Guhan and Samuel Paul (eds), *Corruption in India*, Vision Books, New Delhi.
- Government of India (GOI) (1997a). *Statistical Abstract India*, Central Statistical Organization, Department of Statistics, Ministry for Planning, Statistics and Programme Implementation, New Delhi.
- (1997b). *Government Subsidies in India*, Ministry of Finance, New Delhi.
- (1997c). *India's Infrastructure: Investment Opportunities*, Ministry of Power, New Delhi.
- (1997d). *Sarvekshana*, vol. 21, no. 2, 73rd issue, National Sample Survey Organization, Department of Statistics, Ministry for Planning, Statistics and Programme Implementation, New Delhi.
- (1998a). *National Accounts Statistics 1998*, Central Statistical Organization, Department of Statistics, Ministry for Planning, Statistics and Programme Implementation, New Delhi.
- (1998b). *Public Enterprises Survey 1997–8*, Department of Public Enterprises, Ministry of Industry, New Delhi.
- (1998c). *Sample Registration System Bulletin*, Registrar General, Ministry of Home Affairs, New Delhi.
- (1998d). *Morbidity and Treatment of Ailments*, NSS Fifty-Second Round (July 1995–June 1996), National Sample Survey Organization, Department of Statistics, Ministry for Planning, Statistics and Programme Implementation, New Delhi.
- (1998e). *Attending an Educational Institution in India: Its Level, Nature and Cost*, NSS Fifty-Second Round (July 1995–June 1996), National Sample Survey Organization, Department of Statistics, Ministry for Planning, Statistics and Programme Implementation, New Delhi.
- (1999a). *State of the Environment Report*, Ministry of Environment and Forests, New Delhi.

- (1999b). Working Force Estimates 1993–4: *A Methodological Note*, Central Statistical Organization, Department of Statistics, Ministry for Planning, Statistics and Programme Implementation, New Delhi.
- (1999c). *Ninth Five Year Plan 1997–2002*, Planning Commission, New Delhi.
- (1999d). *Annual Report 1998–9*, Ministry of Finance, New Delhi.
- (1999e). *Economic Survey 1998–9*, Ministry of Finance, New Delhi.
- (1999f). *India's External Debt—A Status Report*, Ministry of Finance, New Delhi.
- (1999g). 'Survey on Health Care', Fifty-second Round (July 1995–June 1996), Schedule 25, in press, National Sample Survey Organization, Department of Statistics, Ministry for Planning, Statistics and Programme Implementation, New Delhi.
- (1999h). *Draft Brochure on New Series on National Accounts Statistics (Base Year 1993–4)*, Central Statistical Organization, Department of Statistics, Ministry for Planning, Statistics and Programme Implementation, New Delhi.
- Govinda Rao, M., R. T. Shand, and K. P. Kalirajan (1999). 'Convergence of Incomes across Indian States: A Divergent View', *Economic and Political Weekly*, 27 March, pp. 769–78.
- Gulati, A. (1998). 'The Fertilizer Subsidy: Who Gains at Whose Cost?', processed, World Bank.
- Gupta, R. V. (1998). *Report of the High-Level Committee on Agricultural Credit through Commercial Banks*, Chairman R. V. Gupta.
- Gupta, S. P. (1999). 'Globalization, Economic Reforms and Role of Labor', processed, International Labor Organisation, New Delhi.
- Hanson, J., and S. Kathuria (1999). 'India's Financial System: Getting Ready for the 21st Century: An Introduction', in J. Hanson and S. Kathuria (eds), *India's Financial System: Getting Ready for the 21st Century*, Oxford University Press, New Delhi.
- Hussain Committee (1997). *Report of the Expert Committee on Small Enterprises*, Chairman Abid Hussain, New Delhi.
- Indian Council of Medical Research (ICMR) (1989). *Evaluation of the National Nutritional Anemia Prophylaxis Programme*, New Delhi.
- International Food Policy Research Institute (IFPRI) (1998). 'Government Spending, Growth and Poverty: An Analysis of Inter-Linkages in Rural India', IFPRI, Washington, DC.
- Indian Institute of Population Sciences (1995). *National Family Health Survey (Maternal Child Health and Family Planning): India 1992–3*, Mumbai.
- International Labor Organization (ILO) (1999). *Towards Full Employment: Prospects and Problems in Asia and the Pacific*, Technical Report, Asian Regional Consultation, Bangkok.
- International Monetary Fund (IMF), *International Financial Statistics*, various issues, IMF, Washington, DC.
- Johnson, S., D. Kaufmann, and A. Shleifer (1997). 'The Unofficial Economy in Transition', *Brookings Papers on Economic Activity*, Fall, pp. 159–239.
- Jorgensen, D., and Z. Griliches (1967). 'The Explanation of Productivity Change', *Review of Economic Studies*, vol. 34, pp. 249–83.
- Kannan, R. (1999). 'Inflation Targeting: Issues and Relevance for India', *Economic and Political Weekly*, vol. 34, nos. 3 and 4, pp. 115–22.
- Kapur Committee (1998). *Report of The High Level Committee on Credit to SSI*, Chairman S. L. Kapur, Mumbai.
- Kathuria, S. (1995). 'Competitiveness of Indian Industry', in D. Mookherjee (ed.) *Indian Industry Policies and Performance*, Oxford University Press, Delhi, pp. 148–90
- (1996). *Competing through Technology and Manufacturing: A Study of the Indian Commercial Vehicles Industry*, Oxford University Press, Delhi.
- Kathuria, S., and A. Bhardwaj (1998). 'Export Quotas and Policy Constraints in the Indian Textile and Garment Industries', Policy Research Working Paper No. 2012, World Bank, Washington, DC.
- Kathuria, S. and N. Taneja (1986). *India's Exports: The Challenge from China*, Indian Council for Research on International Economic Relations, New Delhi.
- Kaul, V., C. Ramachandran, and G. C. Upadhyay (1993). *Impact of ECE on Retention in Primary Grades: A Longitudinal Study*, National Council of Education Research and Training, New Delhi.
- Khan, A. R. (1995). 'Structural Adjustment, Labor Market and Employment', *Asian Development Review*, vol. 13, no. 2, Bangkok.
- Khan, S. K. (1998). *Report of the Working Group for Harmonizing the Role and Operations of DFIs and Banks*, Chairman S. K. Khan, Mumbai.
- Khanna, S. K. (1999). *Indian Administration: Problems and Attitudes*, Commonwealth Publishers, New Delhi.
- Knack, S. and P. Keefer (1995). 'Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Measures', *Economics and Politics*, vol. 7, no. 3, pp. 207–27.
- Kriesel, S., and S. Zaidi (1999). 'The Targeted Public Distribution System (TPDS) in Uttar Pradesh: An Evaluation', processed, World Bank.
- Kurien, N. J. (1999). 'State Government Finances: A Survey of Recent Trends', *Economic and Political Weekly*, 8–14 May, pp. 115–25.
- La Porta, R., A. Shleifer, and R. Vishny (1998). 'The Quality of Government', National Bureau of Economic Research, Working Paper No. W6727.

- Lall, S. V. (1999). 'The Role of Public Infrastructure Investments in Regional Development: Experience of Indian States', *Economic and Political Weekly*, 20 March, pp. 717-25.
- Lanjouw, P., and M. Ravallion (1998). 'Benefit Incidence and the Timing of Program Capture', *Development Research Group*, World Bank, Washington, DC.
- Levine, R. (1998a). 'The Legal Environment, Banks, and Long-Run Economic Growth', *World Development*, vol. 26, pp. 1169-83.
- (1998b). 'Capital Control Liberalization and Stock Market Development', *World Development*, vol. 26, pp. 1169-83.
- Levine, R. and D. Renelt (1992). 'A Sensitivity Analysis of Cross-Country Growth Regressions', *American Economic Review*, vol. 82, pp. 942-63.
- Loh, J. (1995). 'Education and Economic Growth in India: An Aggregate Production Function Approach', DPEP Bureau, Department of Education, Ministry of Human Resource Development, New Delhi.
- Lucas, R. E. (1973). 'Some International Evidence on Output-Inflation Tradeoffs', *American Economic Review*, vol. 63, pp. 326-34.
- Mauro, P. (1993). 'Essays on Country Risk, Asset Markets and Growth', Ph.D. Thesis, Harvard University, Cambridge, Massachusetts.
- (1995). 'Corruption and Growth', *Quarterly Journal of Economics*, vol. 10, pp. 681-712.
- Mathur, O. P. (1999). 'Decentralization in India: A Report Card', processed, World Bank.
- Maxwell, T. (1999). 'Making India a World-Class Exporter', processed, World Bank.
- Megginson, W. L., R. C. Nash and M. van Randenborgh (1996). 'The Privatization Dividend', *Public Policy for the Private Sector*, no. 68, World Bank.
- Mohan Committee (1996). *The India Infrastructure Report*, Chairman Rakesh Mohan, New Delhi.
- Mohanty, D. and A. K. Mitra (1999). 'Experience with Monetary Targeting in India', *Economic and Political Weekly*, vol. 34, nos. 3 and 4, 16-29 January, pp. 123-32.
- Narasimhan, C. V. (1997). 'Prevention of Corruption: Towards Effective Enforcement' in S. Guhan and Samuel Paul (eds), *Corruption in India*, Vision Books, New Delhi.
- Narasimhan Committee (1991). *Report of the Committee on Financial System*, Chairman M. Narasimham, Mumbai.
- (1998). *Report of the Committee on Banking Sector Reforms*, Chairman M. Narasimham, Mumbai.
- National Council of Applied Economic Research (NCAER) (1994). 'Non Enrollment, Drop-Out and Private Expenditure on Elementary Education: A Comparison across States and Population Groups', processed, NCAER, New Delhi.
- (1996). *Human Development Profile of India: Inter-State and Inter-Group Differentials*, NCAER, New Delhi.
- (1998). *India Market Demographics Report 1998*, NCAER, New Delhi.
- (1999). 'Protection in Indian Industry', processed, NCAER, New Delhi.
- National Council of Education Research and Training (NCERT) (1998). *Sixth All India Educational Survey*, National Tables, vol. 4, New Delhi.
- National Institute of Public Finance and Policy (NIPFP) (1997). *Government Subsidies in India*, NIPFP, New Delhi.
- Nautiyal, K. C. (1989). *Education and Rural Poor*, Commonwealth, New Delhi.
- North, D. C. (1981). *Structure and Change in Economic History*, Norton, New York.
- (1990). *Institutions, Institutional Change and Economic Performance*, Cambridge, Cambridge University Press, Cambridge.
- Obstfeld, M. (1998). 'The Global Capital Market: Benefactor or Menace', *Journal of Economic Perspectives*, vol. 12, no. 4, pp. 9-30.
- Olson, M. (1996). 'Big Bill's on the Sidewalk: Why Some Nations are Rich and Others Poor', *Journal of Economic Perspectives*, vol. 10, no. 2, pp. 3-24.
- Olson, M., N. Sarna, and A. Swamy (1997). 'Governance and Growth: A Simple Hypothesis explaining Cross-Country Differences in Productivity Growth', Center for Institutional Reform and The Informal Sector, processed, University of Maryland, College Park, Maryland.
- Organization for Economic Co-operation Development (OECD) (1995). *OECD Jobs Study: Facts, Analysis, and Strategies*, OECD, Paris.
- (1997). *Issues and Developments in Public Management: Survey 1996-7*, OECD, Paris.
- Parikh, K. S. (ed.) (1999). *India Development Report 1999-2000*, Oxford University Press, New Delhi.
- Paul, S. (1995). 'A Report Card on Public Services in Indian Cities: A View from Below', Public Affairs Centre, Bangalore.
- (1998). 'Making Voice Work: The Report Card on Bangalore's Public Services', Policy Research Working Paper No. 1921, World Bank, Washington, DC.
- Pigato, M., C. Farah, K. Itakura, K. Jun, W. Martin, K. Murrell, and T. G. Srinivasan (1997). *South Asia's Integration into the World Economy*, World Bank, Washington, DC.
- PROBE Team (1999). *Public Report on Basic Education in India*, Oxford University Press, New Delhi.

- Radelet, S., J. Sachs, and J. W. Lee (1997). 'Economic Growth in Asia', *Development Discussion Paper*, Harvard Institute for International Development, Harvard University.
- Ravallion, M., and G. Datt (1996a). 'India's Checkered History in the Fight Against Poverty: Are there Lessons for the Future?' *Economic and Political Weekly*, vol. 31.
- (1996b). 'How Important to India's Poor is the Sectoral Composition of Growth?' *World Bank Economic Review*, vol. 10, no. 1, pp. 1–26.
- Reddy, Y. V. (1999). 'Financial Reform: Review and Prospects', *Reserve Bank of India Bulletin*, vol. LII, no. 1, pp. 33–94.
- Reserve Bank of India (1996). *Report on Trend and Progress of Banking in India 1995–6*, RBI, Mumbai.
- (1997). *Annual Report 1996–7*, RBI, Mumbai.
- (1998a). *Report on Currency and Finance 1997–8*, RBI, Mumbai.
- (1998b). *Annual Report 1997–8*, RBI, Mumbai.
- (1998c). *Money Supply: Analytics and Methodology of Compilation: Report of the Working Group*, Chairman, Y. V. Reddy, Mumbai.
- (1999a). 'Harmonising the Role and Operations of Development Financial Institutions and Banks', Discussion Paper, RBI, Mumbai.
- (1999b). Report of the Technical Committee on State Government Guarantees, RBI, Mumbai.
- (1999c). 'Some Aspects and Issues Relating to NPAs in Commercial Banks', Department of Banking Supervision, Reserve Bank of India Bulletin, vol. LII, no. 7, pp. 913–36, RBI, Mumbai.
- (1999d). *Annual Report 1998–9*, RBI, Mumbai.
- (1999e). *Report on Trend and Progress of Banking in India 1998–9*, RBI, Mumbai.
- (1999f). *Report on Currency and Finance 1998–9*, RBI, Mumbai.
- Roberts, M. J., and J. R. Tybout (1997). 'What Makes Exports Boom?', *Directions in Development Series*, World Bank, Washington, DC.
- Sachs, J. D., and A. M. Warner (1995). 'Economic Reform and the Process of Global Integration'. *Brookings Papers on Economic Activity*, pp. 1–95.
- Sala-i-Martin, Xavier X. (1997). 'I Just Ran Four Million Regressions', National Bureau of Economic Research, Working Paper No. 6252.
- Sandesara, J. C. (1988). 'Small Industry Development Programmes in India—Efficiency Explanations and Lessons: Some Field Studies', in K. B. Suri (ed.), *Small Scale Enterprises in Industrial Development: The Indian Experience*, Sage Publications, New Delhi.
- Shleifer, A. Andrei, and R. W. Vishny (1993). 'Corruption', *Quarterly Journal of Economics*, vol. 108, pp. 599–617.
- Solow, R. (1957), 'Technical Progress and the Aggregate Production Function', *Review of Economics and Statistics*, vol. 39, pp. 312–20.
- Srinivasan, T. N. (1998). 'India's Export Performance', in I. Ahluwalia and I. M. D. Little, *India's Economic Reforms and Development*, Oxford University Press, New Delhi.
- Stiglitz, J. (1998). 'Towards a New Paradigm for Development: Strategies, Policies, and Processes', Prebisch Lecture, UNCTAD, Geneva.
- Tarapore, S. S. (1998). 'The Need for Second Generation Banking Reforms', Sir Purshottamdas Thakurdas Memorial Lecture, Indian Institute of Bankers, Mumbai.
- (1999). 'Indian Banking: Getting Ready for the Second Round of Reforms' in J. Hanson and S. Kathuria (eds), *India's Financial System*, Oxford University Press, New Delhi.
- Tarapore Committee (1997). *Report of the Committee on Capital Account Convertibility*, Chairman S. S. Tarapore, RBI, Mumbai.
- Telecom Regulatory Authority of India (TRAI) (1998). *Consultation Paper on Telecom Pricing*, New Delhi.
- Tendulkar, S. D. (1998). 'Indian Economic Policy Reforms and Poverty: An Assessment', in I. Ahluwalia and I. M. D. Little, *India's Economic Reforms and Development*, Oxford University Press, New Delhi.
- Tilak, J. B. G. (1987). *The Economics of Inequality in Education*, New Delhi.
- UNCTAD (1998). *World Investment Report*, UNCTAD, Geneva.
- (1999). *World Investment Report*, UNCTAD, Geneva.
- United Nations Development Programme (UNDP) (1993). *Human Development Report, 1993*, Oxford University Press, New York.
- (1998). *Human Development Report, 1998*, Oxford University Press, New Delhi.
- (1999). *Diversity and Disparities in Human Development: Key Challenges for India*, UNDP, New Delhi.
- Vasudevan, A. (1999). 'Some Practical Issues in Monetary Policy Making', *Reserve Bank of India Bulletin*, vol. LIII, no. 1, pp. 121–8.
- Venkata Ratnam, C. S. (1999). 'Competitive Industrial Relations Policies in Indian States', in *Agenda for Change: The Need for Law Reform, March 1999*, Rajiv Gandhi Institute for Contemporary Studies, New Delhi.
- Wade, R. (1985). 'The Market for Public Office: Why the Indian State is not better at Development', *World Development*, vol. 13, no. 4.
- Wei, S. (1999). 'Corruption in Economic Development : Beneficial Grease, Minor Annoyance, or Major

- Obstacle?, Policy Research Working Paper No. 2048, World Bank, Washington, DC.
- Weingast, B. (1993). 'The Political Foundations of Democracy and the Rule of Law', Working Paper No. 54, Center for Institutional Reform and The Informal Sector, University of Maryland, College Park, Maryland.
- Wolfensohn, J. D. (1998). Address to the World Bank-IMF Annual Meetings.
- World Bank (1988). *Road Deterioration in Developing Countries: Causes and Remedies*, World Bank, Washington, DC.
- (1989). *World Development Report 1989*, World Bank, Washington, DC.
- (1993). *The East Asian Miracle—Economic Growth and Public Policy*, Oxford University Press for World Bank, New York.
- (1994). *World Development Report 1994*, World Bank, Washington, DC.
- (1995a). *The Emerging Asian Bond Market*, World Bank, Washington, DC.
- (1995b). *Bureaucrats in Business*, Oxford University Press for World Bank, Washington, DC.
- (1995c). *World Development Report 1995*, World Bank, Washington DC.
- (1996a). *India: Five Years of Stabilization and Reforms and the Challenges Ahead*, World Bank, Washington, DC.
- (1996b). 'Indonesia: Dimensions of Economic Growth', Report No. 15383-IND, World Bank, Washington, DC.
- (1997a). *India: Achievements and Challenges in Reducing Poverty*, World Bank, Washington, DC.
- (1997b). *The State in a Changing World*, Oxford University Press, New York.
- (1997c). *Primary Education in India*, World Bank, Washington, DC.
- (1997d). 'New Directions in Health Sector Development at the State Level: An Operational Perspective', Report No. 15753-IN, World Bank, Washington, DC.
- (1997e). 'India: Cotton and Textile Industries: Reforming to Compete', Report No. 16347-IN, World Bank, Washington, DC.
- (1998a). *India: 1998 Macroeconomic Update—Reforming for Growth and Poverty Reduction*, World Bank, Washington, DC.
- (1998b). *Reducing Poverty in India—Options for More Effective Public Services*, World Bank, Washington, DC.
- (1998c). *World Development Indicators 1998*, World Bank, Washington, DC.
- (1998d). 'India: Wasting Away: The Crisis of Malnutrition', Report No. 18667-IN, World Bank, Washington, DC.
- (1999a). *Indonesia: Country Assistance Strategy*, processed, World Bank.
- (1999b). 'India: Towards Rural Development and Poverty Reduction', vol. I (Summary) and vol. II (Main Report and Annexes), Report no. 18921-IN, World Bank, Washington, DC.
- (1999c). *World Development Indicators 1999*, World Bank, Washington, DC.
- (1999d). 'Health and Poverty in Fact Sheets, India 1992-3', India Poverty Consultation Workshop, processed, World Bank.
- (1999e). *Global Development Finance*, World Bank, Washington, DC.
- (1999f). 'Corporate Governance and Development', processed, World Bank.
- World Economic Forum (1998). *The Global Competitiveness Report 1998*, World Economic Forum, Geneva.
- Yagci, F. (1998). 'India—Narrowing Inter-state Disparities in Economic Growth and Social Development—A Reform Agenda', processed, World Bank.
- Yaron, J. (1994). 'What Makes Rural Finance Institutions Successful', *World Bank Research Observer*, vol. 9, no. 1, pp. 49-70.
- Yaron, J., M. P. Benjamin, and G. L. Piprek (1997). *Rural Finance: Issues Design, and Best Practices*, World Bank, Washington, DC.
- Yeats, A. J. (1999). 'The East Asian Economic Crisis: Was the Region's Export Performance a Factor', World Bank.
- Young, M. E. (1996). *Early Child Development: Investing in the Future*, World Bank, Washington, DC.
- Yugandhar, B. N. (1998). 'Capacity Development in Public Administration in India', *Indian Institute of Public Administration*, processed, World Bank.

ANNEX TABLES

ANNEX TABLE 1.1
Poverty in India 1951-97
(with correction for CPIAL)
(Poverty line = Rs 49 per capita per month at Oct. 1973–Jun. 1974 rural prices)

NSS round	Survey period	Headcount Index			Poverty Gap Index			Squared Poverty Gap Index		
		Rural	Urban	National	Rural	Urban	National	Rural	Urban	National
3	Aug. 1951–Nov. 1952	47.37	35.46	45.31	16.05	11.14	15.20	7.53	4.82	7.06
4	Apr. 1952–Sep. 1952	43.87	36.71	42.63	14.64	10.91	13.99	6.71	4.41	6.31
5	Dec. 1952–Mar. 1953	48.21	40.14	46.80	16.29	13.25	15.76	7.56	5.96	7.28
6	May 1953–Sep. 1953	54.13	42.77	52.15	19.03	13.83	18.12	9.12	6.29	8.62
7	Oct. 1953–Mar. 1954	61.29	49.92	59.30	21.95	17.24	21.12	10.26	7.74	9.82
8	Jul. 1954–Mar. 1955	64.24	46.19	61.07	25.04	15.76	23.41	12.50	7.02	11.54
9	May 1955–Nov. 1955	51.83	43.92	50.44	18.44	14.65	17.78	8.80	6.40	8.38
10	Dec. 1955–May 1956	48.34	43.15	47.43	15.65	13.34	15.24	6.71	5.41	6.48
11	Aug. 1956–Feb. 1957	58.86	51.45	57.55	19.45	18.16	19.22	8.50	8.51	8.50
12	Mar. 1957–Aug. 1957	62.11	48.88	59.77	21.69	16.31	20.73	10.01	7.25	9.52
13	Sep. 1957–May 1958	55.16	47.75	53.84	19.01	15.95	18.47	8.78	7.00	8.46
14	Jul. 1958–Jun. 1959	53.26	44.76	51.75	17.74	13.75	17.03	7.88	5.87	7.52
15	Jul. 1959–Jun. 1960	50.89	49.17	50.58	15.29	15.83	15.39	6.13	6.75	6.24
16	Jul. 1960–Aug. 1961	45.40	44.65	45.27	13.60	13.84	13.64	5.53	5.83	5.59
17	Sep. 1961–Jul. 1962	47.20	43.55	46.54	13.60	13.79	13.64	5.31	6.05	5.45
18	Feb. 1963–Jan. 1964	48.53	44.83	47.85	13.88	13.29	13.77	5.49	5.17	5.43
19	Jul. 1964–Jun. 1965	53.66	48.78	52.75	16.08	15.24	15.93	6.60	6.38	6.56
20	Jul. 1965–Jun. 1966	57.60	52.90	56.71	17.97	16.82	17.75	7.60	6.98	7.49
21	Jul. 1966–Jun. 1967	64.30	52.24	62.00	22.01	16.81	21.02	10.01	7.19	9.47
22	Jul. 1967–Jun. 1968	63.67	52.91	61.60	21.80	16.93	20.86	9.85	7.22	9.35
23	Jul. 1968–Jun. 1969	59.00	49.29	57.11	18.96	15.54	18.29	8.17	6.54	7.85
24	Jul. 1969–Jun. 1970	57.61	47.16	55.56	18.24	14.32	17.47	7.73	5.86	7.36
25	Jul. 1970–Jun. 1971	54.84	44.98	52.88	16.55	13.35	15.91	6.80	5.35	6.51
27	Oct. 1972–Sep. 1973	55.36	45.67	53.37	17.35	13.46	16.55	7.33	5.26	6.90
28	Oct. 1973–Jun. 1974	55.72	47.96	54.10	17.18	13.60	16.43	7.13	5.22	6.73
32	Jul. 1977–Jun. 1978	50.60	40.50	48.36	15.03	11.69	14.28	6.06	4.53	5.72
38	Jan. 1983–Dec. 1983	45.31	35.65	43.00	12.65	9.52	11.90	4.84	3.56	4.53
42	Jul. 1986–Jun. 1987	38.81	34.29	37.69	10.01	9.10	9.79	3.70	3.40	3.63
43	Jul. 1987–Jun. 1988	39.23	36.20	38.47	9.28	9.12	9.24	2.98	3.06	3.00
44	Jul. 1988–Jun. 1989	39.06	36.60	38.44	9.50	9.54	9.51	3.29	3.29	3.29
45	Jul. 1989–Jun. 1990	34.30	33.40	34.07	7.80	8.51	7.98	2.58	3.04	2.69
46	Jul. 1990–Jun. 1991	36.43	32.76	35.49	8.64	8.51	8.61	2.93	3.12	2.98
47	Jul. 1991–Dec. 1991	37.42	33.23	36.34	8.29	8.24	8.28	2.68	2.90	2.74
48	Jan. 1992–Dec. 1992	43.47	33.73	40.93	10.88	8.82	10.35	3.81	3.19	3.65
50	Jul. 1993–Jun. 1994	36.66	30.51	35.04	8.39	7.41	8.13	2.79	2.42	2.69
51	Jul. 1994–Jun. 1995	39.75	33.50	38.40	8.89	8.38	—	2.90	2.80	—
52	Jul. 1995–Jun. 1996	37.46	28.04	35.00	8.31	6.78	—	2.64	2.22	—
53	Jan. 1997–Dec. 1997	35.69	29.99	34.40	8.39	7.77	—	2.83	2.73	—

Note: All poverty measures are expressed as percentage.

Source: Datt (1997 and 1999)

ANNEX TABLE 2.1
India: Per Capita Income, Fertility, Infant Mortality, and Literacy in Selected Years

State	Indicators	Year					
		1975	1980	1985	1990	1995	1997*
All India	Per capita income	—	1808.1	2072.3	2528.9	2980.2	3146.8
	Total fertility rate	4.9	4.4	4.3	3.8	3.5	—
	Infant mortality rate	140	114	97	80	74	71
	Literacy rate	—	44	—	52	59	62
Andhra Pradesh	Per capita income	—	1544.2	1723.5	1994.6	2362.0	2450.2
	Total fertility rate	4.6	3.8	3.7	3.1	2.3	—
	Infant mortality rate	123	92	83	70	63	63
	Literacy rate	—	36	—	44	51	54
Assam	Per capita income	—	1407.8	1617.6	1695.4	1800.1	1824.9
	Total fertility rate	4.1	4.0	4.1	3.4	2.2	—
	Infant mortality rate	144	103	111	76	76	76
	Literacy rate	—	—	—	53	—	75
Bihar	Per capita income	—	1061.4	1227.2	1373.8	1247.5	1289.5
	Total fertility rate	—	—	5.4	4.8	4.5	—
	Infant mortality rate	—	—	106	75	73	71
	Literacy rate	—	32	—	38	44	49
Gujarat	Per capita income	—	2197.3	2513.4	3050.0	3820.4	4189.2
	Total fertility rate	5.1	4.7	3.9	3.4	3.2	—
	Infant mortality rate	154	113	98	72	62	62
	Literacy rate	—	52	—	61	66	68
Haryana	Per capita income	—	2647.9	3217.6	3861.9	4033.3	4335.9
	Total fertility rate	5.8	5.2	4.6	3.8	3.7	—
	Infant mortality rate	114	103	85	69	69	68
	Literacy rate	—	44	—	56	62	65
Himachal Pradesh	Per capita income	—	1868.5	1990.7	2509.0	2650.7	—
	Total fertility rate	4.3	4.0	3.6	3.1	2.7	—
	Infant mortality rate	115	87	84	68	61	63
	Literacy rate	—	51	—	64	71	77
Jammu & Kashmir	Per capita income	—	—	—	—	—	—
	Total fertility rate	4.7	4.4	4.5	—	—	—
	Infant mortality rate	68	72	86	70	—	—
	Literacy rate	—	—	—	—	—	59
Karnataka	Per capita income	—	1686.6	1857.8	2297.9	2837.2	2935.9
	Total fertility rate	3.7	3.5	3.6	3.2	2.7	—
	Infant mortality rate	80	71	69	70	62	53
	Literacy rate	—	46	—	56	57	58
Kerala	Per capita income	—	1693.8	1748.6	2109.0	2620.3	2725.4
	Total fertility rate	3.4	3.0	2.4	1.9	1.8	—
	Infant mortality rate	54	40	31	17	15	12
	Literacy rate	—	82	—	90	91	93
Madhya Pradesh	Per capita income	—	1507.6	1594.2	1948.8	2079.4	2170.4
	Total fertility rate	6.0	5.2	4.6	4.8	4.2	—
	Infant mortality rate	151	142	122	111	99	94
	Literacy rate	—	—	34	44	52	56

(Contd.)

State	Indicators	Year					
		1975	1980	1985	1990	1995	1997*
Maharashtra	Per capita income	—	2675.5	2956.0	3819.2	5101.7	5395.9
	Total fertility rate	4.3	3.7	3.5	3.2	2.9	—
	Infant mortality rate	92	75	68	58	55	47
	Literacy rate	—	56	—	65	72	74
Orissa	Per capita income	—	1417.2	1566.2	1553.0	1837.3	1851.7
	Total fertility rate	4.6	4.1	3.8	3.5	3.3	—
	Infant mortality rate	149	143	132	122	103	96
	Literacy rate	—	41	—	49	—	51
Punjab	Per capita income	—	3017.7	3640.3	4161.0	4695.9	4929.4
	Total fertility rate	4.7	4.0	3.5	3.2	2.9	—
	Infant mortality rate	98	89	71	61	54	51
	Literacy rate	—	48	—	59	66	67
Rajasthan	Per capita income	—	1368.2	1522.5	2172.3	2238.4	2486.5
	Total fertility rate	5.4	5.6	5.5	4.5	4.4	—
	Infant mortality rate	155	105	108	84	86	85
	Literacy rate	—	30	—	39	48	55
Tamil Nadu	Per capita income	—	1679.8	2054.9	2512.6	3140.5	3249.3
	Total fertility rate	3.8	3.4	2.2	2.3	2.2	—
	Infant mortality rate	112	93	81	59	54	53
	Literacy rate	—	54	—	63	66	70
Uttar Pradesh	Per capita income	—	1416.4	1541.6	1842.7	1837.8	1932.1
	Total fertility rate	6.6	5.9	5.6	5.2	5.0	—
	Infant mortality rate	198	159	142	99	86	85
	Literacy rate	—	33	—	42	50	56
West Bengal	Per capita income	—	1913.4	2081.8	2345.5	2944.1	3122.4
	Total fertility rate	—	—	3.7	3.4	2.8	—
	Infant mortality rate	—	—	74	63	58	55
	Literacy rate	—	49	—	58	66	72

* For per capita income, the data pertains to the year 1996.

Notes:

1. Per capita income is in 1980–1 rupees; in 1996, per capita income for All India in current prices was Rs 12,182.7 (US \$ 343.8), and in terms of PPP (purchasing power parity) was US \$ 1467.8 (calculated using a conversion factor of 8.3 from the World Development Indicators).
2. Total fertility is the expected number of children a woman would bear in her lifetime with the prevailing age-specific fertility rate.
3. Infant mortality is expressed per thousand live births.
4. Literacy rate is percentage of persons over 7 years of age who can read and write a simple sentence in any language with understanding. Data for 1980 are collected during 1981; 1990 during 1991; and 1995 during 1995–6.

Source: Registrar General of India, Sample Registration System; National Sample Survey Organization; Central Statistical Organization (CSO); CSO, Working Force Estimates:1993–4, A Methodological Note.

ANNEX TABLE 3.1
Fiscal Deficit and Debt Stock: Fourteen Major States

		(per cent of State GDP*)									
		Average 1985-90	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8 RE	1998-9 BE	Average 1991-7
Maharashtra	Fiscal deficit	3.2	2.2	2.8	2.1	2.3	2.8	2.9	2.4	3.3	2.5
	Debt	16.7	15.5	14.0	13.2	12.9	12.3	12.9	13.2	15.0	13.4
Punjab	Fiscal deficit	5.8	4.8	4.8	4.8	5.0	3.4	3.2	4.3	4.6	4.3
	Debt	30.9	34.6	36.0	33.9	34.3	34.0	33.3	32.5	35.0	34.1
Haryana	Fiscal deficit	3.0	2.3	2.6	2.3	2.2	3.6	3.3	2.7	5.8	2.7
	Debt	21.8	19.5	20.6	20.1	19.3	20.9	19.4	19.8	23.5	20.0
Gujarat	Fiscal deficit	4.8	6.1	2.9	1.2	2.2	2.9	3.3	3.3	2.4	3.1
	Debt	21.4	23.1	19.5	19.2	16.5	18.3	17.8	17.9	17.2	18.9
West Bengal	Fiscal deficit	2.8	2.8	2.3	3.4	3.3	3.9	4.3	5.6	4.3	3.7
	Debt	21.7	22.2	22.8	22.8	21.9	22.4	23.2	25.1	26.5	22.9
Karnataka	Fiscal deficit	3.4	3.0	4.2	3.3	3.4	2.9	3.4	2.4	2.9	3.2
	Debt	20.7	17.7	18.6	19.1	19.6	19.4	20.0	20.1	19.8	19.2
Kerala	Fiscal deficit	4.7	4.6	3.7	4.2	4.1	4.3	4.6	7.3	4.5	4.7
	Debt	29.3	29.6	29.6	32.0	32.7	33.7	34.2	34.8	29.8	32.4
Tamil Nadu	Fiscal deficit	3.0	3.5	4.1	2.6	2.5	1.9	3.1	3.1	4.7	3.0
	Debt	16.8	17.7	18.0	18.0	18.4	18.6	18.2	18.8	20.0	18.2
Andhra Pradesh	Fiscal deficit	3.2	2.7	3.6	3.4	3.8	3.4	3.5	3.0	2.9	3.3
	Debt	21.5	19.0	20.8	20.6	20.8	21.1	20.9	21.5	22.9	20.7
Madhya Pradesh	Fiscal deficit	3.6	3.0	2.4	2.2	2.9	3.0	3.0	3.2	4.6	2.8
	Debt	23.6	23.3	22.5	21.4	21.5	22.3	22.2	22.6	25.4	22.3
Uttar Pradesh	Fiscal deficit	4.5	4.4	5.2	4.0	4.5	4.3	5.1	8.6	7.2	5.2
	Debt	26.4	27.3	28.4	29.0	29.5	29.7	29.3	30.9	32.4	29.2
Orissa	Fiscal deficit	5.5	6.5	4.9	5.2	5.7	5.8	6.9	6.3	9.4	5.9
	Debt	36.6	37.6	40.5	40.2	39.0	39.0	45.9	45.8	48.9	41.2
Rajasthan	Fiscal deficit	4.7	3.4	4.3	5.2	5.1	6.7	5.3	4.9	6.2	5.0
	Debt	33.5	28.4	27.4	30.5	29.3	31.5	30.1	31.9	33.8	29.9
Bihar	Fiscal deficit	3.8	5.5	4.2	3.6	3.2	3.8	2.0	6.2	8.2	4.1
	Debt	33.1	36.6	38.2	36.8	36.5	40.2	40.0	42.0	38.6	38.6

* In case of the states, the GSDP series pertains to the old base (1980-1) as it is not available at the new base (1993-4).

Note: 'Debt' refers to the stock of outstanding debt at end-March.

Source: RBI, Supplement to the RBI Bulletin on Finances of State Governments, various issues; World Bank staff estimates.

ANNEX TABLE 4.1
International Comparisons of Selected Governance Indicators

	India			Dev. coun. score	Selected large economies					South East Asia		South Asia ^c (excl. India)	Industrial countries		Full sample			Dev. coun. sample size	
	% rank in sample ^a	% rank in dev. coun. ^b	Score		China	Brazil	Mexico	Poland	South Africa	Indo- nesia	Thai- land		UK	US	Sample ave.	Confidence int. (95%) lower upper			Sample size
I. GOVERNANCE INDICATORS, 1995, SCALE 0 (LOWEST)—6 (HIGHEST)																			
<i>Average rank</i>	51	65	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
i) <i>Government effectiveness and stability</i>	—	44 ^c	3.4 ^c	3.7 ^c	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Socio-economic conditions (ICRG) ¹	54	71	2.5	2.2	3.5	3.0	2.5	2.5	2.5	2.0	2.5	2.8	5.0	4.0	2.7	2.5	2.9	130	97
Institutional stability(GCR)	31	56	4.3	4.1	4.4	5.2	3.5	4.1	3.5	4.0	3.8	5.0	5.2	5.7	4.8	4.6	5.0	58	32
Government stability(ICRG) ²	4	5	3.5	4.8	5.5	5.0	5.0	5.0	5.5	4.5	4.5	4.8	5.5	4.5	4.9	4.8	5.0	130	97
ii) <i>Rule of law and business environment</i>	—	65 ^c	—	3.1 ^c	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Law and order	58	71	4.0	3.7	5.0	2.0	3.0	5.0	2.0	3.0	5.0	3.0	6.0	6.0	4.1	3.9	4.3	130	97
Property rights and rule-based governance (CPIA) ³	79	79	—	3.5															135
Contract enforceability (BERI) ⁴	40	70	3.0	2.9	3.0	2.4	—	3.0	3.8	2.7	3.5	2.4	5.3	5.3	—	—	—	—	—
Nationalization risk (BERI) ⁵	30	63	3.3	3.2	2.9	2.7	—	3.0	4.5	3.6	3.9	2.6	4.4	5.0	—	—	—	—	—
Infrastructure Quality (BERI) ⁶	40	63	2.6	2.6	2.4	2.3	—	1.5	4.7	2.3	3.0	2.3	4.1	4.8	3.2	2.9	3.4	130	97
<i>Corruption and irregular payments</i>	37	43	2.4	2.8	2.5	2.9	2.7	3.6	3.7	1.4	2.0	2.9	5.3	4.6	4.4	—	—	—	—
Corruption, 1998 (higher scale means less)(TI) ⁷	22	22	1.7	—	2.1	2.4	2.0	2.8	3.1	1.2	1.8	2.7	5.2	4.5	4.9	4.4	5.4	85	—
Corruption (ICRG)	74	74	3.0	2.8	2.0	3.0	3.0	5.0	4.0	1.0	2.0	3.0	5.0	4.0	—	—	—	—	97
Irregular Payments (higher scale means less)(GCR) ⁸	16	34	2.5	2.9	3.3	3.2	3.1	2.9	3.9	2.1	2.2	—	5.6	5.3	4.0	3.6	4.3	58	32
iii) <i>General public administration</i>	—	73 ^c	—	2.7 ^c	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Bureaucracy quality (ICRG) ⁹	82	97	4.5	2.9	3.0	3.0	4.5	4.5	4.5	3.0	3.0	3.0	6.0	6.0	3.6	3.3	3.9	130	—
Strength of civil service (GCR) ¹⁰	59	91	4.5	3.5	3.6	4.3	3.8	3.4	3.4	4.0	4.5	—	5.5	5.3	4.4	4.1	4.6	58	32
Exposure to political interference (WCR)	18	30	1.3	1.5	—	1.2	1.4	1.2	1.4	1.6	1.4	—	3.0	2.4	2.0	1.9	2.5	45	17

(Contd.)

	India		Dev. coun. score	Selected large economies						South East Asia		South Asia ^c (excl. India)	Industrial countries		Full sample			Dev. coun. sample size	
	% rank in sample ^a	% rank in dev. coun. ^b		Score	China	Brazil	Mexico	Poland	South Africa	Indo-nesia	Thai-land		UK	US	Sample ave.	Confidence int. (95%) lower upper			Sample size
Accountability of the Public Service (CPIA) ¹¹	71	72	—	2.9		3.5 (avg.)*				4.1 (avg.)*		2.5*	—	—	2.9	2.7	3.0	136	135
iv) <i>Public Finance</i>	—	73 ^c	—	3.1 ^c	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Quality of Budget and Public Investment Process (CPIA) ¹²	90	91	—	3.1		4.1 (avg.)*				3.9 (avg.)*		3.1*	—	—	3.1	3.0	3.3	136	135
Efficiency and Equity of Public Expenditures (CPIA) ¹³	78	79	—	3.1		3.8 (avg.)*				3.9 (avg.)*		3.0*	—	—	3.1	3.0	3.2	136	135
Efficiency and equity of revenue mobilization (CPIA) ¹⁴	71	71	—	3.2		4.2 (avg.)*				3.6 (avg.)*		3.0*	—	—	3.2	3.1	3.4	136	135
Management of Public Finances (WCY)	33	53	3.1	2.8	3.5	4.5	3.7	2.6	2.7	2.5	1.2	—	4.1	4.6	3.5	3.1	3.8	46	19
II. OUTCOME INDICATORS																			
Central govt. budget surplus/deficit (% of GDP)(1997) ^d	21	21	-5.2	-2.4	-1.6	-6.1	-0.2	-2.2	-5.8	1.2	2.4	-4.3	-5.3	-1.6	-2.1	-3.2	-1.1	72	53
Pop. below the poverty line (% below \$ 1 per day) ¹⁵ (1990-5) ^e	—	—	52.5	—	22.2	23.6	14.9	6.8	23.7	11.8	2.0	22.0	—	—					—
Infant mortalityRate (per 1,000 live births)(1996)	—	32	65	52	33	36	32	12	49	49	34	66	6	7	57	56	78		152
Prevalence of child malnutrition(1990-6) ^e	—	—	66.0	—	16.0	7.0	14.0	—	9.0	40.0	13.0	48.8	—	—	23.0	21.0	35.0		—
Illiteracy, 1995 (% of adults 15+)	—	28	48.0	32.6	18.5	16.7	10.4	—	18.2	16.2	6.2	51.6	—	—	21.9	30.0	42.9		97
Maternal mortality ratio (per 100,000 live births) (1990-6) ^e	—	—	437	—	115	160	110	10	230	390	200	680	9	12	650	250	1000		—
Illiteracy rate, adult female (% of females 15+)(1995)	—	26	62.3	39.6	27.3	16.8	12.6	—	18.3	22.0	8.4	62.3	—	—	30.0	40.0	53.0		98
Trade, exports and imports (% of GDP, PPP)(1996)	—	3	4.5	28.0	7.1	10.2	26.1	26.5	20.7	13.6	31.3	11.0	46.3	19.4					108

(Contd.)

	India		Dev. coun. score	Selected large economies					South East Asia		South Asia ^c (excl. India)	Industrial countries		Full sample			Dev. coun. sample size		
	% rank in sample ^a	% rank in dev. coun. ^b		Score	China	Brazil	Mexico	Poland	South Africa	Indo-nesia		Thai-land	UK	US	Sample ave.	Confidence int. (95%) lower upper		Sample size	
Liquid liabilities (M3) as % of GDP(1996)	—	77	49.3	37.8	112.2	27.2	27.9	37.2	57.7	52.5	79.5	40.7	—	61.4				112	
Average credit rating (1997) ¹⁶	—	—	59.0	46.7	68.0	55.8	59.3	65.1	62.7	62.3	66.0	42.4	89.8	91.0				—	
Memo:																			
GNP per capita, PPP (1995)	23	29	1580	3609	3330	6340	7660	6000	7450	3310	6700	1498	19,960	28,020	6859	5566	8049	132	106
General govt. expenditure (% of GDP)	33	61	30.1	27.0	11.7	33.8	14.1	52.2	52.7	17.0	16.2	—	53.7	41.3	41.7	35.9	47.6	45.0	18

^a regional averages; South East Asia includes Indonesia, Thailand, Malaysia, and Philippines; South Asia includes Bangladesh, Maldives, Nepal, Pakistan, and Sri Lanka.

^a percentile rank excluding South Asia, 100 signifies best.

^b low- and middle-income countries.

^c unweighted average.

^d re-scaled for Fig. 4.1 using the formula: $6^* \frac{\{xi + \text{absolute}(\min(xi...xn))\}}{[\max(xi...xn) + \text{absolute}(\min(xi...xn))]}$

^e data are for most recent year available.

¹ general public satisfaction/dissatisfaction with the government's economic policies; socio-economic factors are identified which have the greatest political impact for the country being assessed.

² government's ability to carry out its declared programme(s) and its ability to stay in office.

³ extent to which private economic activity is facilitated by a rule-based governance structure.

⁴ degree to which contractual agreements are honoured and complications presented by language and mentality differences.

⁵ measures 'expropriation for no compensation' and 'preferential treatment for nationals'.

⁶ facilities for and ease of communication between headquarters and the operation, and within the country, and the quality of transportation, BERI.

⁷ perceptions of degree of corruption as seen by business people.

⁸ degree of irregular payments in business and official transactions.

⁹ mechanism for recruitment and training and autonomy of bureaucracy from political pressure.

¹⁰ the strength and expertise of the civil service to avoid drastic interruptions in government service during political instability.

¹¹ the degree to which accountability is ensured through audits, inspections etc., conflict of interest regulations for public servants are enforced, civil service promotion and recruitment are merit-based.

¹² degree to which public expenditure and investment priorities are established by systematic and objective criteria; whether systems ensure that expenditures match budget allocations.

¹³ efficiency of expenditure balance between and within sectors, and between publicly and privately provided services.

¹⁴ tax structure (degree of distortionary taxes), revenue collection, tax administration.

¹⁵ at 1985 prices, adjusted for purchasing power parity.

¹⁶ average of ICRG, Institutional Investors, Euromoney ratings.

Sources: World Development Indicators 1998-9, World Bank; Yearbook of Labour Statistics 1998, International Labor Organisation; ICRG, International Country Risk Guide database; 'Structural trends in India's Manufactured. Export Performance: International Comparisons', S. Lall; BERI, Business Environment Risk Intelligence database; IRIS, Center for Institutional Reform and the Informal Sector database; WCY, World Competitiveness Yearbook; GCR, Global Competitiveness Report; CPIA, Country Policy Institution Indicators of the World Bank; TI, Transparency International, 1998.

ANNEX TABLE 4.2
Efficiency of Government in Delivering Services
 (percentage of respondents rating services under different categories)

	Very efficient	Efficient	Mostly efficient	Mostly inefficient	Inefficient	Very inefficient	Average score	Index*
Score	6	5	4	3	2	1	—	—
Central govt now	1	10	33	33	14	9	3.24	100.0
Central govt 3 years ago	0	7	29	39	14	11	3.07	94.8
Regional govt now	6	8	27	31	17	11	3.22	99.4
Regional govt 3 years ago	2	6	25	31	19	17	2.90	89.5
General government in 1996 as per 1996 survey							3.21	99.1
General government in 1986 as per 1996 survey							2.35	72.5

* Average score of row as a percentage of average score for 'central government now'.

Source: World Bank-CII survey of 210 private sector firms, 1999 and World Bank Survey of 53 private sector firms, 1996.

ANNEX TABLE 4.3
Quality, Integrity, and Efficiency of Public Service Delivered by Public Agencies
 (percentage of respondent rating services under different categories)

Rank	Very good	Good	Slightly good	Slightly bad	Bad	Very bad	Average score
Score	6	5	4	3	2	1	—
1 Armed forces	24	44	23	2	5	2	4.74
2 Telephone	3	41	30	15	9	2	4.08
(a) Price	6	36	28	15	10	5	3.98 (3.64*)
(b) Availability	18	46	27	6	2	1	4.69 (2.72*)
3 Judiciary/courts	8	39	25	9	16	3	4.05
4 Income tax department	3	38	28	18	9	4	3.96
5 Water supply	4	35	31	17	8	5	3.95
6 Education services/schools	5	29	31	17	14	4	3.82
7 Customs service	3	29	28	19	16	5	3.69 (2.85)
8 Electric power co.	4	32	23	17	15	9	3.66
9 Police	3	25	31	21	12	8	3.62
10 Excise dept	2	28	28	17	18	7	3.58
State sales tax dept	2	28	27	19	17	7	3.58
Central govt	5	26	29	13	15	12	3.97 (3.21)
11 Public health care	3	19	29	18	18	13	3.32 (2.00)
Parliament	5	16	19	21	20	19	3.08
12 Roads, PWD	1	16	15	21	31	16	2.87 (1.98)

Source: World Bank-CII survey of 210 private sector firms, 1999. Average scores in parentheses are from the World Bank Survey of 53 firms, 1996, except for those marked with an asterisk(*).

ANNEX TABLE 4.4
 Predictability, Responsiveness, and Availability of Rules and Regulations
 (percentage of respondent ratings under different categories)

	Strongly agree	Agree	Slightly agree	Slightly disagree	Disagree	Strongly disagree	Average score, 1999	Average score, 1996
Score	6	5	4	3	2	1		
Predictability of government rules and regulations: Now	2	7	46	29	12	4	3.46	3.38
Predictability of government rules and regulations: 3 years ago	2	4	35	33	21	5	3.18	-
Predictability of policy changes in the annual central budget	2	3	45	33	9	8	3.32	NA
Advance information to firms about the changes affecting them	0	18	11	35	25	11	3.00	3.49
Taking into account concerns voiced by business or business associations	2	17	15	47	11	8	3.28	3.66
Easy availability of information on laws and regulations	10	31	32	18	5	4	4.11	NA

Source: World Bank-CII survey of 210 private sector firms, 1999 and World Bank Survey of 53 private sector firms, 1996.

ANNEX TABLE 4.5
 Efficiency of Court System in Resolving Business Disputes
 (percentage of respondent ratings under different categories)

	Strongly agree	Mostly agree	Tend to agree	Tend to disagree	Mostly disagree	Strongly disagree	Average score
Score	6	5	4	3	2	1	—
Fair and Impartial	23	40	15	16	4	2	4.56
Honest/Uncorrupt	13	38	19	18	6	6	4.16
Capable of enforcing decisions	19	19	17	23	17	5	3.85
Consistent	7	26	25	21	15	6	3.71
Affordable	10	16	10	26	24	14	3.20
Quick	5	3	4	18	32	38	2.17
Confident that legal system will uphold contracts and property rights in business disputes:							
Now	20	37	26	8	7	2	4.49
3 years ago	18	34	25	11	8	4	4.31

Source: World Bank-CII survey of 210 private sector firms, 1999.

ANNEX TABLE 4.6
Obstacles in the Operation and Growth of Business
 (percentage of respondent ratings obstacles under different categories)

1999 rank	Obstacles in the operation and growth of business	None	Moderate ⁺ major	Average, 1999 survey	Average, 1996 survey	1996 rank
1	Inflation	7	68	4.12	3.72	6
2	Labor regulation	12	64	4.03	3.96	4
3	Corruption	7	60	3.97	4.40	3
4	Infrastructure	11	62	3.95	5.09	1
5	Policy instability/uncertainty	6	57	3.95	3.38	8
6	Financing	23	52	3.57	3.69	7
7	Customs administration	14	50	3.52	4.42*	2
8	Customs duties	16	49	3.45	4.42*	2
9	Income tax administration	20	41	3.18	4.42*	2
10	Income taxes	18	39	3.12	4.42*	2
11	Other taxes	17	38	3.12	4.42*	2
12	Environmental regulations	24	40	3.07	3.24	11
13	Foreign currency/exchange regulations	24	35	3.02	3.89	5
14	Import restrictions	33	31	2.77	3.26	10
15	Functioning of judiciary	35	29	2.67	NA	NA
16	Street crime/theft/disorder	29	23	2.65	NA	NA
17	Business Licensing	42	26	2.52	3.30	9
18	Organized crime	34	22	2.52	NA	NA

* 1996 World bank Survey score for 'tax regulation and/or high taxes': 4.42.

⁺Score: None =0, Minor obstacle=2, Moderate=4, Major=6.

Source: World Bank-CII survey of 210 private sector firms, 1999 and World Bank Survey of 53 private sector firms, 1996.

ANNEX TABLE 4.7
 (a) Payment of Bribes
 (percentage of respondents rating services under different categories)

	Always	Usually	Frequently	Sometimes	Seldom	Never	Average score 1999	Average score 1996
It is common to pay irregular additional payments to get things done	15	19	21	28	6	11	3.24	3.00
Score	1	2	3	4	5	6	—	—
It is known in advance how much the additional payment is	2	17	16	43	16	8	3.30	3.60
Score	6	5	4	3	2	1	—	—
If a firm pays the required 'additional payment' the service is usually delivered	12	36	28	18	—	5	4.29	3.47
Score	6	5	4	3	—	2	—	—

(b) Extra Unofficial Payments to Public Officials

Electricity/telephone connections	16	17	12	21	10	24	3.64
Licences/permits	14	15	14	28	16	13	3.56
Income tax officials	18	13	14	31	10	14	3.44
Customs officials	16	23	10	22	15	14	3.39
Government contracts	11	24	15	24	17	9	3.39

(c) Percentage of Contract Value in Additional or Unofficial Payment to Secure Government Contracts

	0	0-1	2-9	10-17	18-25	25+	Average
Percentage of contract value							
Percentage of respondents	22	15	54	4	3	2	4.80

Source: World Bank-CII survey of 210 private sector firms, 1999 and World Bank Survey of 53 private sector firms, 1996.

ANNEX TABLE 4.8
 Summary Evaluation of Budget and Financial Management Practices

	1-Inadequate 5-Adequate 10-Excellent
<i>Budget:</i>	
Comprehensive	7
Based on reliable data and estimates	2
Has medium-term perspective	1
Linked to macroeconomic policy	2
Links planning & resource allocation	7
Capital and recurrent expenditure well integrated	2
Links between policy and resources are transparent	4
Trade-offs within spending constraints	2
Effectively controls spending aggregates	1
Is implemented as initially authorized	5
Is adopted on a timely basis	3
Controls items of expenditure	3
Provides incentives for efficiency	1
Uses performance measures	1
<i>Financial management:</i>	
Based on accounting standards	7
Efficient cash management	5
Timely disbursement of budgeted funds	3
Accountability for expenditure	1
Internal control systems	3
Audit of expenditure (professional, timely reporting)	7
Budget/accounting is consistent	8
Procurement is transparent and competitive	7

ANNEX TABLE 4.9
Public Financial Management (PFM): Evaluation of Outputs and Outcomes^a

	Aggregate fiscal discipline		Strategic prioritization		Operational effectiveness and efficiency	
	PFM outputs	PFM outcomes	PFM outputs	PFM outcomes	PFM outputs	PFM outcomes
Institutional arrangements	<ul style="list-style-type: none"> • Medium-term expenditure framework? NO • Hard budget constraint? NO • Comprehensive budget? LARGELY 	<ul style="list-style-type: none"> • Revenue/expenditure target achieved? NO 	<ul style="list-style-type: none"> • Budgetary planning consultative with stakeholders? PARTLY • Strategic targets linked to allocations? PARTLY • Line agency allocation discretion? NO 	<ul style="list-style-type: none"> • Expenditure matched to strategic goals? NO 	<ul style="list-style-type: none"> • Relative line agency autonomy? NO 	<ul style="list-style-type: none"> • Efficient service delivery? NO
Accountability	<ul style="list-style-type: none"> • Ex post reconciliation of expenditure? YES • Sanctions for agency over/underspending? NO 	<ul style="list-style-type: none"> • Limited agency overspending? NO 	<ul style="list-style-type: none"> • Outcomes reported? SOME • Ex post evaluation of results? LIMITED (INSTEAD, EX ANTE CONTROL) • Sanctions applied? NO 	<ul style="list-style-type: none"> • Clear responsibility mismatch? NO 	<ul style="list-style-type: none"> • Internal and external audit? YES • Personnel policies performance based? NO • Service delivery standards? SOME • Customer satisfaction surveys? FEW 	
Transparency	<ul style="list-style-type: none"> • Publication of budget and results? YES, PARTLY 		<ul style="list-style-type: none"> • Adequate Stakeholder voice mechanisms? NO 	<ul style="list-style-type: none"> • Outcome performance published? SOME 	<ul style="list-style-type: none"> • Programme performance publicized? SOME • Client voice mechanisms? FEW 	

ANNEX TABLE 4.10
Variations between Budget/Revised Estimates and Actuals

	1991-2-1993-4				1994-5-1997-8			
	Average		Variation (%)		Average		Variation (%)	
	Actuals as % of		Actuals as % of		Actuals as % of		Actuals as % of	
	Budget	Revised	Budget	Revised	Budget	Revised	Budget	Revised
Revenue receipts	93.5	97.7	7.4	2.6	100.3	98.9	9.5	2.9
Tax revenue, Gross	93.8	97.8	8.4	2.8	100.8	99.6	7.4	2.6
Non-tax revenue	104.4	99.3	1.8	2.5	100.7	97.6	4.5	1.2
Capital receipts	108.5	94.7	17.0	2.8	104.3	97.6	16.9	6.7
Recoveries of loans	99.1	97.1	6.7	4.7	98.3	91.7	6.0	5.0
Disinvestment	66.2	58.5	94.2	105.5	39.7	93.8	147.4	12.8
Borrowings and other liabilities	115.1	96.6	27.1	2.8	111.4	98.4	16.3	7.5
Total receipts	99.5	96.5	3.3	2.5	101.6	98.5	5.7	3.0
Non-plan expenditure	104.2	99.9	4.8	1.7	103.5	99.3	4.6	0.9
On revenue account	104.8	99.5	2.5	1.4	101.4	99.4	2.4	1.1
On capital account	103.0	102.5	19.0	6.8	117.1	98.4	17.9	1.4
Plan expenditure	100.5	95.5	7.6	3.8	99.3	96.8	5.6	1.1
On revenue account	99.3	92.9	10.1	4.0	97.9	97.0	3.1	1.2
On capital account	102.0	98.0	5.8	5.1	102.0	96.5	12.7	1.2
Total expenditure	103.1	98.5	4.7	0.2	102.2	98.6	3.0	0.9
Revenue expenditure	103.6	98.1	2.5	0.4	100.7	98.9	2.3	1.1
Capital expenditure	102.2	99.8	11.4	0.9	108.1	97.5	6.2	0.4
Revenue deficit	145.6	100.8	24.4	8.9	107.4	100.6	29.2	12.7
Fiscal deficit	125.4	102.8	27.3	6.5	113.1	99.3	13.5	5.9

ANNEX TABLE 4.11
Revenue Effect of Tax Concessions

	1989-90		1994-5			
<i>(a) Major deductions from income tax under Chapter VI-A and VIII of the Income Tax Act (company and non-company assesseees)</i>						
Tax loss (%)		19.62		17.74		
Effective tax rate on gross income (%)		18.94		17.86		
Effective tax rate loss due to Chapter VI-A and VIII deductions (percentage points)		04.62		03.85		
<i>(b) Customs exemptions</i>						
Exemptions	1992-3		1995-6		1996-7	
	Duty forgone (Rs cr)	New notification	Duty foregone (Rs cr)	New notification	Duty foregone (Rs cr)	New notifications
4 export promotion schemes	NA	—	8023	—	9189	—
Other exemption notifications	(total) 5081	415	2019	313	1113*	222
Total (% of collections)	21.5		27.8		23.7*	

Note: Data on income tax concessions for 1990-1 through 1993-4 were either incomplete or not available. Data for all assesseees include other categories of non-company assesseees but may be biased due to non-random sampling.

* Incomplete coverage

Source: All India Income Tax Statistics, various years and Reports of the CAG, 1997, 1998.

ANNEX TABLE 4.12
Central Tax Revenue and Buoyancy

<i>(a) Revenue as a percentage of Non-Agricultural GDP at Factor Cost</i>					
Average for financial years	Gross tax revenue	Corporation tax	Personal income tax	Customs duties	Excise duties
1989-90 to 1991-2	14.08	1.41	1.36	4.87	6.00
1994-5 to 1998-9RE	12.00	1.84	1.63	3.66	4.37
1999-2000BE	11.62	2.03	1.77	3.31	4.20
<i>(b) Buoyancy of Central Taxes with respect to Non-Agricultural Gross Domestic Product</i>					
Average for financial years	Gross tax revenue	Corporation tax	Personal income tax	Customs duties	Excise duties
1989-90 to 1991-2	0.926	1.346	1.050	0.743	0.888
1994-5 to 1998-9RE	0.880	1.324	1.086	0.795	0.702
1999-2000BE	1.313	0.995	1.724	1.260	1.384

Notes: 1. To estimate NAGDP for 1998-9, the rate of real growth in agriculture is assumed to be 5.3 per cent and the rate of real growth of NAGDP is assumed to be 5.8 per cent. Inflation rates are assumed the same.

2. To estimate NAGDP for 1999-2000, the nominal rate of growth is assumed to be higher than nominal GDP growth by the same per cent (about 1) as it was in the previous period.

Source: Budget Documents and *Economic Survey*, GOI.

ANNEX TABLE 4.13
Assessment of Tax Structure and Administration

	Pre-reform	Recent years	Recent to pre-reform index (over 100 implies improvement in recent years)*
I. PERFORMANCE			
<i>Tax Structure</i>			
Revenue adequacy: Level (Tax/NAGDP)	14.08	12.00	88
Trend (NAGDP buoyancy)	0.93	0.88	95
Revenue stability (CV of buoyancy)	0.23	0.31	54
Revenue predictability (actuals/budget ratio)	8.40	7.40	113
Vertical balance: (ratio of centre's revenue adequacy to states')	1.24	1.24	100
Economic neutrality 1 (rates)			
Personal income tax	16.80	11.71	143
Corporation tax	35.43	27.34	130
Excise duties	9.31	8.38	111
Import duties	41.00	27.00	143
Aggregate score			
Economic neutrality 2 (concessions)			
Income tax: individuals	3.98	2.24	178
Companies	11.17	7.43	150
Import duties:	21.50	27.80	77
Aggregate score			
Equity (share of direct taxes)	19.70	29.60	121
Simplicity		Laws are simple [#]	
Certainty (business survey; 1 = very good; 6 = very bad)	3.77	3.61	104
Sectoral balance	Exclusion of agriculture continues unchanged		100
<i>Tax administration**</i>			
Administrative effectiveness			
Income tax compliance	39.4	49.0	124
Collection arrears (% of collections)	36.8**	47.5	77
Administrative efficiency			
Business survey (1 = very good; 6 = very bad)	NA	3.1	NA
Business survey (index of ease of dealing with tax departments in 1998-9 compared to three years ago)	100	102.2	102.2
Collection cost to society per rupee of revenue ^{##}	NA	NA	NA
Administrative corruption			
Business survey (% paying bribes 'sometimes', 'frequently', 'usually' or 'always' to income tax or custom officials)	NA	74	NA
II. CAPACITY			
Comparing pre-reform and current status			
External constraints	Some improvement, poor		
Capacity of supporting institutions (appeals, courts)	Some deterioration, inadequate		
Capacity of supporting institutions (tax professionals)	Insufficient information		
Policy research capacity	No change, inadequate		
Administrative capacity 1 (training and skills)	No change, adequate		
Administrative capacity 2 (pay and career prospects)	Some deterioration, inadequate		
Administrative capacity 3 (automation)	Some improvement, poor		

(Contd.)

Pre-reform	Recent years	Recent to pre-reform index (over 100 implies improvement in recent years)*
III. INSTITUTIONS		
Adequacy of external controls	No change, poor	
Participation	No change, poor	
Institutional flexibility 1 (tax policy inertia)	No change, inadequate	
Institutional flexibility 2 (functional and financial autonomy)	No change, poor	
Clarity of mission	No change, inadequate	
Adequacy of internal controls	No change, poor	
Contestability	No change, inadequate	
Adequate tax laws	Some improvement, inadequate	
Administrative incentives 1 (performance linked budget)	No change, poor	
Administrative incentives 2 (performance based remuneration)	Some deterioration, poor	
Administrative organization 1 (number of tax agencies)	No change, adequate	
Administrative organization 2 (functional organization)	No change, inadequate	
Internal rules	No change, inadequate	
Non-compliance penalties	No change, adequate	
Error prevention	No change, inadequate	

@ Pre-reform: 1989-90 to 1991-2 where data are available; recent years 1994-5 to 1997-8/1998-9 where available. Full details are in Das-Gupta (1996).

* The index is the ratio of recent to pre-reform indicators or its inverse so that a higher value represents improvement. The ratio is calculated before rounding.

While adequate quantitative data are not available, this is suggested by the number of direct tax (second) appeals and judicial references declining over the period for which data are available. Furthermore, while indirect tax appeals data are not always reported, the number of customs and excise exemptions has been substantially reduced which should decrease appeals.

** Pertains to the period 1992-3 to 1994-5. Pre-reform figures are not readily available.

Collection costs given in the central budget amount to under 2 per cent of tax collections. However, these figures are incomplete and underestimate true costs (as elaborated on in the background note).

ANNEX TABLE 4.14
Facilitation Indicators for Import Containers, Selected Countries (1998)

Country	Dwelling time in ports	Custom clearance time	Physical inspection (%)
India	10/25 days	48-120 hours	100
Pakistan	—	48-120 hours	100
Argentina	4/5 days	3 hours	30
Indonesia	—	48-96 hours	100
Korea	—	48-72 hours	100
Malaysia	—	8-24 hours	Sample basis
Mexico	—	12-24 hours	Sample basis
Thailand	—	48-72 hours	100
Singapore	—	15-25 hours	Sample basis < 5
Poland	7 days	24-48 hours	100

ANNEX TABLE 4.15
Structure of Rural Local Government

State	Village Panchayats	Block level	District level
Andhra Pradesh	20,244	1100	22
Arunachal Pradesh	1158	79	12
Assam	2486	199	23
Bihar	11,653	589	52
Goa	183	—	2
Gujarat	13,256	183	19
Haryana	5958	110	16
Himachal Pradesh	2921	72	12
Karnataka	5641	175	20
Kerala	990	152	14
Madhya Pradesh	30,922	459	45
Maharashtra	26,894	297	29
Manipur	166	9	3
Punjab	11,591	136	14
Rajasthan	9185	237	31
Sikkim	148	—	4
Tamil Nadu	12,787	387	22
Tripura	525	16	3
Uttar Pradesh	58,605	901	66
Union Territories	177	7	7

Note: Meghalaya, Mizoram and Nagaland are not covered by the 73rd Constitutional Amendment. Legislation in conformity with the 73rd Amendment has yet to be taken up in Delhi which, accordingly, has no Panchayats.

Source: Mathur (1999).

ANNEX TABLE 4.16
Decentralization to Local Government: A Report Card

	Performance	Capacity	Institution building
Policy formulation	<ul style="list-style-type: none"> • Largely unassessed 	<ul style="list-style-type: none"> • Inadequate 	<ul style="list-style-type: none"> • Limited autonomy • Incomplete functional and fiscal devolution • Wide interstate differences
Accountability	<ul style="list-style-type: none"> • Unassessed except in selected cities (Box 4.3) 	<ul style="list-style-type: none"> • Negligible 	<ul style="list-style-type: none"> • Inadequate or absent external accountability provisions
Service delivery and revenue collection	<ul style="list-style-type: none"> • Poor where assessed • Some improvement in selected cities (box 4.3) 	<ul style="list-style-type: none"> • Very inadequate 	<ul style="list-style-type: none"> • Overlapping jurisdictions • Limiting involvement of civil society except in selected cities (Box 4.3) and states

ANNEX TABLE 4.17
Expenditure and Revenue Decentralization and Financial Autonomy of Rural Local Bodies, 1996–7

State	Local govt. to state govt expenditure ratio (%)	Local govt. to state govt own revenue ratio (%)	Local revenue to local expenditure ratio (%)
Punjab	13.1	5.8	52.0
Rajasthan	9.4	5.2	3.1

Source: Oommen (1998) quoted in Mathur (1999).

ANNEX TABLE 6.1
Capital Employed per Worker in Domestic Industries Corresponding with
Principal Exports and Imports, 1994-5

I. Principal Exports		
Economic Survey classification	Corresponding ASI classification	Capital/employee (Rs '000)
Average capital/employee, Exports		132
<i>Labour intensive</i>		
1. Agricultural and allied products	Food products	105
	Beverages	38
2. Ores and minerals (excl. coal)	<i>n.c.</i>	
3. Manufactured goods		
3.1. Textile fabrics and manufactures	Textile products	74
	Wool and silk textiles	26
3.1.1. Cotton yarn, fabrics, made-ups	Cotton textiles	117
3.2. Coir yarn and manufactures	<i>n.c.</i>	
3.3. Jute manuf. incl. yarn	Jute textiles	30
3.4. Leather and leather manufactures	Leather and leather products	76
3.5. Handicrafts	<i>n.c.</i>	
3.5.1. Gems and Jewellery	<i>n.c.</i>	
3.6. Machinery, transport, and metal manuf.	Machinery other than transport	170
	Transport equipment and parts	156
	Metal products	137
<i>Average capital/employee—labour intensive</i>		93
<i>Capital intensive</i>		
1. Manufactured Products		
1.1 Chemicals and allied products	Chemicals and chemical products	526
2. Mineral fuels and lubricants (incl. coal)	<i>n.c.</i>	
<i>Average Capital/employee—capital intensive</i>		526
II. Principal Imports		
Economic Survey classification	Corresponding ASI classification	Capital/employee (Rs '000)
Average capital/employee, Imports		362
<i>Labour intensive</i>		
1. Capital goods		
1.1 Transport equipment	Transport equipment and parts	156
1.2 Manufactures of metals	Metal products	137
1.3 Non-electrical machinery	Machinery other than transport	170
1.4 Electrical machinery	Machinery other than transport	170
<i>Average capital/employee—labour intensive</i>		158
<i>Capital intensive</i>		
1. Food and live animals	<i>n.c.</i>	
2. Raw materials and intermediate manuf.		
2.1. Cashewnuts	<i>n.c.</i>	
2.2. Crude rubber	Rubber, petroleum, and coal products	403
2.3. Fibres	<i>n.c.</i>	
2.4. Petroleum, oil, and lubricants	Rubber, petroleum, and coal products	403
2.5. Animals and vegetable oils and fats	<i>n.c.</i>	
2.6. Fertilizer and chemical products	Chemicals and chemical products	526

(Contd.)

2.7. Pulp and waste paper	<i>n.c.</i>	
2.8. Paper, paper board and manufactures	Paper and paper products	318
2.9. Non-metallic mineral manufactures	Non-metallic mineral products	276
2.10. Iron and steel	Basic metals and alloys	714
2.11. Non-ferrous metals	Basic metals and alloys	714
<i>Average Capital/employee—capital intensive</i>		479

n.c. = not classified

- Notes:*
1. For the purpose of this exercise, labour-intensive industries have been defined as those where fixed capital per employee < Rs 200, 000.
 2. The classification of principal exports and imports is from the Economic Survey 1998-99; capital per employee figures are from the ASI for corresponding categories (ASI categories not included in the table above are electricity, other manufacturing industries, repair of capital goods, repair services, wood and wood products, water works, gas and steam, cold storage, and non-conventional energy).

Source: Annual Survey of Industries (ASI), 1994-95; MoF, *Economic Survey*, 1998-9.

ANNEX TABLE 6.2
India and China: Selected Trade Indicators, 1987-96

		1987		1991		1996		
		India	China	India	China	India	China	
<i>Structure of exports (WDI)</i>								
Manufactured exports								
	(% of merchandise exports)		66.42	58.25	72.04	75.72	73.55 ^a	84.36
High-technology exports								
	(% of merchandise exports)		6.22	12.38	9.23	13.09	10.09 ^a	21.14
<i>Total exports (goods & services)</i>								
	in \$ bn (WDI)		16.22	39.17	23.29	65.90	43.86	171.68
	(1969, IFS)	(2.03)	(2.31)					
	(1978, IFS)	(6.67)	(9.96)					
<i>Trade (% of GDP)</i>								
	(1980, WDI)	16.62	12.90	15.19	27.09	19.15	29.59	27.09
<i>Exports per capita (\$ per person)</i>								
	(1980, WB)	16.41	12.92	20.27	33.63	26.87	53.09	44.15
<i>Selected exports commodities,</i>								
<i>Share in world exports in percent (UNCTAD)</i>								
Total exports			0.55	1.80	0.55	2.23	0.69	3.10
Fish and preparations			1.69	3.02	1.71	3.47	2.55	6.49
Rice			8.42	6.03	7.58	3.75	13.77	1.72
Nuts, coco, brazil, cashew			48.80	0.81	39.98	0.46	40.15	0.20
Coffee, tea, cocoa, spices			4.75	2.57	4.23	2.79	3.52	2.04
Coffee			2.13	0.04	1.84	0.01	3.42	0.06
Tea			23.19	18.35	21.07	16.31	16.55	16.45
Spices			16.64	4.94	10.35	7.23	14.95	12.38
Iron ore, etc., excl. pyrites			12.66	0.00	7.55	0.00	6.12	0.00
Iron and steel			0.13	0.59	0.34	1.64	0.76	2.94
Manufactures			0.50	1.42	0.54	2.28	0.65	3.45
Chemicals			0.27	1.10	0.54	1.36	0.67	1.91
Leather, dressed fur etc.			7.11	0.90	4.77	1.41	2.82	3.80
Leather etc. manufactures			13.17	0.37	8.26	1.31	5.35	7.86
Textile yarn, fabric etc.			2.10	7.77	2.22	7.60	3.12	8.29
Gold, silverware, jewellery			0.74	1.37	2.14	1.80	2.93	6.11
Basic manufactures			1.28	2.38	1.24	2.81	1.57	3.79
Machines, transport equipment			0.10	0.46	0.11	1.15	0.14	1.68
Misc. manufactured goods			0.72	3.20	0.85	5.27	1.05	9.51
Clothing			2.13	7.19	2.49	11.12	3.01	16.39
Real jewellery, gold, silver			0.85	1.52	2.44	1.51	3.08	5.89
Precious metal jewellery			0.99	1.09	2.84	1.15	3.41	5.66
Jewelry NES			0.03	7.26	0.09	6.20	0.10	20.29
Imitation jewellery			0.23	0.65	0.22	3.78	1.22	8.61
Textile fibres			0.57	8.41	0.74	5.59	1.98	2.97
Petroleum and products			0.40	3.21	0.19	1.77	0.18	1.41
Iron and steel scrap			0.03	0.42	0.04	0.17	0.11	0.16
Goods not classified by kind			0.44	5.51	0.35	0.99	0.44	0.17
<i>FDI inflows (% of Gross Fixed Capital Formation)</i>			0.30 ^b	2.90 ^b	0.40 ^c	7.40 ^c	2.90	17.00
<i>FDI Stock (% of GDP)</i>			0.50 ^d	1.50 ^d	0.50 ^e	4.80 ^e	2.60	24.70

^a Data for 1995.

^b Annual average, 1986-91.

^c Data for 1992.

^d Data for 1985.

^e Data for 1990.

Source: UNCTAD, Comtrade Database; World Bank, World Development Indicators 1998; United Nations, World Investment Report 1998.

ANNEX TABLE 6.3
Coverage Ratio for Non-Tariff Barriers on Indian Imports

	(Weighted Average)									
	1988-9		1995-6		1997-8		1998-9		1999-2000	
	Method 2	Method 1	Method 2	Method 1	Method 2	Method 1	Method 2	Method 1	Method 2	
<i>Average all sectors</i>	95.21	56.80	65.51	62.20	64.03	60.85	62.16	23.25	24.24	
<i>Activity based</i>										
1 Primary	99.96	64.12	74.79	76.06	76.22	73.17	74.95	56.58	57.41	
2 Secondary	87.43	42.00	46.11	34.19	39.42	32.06	36.30	23.41	27.71	
<i>Industry based</i>										
1 Food, beverages, and tobacco	100.00	74.47	74.47	65.67	66.92	63.06	63.98	46.58	47.95	
2 Textiles and leather	100.00	47.06	56.02	48.33	54.88	47.44	53.37	39.30	45.07	
3 Wood, cork, and products	100.00	41.99	41.99	24.03	34.48	20.00	26.41	2.87	5.74	
4 Paper and printing	100.00	39.01	42.27	25.82	30.90	22.03	26.93	17.76	22.54	
5 Chemicals, petrol, and coal	97.54	32.29	38.09	22.52	30.74	20.77	26.24	12.57	15.45	
6 Non-metallic minerals	98.25	76.48	76.48	46.32	50.52	40.41	47.04	19.05	36.28	
7 Basic metal industries	53.37	13.21	13.76	14.46	15.05	11.87	15.85	9.03	11.41	
8 Metal products and machinery	80.11	37.93	40.70	29.73	34.55	27.93	31.57	21.17	25.03	
9 Other manufacturing	78.48	46.44	53.61	30.56	37.28	27.39	29.76	17.19	21.53	
10 Agriculture	100.00	67.10	78.43	80.07	80.23	76.93	78.87	59.00	59.88	
11 Mining	99.44	27.71	30.19	27.09	27.09	27.09	27.09	26.97	27.09	
<i>Use based</i>										
1 Consumer non-durables	100.00	63.98	74.69	74.71	75.65	73.51	74.07	55.33	56.19	
2 Consumer durables	84.34	52.75	58.20	40.18	46.77	37.26	41.56	27.03	32.80	
3 Intermediate goods	98.45	44.78	47.24	39.21	42.02	37.89	39.71	28.00	33.53	
4 Basic goods	70.34	25.17	28.65	19.28	22.72	17.63	23.23	11.56	16.09	
5 Capital goods	74.12	22.77	23.97	16.93	20.29	15.97	18.26	12.16	13.81	

Notes: 1. In Method 1, Special Import Licence (SILs) have been given a weight of 50 per cent, and all other non-tariff barriers a weight of 100 per cent.

2. In Method 2, all non-tariff barriers have been assigned an equal weight of 100 per cent.

Source: NCAER.

(Contd.)

Coverage Ratio for Non-Tariff Barriers on Indian Imports

(Simple Average)

	1988-9		1995-6		1997-8		1998-9		1999-2000	
	Method 2	Method 1	Method 2							
<i>Average all sectors</i>	91.63	44.47	50.31	39.93	44.76	38.07	41.95	28.31	32.60	
<i>Activity based</i>										
1 Primary	99.79	44.63	54.32	49.52	51.19	49.07	51.00	41.64	44.07	
2 Secondary	89.37	44.40	48.43	35.44	41.74	32.91	37.72	22.05	27.23	
<i>Industry based</i>										
1 Food, beverages, and tobacco	100.00	74.46	74.46	69.83	70.70	65.42	65.93	42.90	44.57	
2 Textiles and leather	100.00	52.88	61.46	51.11	59.25	50.19	57.69	39.99	49.18	
3 Wood, cork, and products	100.00	55.81	55.81	33.54	50.84	26.64	37.04	5.42	10.85	
4 Paper and printing	100.00	39.58	42.50	26.00	30.27	22.23	26.23	16.77	20.58	
5 Chemicals, petrol, and coal	95.54	35.33	42.77	22.71	33.71	20.04	26.13	11.27	14.55	
6 Non-metallic minerals	98.81	76.35	47.03	48.94	38.27	42.47	29.80	11.16	15.33	
7 Basic metal industries	53.74	16.13	16.55	17.07	17.52	15.73	20.86	7.79	9.23	
8 Metal products and machinery	80.83	35.59	37.81	26.87	31.10	24.97	28.35	18.63	23.12	
9 Other Manufacturing	78.49	45.39	51.64	35.13	42.58	34.51	39.26	19.80	26.48	
10 Agriculture	100.00	60.15	74.43	69.80	72.30	69.12	72.01	58.05	61.62	
11 Mining	99.38	13.60	14.10	8.97	8.97	8.97	8.97	8.84	8.97	
<i>Use based</i>										
1 Consumer non-durables	100.00	58.60	68.05	60.23	64.91	58.19	62.51	45.27	49.59	
2 Consumer durables	88.20	45.29	56.19	39.09	47.50	36.99	43.18	26.68	34.19	
3 Intermediate goods	96.84	38.45	35.67	28.87	29.24	26.48	24.08	14.35	18.50	
4 Basic goods	79.44	30.52	34.88	20.22	24.39	19.63	25.88	11.41	15.31	
5 Capital goods	75.19	26.52	28.28	19.27	22.39	18.33	20.60	13.61	16.17	

Notes: 1. In Method 1, Special Import Licence (SILs) have been given a weight of 50 per cent, and all other non-tariff barriers a weight of 100 per cent.

2. In Method 2, all non-tariff barriers have been assigned an equal weight of 100 per cent.

Source: NCAER.

ANNEX TABLE 6.4
India's Share in World Trade, REER, and Tariffs

Year	Merchandise exports (US \$ billion)		Share in world merchandise exports (%)	Average tariff (%) ^a	REER ^b 1990=100
	India	World			
1985	9.14	1872.00	0.488	—	60.27
1986	9.40	2046.40	0.459	—	70.90
1987	11.30	2401.40	0.470	—	75.82
1988	13.33	2742.00	0.486	—	83.88
1989	15.85	2981.50	0.531	—	92.09
1990	17.98	3395.30	0.529	127.7	102.33
1991	17.66	3489.10	0.506	127.6	124.30
1992	19.56	3730.20	0.524	94.0	139.85
1993	21.55	3877.30	0.556	71.0	139.09
1994	25.08	4260.00	0.589	55.0	135.65
1995	30.76	5122.90	0.601	40.8	142.13
1996	33.05	5352.30	0.618	38.6	138.39
1997	34.25	5534.90	0.619	34.4	130.54
1998	33.05	5450.00	0.606	40.2	138.13

^a Data for fiscal year April–March.

^b Real effective exchange rate, based on the IMF's Information Notice System (INS) methodology.

Note: Tariffs before 1990 were in excess of 100 per cent. The mean tariff for 1999–2000 is 39.6 per cent.

Source: World Bank staff estimates; IMF, *IFS Yearbook 1998* and *IFS Bulletins*, February 1999–April 1999.

ANNEX TABLE 6.5
Share in World Exports: India and Selected Countries, 1998

	Value of exports (US \$ billion)			Share in world exports(%)		
	1996	1997	1998	1996	1997	1998
<i>World</i>	5352.30	5534.90	5450.00	100.00	100.00	100.00
India	33.05	34.25	33.05	0.62	0.62	0.61
China, Mainland	151.20	182.88	183.59	2.82	3.30	3.37
China, Hong Kong	180.75	188.06	173.99	3.38	3.40	3.19
Brazil	47.75	52.99	51.12	0.89	0.96	0.94
Argentina	23.81	26.37	25.23	0.44	0.48	0.46
Korea	129.72	136.16	133.22	2.42	2.46	2.44
Malaysia	78.33	78.74	73.30	1.46	1.42	1.35
Pakistan	9.33	8.73	8.50	0.17	0.16	0.16
Tanzania	0.76	0.72	0.67	0.01	0.01	0.01
Turkey	23.22	26.25	25.94	0.43	0.47	0.48
Kenya	2.07	2.05	1.99			
US	625.07	688.70	682.50	11.68	12.44	12.52
Canada	201.63	214.42	214.33	3.77	3.87	3.93

Source: IMF, IFS, various issues.

ANNEX TABLE 6.6
India—Tariff Structure, 1990–9

(in per cent)

Sector	Mean									Import Weighted Average								
	1990–1	1992–3	1993–4	1994–5	1995–6	1996–7	1997–8	1998–9	1999–2000	1990–1	1992–3	1993–4	1994–5	1995–6	1996–7	1997–8	1998–9	1999–2000
Whole economy	128 (41)	94 (34)	71 (30)	55 (25)	40.8 (19)	38.6 (19)	34.4 (14.8)	40.2 (15.3)	39.6 (14.0)	87	64	47	33	27.2	24.6	25.4	29.7	30.2
Agricultural products	106 (48)	59 (49)	39 (39)	31 (30)	25.1 (24.9)	25.6 (21.1)	24.6 (17.7)	29.6 (18.8)	29.2 (16.6)	70	30	25	17	14.9	14.7	14.0	16.1	17.7
Mining	—	—	71 (24)	48 (25)	30 (15.6)	24.8 (11.9)	24.4 (11.9)	29.4 (12.3)	26.6 (12.1)	—	—	33	31	27.6	22	21.9	19.5	17.7
Consumer goods	142 (33)	92 (42)	76 (36)	59 (33)	45.4 (26)	45.4 (27.1)	39.8 (20.5)	45.9 (20.7)	42.9 (18.9)	164	144	33	48	43.1	39	33.8	39.3	32.4
Intermediate goods	133 (42)	104 (25)	77 (22)	59 (17)	43.7 (13.5)	38.8 (13.2)	34.7 (10.3)	40.7 (11.1)	41.2 (10.5)	117	55	40	31	25.0	21.9	26.1	31.5	31.9
Capital goods	109 (32)	86 (26)	58 (24)	42 (20)	33.1 (12.4)	33.8 (12.2)	29.7 (9.4)	35.3 (10.2)	35.3 (8.2)	97	76	50	38	28.7	28.8	24.7	30.1	32.2

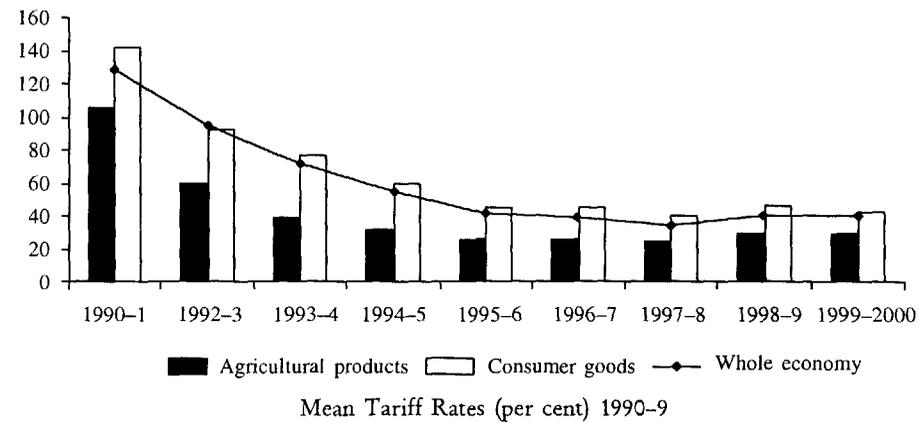
— Not Available.

Notes: 1. Standard deviations are in parentheses. In 1990–1 and 1992–3, mining is included in intermediates.

2. The total customs duty is calculated as the sum of the basic customs duty, a surcharge of 10 per cent on basic customs duty, and the special additional duty. The special additional duty is levied on the value of imports as well as the basic duty value, the surcharge value, and the additional duty value.

3. Figures for 1997–8 include the 3 per cent special duty imposed in September 1997.

Source: World Bank staff estimates; the rates are based on the 1997–8, 1998–9, 1999–2000 editions of the *Easy Reference Customs Tariff*, Academy of Business Studies.



The Impact of the 4 per cent Special Additional Duty 1999-2000

State	Customs duty (%) (basic + surcharge)	Total customs duty (%) (basic + surcharge + special additional)	Difference (percentage points)
Whole economy	34.0	39.6	5.6
Agricultural products	24.6	29.2	4.6
Mining	21.7	26.6	4.9
Manufacturing	34.7	40.4	5.7
Consumer goods	37.1	42.9	5.8
Intermediate goods	35.7	41.2	5.5
Capital goods	29.4	35.3	5.9

ANNEX TABLE 6.7
Real Exchange Rate of India's Main Trading Partners and Competitors 1981-99^a

(March averages)

	Export share												1999					
		1981	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Apr.	May.	Jun.	Jul.	Aug.	Sep.
<i>India</i>																		
in US \$	—	0.57	1.00	1.05	1.28	1.49	1.38	1.33	1.38	1.38	1.47	1.53	1.55	1.54	1.56	1.58	1.59	1.60
in SDR	—	0.78	1.00	1.05	1.24	1.42	1.31	1.34	1.27	1.18	1.19	1.24	1.24	1.23	1.24	1.27	1.28	1.30
REER ^b	—	0.58	1.00	1.10	1.45	1.50	1.40	1.48	1.48	1.37	1.38	1.43	1.43	1.42	1.42	1.44	1.47	1.48
<i>India's main market</i>																		
USA	17.2	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Japan	13.5	1.10	1.00	0.91	0.89	0.80	0.72	0.64	0.77	0.92	0.95	0.91	0.91	0.93	0.93	0.92	0.87	0.83
Germany	12.8	1.05	1.00	0.98	0.99	0.97	0.99	0.83	0.88	1.02	1.11	1.10	1.12	1.13	1.16	1.16	1.14	1.15
United Kingdom	10.8	0.84	1.00	0.86	0.91	1.08	1.06	0.98	1.03	0.98	0.93	0.95	0.96	0.96	0.97	0.99	0.97	0.96
Belgium	8.3	0.98	1.00	0.95	0.99	0.98	1.01	0.85	0.89	1.04	1.13	1.11	1.14	1.15	1.18	1.19	1.16	1.17
France	6.6	1.00	1.00	0.96	1.00	1.00	1.04	0.91	0.93	1.06	1.14	1.14	1.17	1.18	1.21	1.21	1.18	1.20
Italy	4.6	1.24	1.00	0.94	0.95	1.20	1.24	1.23	1.12	1.21	1.28	1.27	1.30	1.31	1.34	1.35	1.31	1.33
Netherlands	3.3	1.01	1.00	0.96	0.99	0.98	1.01	0.84	0.89	1.04	1.11	1.08	1.11	1.11	1.14	1.15	1.12	1.13
<i>India's main competitors</i>																		
China	—	0.45	1.00	1.15	1.18	1.16	1.50	1.26	1.19	1.19	1.23	1.29	1.31	1.31	1.32	1.31	1.32	1.33
Indonesia	—	0.47	1.00	1.02	0.99	0.95	0.94	0.92	0.92	0.93	2.76	1.77	1.73	1.62	1.48	1.42	1.58	1.76
Malaysia	—	0.73	1.00	1.02	0.95	0.95	0.97	0.89	0.89	0.86	1.26	1.26	1.27	1.27	1.26	1.27	1.27	1.27
Philippines	—	0.70	1.00	1.08	0.94	0.88	0.90	0.82	0.76	0.75	1.05	0.98	0.97	0.96	0.96	0.97	0.99	1.01
Thailand	—	0.75	1.00	0.98	0.97	0.96	0.93	0.90	0.88	0.89	1.31	1.19	1.21	1.19	1.19	1.20	1.23	1.29
Korea	—	1.02	1.00	0.98	1.01	1.02	1.00	0.95	0.94	1.06	1.64	1.37	1.35	1.34	1.31	1.34	1.34	1.35
Singapore	—	0.91	1.00	0.94	0.90	0.90	0.86	0.78	0.78	0.81	0.91	1.00	0.99	0.99	0.99	0.98	0.98	0.99
Hong Kong	—	0.90	1.00	0.93	0.87	0.83	0.79	0.74	0.71	0.70	0.67	0.70	0.71	0.71	0.72	0.73	0.74	0.75

^a Index of the country's nominal exchange rate vis-a-vis the US\$ divided by the country's CPI vis-a-vis the US CPI.

^b Real effective exchange rate, based on the IMF's Information Notice System (INS) methodology. Trade weights are based on trade flows averaged over 1990-2.

Notes: 1. Increase = depreciation.

2. All data pertain to averages of March, with the exception of data on SDRs which pertain to end-of-month.

Source: IMF, IFS; World Bank staff estimates.

ANNEX TABLE 6.8
Foreign Direct and Portfolio Investment

(US \$ million)

	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9	April-August	
									1998-9	1999-2000
Direct Investment										
Foreign Direct Investment	129	315	586	1314	2144	2821	3557	2462	1265	993
Portfolio Investment	4	244	3567	3824	2748	3312	1828	-61	-489	1190
Foreign Institutional Investment	0	1	1665	1503	2009	1926	979	-390	-558	1108
Euro-issues/GDR	0	240	1520	2082	683	1366	645	270	15	0
Others ^a	4	3	382	239	56	20	204	59	54	82
Total Direct and Portfolio Investment	133	559	4153	5138	4892	6133	5385	2401	776	2183
<i>Memo:</i>										
Foreign Currency Convertible										
Bonds (FCCB) ^b	0	0	914	34	—	—	—	—	—	—
Floating Rate Notes (FRN)	0	0	0	167	—	—	—	—	—	—

^a Includes NRI portfolio investments, offshore funds, and others.

^b FCCBs is treated as commercial borrowing before conversion into equity.

Source: RBI; MoF, *Economic Survey*, 1996-7.

ANNEX TABLE 7.1
India: Structure of Selected Institutions of the Financial System

(end March 1998)

	No. of institutions	No. of offices	Deposits (Rs bn)	Loans, adv. & inv. (Rs bn)	Assets (Rs bn)	Assets (% total)	Assets (% GDP)
A. BANKING SYSTEM							
1. Reserve Bank of India	1	—	—	—	2623.0	13.0	16.8
1.1 Issue department	—	—	—	929.46 ^a	1485.5	7.3	9.5
1.2 Banking department	—	—	651.2	624.5	1137.5	5.6	7.3
2. Commercial banks	301	64,276	6662.3	6205.1	8252.9	40.8	52.8
2.1 Scheduled commercial banks ^b	300	64,267	6662.3	6205.1	8252.9	40.8	52.8
2.1.1 Public sector banks	27	44,958	5317.3	4870.1	6491.9	32.1	41.5
2.1.1.1 State Bank group	8	13,204	1736.0	1702.7	2327.5	11.5	14.9
2.1.1.2 Nationalized banks	19	31,754	3581.3	3167.4	4164.4	20.6	26.6
2.1.2 Regional rural banks	196	14,471	221.1	237.9	297.5	1.5	1.9
2.1.3 Private sector banks	34	4661	695.2	620.4	810.6	4.0	5.2
2.1.4 Foreign banks	42	177	428.7	476.7	652.9	3.2	4.2
2.2 Non-scheduled commercial banks ^c	1	9	—	—	—	—	—
B. NON-BANK SYSTEM							
1. Financial Institutions	—	—	—	3089.8	3654.0	18.1	23.4
1.1 IDBI	1	—	—	483.9	599.6	3.0	3.8
1.2 ICICI	1	—	—	366.7	459.2	2.3	2.9
1.3 IFCI	1	—	—	190.2	214.7	1.1	1.4
1.4 LIC & GIC	2	—	—	1085.1	1292.6	6.4	8.3
1.5 SFCs	18	—	—	115.3	145.8	0.7	0.9
1.6 EXIM Bank	1	—	—	45.2	52.3	0.3	0.3
1.7 UTI	1	—	—	550.4	638.1	3.2	4.1
1.8 NABARD	1	—	—	233.0	252.1	1.2	1.6
1.9 HDFC ^d	—	—	—	96.4	99.3	0.5	0.6
2. Non-banking corporate sector (NBC)	13,971	—	3571.5 ^e	—	—	—	—
2.1 Non-financial companies (NFC)	2376	—	2238.7 ^e	—	—	—	—
2.2 Financial companies (NBFC)	10,122	—	1166.4 ^e	—	—	—	—
2.3 Miscellaneous and residuary (RNBC)	1473	—	166.5 ^e	—	—	—	—
C. CAPITAL MARKET^f							
Total:	—	—	—	—	20232.4	100.0	129.4

^a Excludes foreign securities.^b Deposits, loans etc. are based on balance sheet data, no. of offices are based on Quarterly Handout (Banking Statistics).^c Balance sheet data not available for end March 1998.^d Figures from HDFC balance sheet as on 31 March 1998.^e End March 1997.^f Stock market capitalization, BSE (higher no. of securities, but lower trading volume than NSE, with a stock market capital of Rs 4815 bn at end March 1998).

Source: RBI, Report on currency and finance 1997-8; RBI, Report on Trends and Progress in Banking 1997-8.

ANNEX TABLE 7.2
Indicators of Indian Banking Policy 1968-1999: The Deposit Rate, Loan Ceiling/
Minimum Rate, CRR, and SLR in Selected Years

Year	Month (end)	Deposit rate (1 year) (% p.a.)	Loan Ceiling Rate ^b (% p.a.)	Loan Minimum Rate ^b (% p.a.)	CRR (% of deposits)	SLR (% of deposits)
1968	Dec.	n.a.	9.5 ^c	—	3.0	25.0 ^m
1974	Dec.	8.0	^d	12.5	4.0	32.0
1978	Dec.	6.0	15.0 ^e	12.5	6.0 ^j	34.0
1982	Dec.	8.0	19.5 ^f	^g	7.0	35.0
1986	Dec.	8.5	17.5	—	9.0 ^k	37.0
1990	Dec.	9.0	^h	16.0 ^h	15.0	38.5
1991	Dec.	12.0	—	19.0	15.0 ^l	38.5
1992	Dec.	not exceeding 12.0	—	19.0	15.0	30.0
1993	Dec.	not exceeding 10.0	—	17.0	14.0	25.0 ⁿ
1994	Jun.	not exceeding 10.0	—	14.0	14.5	25.0
	Dec.	not exceeding 10.0	—	free ⁱ	15.0	25.0
1995	Jun.	not exceeding 12.0	—	free	15.0	25.0
	Dec.	not exceeding 12.0	—	free	14.0	25.0
1996	Jun.	not exceeding 12.0	—	free	13.0	25.0
	Dec.	free ^a	—	free	11.0	25.0
1997	Jun.	free	—	free	10.0	25.0
	Dec.	free	—	free	10.0	25.0
1998	Jun.	free	—	free	10.0	25.0
	Dec.	free	—	free	11.0	25.0
1999	Jun.	free	—	free	10.0	25.0
	Dec.	free	—	free	9.0	25.0

n.a.: Not available.

^a Freed from July 1996.

^b Key lending rates as prescribed by RBI for all commercial banks including SBI.

^c Ceiling on the lending rates of the Indian scheduled banks with DTL (demand and time liabilities) of Rs 50 crore and all the foreign scheduled banks was introduced with effect from 25 September 1964.

^d Effective 21 January 1970, the ceiling on the lending rates was withdrawn.

^e Ceiling on the lending rates was re-introduced w.e.f. 15 March 1976—16.5 per cent, inclusive of the 7 per cent tax on interest income of banks, for banks with DTL of over Rs 50 crore, one percentage point higher for banks with DTL between Rs 25 crore and Rs 50 crore, and no ceiling on banks with DTL of less than Rs 25 crore. Effective 1 March, 1978, with abolition of the 7 per cent tax, the maximum lending rate chargeable by banks was reduced to 15 per cent for banks with DTL of over Rs 25 crore and 16 per cent for those with DTL of less than Rs 25 crore.

^f Includes the 7 per cent tax on interest income of banks (re-introduced in 1980); effective 2 March 1981, a uniform maximum lending rate for all banks irrespective of size was fixed.

^g General minimum lending rate was abolished from 2 March 1981; wherever ceiling rates are prescribed, the rate for the preceding advance is treated as floor rate for that category.

^h Effective October 1988 ceiling rate abolished and minimum rate imposed.

ⁱ Freed from October 1994.

^j Incremental CRR of 10 per cent on increase in net demand and time liabilities (NDTL) over the level as on 14 January 1977; withdrawn with effect from 31 October 1980.

^k Incremental CRR of 10 per cent of NDTL over the level of 11 November 1983; withdrawn in 1 July 1989.

^l Incremental CRR of 10 per cent of NDTL over the level of 3 May 1991; discontinued with effect from 17 April 1992.

^m Legal minimum.

Source: RBI, *Report on Currency and Finance*, various issues; RBI, *RBI Annual Report*, various issues.

ANNEX TABLE 7.3
Scheduled Commercial Banks Investments and Other Assets
(end Fiscal Year)

(Rs billion)

	1985-6	1986-7	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9
Selected assets	1036.3	1225.1	1407.5	1684.8	1963.8	2226.1	2599.0	2995.1	3584.1	4380.9	5041.9	5614.1	6614.2	7216.5
Balances with RBI	110.5	143.8	176.6	213.8	234.6	238.6	341.8	285.4	477.6	600.3	506.7	498.5	577.0	635.5
SLR eligible Investments	305.5	385.8	465.0	546.6	643.7	750.7	902.0	1056.6	1325.2	1492.5	1647.8	1905.1	2187.1	2541.2
Government securities	190.5	248.5	305.2	358.2	422.9	500.0	627.3	759.5	1012.0	1176.9	1322.3	1588.9	1869.6	2232.2
Other approved securities	115.1	137.4	159.9	188.5	220.8	250.7	274.7	297.1	313.2	315.7	325.6	316.2	317.5	313.8
Other assets	59.5	62.4	60.5	77.2	70.9	73.9	99.4	133.4	137.1	172.5	196.8	232.4	278.5	379.8
Other Investments	—	—	—	—	—	—	—	—	—	—	150.4	194.1	330.8	—
Bank credit	560.7	633.1	705.4	847.2	1014.5	1163.0	1255.9	1519.8	1644.2	2115.6	2540.2	2784.0	3240.8	3688.4
Total liabilities	979.8	1163.9	1337.1	1601.6	1882.4	2155.7	2523.7	2993.3	3507.1	4356.7	4854.7	5625.4	6791.3	8191.5
Liabilities to others	920.3	1099.8	1269.4	1506.7	1799.9	2056.0	2447.6	2865.6	3376.1	4129.3	4629.7	5407.9	6464.4	7716.8
Liabilities to the banking system	50.0	51.2	50.2	59.6	58.5	64.9	70.3	111.5	112.8	153.3	176.5	211.9	322.9	452.0
Borrowings from RBI	9.5	12.9	17.5	35.3	24.0	34.9	5.8	16.2	18.1	74.2	48.5	5.6	4.0	28.9
% of Total liabilities														
Balances with RBI and														
SLR eligible investments	42.5	45.5	48.0	47.5	46.7	45.9	49.3	44.8	51.4	48.0	44.4	42.7	40.7	38.8
Other Investments	—	—	—	—	—	—	—	—	—	—	3.1	3.5	4.9	—
Bank Credit	57.2	54.4	52.8	52.9	53.9	53.9	49.8	50.8	46.9	48.6	52.3	49.5	47.7	44.7
Memo:														
Total assets	—	—	—	—	—	—	—	—	4351.0	5146.9	5991.5	6729.8	7954.1	9509.0

— Not Available.

Source: RBI, *Report on Currency and Finance*, various issues; RBI, *Report on Trend and Progress of Banking in India*, various issues.

ANNEX TABLE 7.4
Bank Resources to Small versus Medium and Large Industries

(Rupees billion)

	Outstanding as on						
	Mar. 1993	Mar. 1994	Mar. 1995	Mar. 1996	Mar. 1997	Mar. 1998	Mar. 1999
1. Gross bank credit	1471.4	1568.6	1969.9	2318.6	2589.9	3002.8	3420.1
2. Credit to industry (medium and large)	586.4	578.7	746.7	930.5	1026.0	1175.3	1305.2
3. Investments in bonds, etc.	0.0	0.0	0.0	149.9	194.1	330.8	469.2
4. Resources to industry (medium and large)(2+3)	586.4	578.7	746.7	1080.4	1220.2	1506.1	1774.3
5. Credit to SSI	200.3	226.2	276.4	318.8	359.4	436.0	484.8
6. Investment in govt securities in excess of SLR requirements	71.5	230.8	283.5	348.0	472.0	574.9	669.0
<i>Ratios (%)</i>							
i) Credit to industry (medium and large/ Gross bank credit	39.9	36.9	37.9	40.1	39.6	39.1	38.2
ii) Resources to industry (medium and large)/(gross bank credit + investments in bonds, etc.)	39.9	36.9	37.9	43.8	43.8	45.2	45.6
iii) Credit to SSI/ gross bank credit	13.6	14.4	14.0	13.8	13.9	14.5	14.2
iv) Credit to SSI/resources to industry (medium and large)	34.2	39.1	37.0	29.5	29.5	28.9	27.3
v) Inv. in govt securities in excess of SLR requirements/ gross bank credit	4.9	14.7	14.4	15.0	18.2	19.1	19.6
vi) (Resources to industry [medium and large] + inv. in govt securities in excess of SLR/credit to SSI	328.5	357.9	372.8	448.0	470.8	477.3	504.0
vii) Credit/deposit ratio	56.6	52.2	54.7	58.6	55.1	53.5	51.7
<i>Memo (%)</i>							
Actual investment*/deposit ratio	39.3	42.1	38.6	38.0	37.7	36.1	35.7
SLR (effective)	35.6	32.5	29.3	28.0	26.5	25.0	25.0

* Investments in Government and approved securities.

Source: RBI, *Report on Currency and Finance*, various issues.

ANNEX TABLE 8.1
Domestic Demand, 1981-97

(percent of GDPmp at 1993-4 prices)

	1981-91 ^a	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	
Total consumption expenditure	78.3 (4.8)	76.0 (3.7)	76.7 (1.4)	75.7 (3.9)	75.7 (4.9)	75.1 (7.2)	75.0 (7.8)	75.1 (7.5)	76.17 (6.4)	
Government final consumption	11.1 (7.2)	11.2 (3.3)	11.0 (-0.6)	10.8 (3.3)	11.0 (6.4)	11.0 (7.7)	11.7 (15.1)	12.1 (11.3)	13.77 (19.4)	
Private final consumption (CSO)	67.2 (4.5)	64.8 (3.8)	65.7 (1.8)	64.8 (4.0)	64.7 (4.7)	64.2 (7.1)	63.3 (6.6)	63.0 (6.8)	62.40 (3.9)	
Gross capital formation	23.2 (5.9)	24.1 (12.2)	21.4 (-11.0)	22.8 (12.4)	20.8 (-4.5)	23.1 (19.9)	25.5 (19.6)	23.5 (-1.3)	24.10 (7.7)	
Gross fixed capital formation	21.1 (6.8)	21.5 (9.9)	20.5 (-4.0)	20.8 (7.0)	20.9 (5.5)	21.6 (11.3)	23.8 (18.9)	23.6 (6.3)	23.60 (5.2)	
Public sector	10.0 (4.3)	2.6 (4.8)	2.7 (2.0)	2.3 (-7.2)	7.8 (252.6)	8.6 (18.5)	7.5 (-6.4)	6.5 (-6.0)	6.77 (8.6)	
Private sector	3.8 (7.7)	3.9 (13.6)	3.5 (-8.1)	3.9 (17.5)	13.1 (247.9)	13.0 (7.0)	16.3 (35.8)	17.0 (12.0)	16.83 (3.9)	
Change in stocks	2.1	2.7	0.9	2.0	-0.2	1.5	1.8 (29.0)	-0.1	0.50	
Domestic demand	101.5 (5.1)	100.1 (5.7)	98.1 (-1.6)	98.5 (5.8)	96.4 2.76	98.2 (9.9)	100.5 (10.6)	98.6 (5.2)	100.27 (6.7)	
<i>Memo:</i>										
Gross domestic savings	20.5	22.0	21.6	21.8	19.5	20.4	22.4	19.6	20.0	
Public savings	2.7	0.9	1.8	1.4	0.5	1.5	1.9	1.5	1.0	
Household financial	7.6	18.0	16.9	18.1	10.8	11.6	8.2	9.8	10.3	
Private corporate sector	2.1	2.6	3.0	2.6	3.4	3.4	4.8	4.1	3.8	

^a Average of 1981-2 through 1991-2.

Note: Real growth rate in parentheses.

Source: CSO, *National Accounts Statistics* 1998 and Quick Estimates 1999.

ANNEX TABLE 8.2
Key Interest Rates, 1994-9

	Call money rate (Mumbai) ^a	Treasury bills ^b		YTM (%) of govt dated securities (10 yr maturity) ^c	Prime lending rate ^d	Maximum- term deposit rate ^e	IDBI rate ^f	Bank rate ^h	Exchange rate (Rs/\$) ⁱ	6-month forward premia ^j	Inflation ^k
		364-day	91-day								
1994-5											
June	6.7	10.0	8.8	—	15.00	10.0	14.5	12.0	31.4	—	11.8
September	15.3	9.4	9.1	—	15.00	10.0	14.5	12.0	31.4	—	8.9
December	9.7	9.8	10.3	—	14.00	10.0	13.5	12.0	31.4	—	11.2
1995-6 March	13.7	11.9	12.0	—	15.00	11.0	15.0	12.0	31.7	—	10.6
June	14.4	12.6	12.6	—	15.50	12.0	15.5	12.0	31.4	—	9.1
September	12.1	12.9	12.7	—	15.50	12.0	15.5	12.0	33.3	—	8.9
December	16.8	13.0	13.0	—	16.50	12.0	16.0	12.0	35.0	—	6.4
1996-7 March	16.3	13.1	13.0	—	16.50	12.0 ^f	16.0	12.0	34.4	22.7	5.1
June	10.9	13.0	12.4	—	16.50	12.0	16.0	12.0	35.0	10.7	4.5
September	8.4	12.6	10.2	—	15.50-16.50	12.0	17.0	12.0	35.7	8.7	6.5
December	8.1	10.3	8.2	—	14.50 15.00	11.0	16.5	12.0	35.8	7.6	7.5
1997-8 March	4.4	10.1	8.0	—	14.50 15.00	10.0 ^f	16.5	12.0	35.9	6.7	7.1
June	5.2	9.0	7.0	12.6	13.50 14.50	8.0	15.0	10.0	35.8	3.6	5.7
September	6.7	8.5	6.9	11.9	13.50	8.0	14.5	10.0	36.4	6.0	3.8
December	8.2	8.0	7.2	11.2	12.50 13.00	Free	13.5	9.0	39.2	8.0	4.5
1998-9 March	8.8	8.0	7.3	12.1	14.00	Free	14.5	10.5	39.5	7.1	5.0
June	6.4	8.0	7.3	12.1	12.75 13.00	Free	14.0	9.0	42.2	9.7	7.5
September	8.4	9.6	10.0	12.3	12.75 13.00	Free	14.0	9.0	42.5	7.4	8.5
December	8.3	10.5	9.6	12.2	12.75 13.00	Free	14.0	9.0	42.6	7.1	6.3
1999-2000 March	8.5	10.1	8.7	12.0	12.00 13.00	Free	13.5	8.0	42.4	6.6	5.0
June	—	10.3	9.2	—	12.00	Free	13.5	8.0	43.1	5.3	3.1
September	—	10.3	9.5	—	12.00 12.50	Free	13.5	8.0	43.5	5.6	2.5
October	—	10.3	9.5	—	12.00 12.50	Free	13.5	8.0	43.5	5.2	2.6

— Not available.

^a Call money rate of major commercial banks, average for the month.

^b Implicit yield at cut-off price (for the last auction in the month). In April 1998 364-day treasury bills were introduced, and are sold through periodic auctions. Since January 1993, 91-day treasury bills are being periodically auctioned. Earlier they were sold on tap at 4.6 per cent. In the credit policy of 29 April 1998 182-day treasury bills were reintroduced.

^c Period averages prevailing in the secondary market.

^d Relates to five major public sector banks. Since 18 October 1994, lending rates of scheduled commercial banks were freed for credit limits of over Rs 200,000; fixed at 13.5 per cent per annum for credit limits over Rs 25,000 and upto Rs 200,000; and at 12 per cent for credit limits upto Rs 25,000.

(Contd.)

- e Interest rates on domestic term deposits with a maturity of 30 days and upto 1 year are prescribed at 'not exceeding Bank Rate minus 2 percentage points per annum'. Effective 22 October 1997, banks are free to fix their own interest rates on domestic term deposits of 30 days and over. Minimum period of maturity for term deposits was reduced from thirty days to fifteen days in the credit policy of 29 April 1998.
- f The deposit rate for March 1996 is the ceiling rate for maturity of 46 days and up to 2 years. Effective 2 July 1996, banks were free to determine term deposit rates for maturity period above one year. The rate for March 1997 is the ceiling rate for maturity of 30 days and up to 1 year.
- g Medium-term lending rate.
- h The bank rate was reduced to 11 per cent in April 1997 and 10 per cent in June 1997. The rate was further brought down to 9% in the busy season credit policy of October 1997. On 16 January 1998, the bank rate was increased by a sharp 200 basis points to 11 per cent. The bank rate was reduced to 10.5 per cent on 18 March and to 9 per cent on 29 April 1998.
- i Period average rate as given in the International Financial Statistics (IFS).
- j Relates to the US \$ (% per annum).
- k Wholesale price index, annual increase, point-to-point.

Note: Unless otherwise specified, interest rates/yields are those prevailing at the end of the month.

Source: RBI, *RBI Monthly Bulletin*, various issues; RBI, *RBI Weekly Bulletin*, *RBI Annual Report*; IMF, IFS.

ANNEX TABLE 8.3
Sources of Change in Base Money, 1988-9 to 1998-9

	(Rupees billion)										
	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9
Change in base money	95	146	102	117	113	279	306	252	55	264	328
Sources of change:											
RBI domestic claims	113	153	177	12	82	-33	102	286	-127	130	143
Net foreign exchange assets, adj. ^a		6	10	46	39	2	3	61	42	105	95
Currency	1	1	1	1	1	2	4	1	4	4	4
Net non-monetary liabilities adj. ^a		-13	-86	59	-9	308	197	-97	136	25	86
Memo:											
Money base at year-end	630	776	878	995	1108	1387	1693	1945	2000	2264	2592

^a Adjustment refers to adjustment of the change in net foreign exchange assets by removing the impact of the change in the value of the Rupee against foreign currencies. Specifically, the increase in the net foreign exchange assets was computed by multiplying the difference in the stock of net foreign exchange assets (RBI), by the exchange rate at the end of the first year. The difference between this figure and the RBI's figure for the change in net foreign exchange assets was added to the RBI's figure for the change in NNML.

Source: RBI, World Bank estimates.

ANNEX TABLE 8.4
Imports: Customs and Non-Customs 1996-7 to 1998-9

		Customs (DGCI&S)								Non-Customs ^b		Total Imports ^c	
		Total		Oil ^a		Gold and silver ^a		Non-oil, non-gold					
		US \$ bn	Growth %	US \$ bn	Growth %	US \$ bn	Growth %	US \$ bn	Growth %	US \$ bn	Growth %	US \$ bn	Growth %
1996-7	Apr.-Jun.	9.3	—	2.3	—	—	—	—	—	3.2	—	12.5	—
	Jul.-Sep.	8.9	—	2.1	—	—	—	—	—	2.8	—	11.7	—
	Oct.-Dec.	9.9	—	2.6	—	—	—	—	—	2.2	—	12.1	—
	Jan.-Mar.	11.0	—	2.6	—	—	—	—	—	1.7	—	12.7	—
	Apr.-Mar.	39.1	—	10.0	—	1.0	—	28.1	—	9.8	—	48.9	—
1997-8	Apr.-Jun.	10.0	7.7	2.1	-10.5	0.2	—	7.7	—	2.8	-11.4	12.8	6.7
	Jul.-Sep.	9.8	9.9	1.9	-11.7	0.2	—	7.7	—	1.9	-31.9	11.7	3.7
	Oct.-Dec.	10.6	7.1	2.1	-19.5	0.7	—	7.8	—	2.7	20.1	13.3	10.6
	Jan.-Mar.	11.0	0.0	1.6	-37.6	1.5	—	7.9	—	2.4	44.9	13.4	6.6
	Apr.-Mar.	41.5	6.0	8.2	-18.4	3.2*	—	30.2	—	9.7	-1.2	51.2	6.9
1998-9	Apr.-Jun.	10.5	5.1	1.3	-35.9	1.4	604.5	7.8	0.7	2.0	-27.6	12.5	-2.2
	Jul.-Sep.	10.9	11.5	1.6	-14.3	1.1	336.7	8.2	7.3	1.2	-35.9	12.1	1.9
	Oct.-Dec.	10.3	-3.0	1.5	-27.6	1.3	90.9	7.5	-4.4	1.4	-48.8	11.7	-13.6
	Jan.-Mar.	10.1	-8.0	1.5	-10.3	1.0	-30.9	7.6	-3.1	1.1	-54.6	11.2	-16.3
	Apr.-Mar.	41.9	0.9	6.4	-21.2	4.9	54.6	30.5	1.2	5.7	-41.4	47.5	-7.1

* In addition, \$ 2.7 billion worth of gold and silver was imported through the baggage route.

^a The quarterly figures do not add up to the annual figures owing to the differences in the exchange rate used for the purpose of conversion, and a lag between the revision of quarterly and annual data as reported by the RBI.

^b Difference between total imports and customs (DGCI&S).

^c Merchandise imports.

Source: DGCI&S; RBI, *RBI Monthly Bulletin*, March 1999.

ANNEX TABLE 8.5
Central Government Finances, 1990–2000

	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9 RE	1998-9 Actuals*	1999-2000 BE
(per cent of GDP)											
A. Revenue	9.5	9.9	9.7	8.6	8.8	9.0	9.0	8.6	8.7	8.3	9.0
Tax revenue (gross)	9.9	10.1	9.8	8.6	8.9	9.1	9.1	8.9	8.2	8.0	8.7
Corporation tax	0.9	1.2	1.2	1.1	1.3	1.4	1.3	1.3	1.5	1.4	1.5
Income tax	0.9	1.0	1.0	1.0	1.2	1.3	1.3	1.3	1.2	1.1	1.3
of which:											
VDIS	—	—	—	—	—	—	—	0.6	—	—	—
Excise duties	4.2	4.2	4.0	3.6	3.6	3.3	3.2	3.1	2.9	2.9	3.2
Customs	3.6	3.3	3.1	2.5	2.6	2.9	3.0	2.6	2.4	2.3	2.5
Other	0.3	0.4	0.4	0.3	0.2	0.3	0.3	0.7	0.2	0.2	0.2
Less: states' share	2.5	2.6	2.7	2.5	2.4	2.4	2.5	2.8	2.2	2.2	2.2
Tax revenue (net)	7.4	7.5	7.1	6.1	6.5	6.7	6.6	6.1	6.1	5.8	6.5
Non-tax revenue (Interest receipts)	2.1 1.5	2.4 1.6	2.6 1.6	2.5 1.7	2.3 1.5	2.3 1.5	2.3 1.6	2.4 1.6	2.7 1.7	2.5 1.5	2.5 1.6
B. Revenue expenditure	12.7	12.3	12.1	12.3	11.8	11.5	11.3	11.5	12.1	12.0	11.7
Interest payments	3.7	4.0	4.1	4.2	4.2	4.1	4.2	4.2	4.3	4.4	4.4
Subsidies	2.1	1.8	1.6	1.5	1.2	1.1	1.1	1.2	1.4	1.2	1.2
Food	0.4	0.4	0.4	0.6	0.5	0.4	0.4	0.5	0.5	0.5	0.4
Fertilizer	0.8	0.8	0.8	0.5	0.6	0.6	0.4	0.5	0.4	0.4	0.4
Others	0.9	0.6	0.4	0.3	0.2	0.1	0.3	0.3	0.5	0.3	0.3
Defence	1.9	1.7	1.6	1.7	1.6	1.5	1.5	1.7	1.7	1.7	1.7
Grants to states	2.3	2.4	2.3	2.4	1.9	1.7	1.6	1.9	1.4	1.4	1.5
Other	2.7	2.5	2.6	2.5	2.8	3.0	2.8	2.5	3.3	3.3	3.0
C. Capital expenditure	2.1	1.7	1.8	1.5	1.4	1.1	0.9	1.0	0.9	0.9	1.1
of which:											
Social services	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1
Economic services	0.8	0.9	0.6	0.6	0.6	0.4	0.3	0.4	0.4	0.4	0.5
D. Gross loans	3.6	2.8	2.3	2.5	2.3	2.0	2.1	2.3	2.6	2.5	2.5
of which:											
to states and UTs	2.5	2.0	1.7	1.7	1.8	2.0	2.1	1.9	2.3	2.2	2.1
E. Recovery of loans	1.0	0.9	0.8	0.7	0.6	0.5	0.5	0.5	0.6	0.6	0.5
F. Net lending (D-E)	2.4	1.8	1.3	1.6	1.7	1.5	1.5	1.7	2.0	2.0	1.9
G. Disinvestment in PEs	0.0	0.5	0.3	0.0	0.5	0.0	0.0	0.1	0.5	0.3	0.5
H. Gross fiscal deficit (B+C+F-A-G)-GOI old def.	7.7	5.5	5.3	6.9	5.6	5.0	4.7	5.7	5.7	6.2	5.2
I. Gross Fiscal Deficit (H-K)-GOI new def.	6.5	4.6	4.7	6.3	4.7	4.2	4.0	4.7	4.4	4.9	4.0
J. Gross fiscal deficit (H+G)- WB def.	7.7	5.9	5.5	6.9	6.1	5.1	4.8	5.7	6.2	6.5	5.7
<i>Memo:</i>											
Net small savings (K+L)	1.6	1.0	0.7	1.0	1.6	1.0	1.1	1.6	1.6	1.6	1.6
K. States share	1.2	0.8	0.6	0.6	0.9	0.8	0.8	1.0	1.3	1.3	1.2
L. Centre's share	0.4	0.2	0.2	0.5	0.7	0.2	0.3	0.6	0.3	0.3	0.4
M. Revenue deficit (B-A+G)	3.2	2.9	2.7	3.7	3.5	2.5	2.3	3.0	3.8	4.0	3.2

* The figures are provisional actuals (adjusted for actual tax returns and expenditures). Components on taxes and expenditures are estimated.

Note: BE = Budget estimates; RE = Revised estimates; VDIS = Voluntary disclosure of income scheme; GOI = Government of India; WB = World Bank.

Source: GOI, Budget Documents; staff estimates.

ANNEX TABLE 8.6
Evolution of the Public Sector Deficit^a, 1990-1999

(per cent of GDP)

	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9 ^b	1999-2000 BE
Central government										
Fiscal deficit ^c	7.7	5.9	5.5	6.9	6.1	5.1	4.8	5.7	6.5	5.7
Primary deficit ^d	4.0	1.9	1.5	2.7	1.9	1.0	0.5	1.5	2.2	1.3
Revenue deficit ^e	3.2	2.9	2.7	3.7	3.5	2.5	2.3	3.0	4.0	3.2
State government										
Fiscal deficit	3.1	2.7	2.7	2.4	2.6	2.5	2.7	2.9	4.2	4.0
Primary deficit	1.6	1.1	1.0	0.6	0.7	0.7	0.8	1.2	2.4	2.2
Revenue deficit	0.8	0.7	0.7	0.5	0.6	0.6	1.1	1.0	2.2	2.2
General government										
Fiscal deficit ^f	9.0	7.2	7.2	8.1	7.3	6.4	6.2	7.1	9.0	8.0
Primary deficit	4.7	2.5	2.4	3.2	2.3	1.5	1.2	2.3	4.0	2.9
Revenue deficit	4.0	3.6	3.4	4.2	4.1	3.1	3.4	4.0	6.2	5.4
Non-financial public sector										
Fiscal deficit ^g	10.9	9.2	9.1	10.2	8.8	7.9	8.4	8.0	9.6	9.2

^a As defined by the World Bank, unless otherwise specified.

^b Provisional actuals (adjusted for actual tax revenue and expenditure) for centre and revised estimates for the states.

^c Government of India old definition of fiscal deficit excluding disinvestment revenues.

^d Fiscal deficit minus interest payments.

^e Excludes disinvestment proceeds from revenues.

^f General government fiscal deficit = Central fiscal deficit (excluding disinvestment revenues), state government deficit, and excludes net lending from the centre to states.

^g Non-financial public sector deficit includes general government deficit, oil pool balance and market-financed central public enterprise deficit (on-lending from central government to central public enterprises is netted out).

Source: GOI, Budget Documents; RBI, *Annual Report* and *Supplement to RBI bulletin on finances of the state governments*, various issues; staff estimates.

ANNEX TABLE 8.7
Central Government Salary Bill and Establishment Strength, 1990-7

	(Rs billion at current prices)							
	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
A. Civil salary and allowances (as in the Budget)	107.43	114.68	134.62	152.09	165.48	187.84	198.42	266.88
Railway salaries and allowances	48.62	54.86	59.17	73.37	79.85	87.51	81.33	108.62
Post and telecommunications	19.48	21.91	24.35	27.91	30.77	36.48	42.06	48.27
B. Civil salary and allowances (excl. Railways and P&T)	39.33	37.91	50.56	50.81	54.86	63.85	75.03	109.99
C. Defence salary and allowances	37.85	40.09	45.89	50.62	55.80	63.38	71.59	98.10
Total Salary Bill (A+C)	145.28	154.77	180.51	202.71	221.28	251.22	270.01	364.98
Pensions	5.00	5.52	6.85	8.12	9.34	11.09	14.25	19.50
<i>Memo: % GDP</i>								
Civil salary and allowances (as in the Budget)	1.9	1.7	1.8	1.7	1.6	1.5	1.4	1.7
Civil salary and allowances (excl. railways and P&T)	0.7	0.6	0.7	0.6	0.5	0.5	0.5	0.7
Defence salary and allowances	0.7	0.6	0.6	0.6	0.5	0.5	0.5	0.6
Total salary bill	2.5	2.3	2.4	2.3	2.1	2.1	1.9	2.3
Pensions	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Establishment Strength (in millions, as on 1 March)	4.1	4.1	4.1	4.0	3.8	3.8	3.8	3.9

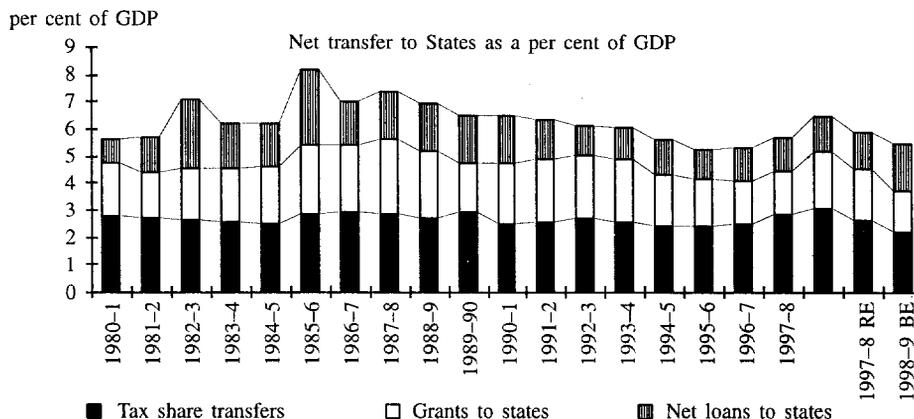
Note: P&T = Postal and Telegraph.

Source: Government of India, Budget Documents.

ANNEX TABLE 8.8
State Government Finances

(per cent of GDP*)

	1980-1	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8 RE	1998-9 BE
Revenue receipts	11.1	11.6	12.2	11.9	12.0	11.8	11.3	10.8	11.7	10.8
Tax revenue	7.1	7.7	7.9	7.9	7.8	7.8	7.6	8.9	8.2	7.7
State own taxes	4.5	5.2	5.4	5.2	5.3	5.4	5.2	5.0	5.6	5.6
State share in central taxes	2.6	2.5	2.6	2.7	2.5	2.4	2.4	2.5	2.6	2.2
Non-tax revenue	4.0	3.9	4.3	4.0	4.2	4.0	3.6	3.3	3.5	3.1
of which: grants from centre	1.8	2.3	2.4	2.3	2.4	1.9	1.7	1.6	1.9	1.5
Revenue expenditure [A+B+C]	10.1	12.4	12.9	12.6	12.5	12.4	11.9	12.0	12.6	12.7
A. Developmental (1+2)	7.1	8.4	8.8	8.3	8.1	7.6	7.3	7.5	7.7	7.1
1. Social services	4.0	4.8	4.7	4.5	4.4	4.3	4.4	4.3	4.7	4.4
2. Economic services	3.1	3.6	4.1	3.8	3.6	3.3	2.9	3.3	3.1	2.7
B. Non-developmental	2.8	3.8	4.0	4.1	4.3	4.7	4.4	4.3	4.6	5.4
of which: Interest payments	1.0	1.5	1.6	1.7	1.8	1.9	1.8	1.8	2.0	2.0
to centre	0.6	0.9	1.0	1.0	1.1	1.1	1.1	1.1	1.2	1.2
to others	0.4	0.6	0.7	0.7	0.7	0.8	0.7	0.7	0.8	0.8
C. Transfer to local bodies	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.2	0.2
Net current balance	1.0	-0.8	-0.7	-0.7	-0.5	-0.6	-0.6	-1.1	-0.9	-1.9
Capital expenditure [A+B+C]	3.5	2.3	2.0	2.1	1.9	2.0	1.9	1.5	2.0	1.9
A. Developmental (1+2)	2.1	1.5	1.5	1.4	1.4	1.6	1.5	1.2	1.5	1.3
1. Social services	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3
2. Economic services	1.9	1.3	1.2	1.1	1.2	1.4	1.2	1.0	1.2	1.1
B. Non-developmental	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
C. Loans and advances (net)	1.4	0.7	0.5	0.7	0.5	0.3	0.4	0.3	0.5	0.5
Gross fiscal deficit	2.6	3.1	2.7	2.7	2.4	2.6	2.5	2.7	2.9	3.8
Financed by instrument:										
Market loans	0.2	0.4	0.5	0.5	0.5	0.4	0.5	0.5	0.5	0.5
Loans from centre (Net)	0.8	1.7	1.4	1.1	1.1	1.3	1.1	1.2	1.4	1.8
Small savings & provident funds	0.2	0.5	0.4	0.5	0.5	0.5	0.4	0.4	0.5	0.6
Other	1.3	0.4	0.4	0.6	0.3	0.4	0.5	0.6	0.5	0.9
Memo:										
Primary deficit	1.5	1.6	1.1	1.0	0.6	0.7	0.7	0.8	0.9	1.8
Total debt outstanding	17.6	20.6	20.5	20.2	19.8	17.8	17.4	17.2	18.2	18.6



* Refers to the revised GDP series with 1993-4 as the base. The figures prior to 1993-4 have been rebased using a linking factor.

Note: RE = Revised Estimate; BE = Budget Estimate.

Source: RBI, Report on Currency and Finance and RBI Bulletin, various issues; World Bank staff estimates.

ANNEX TABLE 8.9
India: Finances of CPEs

(Rs billion)

	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9 RE	1999-2000 BE
Net internal resources (NIR)	107.2	120.1	161.3	188.5	241.5	290.8	252.5	279.7	335.1	386.1
of which:										
Petroleum	27.2	26.3	54.8	45.5	76.6	91.4	56.5	57.4	101.8	107.6
Telecommunications	24.9	26.6	31.8	42.5	53.0	78.3	78.3	101.2	126.6	145.9
Railways	21.6	21.3	28.1	43.4	42.4	44.2	44.0	34.2	34.8	41.6
Chemicals and fertilizers	4.1	3.1	5.3	7.5	7.8	18.2	16.4	19.8	15.3	13.6
Power	3.5	6.1	2.6	5.6	10.4	11.1	7.9	7.0	6.3	12.0
Plan expenditure	280.5	294.2	366.6	438.9	485.9	521.8	542.5	549.6	578.0	681.6
of which:										
Petroleum	42.7	41.4	84.6	110.9	109.5	117.5	114.0	115.6	123.8	121.2
Telecommunications	31.1	36.5	50.7	64.7	75.4	98.3	100.8	111.4	134.9	167.9
Overall Balance	-173.3	-174.1	-205.3	-250.4	-244.3	-231.0	-290.0	-269.9	-242.8	-295.5
Financing:	173.3	174.1	205.3	250.4	244.3	231.0	290.0	269.9	242.8	295.5
External (net)	25.5	18.5	37.5	41.4	49.8	41.9	91.8	42.8	43.7	54.5
Domestic	147.8	155.6	167.9	209.0	194.6	189.1	198.2	227.1	199.1	241.0
Budget support	76.0	69.2	65.8	74.5	82.0	64.2	68.4	75.5	75.8	86.4
Loans	24.8	27.4	24.0	40.7	36.1	32.2	29.6	25.5	21.6	28.8
Equity	51.2	41.8	41.7	33.8	45.9	32.0	38.8	50.1	54.2	57.5
Bonds	49.3	57.2	62.9	62.4	72.3	77.9	84.4	94.9	89.2	109.8
Other	22.5	29.2	39.2	72.2	40.2	47.0	45.4	56.6	34.1	44.9
<i>Memo (%):</i>										
CPE deficit/GDP ^a	-3.0	-2.6	-2.7	-2.9	-2.4	-1.9	-2.1	-1.7	-1.3	-1.5
CPE deficit/GDP ^b	-2.6	-2.2	-2.1	-1.9	-1.8	-1.5	-1.5	-1.3	-1.2	-1.3
Plan exp./GDP	4.8	4.4	4.8	5.0	4.7	4.3	3.8	3.5	3.2	3.4
NIR/GDP	1.9	1.8	2.1	2.1	2.3	2.4	1.8	1.8	1.9	1.9
Budget support (Plan+Non-plan)/GDP	1.5	1.2	0.9	0.9	0.9	0.6	0.6	0.6	0.5	0.5
Share of petroleum and telecom in plan exp.	26.3	26.5	36.9	40.0	38.1	41.3	39.6	41.3	44.8	42.4
Share of petroleum and telecom in NIR	48.6	44.1	53.6	46.7	53.6	58.3	53.4	56.7	68.1	65.7
Non-plan loans to CPEs (Rs billion)	10.7	7.6	6.0	7.8	9.1	11.8	14.6	15.8	18.5	17.4

^a Refers to the deficit of all CPEs.^b Refers to the CPE deficit excluding Petroleum and Telecom.

Note: RE = Revised Estimate; BE = Budget Estimate.

Source: Union Budget 1999-2000.

ANNEX TABLE 8.10
Yearwise/PSU-wise Details of Shares Disinvested since 1991-2

S. No.	Name of the PSE	Per cent of central government holding (end March)							
		1991	1992	1993	1994	1995	1996	1997	1998
1	Andrew Yule	72.3	62.8	62.8	62.8	62.8	62.8	62.8*	62.8*
2	Bharat Earthmovers Ltd.	100.0	80.0	80.0	80.0	75.0	75.0	60.8	60.8
3	Bharat Electronics Ltd.	100.0	80.0	80.0	80.0	75.9	75.9	75.9	75.9
4	Bharat Heavy Electricals Ltd.	100.0	80.0	79.5	79.5	68.5	67.7	67.7	67.7
5	Bharat Petroleum Corpn. Ltd.	100.0	80.0	70.0	70.0	70.0	66.2	66.2	66.2
6	Bongaigaon Refineries & Petro. Ltd.	100.0	80.0	74.6	74.6	74.6	74.5	74.5	74.5
7	CMC Ltd.	100.0	83.5	83.5	83.5	83.3	83.3	83.3	83.3
8	Cochin Refineries Ltd.	61.1	55.0	55.0	55.0	55.0	55.0	55.0*	55.0*
9	Dredging Corpn. Ltd.	100.0	98.6	98.6	98.6	98.6	98.6	98.6	98.6
10	Fert. & Chem. (Travancore) Ltd.	100.0	98.5	98.3	98.3	98.3	98.3	97.4*	97.4*
11	HMT Ltd.	100.0	95.1	90.3	90.3	90.3	90.3	91.6	91.6
12	Hindustan Cables Ltd.	100.0	96.4	98.0	96.4	96.4	96.0	99.0	99.0
13	Hindustan Copper Ltd.	100.0	100.0	98.9	98.9	98.9	98.9	99.0	98.8
14	Hindustan Organic Chemicals Ltd.	100.0	80.0	80.0	80.0	80.0	80.0	58.6	58.6
15	Hindustan Petroleum Corpn. Ltd.	100.0	80.0	69.9	69.7	63.0	60.1	51.0	51.1
16	Hindustan Photofilms Mfg. Co. Ltd.	100.0	87.5	87.5	87.5	87.5	87.5	90.1	90.1
17	Hindustan Zinc Ltd.	100.0	80.1	75.9	75.9	75.1	75.1	75.9	75.9
18	Indian Petrochemicals Corpn. Ltd.	100.0	80.0	80.0	80.0	80.0	80.0	60.0	60.0
19	Indian Railway Const. Co.Ltd.	100.0	99.7	99.7	99.7	99.7	99.7	99.7	99.7
20	Indian Telephone Industries Ltd.	100.0	80.1	78.2	78.2	78.1	77.0	76.7*	76.7*
21	Madras Refineries Ltd.	84.6	67.7	67.7	67.7	67.7	67.7	53.8*	53.8*
22	Mahanagar Telephone Nigam Ltd.	100.0	80.0	80.0	80.0	67.2	65.7	65.7	56.2
23	Minerals & Metals Trading Corpn.	100.0	99.4	99.4	99.4	99.3	99.3	99.3	99.3
24	National Aluminium Co. Ltd.	100.0	97.3	87.2	87.2	87.2	87.2	87.2	87.2
25	National Fertilizers Ltd.	100.0	97.7	97.7	97.7	97.7	97.7	97.7	97.7
26	National Minerals Dev. Corpn Ltd.	100.0	100.0	98.4	98.4	98.4	98.4	96.4*	96.4*
27	Neyveli Lignite Corporation	100.0	95.4	94.0	94.0	94.0	94.0	94.0	94.0
28	Rashtriya Chemicals & Fertilizers	100.0	94.4	92.5	92.5	92.5	92.5	92.5	93.0
29	Shipping corpn. of India	100.0	81.5	81.5	81.5	80.1	80.1	80.1	80.1
30	State Trading Corpn.	100.0	92.0	91.0	91.0	91.0	91.0	91.0	91.0
31	Steel Authority of India Ltd.	100.0	95.0	89.5	89.5	89.4	88.9	85.8	85.8
32	Videsh Sanchar Nigam Ltd.	100.0	85.0	85.0	85.0	85.0	82.0	67.0	67.0
33	Container Corporation of India	100.0	100.0	100.0	100.0	80.0	76.9	76.9	76.9
34	Indian Oil Corporation	99.9	99.9	99.9	99.9	96.0	91.2	91.1*	91.1*
35	Oil & Natural Gas Corporation	100.0	100.0	100.0	100.0	98.0	96.1	96.1	96.1
36	Engineers India Ltd.	100.0	100.0	100.0	100.0	94.0	94.0	94.0	94.0
37	Gas Authority of India Ltd.	100.0	100.0	100.0	100.0	96.6	96.6	96.6	97.0
38	Indian Tourism & Dev. Corp.	100.0	100.0	100.0	100.0	90.0	90.0	90.0	90.0
39	Kudermukh Iron & Ore Company Ltd.	100.0	100.0	100.0	100.0	99.0	99.0	99.0	99.0

* The balance equity is held by state governments/other collaborators.

Note: 1999 not available.

Source: Public Enterprises Survey, various issues.

ANNEX TABLE 8.11
 India: Estimated Capital Inflows and Debt Stocks^a, 1991-2 to 1998-9

(US \$ billion)

	Average annual inflows				Debt outstanding as of			
	1991-2 to 1993-4	1994-5 to 1996-7	1997-8	1998-9 ^P	Mar. 1991	Mar. 1994	Mar. 1998	Mar. 1999
External debt ^c	—	—	—	—	91.2	94.5	94.3	98.2
Public & publicly guaranteed ^b	3.5	-1.4	0.5	1.0	60.9	71.2	71.4	72.4
NRI foreign currency & RIB NRI rupees ^c	0.8	-0.6	0.9	4.2	10.2	12.7	12.0	16.1
Private medium & long-term	0.6	1.7	1.5	1.1	3.6	5.3	11.9	13.0
Short-term	0.1	1.9	1.8	-3.7	1.5	1.8	10.3	6.6
	-1.6	1.0	-1.7	-0.7	8.5	3.6	5.0	4.3
Non-debt flows								
FDI	0.3	2.0	3.6	2.4	—	—	—	—
Portfolio from foreign institutional investors	0.6	1.8	1.8	-0.4	—	—	—	—
GDRs & offshore	0.7	1.5	0.8	0.3	—	—	—	—
Total debt and non-debt	5.8	7.4	4.7	5.3	—	—	—	—
<i>Memo:</i>								
Errors and Omissions	-0.1	0.2	0.2	0.3	—	—	—	—
Current Account Deficit	1.8	5.0	5.9	4.3	—	—	—	—

— Not available.

^P Projected.^a Differences in stocks of public and publicly guaranteed debt are not equal to the sums of flows because of exchange rate changes.^b Includes IMF; excludes NRI foreign currency deposits—beginning in 1992-3, new NRI deposits had no explicit government guarantees.^c Part of these rupee deposits, which are non-repatriable, are not included in the external debt statistics; therefore, the sub-items may not add up to the total.

Source: External Debt, World Bank; NRI deposits and non-debt flows, RBI Annual Report 1999.

ANNEX TABLE 8.12
Details of Mobilization in the Primary Market

	1994-5		1995-6		1996-7		1997-8		1998-9 ^P	
	No of issues	Amount (Rs bn)	No of issues	Amount (Rs bn)						
Non-government public limited companies	1678	264.2	1670	161.2	842	104.2	102	31.4	48	50.1
Public sector undertakings (PSU bonds)	15	30.7	22	22.9	16	33.9	19	29.8	8	9.8
Government companies (Equities + Bonds)	7	8.9	2	10.0	3	6.5	1	0.4	—	—
Banking/financial institutions	2	4.3	6	34.7	6	43.5	4	14.8	3	43.5
Total	1702	308.0	1700	228.8	867	188.1	126	76.4	59	103.4
<i>Memo:</i>										
Euro/FCCB issues	31	67.4	5	13.0	16	55.9	7	40.1	3	11.5
UTI	18	86.1	34	-63.1	40	-30.4	79	28.8*	84	1.7*
Other mutual funds	36	26.6	39	4.8	47	10.1	58	11.3	82	29.2

— Not available.

^P Provisional.

* Net sales value with premium under all domestic schemes, includes reinvestment sales.

Note: In case of PSU bonds, the cumulative data are based on the details as and when made available to RBI by PSUs. PSU bonds include private placements.

Source: RBI.

STATISTICAL APPENDIX

Statistical Appendix

I. National Accounts

A1.1(a)	National Accounts Summary (Rs billion at current prices)	191
A1.1(b)	National Accounts Summary (Rs billion at 1993-4 prices)	192
A1.2(a)	Gross Domestic Product at Factor Cost by Industry or Origin (Rs billion at current prices)	194
A1.2(b)	Gross Domestic Product at Factor Cost by Industry or Origin (Rs billion at 1993-4 prices)	195
A1.2(c)	Implicit Price Deflators for GDP at Factor Cost	196
A1.3	Gross Savings and Investment (Rs billion)	197
A1.4	Disposable Income and Its Use (Rs billion at current prices)	198
A1.5(a)	Gross Domestic Investment by Industry of Origin (Rs billion at current prices)	199
A1.5(b)	Gross Domestic Investment by Industry of Origin (Rs billion at 1993-4 prices)	200
A1.5(c)	Investment Deflators by Industry of Use (1993-4 = 100)	201
A1.6(a)	Gross Domestic Investment in Public Sector (Rs billion at current prices)	202
A1.6(b)	Gross Domestic Investment in Public Sector (Rs billion at 1993-4 prices)	203

II. Balance of payments--Current Accounts

A2.1	Balance of Payments (US \$ million at current prices)	204
A2.2(a)	Merchandise Exports (US \$ million at current prices)	206
A2.2(b)	Merchandise Exports (US \$ million at 1980-1 prices)	207
A2.2(c)	Export Unit Value Indices (US \$ terms, at 1980-1 = 100 prices)	208
A2.3(a)	Merchandise Exports (US \$ million at current prices)	209
A2.3(b)	Merchandise Exports (US \$ million at 1980-1 prices)	210
A2.3(c)	Import Unit Value Indices (US \$ terms, at 1980-1 = 100 prices)	211
A2.4	Invisible on Current Account (US \$ million)	212
A2.5	Decomposition of Recent Export Growth (US \$ million at current prices--annual averages)	213

III. Balance of payments—Capital Accounts

A3.1(a)	External Debt Summary: Debt Outstanding and Disbursed (US \$ million at current prices)	214
A3.1(b)	External Debt Summary: Disbursements (US \$ million at current prices)	215
A3.1(c)	External Debt Summary: Principal Repayments (US \$ million at current prices)	216
A3.1(d)	External Debt Summary: Net Flows (US \$ million at current prices)	217
A3.1(e)	External Debt Summary: Interest Payments (US \$ million at current prices)	218
A3.2	External Reserves (US \$ million at current prices)	219

IV. Balance of payments—Current Accounts

A4.1	Central Government Finances Summary (Rs billion at current prices)	220
A4.2	Budgetary Classification of Central Government Finances (Rs billion at current prices)	222
A4.3	Budgetary Classification of State Government Finances (Rs billion at current prices)	224
A4.4	Budgetary Classification of General Government Finances (Rs billion at current prices)	225
A4.5	Tax Revenue: Centre and States (Rs billion at current prices)	226
A4.6	Non-tax Revenue: Centre and States (Rs billion at current prices)	227
A4.7	Revenue Expenditure of the Central Government (Rs billion at current prices)	228
A4.8	Revenue Expenditure of the State Governments (Rs billion at current prices)	230
A4.9	Capital Expenditure: Centre and States (Rs billion at current prices)	231
A4.10	Transfers between Centre and States (Rs billion at current prices)	233
A4.11	Explicit Subsidies in the Central Government Budget (Rs billion at current prices)	234
A4.12	Outstanding Debt of Central Government (Rs billion at current prices)	235
A4.13	Outstanding Debt of State Governments (Rs billion at current prices)	237
A4.14	Outstanding Debt of Central and State Governments (Rs billion at current prices)	238
A4.15(a)	Projected and Actual Plan Outlays by Sectors (Rs billion at current prices)	239
A4.15(b)	Projected and Actual Plan Outlays by Sectors (annual averages at 1980-1 prices—Rs billion)	240
A4.15(c)	Projected and Actual Plan Outlays by Sectors (percentage distribution and achievement rates)	241

V. Money and Credit

A5.1	Money Supply and Sources of Change (Rs billion)	242
A5.2	Base Money Supply and Sources of Change 1985-6 to 1998-9 (Rs billion)	243
A5.3	Selected Monetary Policy Instruments	244
A5.4	Structure of Short-term and Long-term Interest Rates (per cent per annum)	245
A5.5	Sectoral Deployment of Gross Bank Credit (Rs billion—change during year)	246

VI. Agriculture, Industry, Transport, Energy, and Prices

A6.1	Production of Major Crops	247
A6.2	Irrigated Area under Different Crops (million hectares)	248
A6.3	Yield per Hectare of Major Crops (kgs)	249
A6.4	Net Availability, Procurement, and Public Distribution of Foodgrains (million tons)	250
A6.5(a)	New Index of Industrial Production (1993-4 = 100)	251
A6.5(b)	Index of Industrial Production (1980-1 = 100, old series)	252
A6.6	Production, Imports and, Consumption of Fertilizers (000' nutrient tons)	253
A6.7	Indian Railways: Freight and Passenger Traffic	254
A6.8	Petroleum Summary: Commodity Balance of Petroleum and Products (million tons)	255
A6.9	Generation, Consumption, and Capacity of Electricity (000' GWH)	256
A6.10	New Index Numbers of Wholesale Prices by Years (1981-2 = 100)	258
A6.11	Consumer Price Index Numbers for Industrial Workers, Urban Non-manual Employees, and Agricultural Labourers	259

TABLE A1.1 (a)
National Accounts Summary

(Rs billion at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
GDPfc	3214.86	3845.67	4455.78	5209.77	6027.01	6877.52	7990.77	9434.08	11,032.38	12,852.59	14,266.70
Agriculture and allied industry	999.72	1234.62	1375.33	1602.66	1871.15	2091.67	2424.38	2840.42	3127.91	3760.91	3921.34
Mining and Quarrying	844.46	1010.05	1207.18	1411.47	1553.66	1798.12	2058.00	2475.42	2997.92	3352.69	3727.24
Manufacturing	83.00	107.87	120.76	138.06	149.98	170.91	197.02	223.94	245.88	272.09	293.77
Construction	523.53	623.16	764.47	883.99	955.52	1100.71	1266.97	1550.16	1920.70	2152.93	2398.63
Electricity	174.96	205.42	234.32	284.29	320.35	364.60	404.33	463.69	554.63	629.13	676.63
Services	62.98	73.60	87.64	105.13	127.80	161.90	189.68	237.63	276.71	298.54	358.21
Net indirect taxes	1370.68	1601.00	1873.26	2195.64	2602.21	2987.73	3508.39	4118.24	4906.55	5738.99	6618.12
GDPmp	389.23	435.33	485.46	582.87	644.63	758.09	778.75	944.34	1147.25	1245.90	1368.82
GDPmp	3604.09	4281.00	4941.23	5792.64	6671.65	7635.61	8769.52	10,378.42	12,179.63	14,098.49	15,635.52
Resource gap (M-X)	85.93	124.93	112.19	151.79	39.01	125.43	110.46	265.23	386.69	500.17	527.20
Imports (g+nfs)	296.23	388.59	465.46	565.11	610.00	808.31	987.25	1301.08	1713.70	1977.25	2203.37
Exports (g+nfs)	210.31	263.66	353.28	413.32	570.99	682.88	876.78	1035.85	1327.01	1477.08	1676.17
Total expenditure	3690.02	4405.93	5053.42	5944.43	6710.66	7761.04	8879.98	10,643.65	12,566.32	14,598.66	16,162.72
Consumption	2899.67	3388.35	3890.36	4517.92	5232.30	5970.39	7058.98	8263.01	9446.53	11,334.96	12,509.17
General govt.	437.11	506.54	580.09	661.17	743.36	841.14	962.40	1071.69	1270.24	1440.49	1738.64
Private	2462.56	2881.81	3310.28	3856.75	4488.94	5129.25	6096.58	7191.32	8176.29	9894.47	10,770.53
Investment	790.35	1017.58	1163.06	1426.51	1478.36	1790.65	1821.00	2380.64	3119.79	3263.70	3653.55
Fixed investment	757.96	899.43	1079.03	1301.91	1433.13	1667.82	1834.18	2224.59	2901.13	3270.90	3578.36
Change in stocks	32.39	118.15	84.04	124.61	45.22	122.82	-13.18	156.05	218.66	-7.20	75.19
Domestic savings	704.42	892.65	1050.87	1274.72	1439.35	1665.22	1710.54	2115.41	2733.10	2763.53	3126.35
Net factor income	-8.59	-15.29	-13.29	-64.36	-81.50	-89.79	-98.35	-100.70	-97.54	-104.27	-107.91
Current transfers	34.99	38.42	38.01	37.14	92.75	112.11	165.18	254.11	284.63	439.04	439.58
National savings	730.82	915.78	1075.59	1247.49	1450.60	1687.54	1777.36	2268.83	2920.19	3098.30	3458.02
Foreign savings	59.53	101.79	87.47	182.00	40.16	112.43	47.88	118.75	209.31	178.53	218.45
GDP per capita (Rs)	4573.72	5318.02	6011.23	6904.22	7793.98	8756.43	9842.33	11,429.98	13,138.76	14,950.68	16,303.98
Per capita private consumption	3125.08	3579.89	4027.10	4596.84	5244.09	5882.16	6842.41	7919.95	8820.16	10,492.55	11,231.00
Average exchange rates:											
Rupees per US \$	12.97	14.48	16.66	17.95	24.52	28.95	31.37	31.40	33.46	35.50	37.16
Rupees per SDR	17.12	19.26	21.37	24.85	33.43	37.14	43.89	45.79	50.48	50.89	51.22
<i>Memo Items:</i>											
Priv. consumption (CSO)	2547.39	2944.54	3297.88	3778.71	4378.84	4949.20	5672.39	6604.60	7573.84	8862.30	9604.01
Population (mill)	788.00	805.00	822.00	839.00	856.00	872.00	891.00	908.00	927.00	943.00	959.00

Notes: 1. Data prior to 1993-4 are estimated using the old series growth rates.

2. Exports, Imports, Foreign savings, Net factor income and Capital transfers numbers are used from the BOP.

Source: CSO, National Accounts Statistics 1998; Quick Estimates 1999; and World Bank staff estimates.

TABLE A1.1 (b)
National Accounts Summary

(Rs billion at 1993-4 prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
GDPfc	5691.12	6297.22	6731.33	7092.20	7150.01	7526.15	7990.77	8610.64	9264.12	9989.78	10,491.91
Agriculture and allied industry	1837.27	2135.04	2173.45	2255.24	2204.29	2337.50	2424.38	2555.22	2560.96	2801.79	2774.18
Mining and quarrying	1452.54	1587.93	1744.76	1877.59	1864.77	1940.14	2058.00	2249.02	2523.90	2676.09	2834.44
Manufacturing	135.21	155.49	166.86	184.68	191.49	193.68	197.02	215.11	231.08	233.93	240.18
Registered	901.84	981.59	1097.24	1163.54	1121.23	1167.49	1266.97	1400.95	1611.01	1734.43	1851.80
Unregistered	558.89	618.36	704.19	739.51	722.59	745.31	830.77	938.40	1082.00	1168.36	1261.33
Construction	342.95	363.23	393.05	424.03	398.64	422.18	436.20	462.55	529.01	566.07	590.47
Electricity	299.93	323.15	339.65	379.22	387.48	400.55	404.33	425.60	460.54	473.82	493.13
Services	115.56	127.71	141.01	150.15	164.58	178.41	189.68	207.36	221.27	233.91	249.33
Net indirect taxes	2401.32	2574.25	2813.12	2959.37	3080.95	3248.51	3508.39	3806.40	4179.26	4511.90	4883.29
GDPmp	685.10	711.75	738.30	800.28	775.88	829.36	778.75	852.71	958.73	974.55	1018.23
Terms of trade effect	6376.23	7008.97	7469.63	7892.48	7925.89	8355.51	8769.52	9463.35	10,222.85	10,964.33	11,510.14
Gross domestic income	9.68	40.82	32.49	-25.13	-15.50	-15.52	0.00	-23.18	-176.47	-198.41	-124.72
Resource gap (M-X)	6385.91	7049.79	7502.12	7867.36	7910.39	8339.99	8769.52	9440.17	10,046.38	10,765.92	11,385.42
Imports (g+nfs)	217.17	307.30	231.10	203.22	32.41	122.39	110.46	213.26	138.78	190.55	286.13
Capacity to import [Exports (g+nfs)]	715.35	828.92	824.04	850.12	749.17	888.72	987.25	1159.88	1397.11	1537.61	1717.09
Total expenditure	507.86	562.44	625.43	621.78	701.26	750.82	876.78	923.44	1081.85	1148.65	1306.24
Consumption	498.18	521.62	592.94	646.90	716.76	766.33	876.78	946.62	1258.32	1347.07	1430.96
General govt	6603.08	7357.09	7733.23	8070.58	7942.80	8462.38	8879.98	9653.43	10185.16	10956.47	11,671.55
Private	5203.11	5696.10	6035.15	6164.75	6246.44	6556.25	7058.98	7470.43	7574.43	8380.22	8897.65
Investment	765.33	806.13	851.62	880.13	875.16	904.44	962.40	1036.88	1193.05	1327.85	1585.14
Fixed investment	4437.79	4889.98	5183.53	5284.62	5371.28	5651.80	6096.58	6433.55	6381.38	7052.37	7312.51
Change in stocks	1399.97	1660.99	1698.08	1905.83	1696.37	1906.13	1821.00	2183.00	2610.73	2576.25	2773.90
Domestic savings	1324.24	1417.54	1540.60	1693.32	1625.54	1738.73	1834.18	2041.52	2428.26	2582.38	2716.53
Net factor income	75.73	243.45	157.48	212.51	70.82	167.40	-13.18	141.48	182.47	-6.13	57.37
Current transfers	1260.52	1490.56	1608.14	1730.65	1703.63	1815.70	1710.54	1918.61	2215.21	2074.06	2257.62
National savings	-20.75	-32.61	-23.53	-96.83	-100.09	-98.72	-98.35	-89.77	-79.52	-81.08	-84.09
Foreign savings	84.49	81.96	67.29	55.86	113.92	123.26	165.18	226.53	232.05	341.42	342.57
GDP per capita (Rs)	1324.27	1539.91	1651.90	1689.69	1717.45	1840.24	1777.36	2055.37	2367.74	2334.40	2516.10
Per capita private consumption	153.43	257.96	187.35	244.18	18.59	97.84	43.64	76.50	-13.74	-69.79	27.65

(Contd.)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
Rupee deflators (1993-4 = 100):											
GDPmp	56.52	61.08	66.15	73.39	84.18	91.38	100.00	109.67	119.14	128.59	135.84
Imports(g+nfs)	41.41	46.88	56.49	66.47	81.42	90.95	100.00	112.17	122.66	128.59	128.32
Exports(g+nfs)	42.22	50.55	59.58	63.89	79.66	89.11	100.00	109.43	105.46	109.65	117.14
Total expenditure	55.88	59.89	65.35	73.66	84.49	91.71	100.00	110.26	123.38	133.24	138.48
Govt consumption	57.11	62.84	68.12	75.12	84.94	93.00	100.00	103.36	106.47	108.48	109.68
Priv. consumption	55.49	58.93	63.86	72.98	83.57	90.75	100.00	111.78	128.13	140.30	147.29
Fixed investment	57.24	63.45	70.04	76.88	88.16	95.92	100.00	108.97	119.47	126.66	131.73
Total investment	56.45	61.26	68.49	74.85	87.15	93.94	100.00	109.05	119.50	126.68	131.71

Notes: 1. Data prior to 1993-4 are estimated using the old series growth rates.

2. Exports, Imports, Foreign savings, Net factor Income and Capital transfers numbers are used from the BOP.

Source: CSO, *National Accounts Statistics 1998*; Quick Estimates 1999; and World Bank staff estimates.

TABLE A1.2 (a)
Gross Domestic Product at Factor Cost by Industry of Origin

(Rs billion at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
Agricultural sector	999.72	1234.62	1375.33	1602.66	1871.15	2091.67	2424.38	2840.42	3127.91	3760.91	3921.34
Agriculture	903.26	1125.93	1248.62	1461.85	1722.90	1924.19	2231.48	2612.39	2876.97	3475.01	3595.86
Forestry & logging	64.17	70.92	81.25	86.01	87.14	91.96	102.16	117.04	123.65	135.35	144.69
Fishing	32.29	37.78	45.46	54.80	61.10	75.52	90.74	110.99	127.29	150.55	180.79
Industry sector	844.46	1010.05	1207.18	1411.47	1553.66	1798.12	2058.00	2475.42	2997.92	3352.69	3727.24
Mining & quarrying	83.00	107.87	120.76	138.06	149.98	170.91	197.02	223.94	245.88	272.09	293.77
Manufacturing	523.53	623.16	764.47	883.99	955.52	1100.71	1266.97	1550.16	1920.70	2152.93	2398.63
Registered	329.40	399.38	494.69	568.17	622.27	704.60	830.77	1035.75	1281.75	1443.33	1616.74
Unregistered	194.13	223.78	269.77	315.82	333.25	396.11	436.20	514.41	638.95	709.60	781.89
Electricity, gas, & water	62.98	73.60	87.64	105.13	127.80	161.90	189.68	237.63	276.71	298.54	358.21
Construction	174.96	205.42	234.32	284.29	320.35	364.60	404.33	463.69	554.63	629.13	676.63
Services sector	1370.68	1601.00	1873.26	2195.64	2602.21	2987.73	3508.39	4118.24	4906.55	5738.99	6618.12
Transport, Storage, & Com.	205.72	246.53	286.31	350.20	423.53	505.21	579.90	686.39	777.93	923.67	1079.03
Railways	43.56	47.51	55.75	64.33	73.42	84.46	96.48	112.03	125.80	132.56	147.49
Other transport	128.88	157.42	183.84	230.62	284.49	339.45	383.14	448.54	501.58	610.51	719.21
Storage	3.39	3.57	4.15	4.76	5.10	5.59	6.08	7.38	8.45	9.28	9.95
Communication	29.90	38.03	42.57	50.49	60.53	75.72	94.20	118.44	142.10	171.32	202.38
Trade, hotels etc.	435.19	512.06	599.11	700.72	801.77	937.21	1109.95	1356.12	1648.66	1970.80	2218.10
Banking & insurance	106.56	128.27	163.82	201.74	282.25	298.66	416.65	500.98	658.85	770.13	879.56
Real estate etc.	276.69	301.70	334.28	361.92	397.19	435.11	479.18	525.57	574.77	620.98	672.51
Public admin, & defence	193.60	224.99	260.32	292.42	339.15	391.03	430.94	480.09	565.87	646.42	832.77
Other services	152.91	187.46	229.42	288.64	358.32	420.49	491.77	569.09	680.47	806.99	936.15
GDP at factor cost	3214.86	3845.67	4455.78	5209.77	6027.01	6877.52	7990.77	9434.08	11032.38	12852.59	14266.70

Note: Data prior to 1993-4 are estimated using the old series growth rates.

Source: CSO, *National Accounts Statistics 1998*, Quick Estimates 1999; and World Bank staff estimates.

TABLE A1.2 (b)
Gross Domestic Product at Factor Cost by Industry of Origin

(Rs billion at 1993-4 prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
Agricultural sector	1837.27	2135.04	2173.45	2255.24	2204.29	2337.50	2424.38	2555.22	2560.96	2801.79	2774.18
Agriculture	1671.46	1966.06	1987.37	2069.59	2015.53	2148.85	2231.48	2350.60	2348.42	2574.78	2541.48
Forestry & logging	105.88	104.25	113.29	110.10	109.32	104.61	102.16	106.52	108.08	111.83	115.71
Fishing	59.93	64.73	72.79	75.55	79.43	84.04	90.74	98.10	104.46	115.18	116.99
Industry sector	1452.54	1587.93	1744.76	1877.59	1864.77	1940.14	2058.00	2249.02	2523.90	2676.09	2834.44
Mining & quarrying	135.21	155.49	166.86	184.68	191.49	193.68	197.02	215.11	231.08	233.93	240.18
Manufacturing	901.84	981.59	1097.24	1163.54	1121.23	1167.49	1266.97	1400.95	1611.01	1734.43	1851.80
Registered	558.89	618.36	704.19	739.51	722.59	745.31	830.77	938.40	1082.00	1168.36	1261.33
Unregistered	342.95	363.23	393.05	424.03	398.64	422.18	436.20	462.55	529.01	566.07	590.47
Electricity, gas, & water	115.56	127.71	141.01	150.15	164.58	178.41	189.68	207.36	221.27	233.91	249.33
Construction	299.93	323.15	339.65	379.22	387.48	400.55	404.33	425.60	460.54	473.82	493.13
Services sector	2401.32	2574.25	2813.12	2959.37	3080.95	3248.51	3508.39	3806.40	4179.26	4511.90	4883.29
Transport, storage, & com.	412.91	437.23	474.35	496.53	524.50	549.65	579.90	631.18	687.88	749.56	798.19
Railways	87.09	86.20	89.68	92.67	98.25	97.14	96.48	98.46	106.47	111.89	115.21
Other transport	260.18	282.24	311.71	326.33	343.87	361.70	383.14	417.06	445.13	478.95	501.44
Storage	5.55	5.39	5.59	5.82	5.75	5.92	6.08	6.21	6.52	6.46	6.55
Communication	60.09	63.39	67.38	71.71	76.63	84.90	94.20	109.45	129.76	152.26	174.99
Trade, hotels, etc.	782.52	839.38	905.64	954.06	962.93	1028.47	1109.95	1275.32	1438.58	1559.54	1643.55
Banking & insurance	185.60	216.30	257.59	280.17	328.78	347.69	416.65	451.90	513.43	580.94	658.14
Real estate etc.	391.28	404.54	418.62	435.02	448.82	463.61	479.18	494.19	510.95	524.81	540.00
Public admin & defence	335.00	357.03	387.13	391.07	399.42	420.13	430.94	436.20	466.35	487.36	586.31
Other services	294.01	319.77	369.78	402.53	416.50	438.95	491.77	517.61	562.07	609.69	657.10
GDP at factor cost	5691.12	6297.22	6731.33	7092.20	7150.01	7526.15	7990.77	8610.64	9264.12	9989.78	10,491.91

Note: Data prior to 1993-4 are estimated using the old series growth rates.

Source: CSO, *National Accounts Statistics 1998*, Quick Estimates 1999; and World Bank staff estimates.

TABLE A1.2 (c)
Implicit Price Deflators for GDP at Factor Cost

(1993-4=100)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
Agricultural sector	54.41	57.83	63.28	71.06	84.89	89.48	100.00	111.16	122.14	134.23	141.35
Agriculture	54.04	57.27	62.83	70.63	85.48	89.54	100.00	111.14	122.51	134.96	141.49
Forestry & logging	60.60	68.03	71.72	78.12	79.71	87.91	100.00	109.88	114.41	121.03	125.05
Fishing	53.89	58.36	62.46	72.54	76.92	89.86	100.00	113.14	121.86	130.71	154.53
Industry sector	58.14	63.61	69.19	75.17	83.32	92.68	100.00	110.07	118.78	125.28	131.50
Mining & quarrying	61.39	69.37	72.37	74.75	78.33	88.24	100.00	104.10	106.40	116.31	122.31
Manufacturing	58.05	63.49	69.67	75.97	85.22	94.28	100.00	110.65	119.22	124.13	129.53
Registered	58.94	64.59	70.25	76.83	86.12	94.54	100.00	110.37	118.46	123.53	128.18
Unregistered	56.61	61.61	68.64	74.48	83.60	93.83	100.00	111.21	120.78	125.36	132.42
Electricity, gas, & water	54.50	57.63	62.15	70.02	77.65	90.74	100.00	114.60	125.06	127.63	143.67
Construction	58.33	63.57	68.99	74.97	82.68	91.03	100.00	108.95	120.43	132.78	137.21
Services sector	57.08	62.19	66.59	74.19	84.46	91.97	100.00	108.19	117.40	127.20	135.53
Transport, storage, & com.	49.82	56.38	60.36	70.53	80.75	91.91	100.00	108.75	113.09	123.23	135.18
Railways	50.02	55.11	62.16	69.42	74.73	86.94	100.00	113.78	118.16	118.47	128.02
Other transport	49.53	55.77	58.98	70.67	82.73	93.85	100.00	107.55	112.68	127.47	143.43
Storage	60.99	66.22	74.21	81.74	88.62	94.47	100.00	118.84	129.60	143.65	151.91
Communication	49.75	59.99	63.19	70.42	78.99	89.19	100.00	108.21	109.51	112.52	115.65
Trade, hotels etc.	55.61	61.00	66.15	73.45	83.26	91.13	100.00	106.34	114.60	126.37	134.96
Banking & insurance	57.41	59.30	63.60	72.01	85.85	85.90	100.00	110.86	128.32	132.57	133.64
Real estate etc.	70.72	74.58	79.85	83.20	88.50	93.85	100.00	106.35	112.49	118.32	124.54
Public admin. & defence	57.79	63.02	67.24	74.78	84.91	93.07	100.00	110.06	121.34	132.64	142.04
Other services	52.01	58.62	62.04	71.71	86.03	95.80	100.00	109.95	121.06	132.36	142.47
GDP at factor cost	56.49	61.07	66.19	73.46	84.29	91.38	100.00	109.56	119.09	128.66	135.98

Source: Derived from Tables A 1.2(a) and A 1.2(b).

TABLE A1.3
Gross Savings and Investment

(Rs billion)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
(At current prices)											
Gross National Savings	730.82	915.78	1075.59	1247.49	1450.60	1687.54	1777.36	2268.83	2920.19	3098.30	3458.02
Households	600.32	751.05	884.12	1042.79	1130.41	1382.29	1434.92	1759.93	2108.61	2300.94	2705.15
Private corporate sector	58.27	83.72	117.24	150.35	201.31	197.60	296.67	350.28	582.63	584.68	588.87
Public sector	72.23	81.01	74.23	54.36	118.88	107.65	45.77	158.62	228.95	212.68	164.00
Foreign savings	59.53	101.79	87.47	182.00	40.16	112.43	47.88	118.75	209.31	178.53	218.45
Gross Domestic Investment	790.35	1017.58	1163.06	1426.51	1478.36	1790.65	1821.00	2380.64	3119.79	3263.70	3653.55
Change in stocks	32.39	118.15	84.04	124.61	45.22	122.82	-13.18	156.05	218.66	-7.20	75.19
Gross Fixed Capital Formation	757.96	899.43	1079.03	1301.91	1433.13	1667.82	1834.18	2224.59	2901.13	3270.90	3578.36
By type of asset:											
Construction	373.67	445.11	515.21	627.57	718.42	812.79	871.92	1006.54	1214.78	1332.21	1415.01
Machinery & equipment	384.29	454.32	563.82	674.34	714.71	855.04	962.26	1218.05	1686.35	1938.69	2163.35
By sector:											
Public sector	352.04	405.96	446.65	510.95	598.13	612.18	687.90	887.82	912.34	923.97	1068.56
Private sector	376.23	458.03	589.13	738.28	777.66	987.40	1146.28	1336.77	1988.79	2346.93	2509.80
GDPmp at current prices	3604.09	4281.00	4941.23	5792.64	6671.65	7635.61	8769.52	10,378.42	12,179.63	14,098.49	15,635.52
(At 1993-4 prices)											
Gross Domestic Investment	1399.97	1660.99	1698.08	1905.83	1696.37	1906.13	1821.00	2183.00	2610.73	2576.25	2773.90
Change in stocks	75.73	243.45	157.48	212.51	70.82	167.40	-13.18	141.48	182.47	-6.13	57.37
Gross Fixed Capital Formation	1324.24	1417.54	1540.60	1693.32	1625.54	1738.73	1834.18	2041.52	2428.26	2582.38	2716.53
By type of asset:											
Construction	150.45	164.23	170.69	187.57	191.91	197.49	871.92	922.81	991.26	1003.99	996.25
Machinery & equipment	1173.79	1253.31	1369.91	1505.75	1433.63	1541.24	962.26	1118.71	1437.00	1578.39	1720.28
By sector:											
Public sector	186.60	195.39	196.51	206.01	210.12	195.08	687.90	815.01	762.79	717.02	778.90
Private sector	212.95	232.31	268.32	304.90	280.34	329.53	1146.28	1226.51	1665.47	1865.36	1937.63

Notes:

1. Data prior to 1993-4 are estimated using the old series growth rates.
2. Exports, Imports, Foreign savings, Net factor income, and Capital transfers numbers are used from the BOP.

Source: CSO, *National Accounts Statistics 1998*; Quick Estimates 1999; and World Bank staff estimates.

TABLE A1.4
Disposable Income and Its Uses

(Rs billion at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
GDPmp	3604.09	4281.00	4941.23	5792.64	6671.65	7635.61	8769.52	10378.42	12179.63	14098.49	15635.52
Net factor income from abroad	-8.59	-15.29	-13.29	-64.36	-81.50	-89.79	-98.35	-100.70	-97.54	-104.27	-107.91
Other current transfers	34.99	38.42	38.01	37.14	92.75	112.11	165.18	254.11	284.63	439.04	439.58
Disposable income	3630.49	4304.13	4965.95	5765.41	6682.90	7657.93	8836.34	10531.84	12366.72	14433.26	15967.19
Private disposable income	3121.15	3716.58	4311.63	5049.88	5820.66	6709.14	7828.17	9301.53	10867.53	12780.09	14064.55
Public disposable income	509.34	587.55	654.32	715.53	862.24	948.79	1008.17	1230.31	1499.19	1653.17	1902.64
Gross National Savings	730.82	915.78	1075.59	1247.49	1450.60	1687.54	1777.36	2268.83	2920.19	3098.30	3458.02
Private savings	658.59	834.77	1001.36	1193.13	1331.72	1579.89	1731.59	2110.21	2691.24	2885.62	3294.02
Public savings	72.23	81.01	74.23	54.36	118.88	107.65	45.77	158.62	228.95	212.68	164.00
Final Consumption	2899.67	3388.35	3890.36	4517.92	5232.30	5970.39	7058.98	8263.01	9446.53	11334.96	12509.17
Private consumption	2462.56	2881.81	3310.28	3856.75	4488.94	5129.25	6096.58	7191.32	8176.29	9894.47	10770.53
Public consumption	437.11	506.54	580.09	661.17	743.36	841.14	962.40	1071.69	1270.24	1440.49	1738.64

Notes: 1. Data prior to 1993-4 are estimated using the old series growth rates.

2. Exports, Imports, Foreign savings, Net factor income and Capital transfers numbers are used from the BOP.

Source: CSO, *National Accounts Statistics 1998*; Quick Estimates 1999; and World Bank staff estimates.

TABLE A1.5 (a)
Gross Domestic Investment by Industry of Origin

	(Rs billion at current prices)										
	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
Agricultural sector	86.19	93.77	104.41	120.77	138.79	170.01	175.71	220.29	264.06	290.44	327.14
Agriculture	78.27	84.56	93.54	108.16	124.93	155.02	158.45	199.93	239.42	262.96	297.00
Forestry & logging	2.56	2.95	3.81	4.56	4.43	4.51	4.74	5.02	6.26	7.06	7.33
Fishing	5.36	6.26	7.06	8.05	9.43	10.48	12.52	15.34	18.38	20.42	22.81
Industry sector	333.51	475.41	459.18	549.40	580.56	773.40	851.88	1138.83	1663.95	1633.33	1952.66
Mining & quarrying	42.16	47.88	63.02	66.24	63.34	65.83	65.34	158.47	116.98	69.53	79.00
Manufacturing	170.86	298.59	248.62	310.95	303.02	484.38	527.68	727.61	1263.37	1256.44	1510.68
Registered	166.92	334.85	241.09	314.73	313.66	531.25	419.32	614.20	1081.04	1057.74	1293.19
Unregistered	51.29	59.46	75.89	85.69	78.64	104.82	108.36	113.41	182.33	198.70	217.49
Electricity, gas, & water	107.92	117.46	128.37	149.81	196.50	197.42	230.71	223.54	237.76	260.47	309.27
Construction	12.57	11.49	19.17	22.40	17.71	25.77	28.15	29.21	45.84	46.89	53.71
Services sector	338.46	396.69	495.39	620.06	680.44	736.55	747.62	954.94	999.44	1089.74	1225.55
Transport, storage, & com.	82.46	109.23	131.78	147.08	165.77	203.41	248.58	306.23	268.74	360.88	403.21
Railways	21.52	26.37	26.43	30.78	33.17	49.19	55.81	49.92	52.10	59.39	53.57
Other transport	44.09	58.07	73.82	83.45	96.04	97.56	127.17	135.66	165.59	195.96	206.72
Storage	0.79	0.77	0.89	0.70	0.46	0.50	0.99	1.28	0.92	1.04	1.12
Communication	16.07	24.02	30.64	32.15	36.09	56.17	64.61	119.37	50.13	104.49	141.80
Trade, hotels, etc.	18.23	3.16	59.74	93.81	80.10	32.10	57.50	71.55	86.34	87.30	101.13
Banking & insurance	15.27	21.79	24.42	31.93	51.52	48.92	71.14	121.64	151.33	119.49	124.91
Real estate, etc.	85.43	96.31	111.95	139.73	159.54	184.05	205.33	225.04	242.42	261.16	281.00
Public admin. & defence	55.14	62.31	55.84	75.21	82.36	95.28	106.44	148.93	159.49	166.80	202.58
Other services	81.92	103.89	111.65	132.30	141.15	172.79	58.63	81.55	91.12	94.11	112.72
Gross Domestic Investment	758.17	965.88	1058.97	1290.23	1399.80	1679.95	1775.21	2314.06	2927.45	3013.51	3505.35
<i>Memo items:</i>											
Gross Domestic Investment ^a	796.51	1010.25	1194.41	1543.88	1506.72	1761.06	1963.79	2634.15	3143.40	3616.87	3873.77
Errors & omissions	-6.17	7.33	-31.34	-117.37	-28.37	29.59	-142.79	-253.51	-23.61	-353.17	-220.22
Gross Domestic Investment (unadjusted) ^b	790.35	1017.58	1163.06	1426.51	1478.36	1790.65	1821.00	2380.64	3119.79	3263.70	3653.55

^a Refers to CSO's savings-based estimate of investment.

^b Refers to Gross Capital Formation unadjusted for errors and omissions, which is CSO's direct estimate of investment based on physical flows.

Note: Data prior to 1993-4 are estimated using the old series growth rates.

Source: CSO, *National Accounts Statistics 1998*; Quick Estimates 1999; and World Bank staff estimates.

TABLE A1.5 (b)
Gross Domestic Investment by Industry of Origin

(Rs billion at 1993-4 prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
Agricultural sector	151.15	149.72	151.71	160.78	164.83	185.51	175.71	200.38	219.52	220.52	232.72
Agriculture	139.02	136.88	137.10	144.69	148.94	169.19	158.45	182.14	199.44	199.02	209.95
Forestry & logging	4.82	4.90	5.87	6.53	5.44	4.90	4.74	4.51	5.05	5.04	4.76
Fishing	7.31	7.95	8.74	9.57	10.45	11.42	12.52	13.73	15.03	16.46	18.01
Industry sector	459.15	581.37	558.86	629.69	622.30	789.20	851.88	1043.47	1400.37	1302.32	1504.02
Mining & quarrying	79.57	83.29	97.85	93.01	77.83	72.70	65.34	145.76	98.45	51.89	55.55
Manufacturing	170.86	298.59	248.62	310.95	303.02	484.38	527.68	667.11	1064.59	1010.35	1178.52
Registered	295.34	559.41	350.17	421.94	361.24	578.34	419.32	561.60	909.90	851.50	1012.21
Unregistered	88.00	94.23	111.44	115.33	88.00	113.22	108.36	105.51	154.69	158.85	166.31
Electricity, gas, & water	186.86	180.54	184.21	196.31	221.23	205.27	230.71	204.24	198.71	202.38	228.02
Construction	21.86	18.95	28.18	29.42	20.22	26.85	28.15	26.36	38.62	37.70	41.93
Services sector	692.81	816.93	820.24	934.80	828.58	828.20	747.62	880.11	839.16	863.56	922.20
Transport, storage, & com.	140.79	166.26	180.22	185.03	182.59	211.16	248.58	283.11	233.14	296.63	318.34
Railways	35.67	39.47	34.89	37.48	35.42	51.01	55.81	46.72	45.50	49.33	42.90
Other transport	75.02	87.35	99.82	103.60	105.67	100.67	127.17	126.93	144.53	163.02	165.70
Storage	1.16	1.02	1.19	0.92	0.44	0.44	0.99	1.19	0.77	0.82	0.83
Communication	28.95	38.41	44.32	43.04	41.06	59.03	64.61	108.27	42.34	83.46	108.91
Trade, hotels, etc.	31.22	-1.56	89.78	135.09	98.09	28.69	57.50	65.34	68.96	66.04	71.71
Banking & insurance	26.45	34.11	34.44	41.35	58.62	51.06	71.14	112.10	128.03	96.38	97.72
Real estate, etc.	135.69	143.11	156.76	184.55	185.55	200.62	205.33	208.03	200.52	203.53	208.25
Public admin. & defence	97.39	101.86	82.06	100.76	96.22	102.78	106.44	135.90	131.94	126.69	143.30
Other services	261.27	373.16	276.98	288.02	207.49	233.90	58.63	75.63	76.57	74.29	82.88
Gross Domestic Investment	1303.10	1548.03	1530.80	1725.27	1615.71	1802.91	1775.21	2123.96	2459.05	2386.40	2658.94
<i>Memo items:</i>											
Gross Domestic Investment ^a	1409.98	1647.97	1741.88	2057.84	1727.78	1873.86	1963.79	2415.65	2630.49	2855.08	2941.08
Errors & omissions	-992.12	-1152.20	-1235.04	-1488.99	-1221.45	-1305.16	-142.79	-232.65	-19.76	-278.83	-167.18
Gross Domestic Investment (unadjusted) ^b	1399.97	1660.99	1698.08	1905.83	1696.37	1906.13	1821.00	2183.00	2610.73	2576.25	2773.90

^a Refers to CSO's savings-based estimate of investment.

^b Refers to Gross Capital Formation unadjusted for errors and omissions, which is CSO's direct estimate of investment based on physical flows.

Note: Data prior to 1993-4 are estimated using the old series growth rates.

Source: CSO, *National Accounts Statistics 1998*; Quick Estimates 1999; and World Bank staff estimates.

TABLE A1.5 (c)
Investment Deflators by Industry of Use

(1993-4 = 100)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
Agricultural sector	57.03	62.63	68.82	75.11	84.21	91.64	100.00	109.94	120.29	131.71	140.57
Agriculture	56.30	61.78	68.23	74.75	83.88	91.62	100.00	109.77	120.05	132.13	141.46
Forestry & logging	53.14	60.26	64.94	69.86	81.44	92.13	100.00	111.31	123.96	140.08	153.99
Fishing	73.31	78.74	80.75	84.16	90.25	91.74	100.00	111.73	122.29	124.06	126.65
Industry Sector	72.64	81.77	82.16	87.25	93.29	98.00	100.00	109.14	118.82	125.42	129.83
Mining & quarrying	52.98	57.48	64.41	71.22	81.38	90.55	100.00	108.72	118.82	133.99	142.21
Manufacturing	100.00	100.00	100.00	100.00	100.00	100.00	100.00	109.07	118.67	124.36	128.18
Registered	56.52	59.86	68.85	74.59	86.83	91.86	100.00	109.37	118.81	124.22	127.76
Unregistered	58.29	63.10	68.10	74.30	89.36	92.58	100.00	107.49	117.87	125.09	130.77
Electricity, gas, & water	57.76	65.06	69.69	76.32	88.82	96.17	100.00	109.45	119.65	128.70	135.63
Construction	57.50	60.63	68.01	76.12	87.57	95.99	100.00	110.81	118.69	124.38	128.09
Services sector	48.85	48.56	60.40	66.33	82.12	88.93	100.00	108.50	119.10	126.19	132.89
Transport, storage, & com.	58.57	65.70	73.12	79.49	90.79	96.33	100.00	108.17	115.27	121.66	126.66
Railways	60.34	66.81	75.76	82.13	93.65	96.42	100.00	106.85	114.51	120.39	124.87
Other transport	58.77	66.48	73.95	80.56	90.89	96.91	100.00	106.88	114.57	120.21	124.76
Storage	67.89	74.97	74.40	75.62	104.71	111.54	100.00	107.56	119.48	126.83	134.94
Communication	55.51	62.54	69.14	74.70	87.91	95.15	100.00	110.25	118.40	125.20	130.20
Trade, hotels, etc.	58.41	-202.13	66.54	69.44	81.66	111.88	100.00	109.50	125.20	132.19	141.03
Banking & insurance	57.75	63.89	70.91	77.23	87.88	95.82	100.00	108.51	118.20	123.98	127.82
Real estate, etc.	62.96	67.30	71.42	75.71	85.98	91.74	100.00	108.18	120.90	128.32	134.93
Public admin. & defence	56.62	61.17	68.05	74.65	85.60	92.70	100.00	109.59	120.88	131.66	141.37
Other services	31.35	27.84	40.31	45.93	68.02	73.87	100.00	107.83	119.00	126.68	136.00
Gross Domestic Investment	58.18	62.39	69.18	74.78	86.64	93.18	100.00	108.95	119.05	126.28	131.83
<i>Memo items:</i>											
Gross Domestic Investment ^a	56.49	61.30	68.57	75.02	87.21	93.98	100.00	109.05	119.50	126.68	131.71
Gross Domestic Investment (unadjusted) ^b	56.45	61.26	68.49	74.85	87.15	93.94	100.00	109.05	119.50	126.68	131.71

^a Refers to CSO's savings-based estimate of investment.

^b Refers to Gross Capital Formation unadjusted for errors and omissions, which is CSO's direct estimate of investment based on physical flows.

Source: Derived from Tables A1.5(a) and A1.5(b).

TABLE A1.6 (a)
Gross Domestic Investment in Public Sector

(Rs billion at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
Agricultural sector	33.02	34.41	33.53	36.27	36.52	41.73	49.18	60.31	65.80	67.78	76.26
Agriculture	30.56	31.61	29.88	31.92	32.29	37.47	44.67	55.57	59.89	61.12	69.33
Forestry & logging	2.42	2.78	3.62	4.33	4.20	4.25	4.48	4.74	5.90	6.66	6.92
Fishing	0.04	0.02	0.03	0.02	0.03	0.01	0.03	0.00	0.01	0.00	0.01
Industry sector	192.84	204.32	235.48	277.65	324.88	309.66	298.88	420.56	458.92	447.16	488.22
Mining & quarrying	40.96	47.59	62.46	65.04	61.92	63.76	63.36	148.16	110.97	65.70	72.92
Manufacturing	50.73	51.72	54.66	71.45	85.08	82.98	48.92	68.58	126.81	142.15	135.26
Electricity, gas, & water	98.81	105.62	117.55	137.69	174.10	158.41	178.96	195.88	214.63	231.45	272.03
Construction	2.34	-0.61	0.81	3.47	3.78	4.51	7.64	7.94	6.51	7.86	8.01
Services sector	110.62	161.93	194.76	216.87	214.03	287.40	359.54	403.28	373.19	423.04	523.21
Transport, storage, & com.	46.40	61.51	75.93	79.59	92.17	123.72	159.75	159.12	172.53	179.32	195.86
Railways	21.52	26.37	26.43	30.78	33.17	49.19	55.81	49.92	52.11	59.39	53.57
Other transport	10.12	13.49	21.87	19.74	26.68	24.37	45.80	37.10	33.81	32.20	40.64
Storage	0.46	0.27	0.36	0.46	0.20	0.17	0.64	0.55	0.27	0.43	0.52
Communication	14.30	21.38	27.27	28.61	32.12	49.99	57.50	71.55	86.34	87.30	101.13
Trade, hotels, etc.	-22.61	-2.98	17.48	14.54	-16.67	12.74	34.78	21.29	-38.81	-15.35	16.81
Banking & insurance	9.49	14.82	16.99	17.98	23.59	18.04	19.72	25.84	32.44	36.36	41.27
Real estate, etc.	6.63	7.49	7.24	6.09	8.56	10.08	10.66	12.65	14.13	16.38	20.20
Public admin. & defence	55.14	62.31	55.84	75.21	82.36	95.28	106.44	148.93	159.49	166.80	202.58
Other services	15.56	18.79	21.28	23.46	24.02	27.55	15.89	20.40	21.20	23.92	30.14
Gross Domestic Investment	336.47	400.65	463.77	530.79	575.43	638.80	707.60	884.15	897.91	937.98	1087.69

Note: Data prior to 1993-4 are estimated using the old series growth rates.

Source: CSO, *National Accounts Statistics 1998*; Quick Estimates 1999; and World Bank staff estimates.

TABLE A1.6 (b)
Gross Domestic Investment in Public Sector

(Rs billion at 1993-4 prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
Agricultural sector	15.76	14.82	13.01	13.15	11.35	45.73	49.18	53.97	52.55	48.23	48.66
Agriculture	14.58	13.62	11.56	11.54	10.02	41.11	44.67	49.70	47.76	43.47	44.16
Forestry & logging	1.16	1.19	1.43	1.60	1.32	4.60	4.48	4.26	4.78	4.76	4.50
Fishing	0.02	0.01	0.02	0.01	0.01	0.03	0.03	0.01	0.01	0.00	0.00
Industry sector	347.32	336.86	353.31	376.81	379.00	332.15	298.88	386.91	384.20	349.57	361.74
Mining & quarrying	77.40	81.24	97.22	91.38	76.16	70.22	63.36	136.23	93.24	48.86	50.81
Manufacturing	89.74	84.57	78.33	96.04	98.49	90.45	48.92	64.01	109.01	115.07	105.84
Electricity, gas, & water	172.54	163.41	170.11	181.75	196.71	163.84	178.96	179.37	176.54	179.54	199.15
Construction	7.64	7.64	7.64	7.64	7.64	7.64	7.64	7.30	5.41	6.10	5.94
Services sector	219.33	282.03	311.56	319.15	268.02	298.09	359.54	370.91	314.19	330.17	383.25
Transport, storage, & com.	79.42	94.15	104.71	100.64	101.23	128.52	159.75	147.19	143.93	141.96	146.73
Railways	35.67	39.47	34.89	37.48	35.42	51.01	55.81	46.72	45.50	49.33	42.90
Other transport	17.35	20.18	29.90	24.26	29.12	24.84	45.80	34.61	29.25	26.25	31.74
Storage	0.64	0.32	0.48	0.61	0.16	0.13	0.64	0.52	0.22	0.34	0.38
Communication	25.76	34.19	39.44	38.30	36.54	52.54	57.50	65.34	68.96	66.04	71.71
Trade, hotels, etc.	-39.67	-5.30	26.10	19.63	-20.31	13.60	34.78	19.26	-32.49	-12.06	12.65
Banking & insurance	16.25	22.91	23.50	22.85	26.38	18.64	19.72	24.11	27.89	29.83	32.92
Real estate, etc.	10.66	11.26	10.17	8.01	9.98	10.85	10.66	11.80	11.79	12.93	15.22
Public admin. & defence	97.39	101.86	82.06	100.76	96.22	102.78	106.44	135.90	131.94	126.69	143.30
Other services	55.27	57.14	65.02	67.25	54.52	23.70	15.89	18.78	17.69	18.69	22.31
Gross Domestic Investment	582.41	633.71	677.88	709.11	658.37	675.97	707.60	811.79	750.94	727.97	793.65

Note: Data prior to 1993-4 are estimated using the old series growth rates.

Source: CSO, National Accounts Statistics 1998; Quick Estimates 1999; and World Bank staff estimates.

TABLE A2.1
Balance of Payments

(US \$ million at current prices)

	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9
Exports of goods and non-factor services	18,213	21,201	23,028	23,288	23,585	27,947	32,990	39,657	41,607	45,109	47,484
Merchandise (fob)	14,257	16,955	18,477	18,266	18,869	22,683	26,855	32,311	34,133	35,680	34,298
Non-factor services	3956	4246	4551	5022	4716	5264	6135	7346	7474	9429	13,186
Imports of goods and non-factor services	26,843	27,934	31,485	24,879	27,917	31,468	41,437	51,213	55,696	59,297	58,565
Merchandise (cif)	23,618	24,411	27,914	21,064	24,316	26,739	35,904	43,670	48,948	51,187	47,544
Non-factor services	3225	3523	3573	3815	3601	4729	5533	7543	6748	8110	11,021
Trade balance	-9361	-7456	-9437	-2798	-5447	-4056	-9049	-11,359	-14,815	-15,507	-13,246
Non-factor services balance	731	723	980	1207	1115	535	602	-197	726	1319	2165
Resource balance	-8630	-6733	-8457	-1591	-4332	-3521	-8447	-11,556	-14,089	-14,188	-11,081
Net factor income	-1056	-798	-3752	-3830	-3423	-3270	-3428	-3205	-3307	-3521	-3544
Factor service receipts	397	936	368	221	376	395	886	1429	1073	1561	1935
Factor service payments ^a	1453	1734	2120	4051	3799	3665	4314	4634	4380	5082	5479
Net current transfers	2654	2281	2069	3783	3872	5265	8093	8506	12,367	11,830	10,280
Transfers receipts	2670	2297	2083	3798	3884	5287	8112	8539	12,435	11,875	10,341
Transfer payments	16	16	14	15	12	22	19	33	68	45	61
Current account balance	-7032	-5249	-10,140	-1638	-3883	-1526	-3782	-6255	-5029	-5879	-4345
Foreign investment	287	350	103	133	559	4153	5138	4892	6133	5385	2401
Direct foreign investment	287	350	97	129	315	586	1314	2144	2821	3557	2462
Portfolio investment	0	0	6	4	244	3567	3824	2748	3312	1828	-61
Official grant aid	406	500	462	460	363	368	416	345	410	379	307
Net medium- & long-term capital	4976	5474	4801	3543	2642	2660	1745	2409	6580	5264	6122
Gross disbursement	3732	4273	7649	7499	4498	6389	7343	7185	10,627	10,256	9952
Principal repayments	1084	1094	4384	4246	3848	4934	5770	5879	7397	6117	5572
Capital flows NEI	-1374	-1992	1789	100	58	2885	3310	-3399	-1892	-940	-159
Net short-term capital	941	334	1075	-515	-1079	-769	393	49	838	-96	-2714
Others ^b	141	167	1907	1855	2015	4707	3900	-2496	-2003	-77	3357
Capital flows n.e.i. ^c	-2456	-2492	-1193	-1240	-878	-1053	-883	-952	-727	-767	-802
Overall balance	-2737	-917	-2985	2598	-261	8540	6827	-2008	6202	4209	4326

(Contd.)

	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9
Net IMF credit	1306	67	1214	786	1288	187	-1143	-1715	-975	-613	-393
Change in reserves (excl. gold) (- = increase)	1432	850	1771	-3384	-1027	-8727	-5684	3723	-527	-3596	-3933
<i>Memo items:</i>											
NRI deposits (net) US \$ million	2328	2295	1536	290	2001	1205	172	1103	3350	1125	1742
End of years gross reserves (excl. gold) (US \$ million)	4959	4109	2338	5722	6749	15,476	21,160	17,437	22,664	26260	30,193
Reserves in months of imports	2.5	2.0	1.0	3.3	3.3	6.9	7.1	4.8	5.6	6.2	7.6
Current account balance/GDP (as percentage)	-2.4	-1.8	-3.1	-0.6	-1.5	-0.5	-1.1	-1.7	-1.3	-1.4	-1.0
Debt service ratio ^d (as percentage)	27.9	28.5	32.1	28.8	27.6	24.8	26.1	27.3	21.7	21.2	17.3

Note: Interest payments, disbursements and external debt data are from the World Bank Debt Reporting System.

^a Includes interest on military debt to FSU and returns on foreign investments.

^b Residual item including reserve valuation changes, rupee trade imbalance, etc.

^c Corresponds to bilateral balance or servicing of the Russia debt from 1990-1 onwards.

^d As proportion of gross current receipts (GNFS exports + factor receipts + current transfer receipts).

Source: GOI; RBI; Ministry of Commerce, MoF, *Economic Survey*, various issues; World bank staff estimates.

TABLE A2.2 (a)
Merchandise Exports

(US \$ million at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9
Primary exports	3161	3243	3883	4324	4132	3874	4916	5214	7257	8035	7665	6850
Fish	411	435	412	535	589	602	813	1126	1010	1129	1208	1039
Rice	261	229	256	257	308	337	410	384	1365	894	907	1474
Cashews	243	191	221	249	276	259	334	397	370	362	379	383
Coffee	202	203	208	140	135	130	174	335	449	402	456	405
Tea	463	421	550	596	494	337	338	311	350	292	505	547
Spices	260	190	170	133	161	136	181	195	237	339	379	384
Iron ore	427	465	557	584	585	381	438	413	514	481	476	380
Other primary	893	1110	1508	1829	1584	1692	2227	2052	2961	4137	3355	2237
Manufactured exports	8928	10,727	12,730	13,821	13,733	14,663	17,322	21,417	24,538	25,434	27,348	26,817
Chemicals	618	890	1287	1176	1591	1378	1813	2434	2358	2689	2649	2482
Leather manufactures	964	1051	1170	1449	1276	1278	1300	1611	1730	1606	1631	1620
Textiles	1407	1312	1598	2266	2164	2153	2536	3297	3829	4755	4893	4011
Garments	1403	1452	1936	2235	2211	2394	2586	3282	3674	3753	3877	4446
Gems & jewelery	2015	3034	3178	2923	2753	3072	3995	4500	5273	4753	5347	5906
Engineering goods	1141	1558	1967	2157	2246	2458	3023	3486	4389	4052	4436	3805
Petroleum products	500	349	418	522	417	476	398	439	454	482	353	89
Other manufactures ^a	879	1081	1176	1092	1074	1453	1672	2367	2830	3344	4161	4460
Total Exports (Commerce) ^b	12,089	13,970	16,613	18,145	17,865	18,537	22,238	26,631	31,795	33,469	35,013	33,667
Statistical discrepancy	557	287	342	332	401	332	445	224	516	664	667	631
Total Exports (BOP)	12,646	14,257	16,955	18,477	18,266	18,869	22,683	26,855	32,311	34,133	35,680	34,298

^a Including unclassified exports.

^b Net of crude petroleum exports.

Source: Ministry of Commerce (DGCIS); RBI; MoF, *Economic Survey*, various issues; World Bank staff estimates.

TABLE A.2 (b)
Merchandise Exports

(US \$ million at 1980-1 prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
Primary exports	3097	3218	3983	4496	4365	4527	5714	5273	8166	8157	7417
Fish	354	386	424	480	570	570	679	778	766	860	860
Rice	152	137	165	197	265	227	300	348	1919	981	900
Cashews	228	202	266	305	288	344	404	440	389	387	419
Coffee	317	291	437	339	343	445	447	453	560	480	474
Tea	479	450	487	463	503	390	361	353	373	325	450
Spices	114	122	115	110	115	104	174	136	148	191	188
Iron ore	461	541	578	530	490	344	431	428	530	457	472
Other primary	993	1089	1512	2073	1791	2104	2918	2337	3480	4477	3654
Manufactured exports	8411	9180	10414	11,299	12,673	14,137	15,905	18,406	23,096	25,420	27,000
Chemicals	542	847	1182	1584	2156	1333	1724	2268	2801	3405	4110
Leather manufactures	899	957	961	979	956	1070	1151	1412	1527	1186	1459
Textiles	1074	915	1122	1329	1872	2512	2266	2868	3266	5482	5895
Garments	1142	1136	1485	1640	1758	1822	1806	2176	2514	3045	2825
Gems & jewellery	1602	2081	1908	1573	1645	2081	2639	2982	3625	3562	3877
Engineering goods	1390	1728	2220	2470	2513	3228	3878	4455	7019	6622	6887
Petroleum products	985	694	784	917	980	1241	1346	1086	1146	1055	986
Other manufactures ^a	778	823	752	808	793	850	1095	1158	1199	1063	961
Total Exports (Commerce) ^b	11,508	12,398	14,397	15,795	17,039	18,664	21,619	23,679	31,262	33,578	344,17
Statistical discrepancy	530	255	297	289	382	334	433	199	507	666	656
Total Exports (BOP)	12,038	12653	14694	16084	17421	18998	22052	23878	31769	34244	35073

^a Including unclassified exports.

^b Net of crude petroleum exports.

Source: Ministry of Commerce (DGCIS); RBI; MoF, *Economic Survey*, various issues; World Bank staff estimates.

TABLE A2.2 (c)
Export Unit Value Indices

(US \$ terms; 1980-1 = 100)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
Primary exports	102.1	100.8	97.5	96.2	94.7	85.6	86.0	98.9	88.9	98.5	103.3
Fish	116.1	112.7	97.2	111.5	103.2	105.6	119.9	144.8	131.8	131.3	140.4
Rice	172.2	167.5	155.6	130.5	116.4	148.7	136.8	110.4	71.1	91.1	100.9
Cashews	106.3	94.6	82.9	81.7	95.6	75.1	82.8	90.2	95.1	93.7	90.4
Coffee	63.7	69.8	47.7	41.4	39.5	29.2	39.0	74.1	80.2	83.6	96.2
Tea	96.8	93.4	113.0	128.9	98.2	86.6	93.5	88.0	93.7	90.0	112.1
Spices	228.1	155.3	147.3	121.4	139.3	130.4	104.0	142.9	160.7	177.1	201.4
Iron ore	92.7	85.9	96.4	110.2	119.5	110.9	101.5	96.6	97.0	105.2	101.0
Other primary	90.0	102.0	99.8	88.2	88.4	80.4	76.3	87.8	85.1	92.4	91.8
Manufactured exports	106.2	116.8	122.2	122.3	108.4	103.7	108.9	116.4	106.2	100.1	101.3
Chemicals	114.0	105.1	108.9	74.3	73.8	103.4	105.2	107.3	84.2	79.0	64.5
Leather manufactures	107.3	109.8	121.7	147.9	133.4	119.4	112.9	114.0	113.3	135.4	111.8
Textiles	131.1	143.4	142.4	170.6	115.6	85.7	111.9	114.9	117.3	86.7	83.0
Garments	122.9	127.8	130.4	136.3	125.8	131.4	143.1	150.8	146.2	123.3	137.2
Gems & jewelery	125.8	145.8	166.6	185.9	167.4	147.6	151.4	150.9	145.5	133.4	137.9
Engineering goods	82.1	90.2	88.6	87.4	89.4	76.2	78.0	78.3	62.5	61.2	64.4
Petroleum products	50.8	50.3	53.4	57.0	42.5	38.4	29.5	40.5	39.6	45.7	35.8
Other manufactures ^a	113.1	131.3	156.2	135.2	135.5	171.1	152.7	204.5	236.1	314.7	433.1
Total Exports (Commerce) ^b	105.0	112.7	115.4	114.9	104.9	99.3	102.9	112.5	101.7	99.7	101.7

^a Including unclassified exports.

^b Net of crude petroleum exports.

Source: Ministry of Commerce (DGCIS); RBI; MoF, *Economic Survey*, various issues; World Bank staff estimates.

TABLE A2.3 (a)
Merchandise Imports

(US \$ million at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9
Food	1292	1203	714	690	426	702	550	1464	1295	1536	1845	2543
Foodgrains	25	437	227	102	71	334	93	29	24	137	292	233
Edible oils	709	503	127	182	101	58	53	199	676	825	744	1696
Others	557	263	361	407	254	311	404	1236	595	574	809	614
Other consumer goods	600	700	800	851	637	782	680	790	1075	859	1135	1157
POL	3118	3009	3768	6028	5364	6100	5754	5928	7526	10036	8217	6435
Crude petroleum ^a	2395	1891	2455	3409	3189	3691	3407	3285	3442	5222	4278	3350
Petroleum products	723	1047	1313	2619	2175	2409	2347	2643	4084	4814	3939	3084
Capital goods ^b	5064	4803	5288	5836	4256	4532	6243	7638	10330	9923	9796	9122
Intermediate: Primary	2997	3800	4488	4653	3821	4554	4533	4296	5599	6321	6840	6720
Fertilizer raw material	243	301	329	348	311	279	194	288	301	226	273	287
Gems	1538	1984	2546	2082	1968	2443	2634	1630	2105	2925	3343	3763
Other	1217	1515	1613	2222	1543	1832	1705	2378	3193	3171	3225	2671
Intermediate: Manufactures	4085	5982	6161	6015	4907	5211	5541	8537	10,850	10,456	13,651	15,882
Fertilizer manufactures	145	340	741	636	645	698	632	764	1381	686	844	787
Iron & steel	1018	1335	1383	1178	799	779	795	1164	1446	1371	1343	1135
Non-ferrous metals	493	536	753	614	341	395	479	718	904	1106	920	671
Others	2429	3771	3284	3588	3112	3339	3635	5974	7120	7294	10,543	13,288
Total Imports (Commerce) ^a	17,156	19,497	2,1219	24,073	19,411	21,882	23,301	28,654	36,675	39,132	41,484	41,858
Statistical discrepancy	2660	4121	3192	3841	1653	2434	3438	7250	6995	9816	9703	5686
Total Imports ^a	19,816	23,618	24,411	27,914	21,064	24,316	26,739	35,904	43,670	48,948	51,187	47,544

^a Net of crude oil exports.

^b 1987-8 onwards capital goods includes project goods.

Source: Ministry of Commerce (DGCIS); RBI; MoF, *Economic Survey*, various issues; World Bank staff estimates.

TABLE A.2.3 (b)
Merchandise Imports

(US \$ million at 1980-1 prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
Food	1710	1968	865	807	446	1015	612	1344	1125	1550	1991
Foodgrains	35	1021	310	126	77	662	165	33	27	272	574
Edible oils	980	539	160	259	111	51	56	171	522	697	556
Others	695	409	395	422	258	302	391	1140	576	581	861
Other consumer goods	513	555	643	647	475	559	482	535	763	639	886
POL	5944	6734	7272	8287	9409	11,757	12,131	11,679	13,483	15,319	15,277
Crude petroleum ^a	4630	4651	5089	5405	6264	7660	8128	7825	9033	10,264	10,236
Petroleum products	1314	2083	2183	2882	3145	4097	4003	3854	4449	5055	5042
Capital Goods ^b	4203	3702	4142	4314	3081	3146	4304	5027	7132	7168	7432
Intermediate: Primary	2419	2841	3363	3314	2660	3076	3074	2779	3781	4463	5053
Fertilizer raw material	161	178	157	174	152	147	121	177	172	117	135
Gems	1262	1511	1965	1521	1408	1676	1795	1060	1437	2088	2507
Other	996	1151	1242	1619	1101	1253	1158	1543	2173	2258	2411
Intermediate: Manufactures	3529	4728	5057	4792	3858	4199	4320	5982	7828	7694	10318
Fertilizer manufactures	320	472	876	808	830	1116	981	904	1392	710	914
Iron & steel	874	1275	1162	937	622	581	589	824	1074	1065	1096
Non-ferrous metals	540	553	775	599	326	362	436	624	824	1054	922
Others	1795	2428	2244	2448	2080	2140	2314	3630	4539	4864	7385
Total Imports (Commerce) ^a	18,318	20,528	21,342	22,161	19,929	23,751	24,924	27,346	34,112	36,833	40,957
Statistical discrepancy	2840	4339	3210	3536	1697	2642	3678	6919	6506	9240	9580
Total Imports ^a	21,158	24,867	24,552	25,697	21,626	26,392	28,602	34,265	40,618	46,073	50,537

^a Net of crude oil exports.

^b 1987-8 onwards capital goods includes project goods.

Source: Ministry of Commerce (DGCIS); RBI; MoF, *Economic Survey*, various issues; World Bank staff estimates.

TABLE A2.3 (c)
Import Unit Value Indices

(US \$ terms; 1980-1 = 100)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
Food	75.5	61.1	82.6	85.5	95.5	69.2	89.9	109.0	115.1	99.1	92.7
Foodgrains	72.0	42.8	73.1	80.3	91.9	50.4	56.0	89.3	90.1	50.3	50.8
Edible oils	72.4	93.4	79.3	70.2	90.9	114.0	94.5	116.5	129.4	118.4	133.8
Others	80.2	64.5	91.4	96.5	98.6	102.8	103.5	108.4	103.3	98.8	94.0
Other consumer goods	117.1	126.1	124.5	131.5	134.3	140.0	141.0	147.7	140.8	134.6	128.1
POL	52.5	44.7	51.8	72.7	57.0	51.9	47.4	50.8	55.8	65.5	53.8
Crude petroleum	51.7	40.7	48.2	63.1	50.9	48.2	41.9	42.0	38.1	50.9	41.8
Petroleum products	55.0	50.3	60.1	90.9	69.1	58.8	58.6	68.6	91.8	95.2	78.1
Capital goods	120.5	129.7	127.7	135.3	138.1	144.1	145.0	151.9	144.8	138.4	131.8
Intermediate: Primary	123.9	133.8	133.4	140.4	143.6	148.1	147.5	154.6	148.1	141.6	135.4
Fertilizer raw material	150.7	168.7	209.6	199.8	204.7	190.1	160.8	163.3	175.4	192.5	202.2
Gems	121.9	131.3	129.6	136.9	139.8	145.8	146.8	153.7	146.5	140.1	133.4
Other	122.2	131.6	129.9	137.3	140.2	146.2	147.2	154.2	147.0	140.5	133.7
Intermediate: Manufactures	115.7	126.5	121.8	125.5	127.2	124.1	128.3	142.7	138.6	135.9	132.3
Fertilizer manufactures	45.3	72.0	84.6	78.6	77.7	62.5	64.4	84.5	99.2	96.5	92.3
Iron & steel	116.5	104.7	119.0	125.8	128.4	133.9	134.8	141.2	134.6	128.7	122.5
Non-ferrous metals	91.3	96.9	97.1	102.5	104.6	109.1	109.9	115.1	109.7	104.9	99.8
Others	135.3	155.3	146.3	146.5	149.6	156.0	157.1	164.6	156.9	149.9	142.8
Total Imports (Commerce)	93.7	95.0	99.4	108.6	97.4	92.1	93.5	104.8	107.5	106.2	101.3

Source: Ministry of Commerce (DGCIS); RBI; MoF, *Economic Survey*, various issues; World Bank staff estimates.

TABLE A2.4
Invisibles on Current Account

(US \$ million)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9
Gross Receipts	6741	7023	7479	7002	9041	8976	10,946	15,133	17,314	20,982	22,865	25,462
Non-factor services	3571	3956	4246	4551	5022	4716	5264	6135	7346	7474	9429	13,186
of which:												
Transport	680	898	907	983	939	982	1433	1696	2011	1953	1836	1925
Travel	1431	1419	1433	1456	1977	2098	2222	2365	2713	2878	2914	2993
Others	1460	1639	1906	2112	2106	1636	1609	2074	2622	2643	4679	8268
Factor income	446	397	936	368	221	376	395	886	1429	1073	1561	1935
Current transfers ^a	2724	2670	2297	2083	3798	3884	5287	8112	8539	12,435	11,875	10,341
Gross Payments	4161	4694	5273	7705	7881	7412	8416	9866	12,210	11,196	13,237	16,561
Non-factor services	3027	3225	3523	3571	3815	3601	4729	5533	7543	6748	8110	11,021
of which:												
Transport ^b	870	1027	1115	1093	1289	1485	1765	1863	2169	2394	2522	2680
Travel	376	405	403	392	465	385	497	818	1167	858	1437	1743
Others	1781	1793	2005	2086	2061	1731	2467	2852	4207	3496	4151	6598
Factor income	1108	1453	1734	4120	4051	3799	3665	4314	4634	4380	5082	5479
Current transfers	26	16	16	14	15	12	22	19	33	68	45	61
Net Receipts	2580	2329	2206	-703	1160	1564	2530	5267	5104	9786	9628	8901
Non-factor services	544	731	723	980	1207	1115	535	602	-197	726	1319	2165
of which:												
Transport	-190	-129	-208	-110	-350	-503	-332	-167	-158	-441	-686	-755
Travel	1055	1014	1030	1064	1512	1713	1725	1547	1546	2020	1477	1250
Others	-321	-154	-99	26	45	-95	-858	-778	-1585	-853	528	1670
Factor income	-662	-1056	-798	-3752	-3830	-3423	-3270	-3428	-3205	-3307	-3521	-3544
Current transfers	2698	2654	2281	2069	3783	3872	5265	8093	8506	12,367	11,830	10,280

^a Excluding foreign grants, and including the Bhopal settlement in 1988-9.

^b Excluding freight included in c.i.f value of merchandise imports.

Source: Ministry of Commerce (DGCIS); RBI; MoF, *Economic Survey*, various issues; World Bank staff estimates.

TABLE A2.5
Decomposition of Recent Export Growth
(US \$ million at current prices—annual averages)

	1985-6 to 1990-1	1991-2 to 1998-9	Increase	Contribution to growth (%)
Manufactured Exports	9717	21,409	11,692	82.5
Consumption goods	6227	12,689	6462	45.6
Leather	997	1506	509	3.6
Gems (gross)	2333	4450	2116	14.9
Garments	1490	3278	1788	12.6
Textiles	1406	3455	2048	14.4
Investment goods ^a	1415	3487	2072	14.6
Intermediate goods	2076	5233	3158	22.3
Chemicals	806	2174	1369	9.7
Petroleum prod.	421	388	-33	-0.2
Others ^b	849	2670	1822	12.8
Primary Exports	3507	5993	2486	17.5
Fish	425	939	515	3.6
Rice	220	760	540	3.8
Cashews	224	345	121	0.9
Coffee	200	311	110	0.8
Tea	499	397	-102	-0.7
Spices	200	252	52	0.4
Iron ore	489	459	-30	-0.2
Other primary	1251	2531	1280	9.0
Total Exports (Customs) ^c	13,225	27,402	14,177	100.0
Discrepancy	478	485	7	
Total Exports (BOP) ^c	13,703	27,887	14,184	
<i>Memo items:</i>				
Gems (net) ^d	630	1849	1218	

^a Refers to engineering goods.

^b Including unclassified exports.

^c Total exports, fob, net of crude oil.

^d Exports less imports of gems and jewelery.

Source: Ministry of Commerce, (DGCIS); RBI.

TABLE A3.1(a)
External Debt Summary: Debt Outstanding and Disbursed

(US \$ million at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9
A. Public & publicly guaranteed LT	44,174	50,073	64,789	71,062	73,355	77,921	83,906	87,480	80,346	78,049	79,402	85,206
1. Official creditors	30,356	31,180	43,648	48,383	49,446	52,987	55,856	61,997	57,112	54,541	52,165	54,168
a. Multilateral	16,588	18,061	19,664	21,768	23,964	26,130	27,826	31,486	30,048	29,332	29,391	30,521
aa. of which IBRD	4661	5590	6615	7685	8459	9067	9870	11,120	9849	8768	8138	7993
ab. of which IDA	11,615	12,019	12,521	13,312	14,203	15,339	15,978	17,666	17,499	17,616	17,912	18,562
b. Bilateral	13,768	13,119	23,984	26,615	25,482	26,857	28,029	30,511	27,065	25,209	22,775	23,647
2. Private creditors	13,818	18,893	21,140	22,679	23,909	24,934	28,050	25,483	23,234	23,509	27,236	31,038
a. Commercial banks	10,459	12,899	14,694	16,130	16,025	17,006	18,727	14,588	13,412	16,061	18,758	20,950
b. Suppliers credits	715	632	539	434	455	817	1211	1017	875	1197	946	956
c. Bonds (including IDB)	1214	1785	2412	2638	4102	4021	3832	3740	3257	1364	3407	6002
d. Other private	1430	3576	3496	3477	3328	3090	4281	6139	5691	4887	4126	3130
B. Private non-guaranteed LT	1652	1473	1551	1488	1545	1205	1770	6427	6618	7382	9208	8409
C. Total LT DOD (A+B)	45,827	51,546	66,340	72,550	74,901	79,126	85,676	93,907	86,964	85,431	88,610	93,615
D. Use of IMF credit	4023	2573	1566	2623	3451	4799	5040	4312	2374	1313	664	288
E. Short-term debt	5673	6358	7501	8544	7070	6340	3626	4264	5049	6726	5046	4329
F. Total External Debt (C+D+E)	55,522	60,477	75,407	83,717	85,421	90,264	94,342	102,483	94,387	93,470	94,320	98,232
<i>Memo items:</i>												
Total NRI deposits	8616	10,482	12,368	13,953	12,676	14,258	14,498	14,661	13,894	14,785	14,105	14,543
Rupee debt to FSU	—	—	11,021	12,847	10,420	10,616	10,084	9624	8233	7511	5874	4731
External debt (% of GDP)	20.0	20.5	25.4	25.9	31.4	34.2	33.8	31.0	25.9	23.5	22.4	22.9

— Not available.

Source: World Bank, DRS data.

TABLE A3.1(b)
External Debt Summary: Disbursements

(US \$ million at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9
A. Public & publicly guaranteed LT	6921	10,155	7009	6376	6896	7105	7361	6685	5961	5897	7193	9801
1. Official creditors	3618	3635	3553	3572	4364	4160	3645	3334	2828	3040	3708	4464
a. Multilateral	2269	2625	2105	2210	2758	2424	2084	2230	1942	2234	2021	2040
aa. IBRD	1295	1716	1445	1219	1231	852	1216	741	589	686	542	534
ab. IDA	917	755	566	762	953	1186	669	966	729	906	830	866
b. Bilateral	1349	1010	1447	1361	1606	1736	1561	1104	886	806	1687	2424
2. Private creditors	3303	6520	3457	2804	2532	2945	3716	3351	3133	2857	3485	5336
a. Commercial banks	2968	3361	2623	1983	504	2145	1545	870	1719	1698	903	1961
b. Suppliers credits	5	16	3	7	78	415	466	213	71	449	2	141
c. Bonds (including IDB)	116	679	705	427	1619	0	0	0	86	275	2109	2775
d. Other private	213	2463	126	387	332	384	1705	2267	1258	436	471	459
B. Private non-guaranteed LT	348	175	240	214	309	254	1060	867	1179	785	1886	500
C. Total LT disbursements (A+B)	7269	10,330	7249	6590	7204	7358	8421	7552	7140	6682	9079	10,301
D. IMF	0	0	0	1754	1233	1623	323	0	0	0	0	0
E. Net short-term capital	727	685	1143	1043	-1474	-730	-2714	638	785	1677	838	0
F. Total disbursements (C+D+E)	7269	10,330	7249	8344	8437	8982	8744	7552	7140	6682	9079	10,301

Source: World Bank, DRS data.

TABLE A3.1(c)
External Debt Summary: Principal Repayments

(US \$ million at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9
A. Public & publicly guaranteed LT	1604	1665	1569	2332	2569	2947	3538	5021	6764	6405	6645	6285
1. Official creditors	1120	990	1064	1238	1469	1618	1890	2365	3876	2856	4114	3487
a. Multilateral	508	397	467	609	703	838	1000	1102	1513	1218	1217	1295
aa. of which IBRD	430	303	352	472	527	634	758	827	943	840	820	842
ab. of which IDA	69	81	98	114	141	155	174	194	226	234	250	288
b. Bilateral	612	593	597	629	766	780	890	1263	2364	1638	2897	2192
2. Private creditors	485	675	505	1094	1101	1329	1647	2656	2888	3549	2531	2797
a. Commercial banks	284	363	213	250	293	438	666	1054	1796	1484	1160	836
b. Suppliers credits	98	96	98	113	58	73	111	472	143	131	240	150
d. Bonds (including IDB)	6	14	27	280	239	206	338	404	311	1242	2	264
e. Other private	97	202	167	452	511	612	532	726	637	692	1130	1548
B. Private non-guaranteed LT	290	280	322	318	273	306	495	123	156	240	293	292
C. Total LT repayments (A+B)	1894	1944	1891	2651	2842	3253	4033	5144	6920	6645	6938	6576
D. IMF repayments	1082	1210	1008	726	460	334	134	1174	1719	972	613	390
E. Total LT repayments (C+D)	2976	3155	2899	3376	3302	3587	4167	6318	8639	7618	7551	6966

Source: World Bank, DRS data.

TABLE A3.1(d)
External Debt Summary: Net Flows

(US \$ million at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9
A. Public & publicly guaranteed LT	5316	8490	5440	4044	4327	4158	3823	1664	-803	-508	548	3516
1. Official creditors	2498	2645	2489	2334	2895	2542	1755	969	-1048	184	-406	977
a. Multilateral	1761	2228	1638	1601	2055	1586	1084	1128	429	1016	804	745
aa. of which IBRD	865	1414	1093	747	704	218	458	-86	-354	-154	-278	-308
ab. of which IDA	848	675	468	648	812	1031	495	772	503	672	580	578
b. Bilateral	737	417	850	732	840	956	671	-159	-1478	-832	-1210	232
2. Private creditors	2818	5845	2952	1710	1431	1616	2069	695	245	-692	954	2539
a. Commercial banks	2684	2999	2410	1733	211	1707	879	-184	-77	214	-257	1125
b. Suppliers credits	-93	-80	-95	-106	20	342	355	-259	-72	318	-238	-9
c. Bonds (including IDB)	110	665	678	147	1380	-206	-338	-404	-225	-967	2107	2511
d. Other private	117	2261	-41	-65	-179	-228	1173	1541	621	-256	-659	-1089
B. Private non-guaranteed LT	59	-104	-82	-104	36	-52	565	744	1023	545	1593	208
C. Total LT repayments (A+B)	5375	8386	5358	3939	4362	4105	4388	2408	220	37	2141	3725
D. Net IMF credit	-1082	-1210	-1008	1028	773	1289	189	-1174	-1719	-972	-613	-390
E. Net short debt flows	727	685	1143	1043	-1474	-730	-2714	638	785	1677	838	0
F. Total net flows (C+D+E)	4293	7175	4350	4968	5135	5395	4577	1234	-1499	-936	1528	3335
<i>Memo item:</i>												
Total NRI net flows	1992	2328	2295	1536	290	2001	1205	172	1103	3350	1125	1742

Source: Derived from Tables A3.1(b) and A3.1(c).

TABLE A3.1(e)
External Debt Summary: Interest Payments

(US \$ million at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9
A. Public & publicly guaranteed LT	1837	1993	3162	3647	3403	3317	3400	3702	3813	3584	4292	4300
1. Official creditors	810	940	1351	1497	1512	1631	1674	1846	1867	1680	1599	1553
a. Multilateral	479	581	640	738	796	899	940	1014	1061	966	907	887
aa. of which IBRD	378	474	529	615	643	709	721	768	770	674	590	536
ab. of which IDA	98	98	90	97	101	109	114	121	131	130	131	135
b. Bilateral	360	711	759	717	732	733	832	806	714	693	667	
2. Private creditors	1027	1053	1811	2150	1891	1685	1727	1856	1946	1904	2692	2746
a. Commercial banks	778	787	1518	1751	1426	1200	1206	1159	1263	886	2212	2297
b. Suppliers credits	67	61	53	43	31	31	55	108	68	65	90	61
c. Bonds (including IDB)	79	104	143	182	196	230	258	221	183	572	99	118
d. Other private	103	100	96	174	238	224	208	368	432	381	291	270
B. Private non-guaranteed LT	147	127	140	135	126	123	139	391	531	426	173	467
C. Total LT interest (A+B)	1985	2120	3302	3782	3529	3440	3539	4093	4344	4010	4465	4767
D. IMF service charges	297	233	184	134	203	271	271	228	182	87	50	25
E. Interest paid on ST debt	429	437	570	899	826	399	367	312	385	268	349	327
F. Total interest paid (C+D+E)	2710	2790	4056	4815	4559	4110	4178	4633	4911	4365	4864	5118
<i>Memo item:</i>												
Total NRI interest payments	715	609	1076	1282	1036	918	905	1046	1247	1627	1807	1719

Source: World Bank, DRS data.

TABLE A3.2
External Reserves

(US \$ million at current prices)

	Foreign exchange	SDRs	Reserve position in the fund	Reserves excluding gold	Gold ^a	Reserves including gold	Use of IMF credit	Net reserves
1980-1	5850	603	405	6858	370	7228	327	6901
1981-2	3582	473	405	4460	335	4795	964	3831
1982-3	4281	291	393	4965	324	5289	2876	2413
1983-4	5099	230	518	5847	320	6167	4150	2017
1984-5	5482	145	483	6110	325	6435	3932	2503
1985-6	5972	131	554	6657	417	7074	4290	2784
1986-7	5924	179	626	6729	471	7200	4291	2909
1987-8	5618	97	676	6391	508	6899	3653	3246
1988-9	4226	103	630	4959	473	5432	2364	3068
1989-90	3368	107	634	4109	487	4596	1493	3103
1990-1	2236	102	—	2338	3496	5834	2623	3211
1991-2	5631	90	1	5722	3499	9221	3451	5770
1992-3	6434	18	297	6749	3380	10,129	4798	5331
1993-4	15,068	108	300	15,476	4078	19,554	5040	14,514
1994-5	20,809	19	332	21,160	4370	25,530	4312	21,218
1995-6	17,044	82	311	17,436	4561	21,997	2374	19,623
1996-7	22,367	2	295	22,664	4054	26,718	1313	25,405
1997-8	25,975	1	284	26,260	3391	29,651	664	28,987
1998-9	29,522	8	663	30,193	2417	32,610	563	32,047
End of the Month								
1995								
March	20,809	19	332	21,160	3810	24,970	4312	20,658
June	19,601	95	334	20,030	3778	23,808	3933	19,875
September	19,064	49	320	19,433	3713	23,146	3377	19,768
December	17,467	139	316	17,922	3614	21,536	2923	18,612
1996								
March	17,044	82	311	17,436	3810	21,246	2374	18,872
June	17,526	128	307	17,961	3778	21,739	2079	19,660
September	18,433	57	306	18,796	3713	22,509	1755	20,754
December	19,742	122	306	20,170	3614	23,784	1560	22,224
1997								
March	22,367	2	295	22,664	3386	26,050	1313	24,737
June	25,404	3	295	25,702	3300	29,002	1144	27,858
September	25,697	30	290	26,017	3129	29,146	946	28,200
December	24,324	77	287	24,688	2880	27,568	796	26,772
1998								
March	25,975	1	284	26,260	2497	28,757	664	28,093
June	23,933	81	283	24,297	2472	26,769	563	26,206
September	26,184	14	292	26,490	2405	28,895	480	28,415
December	26,958	83	300	27,341	2492	29,833	401	29,432
1999								
March	29,522	8	663	30,193	2417	32,610	288	32,322
June	30,559	8	653	31,212	2307	33,519	206	33,313

— Not available.

Note: IMF credit refers to use of IMF credit within the General Resources Account (GRA) excluding Trust Fund, Structural Adjustment Facility (SAF), and Enhanced Structural Adjustment Facility (ESAF) loans.

^a Valued at 35 SDR's per fine troy ounce.

Source: IMF, IFS, various issues.

TABLE A4.1
Central Government Finances Summary

(Rs billion at current prices)

	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9 BE	1998-9 RE	1999-2000 BE
Revenue ^a	660.30	741.28	754.53	910.83	1101.30	1262.79	1339.02	1619.94	1576.65	1828.40
Tax revenue	500.69	540.44	534.49	674.54	819.39	937.01	956.73	1168.57	1095.37	1323.65
Customs	222.57	237.76	221.93	267.89	357.57	428.51	401.93	481.48	426.00	503.69
Union excise ^b	160.17	163.67	172.24	210.64	221.76	234.63	255.16	307.82	285.35	363.57
Income tax ^b	16.27	18.31	13.46	34.68	43.16	47.15	52.76	69.84	69.02	99.23
Corporate tax	78.53	88.99	100.60	138.22	164.87	185.67	200.16	265.50	271.00	308.50
Other	23.15	31.71	26.26	23.11	32.03	41.05	46.72	43.93	44.00	48.66
Non-tax revenue	159.61	200.84	220.04	236.29	281.91	325.78	382.29	451.37	481.28	504.75
Interest receipts	109.33	124.87	150.62	157.97	184.19	221.06	253.23	279.54	305.45	330.34
Other	19.90	56.36	69.90	27.54	94.10	100.92	119.94	121.83	85.83	74.41
Expenditure ^c	1053.93	1162.62	1356.62	1543.94	1717.70	1934.67	2237.50	2580.19	2704.08	2729.17
Non-plan expenditure	804.53	859.58	981.91	1133.61	1319.01	1474.73	1729.91	1959.25	2135.41	2070.04
Interest payments	265.63	310.35	366.95	440.49	500.31	594.78	656.37	750.00	772.48	880.00
Defence	163.47	175.82	218.45	232.45	268.56	295.05	352.78	412.00	412.00	456.94
Subsidies	122.53	119.95	126.82	129.32	133.72	163.64	194.87	220.25	246.83	238.38
Other non-plan expenditure	252.90	253.47	269.69	331.35	416.42	421.26	525.89	577.00	704.10	494.72
Plan Expenditure	309.61	366.60	436.62	473.78	463.74	535.34	590.77	720.02	683.71	770.00
Less: recovery of loans	60.21	63.56	61.91	63.45	65.05	75.40	83.18	99.08	115.04	110.87
Disinvestment of PSEs	30.38	19.61	-0.48	50.78	3.62	3.80	9.12	50.00	90.00	100.00
Gross fiscal deficit ^d	363.41	401.74	602.57	582.33	612.79	668.10	889.38	910.26	1037.44	1049.56
<i>Financed by:</i>										
Reserve Bank of India (net) ^e	59.04	21.75	2.60	21.30	198.55	19.34	129.15	117.99	117.99	-1.74
Marketable securities (net) ^f	114.22	181.80	381.14	188.80	319.23	289.52	302.21	625.18	655.38	672.18
Other domestic borrowing (net)	135.94	144.99	168.09	320.77	91.83	329.36	447.11	143.72	254.97	370.67
External borrowing (net)	54.21	53.19	50.74	51.46	3.18	29.87	10.91	23.37	9.10	8.45

(Contd.)

	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9 BE	1998-9 RE	1999-2000 BE
<i>Memo:</i>										
GDPmp	6671.65	7635.61	8769.52	10,378.42	12,179.63	14,098.49	15,635.52	17,883.72	17,755.56	20,025.00
Fiscal deficit/GDP	5.4	5.3	6.9	5.6	5.0	4.7	5.7	5.1	5.8	5.2
Revenue/GDP	9.9	9.7	8.6	8.8	9.0	9.0	8.6	9.1	8.9	9.1
Expenditure/GDP	15.8	15.2	15.5	14.9	14.1	13.7	14.3	14.4	15.2	13.6

^a Including sale of public assets (disinvestment).

^b Net of states' share.

^c Net of loan recoveries.

^d GOI changed its definition of gross fiscal deficit (excl. the states share of small savings) from 1999-2000. For the sake of consistency the change is not reflected.

^e Monetized deficit (equal to net RBI credit to central government).

^f T-Bills and dated securities, excluding those issued to the RBI.

^g Includes RBI (net) figure.

Note: BE = Budget estimates; RE = Revised estimates.

Source: MoF, Union Budget documents, and World Bank staff estimates.

TABLE A4.2
Budgetary Classification of Central Government Finances

(Rs billion at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9 BE	1998-9 RE	1999-2000 BE
Revenue receipts	370.37	435.91	499.96	549.54	660.30	741.28	754.53	910.83	1101.30	1262.79	1339.02	1619.94	1576.65	1828.40
Tax revenue	280.15	337.51	383.49	429.78	500.69	540.44	534.49	674.54	819.39	937.01	956.73	1168.57	1095.37	1323.65
Non-tax revenue	90.22	98.40	116.47	119.76	159.61	200.84	220.04	236.29	281.91	325.78	382.29	451.37	481.28	504.75
of which: Interest from states	31.58	37.70	44.24	51.74	65.22	77.54	95.53	111.83	130.02	151.63	180.32	183.59	212.83	0.00
Revenue expenditure (A+B+C+D)	461.75	541.06	642.07	735.15	823.08	927.02	1081.69	1221.11	1398.62	1589.34	1803.52	2100.63	2181.39	2369.88
A. Developmental	114.25	140.36	184.15	196.01	198.17	208.60	243.68	301.50	355.92	399.53	460.09	544.65	592.23	589.27
1. Social services	19.35	22.43	24.99	27.53	30.57	34.30	40.97	47.43	66.29	84.23	105.64	139.63	135.77	147.06
2. Economic services	94.90	117.93	159.17	168.48	167.60	174.30	202.71	254.07	289.63	315.30	354.45	405.03	456.45	442.21
B. Non-developmental	244.59	287.69	335.47	391.00	450.34	521.58	613.17	708.20	816.78	942.77	1100.88	1257.23	1313.68	1445.01
Defence services	88.60	95.58	101.94	108.74	114.42	121.09	149.77	164.26	188.41	209.97	261.75	308.40	310.13	334.64
Interest payments	112.36	142.61	177.57	214.71	265.63	310.35	366.95	440.49	500.31	594.78	656.37	750.00	772.48	880.00
C. Grants-in-aid and contributions	93.49	102.08	109.36	134.39	159.53	180.54	211.11	204.83	218.28	238.17	232.27	287.84	263.11	323.23
of which: Grants to states	91.36	100.15	86.44	132.02	157.00	178.30	208.30	200.47	212.87	231.57	297.38	275.30	249.41	308.66
D. Revenue expenditure of UTs	9.43	10.92	13.09	13.75	15.05	16.30	13.73	6.59	7.63	8.86	10.28	10.91	12.37	12.37
Net current balance	-91.38	-105.15	-142.11	-185.61	-162.78	-185.74	-327.16	-310.28	-297.32	-326.55	-464.50	-480.69	-604.74	-541.48
Capital expenditure (A+B+C+D)	179.07	204.08	237.18	260.88	231.01	235.60	274.93	322.82	319.09	345.35	434.00	479.57	522.69	608.08
A. Developmental	56.67	60.03	70.95	69.23	58.26	73.82	55.60	73.96	50.49	46.82	73.33	114.21	80.33	105.08
1. Social services	2.80	3.51	3.21	2.47	2.39	2.59	3.32	7.26	5.48	6.58	6.04	10.51	10.14	11.48
2. Economic services	53.86	56.52	67.74	66.77	55.87	71.23	52.28	66.70	45.01	40.24	67.28	103.71	70.19	141.70
B. Non-developmental	33.39	40.76	45.27	49.56	52.32	58.88	73.92	72.51	88.26	93.29	99.74	115.43	111.84	135.65
of which: Defence services	31.08	37.83	42.22	45.52	49.05	54.73	68.67	68.19	80.15	85.08	91.04	103.60	101.87	122.30
C. Capital expenditure of UTs	2.88	1.76	1.87	2.68	3.42	3.50	2.78	2.44	2.24	1.84	2.19	3.10	3.03	3.27
D. Loans and advances (net)	86.13	101.53	119.09	139.40	117.01	99.41	142.63	173.91	178.10	203.40	258.74	246.82	327.50	364.08
to States & UTs	58.51	67.30	79.55	98.69	94.18	86.97	100.72	143.13	148.37	175.71	233.36	212.11	301.90	326.64
to Others	27.62	34.23	39.55	40.71	22.83	12.44	41.92	30.78	29.73	27.68	25.39	34.71	25.60	37.44
Disinvestment of equity in PSEs	0.00	0.00	0.00	0.00	30.38	19.61	-0.48	50.78	3.62	3.80	9.12	50.00	90.00	100.00
Gross fiscal deficit (GOI Defn)	270.45	309.22	379.30	446.50	363.41	401.74	602.57	582.33	612.79	668.10	889.38	910.26	1037.44	1049.56

(Contd.)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9 BE	1998-9 RE	1999-2000 BE
<i>Financed by instruments</i>														
Market loans	58.62	84.18	74.04	80.01	75.10	36.76	289.28	203.26	330.87	200.12	324.99	559.31	649.11	672.18
Small savings	39.11	58.35	85.75	91.04	66.40	57.17	91.00	165.78	127.90	152.57	244.97	216.40	290.00	330.00
Provident funds	52.74	71.12	90.86	89.37	79.56	87.55	93.58	102.65	75.56	84.97	88.63	148.45	145.88	164.60
External loans	28.93	24.60	25.95	31.81	54.21	53.19	50.74	51.46	3.18	29.87	10.91	23.37	9.10	8.45
Treasury bills	56.52	62.44	109.11	117.69	68.87	117.73	119.82	-2.68	114.63	127.28	n.a.	0.00	0.00	0.00
Other	34.53	8.53	-6.41	36.58	19.27	49.33	-41.85	61.86	-39.35	73.28	219.88	-37.27	-56.65	-125.67

Note: The GOI changed its definition of gross fiscal deficit (excl. the states' share of small savings) from 1999-2000. For the sake of consistency the year 1999-2000 does not reflect this change.

BE = Budget estimates; RE = Revised estimates.

Source: MoF, Union Budget documents; Department of Expenditure, Finance Accounts; World Bank staff estimates.

TABLE A4.3
Budgetary Classification of State Government Finances

(Rs billion at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8 BE	1997-8 RE	1998-9 BE
Revenue receipts	448.00	507.09	568.08	673.19	813.59	911.04	1050.65	1222.82	1373.45	1528.62	1718.35	1830.97	1947.92
Tax revenue	289.20	330.70	392.27	448.80	529.53	603.90	686.66	805.75	931.63	1061.63	1249.10	1285.21	1395.56
Direct tax	19.85	24.13	30.06	33.75	39.59	42.28	49.73	70.05	81.10	84.30	105.58	101.19	120.96
Indirect tax	173.37	199.88	229.89	269.70	317.98	356.40	414.51	487.29	557.55	626.72	740.98	748.40	882.97
State share in central taxes	95.98	106.69	132.32	145.35	171.97	205.22	222.42	248.40	292.98	350.61	435.48	408.54	391.63
Non-tax revenue	158.80	176.38	175.81	224.39	284.06	307.14	363.99	417.07	441.82	466.99	469.25	545.76	552.36
of which: Grants from centre	91.36	100.15	86.44	132.02	157.00	178.30	208.30	200.47	212.87	231.57	230.27	302.41	275.30
Revenue expenditure [A+B+C]	451.54	522.96	602.53	717.73	861.86	962.05	1093.76	1284.40	1450.04	1689.50	1915.51	1967.19	2294.95
A. Developmental (1+2)	318.20	362.37	407.81	488.55	585.05	634.65	708.38	786.37	892.76	1061.54	1112.44	1210.92	1289.85
1. Social services	177.06	205.74	240.17	279.62	310.92	345.65	389.61	449.02	536.07	603.28	682.82	729.78	800.99
2. Economic services	141.14	156.63	167.64	208.92	274.13	288.99	318.78	337.36	356.69	458.26	429.61	481.13	488.86
B. Non-developmental	128.44	155.06	188.69	221.34	266.66	315.06	373.67	484.99	541.97	608.64	775.98	724.56	968.92
Of which: Interest payments	48.98	59.33	71.86	86.55	109.44	132.10	158.00	192.02	219.32	255.76	310.89	312.35	364.17
To centre	31.58	37.70	44.24	51.74	65.22	77.54	95.53	111.83	130.02	151.63	180.32	183.59	212.83
To others	17.40	21.63	27.62	34.81	44.23	54.56	62.47	80.19	89.30	104.13	130.57	128.77	151.34
C. Other expenditure ^a	4.91	5.53	6.03	7.84	10.16	12.35	11.71	13.03	15.31	19.32	27.10	31.71	36.18
Net current balance	-3.55	-15.87	-34.45	-44.54	-48.27	-51.01	-43.11	-61.58	-76.59	-160.88	-197.16	-136.22	-347.03
Capital expenditure [A+B+C]	101.31	98.66	117.52	134.78	132.49	157.77	167.84	206.19	232.25	213.31	303.57	314.13	339.36
A. Developmental (1+2)	64.29	68.53	77.28	89.61	98.61	103.44	120.51	169.31	178.37	168.27	216.20	229.75	235.58
1. Social services	10.74	11.28	11.71	12.57	16.47	16.64	18.31	23.04	26.21	29.73	44.63	41.52	46.04
2. Economic services	53.55	57.25	65.57	77.03	82.14	86.80	102.21	146.27	152.16	138.55	171.58	188.24	189.54
B. Non-developmental	2.26	2.25	2.36	2.63	2.34	3.10	3.99	4.20	6.57	7.12	8.80	9.83	10.59
C. Loans and advances (net)	34.77	27.88	37.88	42.55	31.54	51.22	43.33	32.68	47.30	37.91	78.56	74.55	93.20
Gross fiscal deficit	104.85	114.53	151.96	179.32	180.77	208.78	210.95	267.77	308.84	374.19	500.73	450.35	686.40
<i>Financed by instrument:</i>													
Market loans	18.01	22.46	25.95	25.60	33.10	38.50	42.28	41.05	64.04	65.19	76.15	77.27	89.36
Loans from centre (Net)	58.31	67.07	79.30	98.39	93.75	86.60	99.01	137.61	139.98	167.40	175.08	213.66	323.80
Small savings & Provident funds	16.28	20.01	23.07	30.69	29.09	36.22	43.30	47.79	49.02	53.75	73.94	77.48	111.23
Other	12.26	4.98	23.65	24.63	24.82	47.45	26.36	41.33	55.81	87.85	175.56	81.94	162.02

^a Other expenditure includes compensation and assignments to local bodies and Panchayat Raj institutions and reserve with the finance department.

Note: BE = Budget estimates; RE = Revised estimates.

Source: MoF, Union budget documents; RBI, RBI bulletins on state finances, World Bank staff estimates.

TABLE A4.4
Budgetary Classification of General Government Finances

(Rs billion at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8 ^a	1998-9 BE
Revenue receipts	695.43	805.15	937.36	1038.97	1251.67	1396.48	1501.35	1821.35	2131.86	2408.21	2689.91	3079.73
Tax revenue	569.35	668.21	775.76	878.58	1030.22	1144.34	1221.15	1480.29	1751.02	1998.63	2241.94	2564.13
Non-tax revenue	126.08	136.94	161.60	160.39	221.45	252.13	280.20	341.06	380.84	409.58	447.57	515.59
Revenue expenditure [A+B+C+D]	790.35	926.17	113.92	1269.12	1462.73	1633.23	1871.62	2193.21	2505.77	2895.64	3371.20	3907.45
A. Developmental	432.44	502.73	591.96	684.56	783.22	843.24	952.06	1087.87	1248.68	1461.07	1671.01	1834.50
1. Social services	196.40	228.17	265.15	307.16	341.49	379.95	430.58	496.45	602.36	687.51	835.42	940.62
2. Economic services	236.04	274.55	326.80	377.40	441.72	463.29	521.48	591.42	646.32	773.56	835.59	893.89
B. Non-developmental	341.45	405.05	479.92	560.60	651.78	759.10	891.30	1081.36	1228.73	1399.78	1647.37	2013.33
C. Revenue disbursements of UTs	9.43	10.92	13.09	13.75	15.05	16.30	13.73	6.59	7.63	8.86	10.28	10.91
D. Other expenditure ^b	7.04	7.46	28.95	10.21	12.68	14.59	14.53	17.39	20.72	25.92	42.54	48.71
Net current balance	-94.93	-121.02	-176.56	-230.15	-211.05	-236.75	-370.28	-371.87	-373.91	-487.43	-681.69	-827.72
Capital expenditure [A+B+C+D]	222.07	235.66	275.40	297.27	269.76	306.77	343.76	391.40	411.37	391.26	524.19	615.67
A. Developmental (1+2)	120.95	128.56	148.23	158.84	156.87	177.26	176.11	243.28	228.86	215.09	303.08	349.79
1. Social services	13.54	14.79	14.92	15.04	18.86	19.23	21.63	30.30	31.69	36.31	47.56	56.54
2. Economic services	107.41	113.76	133.31	143.80	138.00	158.03	154.49	212.97	197.17	178.79	255.52	293.25
B. Non-developmental	35.65	43.01	47.63	52.19	54.67	61.98	77.90	76.71	94.84	100.41	109.57	126.02
C. Loans and advances (net)	62.59	62.33	77.67	83.56	54.79	64.03	86.96	68.98	85.43	73.91	109.36	136.75
D. Capital disbursements of UTs	2.88	1.76	1.87	2.68	3.42	3.50	2.78	2.44	2.24	1.84	2.19	3.10
Disinvestment of equities in PSEs	0.00	0.00	0.00	0.00	30.38	19.61	-0.48	50.78	3.62	3.80	9.12	50.00
Gross fiscal deficit	316.99	356.68	451.96	527.42	450.43	523.91	714.51	712.49	781.65	874.89	1196.76	1393.39
<i>Financed by Instrument:</i>												
Market loans	76.63	106.64	99.99	105.61	108.20	75.26	331.56	244.31	394.91	265.31	402.26	648.67
Small savings	39.11	58.35	85.75	91.04	66.40	57.17	91.00	165.78	127.90	152.57	244.97	216.40
Provident funds	69.02	91.13	113.93	120.06	108.65	123.77	136.88	150.44	124.58	138.72	166.11	259.68
External loans	28.93	24.60	25.95	31.81	54.21	53.19	50.74	51.46	3.18	29.87	10.91	23.37
Treasury bills	56.52	62.44	109.11	117.69	68.87	117.73	119.82	-2.68	114.63	127.28	n.a.	0.00
Other	46.79	13.52	17.24	61.21	44.09	96.79	-15.49	103.19	16.46	161.13	372.51	245.28

^a Actuals for centre and revised estimates for states.

^b Other expenditure include compensation and assignments to local bodies and panchayat raj institutions and reserve with the finance department.

Notes: BE = Budget estimates; RE = Revised estimates.

Source: MoF, Union Budget documents; RBI, RBI bulletins on State Finances; World Bank staff estimates.

TABLE A4.5
Tax Revenue: Centre and States

(Rs billion at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8 ^a	1998-9 BE	1998-9 RE	1999-2000 BE
<i>Central government</i>														
A. Gross tax revenue	376.66	444.74	516.36	575.76	673.61	746.37	757.44	922.94	1112.37	1768.60	1392.21	1577.11	1487.00	1768.60
Corporation tax	34.33	44.07	47.29	53.35	78.53	88.99	100.60	138.22	164.87	185.67	200.16	265.50	271.00	308.50
Taxes on income	31.92	42.41	50.04	53.71	67.31	78.88	91.15	120.25	156.03	182.31	263.78	209.30	214.00	269.10
Customs	137.02	158.05	180.36	206.44	222.57	237.76	221.93	267.89	357.57	428.51	401.93	481.48	426.00	503.69
Union excise duties	164.26	188.41	224.06	245.14	281.10	308.32	316.97	373.47	401.87	450.08	479.62	576.90	532.00	638.65
Other	9.13	11.80	14.61	17.12	24.10	32.42	26.79	23.11	32.03	41.05	46.72	43.93	44.00	48.66
B. States share of tax revenue	95.98	106.69	132.32	145.35	171.97	205.22	222.42	248.40	292.98	350.61	435.48	408.54	408.54	391.63
Income tax	25.89	27.49	39.22	41.21	51.04	60.57	77.69	85.57	112.87	135.16	211.02	139.46	144.98	169.87
Estate duty	0.06	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Union excise duties	70.03	79.19	93.10	104.14	120.93	144.65	144.73	162.83	180.11	215.45	224.46	269.08	246.65	275.08
C. Assignments of UT taxes to local bodies	0.53	0.54	0.55	0.63	0.95	0.71	0.53	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tax revenue (net) [A-B-C]	280.15	337.51	383.49	429.78	500.69	540.44	534.49	674.54	819.39	937.01	956.73	1168.57	1095.37	1323.65
<i>State government</i>														
States own tax revenue	193.22	224.01	259.95	303.45	357.56	398.68	464.24	557.35	638.65	711.02	849.59	1003.93	—	—
Direct tax	19.85	24.13	30.06	33.75	39.59	42.28	49.73	70.05	81.10	84.30	101.19	120.96	—	—
Taxes on income	2.70	3.12	4.53	6.34	6.45	6.02	6.50	7.17	8.35	10.11	10.80	12.35	—	—
Land revenue	4.48	5.94	6.90	6.07	6.36	6.17	7.32	11.41	13.26	10.74	13.49	16.56	—	—
Stamps and registration fees	12.54	14.86	18.45	21.12	26.54	29.78	35.55	50.91	58.98	62.67	76.15	91.19	—	—
Other	0.13	0.21	0.19	0.22	0.24	0.31	0.36	0.56	0.52	0.79	0.75	0.86	—	—
Indirect tax	173.37	199.88	229.89	269.70	317.98	356.40	414.51	487.29	557.55	626.72	748.40	882.97	—	—
Sales tax	111.85	131.22	150.60	176.67	210.64	233.49	276.38	331.54	354.77	439.27	513.75	596.44	—	—
State excise	28.67	30.81	38.64	47.95	54.39	62.65	71.06	77.47	85.16	88.05	113.38	136.29	—	—
Taxes on vehicles	11.75	12.90	14.15	15.66	18.37	21.94	25.83	30.81	37.26	41.17	49.45	58.41	—	—
Other	21.09	24.96	26.49	29.41	34.58	38.32	41.25	47.47	80.35	58.22	71.82	91.83	—	—
State's Share of Central Taxes	95.98	106.69	132.32	145.35	171.97	205.22	222.42	248.40	292.98	350.61	435.62	391.63	—	—
Tax revenue retained by states	289.20	330.70	392.27	448.80	529.53	603.90	686.66	805.75	931.63	1061.63	1285.21	1395.56	—	—

— Not available.

^a Actuals for central government and revised estimates for states.

Source: MoF, Union Budget documents; RBI, RBI bulletins on state finances; World Bank staff estimates.

TABLE A4.6
Non-tax Revenue: Centre and States

(Rs billion at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8 ^a	1998-9 BE	1998-9 RE	1999-2000 BE
<i>Central government</i>														
Non-tax revenue	90.22	98.40	116.47	119.76	159.61	200.84	220.04	236.29	281.91	325.78	382.29	451.37	481.28	504.75
Interest receipts	57.55	69.81	84.66	87.30	109.33	124.87	150.62	157.97	184.19	221.06	253.23	279.54	305.45	330.34
from state governments	31.58	37.70	44.24	51.74	65.22	77.54	95.53	111.83	130.02	151.63	178.07	212.83	218.70	258.99
Dividends and profits	6.05	4.75	7.16	7.74	10.58	24.93	24.48	27.16	32.48	38.54	51.81	73.73	75.37	94.83
Other general services	3.37	3.95	4.05	5.06	5.72	10.14	10.46	11.87	12.42	13.00	16.61	16.37	19.62	18.51
Social services	0.60	0.80	0.57	0.65	0.90	0.79	1.01	0.95	1.09	1.26	1.45	1.55	1.60	1.61
Economic services	12.73	8.93	5.45	8.60	21.46	17.86	13.26	18.60	32.45	33.17	43.09	63.42	65.15	45.36
Grants-in-aid and contributions	4.92	6.00	7.54	5.86	9.47	9.19	9.93	10.38	11.38	11.90	10.18	10.54	8.12	7.15
Other	5.00	4.16	7.04	4.55	2.15	13.06	10.28	9.36	7.90	6.85	5.92	6.22	5.97	6.95
<i>State government</i>														
States own non-tax revenue	67.44	76.24	89.37	92.37	127.06	128.84	155.69	216.60	228.95	235.43	243.35	277.05	—	—
Interest receipts	19.47	23.87	26.34	24.03	53.20	39.38	47.25	53.65	57.92	81.71	71.45	68.80	—	—
General services	7.54	9.51	11.40	19.13	17.28	18.44	29.47	72.22	77.18	53.28	61.49	69.08	—	—
Social services	5.04	5.73	6.76	5.86	7.74	8.48	9.12	9.65	10.95	12.00	14.11	15.46	—	—
Economic services	35.12	36.64	44.59	43.01	48.39	61.48	69.21	80.35	81.86	86.77	95.14	122.49	—	—
Forestry and wildlife	10.67	10.08	11.96	11.37	12.71	12.72	14.94	16.40	16.57	15.94	16.82	19.34	—	—
Industries	9.11	12.08	14.31	12.23	15.37	23.17	25.09	30.51	35.67	37.41	41.91	52.26	—	—
Other economic services	15.33	14.48	18.32	19.41	20.31	25.59	29.19	33.44	29.62	33.42	36.42	50.89	—	—
Other	0.28	0.49	0.28	0.34	0.45	1.06	0.63	0.74	1.03	1.67	1.16	1.22	—	—
Grants from centre	91.36	100.15	86.44	132.02	157.00	178.30	208.30	200.47	212.87	231.57	302.41	275.30	—	—
Non-tax revenue retained by states	158.80	176.38	175.81	224.39	284.06	307.14	363.99	417.07	441.82	466.99	545.76	552.36	—	—

— Not available.

^a Actuals for central government and revised estimates for states.

Note: BE = Budget estimates; RE = Revised estimates.

Source: MoF, Union Budget documents; RBI, RBI bulletins on state finances; World Bank staff estimates.

TABLE A4.7
Revenue Expenditure of the Central Government

(Rs billion at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9 BE	1998-9 RE	1999-2000 BE
Revenue expenditure (A+B+C+D)	461.75	541.06	642.07	735.15	823.08	927.02	1081.69	1221.11	1398.62	1589.34	1803.52	2100.63	2181.39	2369.88
A. Developmental	114.25	140.36	184.15	196.01	198.17	208.60	243.68	301.50	355.92	399.53	460.09	544.65	592.23	589.27
1. Social services	19.35	22.43	24.99	27.53	30.57	34.30	40.97	47.43	66.29	84.23	105.64	139.63	135.77	147.06
Education, sports, art, and culture	10.13	11.12	11.41	12.74	13.72	14.97	18.37	22.30	29.70	33.14	44.39	56.78	60.36	61.20
Health and family welfare	2.67	3.11	3.48	3.97	4.50	5.59	6.47	7.82	8.33	10.54	13.36	20.01	18.70	23.01
Information and broadcasting	2.10	2.36	3.23	3.60	4.43	4.61	4.15	5.08	5.49	6.36	7.41	8.48	9.72	10.15
Water supply and sanitation	0.13	0.51	0.78	0.93	0.64	0.63	0.84	0.84	3.80	3.17	4.80	6.06	5.88	6.61
Labour and labour welfare	1.64	2.43	2.64	2.78	3.00	3.29	5.11	4.14	4.88	5.50	5.59	7.52	7.20	8.75
Social security and welfare	1.92	1.96	2.36	2.25	2.81	3.44	3.71	4.47	8.73	10.41	10.74	17.66	13.22	15.23
Other	0.76	0.94	1.09	1.27	1.47	1.77	2.33	2.77	5.36	15.10	19.35	23.12	20.69	22.11
2. Economic services	94.90	117.93	159.17	168.48	167.60	174.30	202.71	254.07	289.63	315.30	354.45	405.03	456.45	442.21
Agriculture and allied services	5.55	7.45	7.75	22.92	19.25	21.26	11.11	16.92	13.45	13.67	19.52	26.48	23.87	29.99
Fertilizer subsidy	21.64	32.01	45.42	43.89	51.85	61.36	51.94	57.69	67.35	75.78	99.18	99.83	113.88	132.50
Food subsidy	20.00	22.00	24.76	24.50	28.50	28.00	55.37	51.00	53.77	60.66	75.00	90.00	87.00	82.00
Export subsidy	9.62	13.86	20.14	27.42	17.58	8.18	6.65	6.58	3.18	3.97	4.20	5.00	5.75	6.30
Irrigation and flood control	0.76	0.85	0.81	0.89	1.20	1.07	1.68	1.35	1.64	1.99	2.16	2.80	2.72	2.80
Rural development	3.13	3.61	3.70	3.77	3.57	4.06	16.25	41.56	56.29	44.35	49.02	53.73	51.62	49.69
Special areas programmes	0.06	0.05	0.07	0.12	0.19	0.17	0.20	7.92	7.87	8.13	9.42	11.27	9.72	12.64
Energy	3.94	5.59	6.90	7.49	5.37	2.67	5.48	3.97	5.48	7.42	141.06	13.29	12.36	15.22
Industry and minerals	13.57	12.20	17.96	12.26	12.03	17.98	17.93	12.88	17.20	29.82	21.75	20.94	23.54	21.26
Transport and communications	6.06	6.79	15.62	8.05	9.19	9.68	14.45	17.80	20.44	22.59	28.85	13.07	37.63	36.60
Science, technology, and environment	7.57	9.34	10.40	11.27	12.87	13.68	15.86	17.20	18.76	21.92	26.27	30.46	30.06	33.27
General economic services	2.99	4.18	5.62	5.90	6.00	6.20	5.78	19.19	24.20	25.00	-121.99	38.16	58.30	19.95
B. Non-developmental	244.59	287.69	335.47	391.00	450.34	521.58	613.17	708.20	816.78	942.77	1100.88	1257.23	1313.68	1445.01
Defence services	88.60	95.58	101.94	108.74	114.42	121.09	149.77	164.26	188.41	209.97	261.75	308.40	310.13	334.64
Interest payments	112.36	142.61	177.57	214.71	265.63	310.35	366.95	440.49	500.31	594.78	656.37	750.00	772.48	880.00
on internal debt	55.14	69.13	82.73	96.22	109.09	129.89	154.83	193.91	233.64	264.97	314.29	382.60	394.39	459.72
on external debt	9.77	12.42	14.94	17.78	25.69	34.51	37.92	41.10	39.02	52.28	41.46	41.92	42.73	41.84
on small savings, PFs, etc.	44.90	58.01	75.73	96.37	124.20	138.83	168.42	198.91	220.64	268.39	290.19	293.40	305.41	363.89
Other	2.56	3.06	4.17	4.34	6.66	7.12	5.78	6.57	7.01	9.13	10.43	32.08	29.95	14.56

(Contd.)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9 BE	1998-9 RE	1999-2000 BE
Administrative services	15.32	17.91	20.71	25.24	27.98	37.83	38.27	42.14	48.48	58.20	72.00	82.24	86.11	87.96
Fiscal services	10.94	11.00	12.78	12.12	17.69	20.48	21.37	23.55	25.90	25.49	33.32	35.04	35.72	32.12
Pensions and misc. services	17.37	20.60	22.46	30.19	24.63	31.84	36.80	37.76	53.67	54.34	77.44	81.55	109.24	110.29
C. Grants-in-aid and contributions	93.49	102.08	109.36	134.39	159.53	180.54	211.11	204.83	218.28	238.17	232.27	287.84	263.11	323.23
Grants to state governments	91.36	100.15	86.44	132.02	157.00	178.30	208.30	200.47	212.87	231.57	297.38	275.30	249.41	308.66
a. Non plan	19.80	24.11	2.69	42.19	45.16	31.77	27.22	24.79	58.62	60.95	89.81	63.57	40.78	76.96
b. State plan schemes	34.43	35.59	36.00	38.78	56.51	79.76	102.39	107.93	86.71	104.10	140.39	124.13	132.73	136.13
c. Central and centrally sponsored schemes	37.14	40.46	47.75	51.05	55.32	66.78	78.69	67.75	67.54	66.51	67.18	87.60	75.90	95.56
Grants to UTs. and others	2.13	1.93	22.92	2.37	2.53	2.24	2.81	4.36	5.42	6.60	10.83	12.53	13.70	14.57
D. Revenue disbursements of UTs (net)	9.43	10.92	13.09	13.75	15.05	16.30	13.73	6.59	7.63	8.86	10.28	10.91	12.37	12.37
<i>Memo Items:</i>														
Total subsidies	59.80	77.32	104.74	121.58	122.53	119.95	126.82	129.32	133.72	163.64	194.87	220.25	246.83	238.38
Major subsidies	51.26	67.87	90.32	95.81	97.93	94.15	107.64	115.27	124.30	140.41	182.38	198.83	210.63	224.40
Other subsidies	8.54	9.45	14.42	25.77	24.60	25.80	19.18	14.05	9.42	23.23	12.49	21.42	36.20	13.98
Rural employment programme of which:	14.10	12.44	21.00	20.00	18.17	25.46	39.06	46.75	46.42	34.95	38.58	40.85	40.50	37.95
Jawahar Rojgar Yojana	0.00	0.00	20.96	20.00	18.17	25.26	33.06	35.35	28.73	16.55	19.53	20.95	20.60	20.95

Note: BE = Budget estimates; RE = Revised estimates.

Source: MoF, Union Budget documents; Department of Expenditure, Finance Accounts; World Bank staff estimates.

TABLE A4.8
Revenue Expenditure of the State Government

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	(Rs billion at current prices)		
											1997-8 BE	1998-9 RE	1998-9 BE
Revenue expenditure (A+B+C)	451.54	522.96	602.53	717.73	861.86	962.05	1093.76	1284.40	1450.04	1689.50	1915.51	1967.19	2294.95
A. Developmental (1+2)	318.20	362.37	407.81	488.55	585.05	634.65	708.38	786.37	892.76	1061.54	1112.44	1210.92	1289.85
1. Social services	177.06	205.74	240.17	279.62	310.92	345.65	389.61	449.02	536.07	603.28	682.82	729.78	800.99
Education, sports, art, and culture	90.10	109.43	135.71	155.28	170.77	192.61	215.94	249.77	289.11	330.64	370.37	389.22	441.51
Health and family welfare	30.53	34.77	39.64	45.86	50.54	56.62	66.69	74.29	84.79	94.30	108.17	112.87	126.76
Water supply and sanitation	13.22	13.94	14.77	16.38	18.45	20.95	24.24	29.80	31.41	36.68	41.78	46.79	50.15
Welfare of SCs, STs, and BCs	11.84	13.18	14.69	17.90	20.71	23.01	25.70	30.12	33.95	38.96	49.19	51.59	53.17
Social security and welfare	8.23	9.70	11.07	13.62	14.77	16.63	18.65	21.44	45.83	26.97	54.84	37.27	39.24
Other	23.13	24.72	24.29	30.59	35.68	35.83	38.38	43.60	50.98	75.72	58.48	92.05	90.17
2. Economic services	141.14	156.63	167.64	208.92	274.13	288.99	318.78	337.36	356.69	458.26	429.61	481.13	488.86
Agriculture and allied services	38.98	42.65	48.29	62.67	69.81	84.34	88.93	90.64	99.32	108.31	112.78	119.17	129.14
Crop husbandry	9.59	11.06	12.65	16.97	20.82	29.37	29.12	28.88	27.36	30.85	31.84	33.17	34.84
Food storage and warehousing	1.20	1.23	1.56	1.88	2.38	4.16	3.81	4.36	8.39	7.41	7.28	8.97	8.50
Forestry and wildlife	8.69	9.46	10.28	11.75	13.42	14.90	15.74	17.22	18.75	21.37	23.15	24.30	29.67
Other	19.50	20.90	23.80	32.06	33.19	35.91	40.25	40.19	44.82	48.68	50.51	52.73	56.13
Rural development	32.20	36.54	28.27	46.75	52.87	63.62	72.77	67.79	65.70	75.28	101.49	106.28	112.63
Special areas programmes	2.35	3.09	3.54	3.57	4.11	3.96	4.88	4.96	5.76	6.97	10.02	10.38	10.46
Irrigation and flood control	27.75	33.19	33.94	34.56	41.40	48.68	54.28	64.44	71.47	79.79	81.95	83.00	88.27
Energy	9.14	7.74	10.92	9.89	50.30	26.15	31.68	29.89	31.83	95.52	25.91	60.44	34.59
Industry and minerals	7.33	8.69	12.17	11.65	12.71	13.56	14.18	16.85	19.60	21.55	21.89	23.92	22.43
Transport and communications	16.01	17.35	19.22	23.36	27.59	31.28	35.12	37.55	44.44	49.25	50.00	51.78	58.88
Science, technology, and environment	0.24	0.23	0.26	0.29	0.36	0.39	0.53	0.53	0.54	0.75	1.16	0.96	1.68
General economic services	7.14	7.15	11.02	16.18	14.98	17.01	16.40	22.68	17.83	20.83	24.41	25.19	30.79
B. Non-developmental	128.44	155.06	188.69	221.34	266.66	315.06	373.67	484.99	541.97	608.64	775.98	724.56	968.92
Interest payments	48.98	59.33	71.86	86.55	109.44	132.10	158.00	192.02	219.32	255.76	310.89	312.35	364.17
on loans from the centre	31.58	37.70	44.24	51.74	65.22	77.54	95.53	111.83	130.02	151.63	178.07	212.83	218.70
on the internal debt	8.95	10.42	13.41	15.68	21.70	24.67	27.77	31.41	42.60	48.68	58.45	69.40	83.23
on small savings, PFs.	7.63	10.58	12.70	17.03	21.17	24.73	30.87	31.27	38.88	40.69	54.10	58.25	68.12
Other	4.51	5.41	6.34	7.76	1.36	11.71	11.28	28.86	18.49	27.95	18.02	1.12	-0.01
Administrative services	44.18	50.31	59.74	70.18	78.10	93.44	104.73	116.64	133.91	149.50	220.33	178.43	321.22
Pensions and miscellaneous services	17.58	23.92	29.31	35.93	44.79	52.72	69.99	119.27	128.34	135.15	170.18	149.51	195.13
Other	13.99	16.72	22.96	23.01	34.33	30.24	33.51	45.72	49.74	55.03	58.33	69.48	70.98
C. Other expenditure ^a	4.91	5.53	6.03	7.84	10.16	12.35	11.71	13.03	15.31	19.32	27.10	31.71	36.18

^a Other expenditures include compensation and assignments to local bodies and Panchayat Raj institutions and reserve with the finance department.

Note: BE = Budget estimates; RE = Revised estimates.

Source: RBI, RBI bulletins on state finances; World Bank staff estimates.

TABLE A4.9
Capital Expenditure Centre and States

	(Rs billion at current prices)													
	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8 ^a	1998-9 BE	1998-9 RE	1999-2000 BE
<i>Central government</i>														
Capital expenditure (A+B+C+D)	179.07	204.08	237.18	260.88	231.01	235.60	274.93	322.82	319.09	345.35	434.00	479.57	522.69	608.08
A. Developmental (1+2)	56.67	60.03	70.95	69.23	58.26	73.82	55.60	73.96	50.49	46.82	73.33	114.21	80.33	105.08
1. Social services	2.80	3.51	3.21	2.47	2.39	2.59	3.32	7.26	5.48	6.58	6.04	10.51	10.14	11.48
Education, sports, art etc.	0.05	0.13	0.08	0.06	0.04	0.05	0.06	2.25	0.14	0.13	0.13	0.22	0.14	0.23
Health and family welfare	0.19	0.15	0.20	0.00	0.20	0.07	0.03	0.69	0.12	0.55	0.26	0.28	0.26	0.20
Housing	0.75	0.99	0.98	1.11	1.26	1.78	1.87	1.86	2.37	2.40	2.98	4.15	4.28	6.14
Information and broadcasting	1.74	1.71	1.78	1.06	0.35	0.07	0.24	0.25	0.47	0.53	0.50	0.74	0.54	0.93
Other	0.08	0.52	0.18	0.24	0.53	0.62	1.12	2.23	2.39	2.97	2.18	5.11	4.91	3.99
2. Economic services	53.86	56.52	67.74	66.77	55.87	71.23	52.28	66.70	45.01	40.24	67.28	103.71	70.19	141.70
Agriculture and allied	0.54	0.55	0.45	0.45	0.49	0.47	0.48	2.83	3.60	3.34	3.35	4.68	3.33	2.45
Energy	18.46	19.05	26.07	27.09	19.91	16.21	17.69	22.68	20.58	11.05	19.16	21.18	21.58	21.37
Industry and minerals	14.07	13.10	11.52	7.71	6.70	8.82	9.87	8.04	6.32	4.49	7.22	7.12	6.42	8.31
Transport & communications	18.40	21.51	26.15	26.45	24.72	33.81	19.45	22.14	20.61	27.19	37.68	49.11	42.10	51.14
General economic services	0.65	0.00	1.26	2.52	2.57	9.07	1.58	6.86	-10.68	-10.76	-2.90	16.86	-7.13	51.97
Other	1.75	2.31	2.28	2.56	1.48	2.85	3.21	4.14	4.59	4.93	2.77	4.76	3.88	6.46
B. Non-developmental	33.39	40.76	45.27	49.56	52.32	58.88	73.92	72.51	88.26	93.29	99.74	115.43	111.84	135.65
Defence services	31.08	37.83	42.22	45.52	49.05	54.73	68.67	68.19	80.15	85.08	91.04	103.60	101.87	122.30
Other	2.32	2.93	3.05	4.04	3.27	4.14	5.24	4.32	8.11	8.20	8.71	11.84	9.97	13.35
C. Capital expenditure of UTs	2.88	1.76	1.87	2.68	3.42	3.50	2.78	2.44	2.24	1.84	2.19	3.10	3.03	3.27
D. Loans and advances (net)	86.13	101.53	119.09	139.40	117.01	99.41	142.63	173.91	178.10	203.40	258.74	246.82	327.50	364.08
To state governments & UTs	58.51	67.30	79.55	98.69	94.18	86.97	100.72	143.13	148.37	175.71	233.36	212.11	301.90	326.64
To others	27.62	34.23	39.55	40.71	22.83	12.44	41.92	30.78	29.73	27.68	25.39	34.71	25.60	37.44
<i>State government</i>														
Capital expenditure (A+B+C)	101.31	98.66	117.52	134.78	132.49	157.77	167.84	206.19	232.25	213.31	314.13	339.36	—	—
A. Developmental (1+2)	64.29	68.53	77.28	89.61	98.61	103.44	120.51	169.31	178.37	168.27	229.75	235.58	—	—
1. Social Services	10.74	11.28	11.71	12.57	16.47	16.64	18.31	23.04	26.21	29.73	41.52	46.04	—	—
Education, sports, art etc.	1.29	1.68	2.64	2.84	2.78	3.02	3.14	3.97	4.54	5.04	6.65	5.22	—	—
Health and family welfare	1.88	2.04	1.84	2.37	2.76	2.63	2.80	3.24	3.68	3.99	5.89	6.79	—	—
Water supply and sanitation	4.00	4.04	3.37	3.54	4.99	5.49	6.77	8.94	8.96	10.26	12.98	17.92	—	—
Housing	2.11	1.90	1.99	1.82	2.09	1.88	2.01	2.65	3.59	3.07	5.12	5.06	—	—
Other	1.45	1.63	1.87	2.00	3.86	3.62	3.57	4.24	5.43	7.36	10.88	11.04	—	—

(Contd.)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9 BE	1998-9 RE	1999-2000 BE
2. Economic services	53.55	57.25	65.57	77.03	82.14	86.80	102.21	146.27	152.16	138.55	188.24	189.54	—	—
Agriculture and allied	2.17	2.69	5.91	6.11	8.32	7.85	7.26	8.82	7.86	3.06	12.94	14.45	—	—
Irrigation and flood control	29.66	32.66	32.91	36.56	38.52	42.93	49.68	58.62	65.87	68.98	83.86	83.13	—	—
Transport	9.43	10.27	11.59	13.42	13.92	15.90	20.47	24.20	28.91	34.02	40.71	50.14	—	—
Other	12.28	11.63	15.16	20.94	21.38	20.13	24.80	54.64	49.53	32.50	50.72	41.81	—	—
B. Non-developmental	2.26	2.25	2.36	2.63	2.34	3.10	3.99	4.20	6.57	7.12	9.83	10.59	—	—
C. Loans and advances (net)	34.77	27.88	37.88	42.55	31.54	51.22	43.33	32.68	47.30	37.91	74.55	93.20	—	—

— Not available.

^a Actuals for the centre and revised estimates for the states.

Note: BE = Budget estimates; RE = Revised estimates.

Source: MoF, Union Budget documents; RBI, RBI bulletins on state finances; World Bank staff estimates.

TABLE A4.10
Transfers between Centre and States

(Rs billion at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9 BE	1998-9 RE	1999-2000 BE
States' share in central taxes	95.98	106.69	132.32	145.35	171.97	205.22	222.42	248.40	292.98	350.61	435.48	408.54	391.63	444.95
Union excise duties	70.03	79.19	93.10	104.14	120.93	144.65	144.73	162.83	180.11	215.45	224.46	269.08	246.65	275.08
Income tax	25.89	27.49	39.22	41.21	51.04	60.57	77.69	85.57	112.87	135.16	211.02	139.46	144.98	169.87
Estate duty	0.06	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Grants to states	91.36	100.15	86.44	132.02	157.00	178.30	208.30	200.47	212.87	231.57	297.38	275.30	249.41	308.66
Non-Plan grants	19.80	24.11	2.69	42.19	45.16	31.77	27.22	24.79	58.62	60.95	89.81	63.57	40.78	76.96
State Plan schemes	34.43	35.59	36.00	38.78	56.51	79.76	102.39	107.93	86.71	104.10	140.39	124.13	132.73	136.13
Central and centrally sponsored schemes	37.14	40.46	47.75	51.05	55.32	66.78	78.69	67.75	67.54	66.51	67.18	87.60	75.90	95.56
Loans to states & UTs	86.98	99.15	109.16	135.66	123.30	121.41	139.85	188.04	192.96	230.50	293.68	291.17	384.03	413.75
Loan repayments by states and UTs	28.47	31.85	29.62	36.97	29.12	34.44	39.13	44.91	44.58	54.79	60.32	79.06	82.13	87.11
Interest payments by states	31.58	37.70	44.24	51.74	65.22	77.54	95.53	111.83	130.02	151.63	178.07	212.83	218.70	258.99
Net transfer (centre to states)	214.28	236.43	254.07	324.32	357.93	392.94	435.91	480.17	524.20	606.26	788.15	683.12	724.24	821.26

Note: BE = Budget estimates; RE = Revised estimates.

Source: MoF, Union Budget documents; RBI; RBI bulletins on state finances; Finance Accounts; World Bank staff estimates.

TABLE A4.11
Explicit Subsidies in the Central Government Budget

(Rs billion at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9 BE	1998-9 RE	1999-2000 BE
<i>A. Major Subsidies</i>	51.26	67.87	90.32	95.81	97.93	94.15	107.64	115.27	124.30	140.41	182.38	198.83	210.63	224.40
1. Food	20.00	22.00	24.76	24.50	28.50	28.00	55.37	51.00	53.77	60.66	75.00	90.00	87.00	82.00
2. Indegenious fertilizers	20.50	30.00	37.71	37.30	35.00	48.00	38.00	40.75	43.00	47.43	66.00	60.00	73.60	80.00
3. Imported fertilizers	1.14	2.01	7.71	6.59	13.00	9.96	7.62	11.66	19.35	11.63	7.22	9.83	2.38	7.50
4. Other fertilizer subsidy	0.00	0.00	0.00	0.00	3.85	3.40	6.32	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5. Export promotion and market development	9.62	13.86	20.14	27.42	17.58	8.18	6.65	6.58	3.18	3.97	4.20	5.00	5.75	6.30
6. Sale of decontrolled fertilizer with concession to farmers	—	—	—	—	—	—	—	5.28	5.00	16.72	25.96	30.00	37.90	45.00
<i>B. Debt Relief to Farmers</i>	—	—	—	15.02	14.25	15.00	5.00	3.41	3.41	0.00	0.00	0.00	0.00	0.00
<i>C. Other Subsidies</i>	8.54	9.45	14.42	10.75	10.35	10.81	14.18	10.64	11.77	23.23	12.49	21.42	36.20	13.98
7. Railways	1.74	2.07	2.33	2.83	3.12	3.53	4.12	4.20	4.18	4.66	5.26	6.28	6.18	7.10
8. Mill-made cloth	0.23	0.27	0.10	0.10	0.15	0.15	0.16	0.00	0.01	0.00	0.00	0.00	0.00	0.00
9. Handloom cloth	1.24	1.46	1.81	1.85	1.87	1.61	1.74	1.48	1.43	0.98	0.64	0.46	0.42	0.40
10. Import/export of sugar, edible oils etc.	0.05	0.40	0.00	—	0.00	0.00	0.00	0.00	1.00	0.00	0.20	0.30	1.05	0.50
11. Interest subsidies	3.93	4.06	8.81	3.79	3.16	1.13	1.13	0.76	0.34	12.22	0.78	0.39	14.36	0.73
12. Other subsidies	1.35	1.19	1.37	2.18	2.05	0.99	1.86	4.20	4.81	5.44	5.61	13.99	14.19	5.25
Total Subsidies	59.80	77.32	104.74	121.58	122.53	119.95	126.82	129.32	133.72	163.64	194.87	220.25	246.83	238.38

— Not available.

Note: BE = Budget estimates; RE = Revised estimates.

Source: MoF, Union Budget documents.

TABLE A4.12
Outstanding Debt of Central Government

(Rs billion at current prices)

	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8 ^a	1998-9 ^a
(Rs billion at current prices)									
1. To Reserve Bank of India	884.44	943.48	965.23	967.83	989.13	1187.68	1227.73	1362.95	
a. Treasury bills	49.80	61.59	167.17	244.43	252.35	350.11	451.42	6.27	
b. CG securities	174.50	171.47	86.43	33.11	34.47	152.24	66.66	319.77	
c. Special securities	671.02	720.46	720.46	720.46	720.46	720.46	720.46	1028.65	
d. Other liabilities	-10.88	-10.04	-8.83	-30.17	-18.15	-35.13	-10.81	8.26	
2. To commercial banks	388.13	460.46	531.12	795.85	945.88	1090.50	1314.39	1562.12	
a. Treasury bills	0.10	0.11	3.06	0.72	0.00	0.00	0.00	0.00	
b. CG securities	388.03	460.35	528.06	795.13	945.88	1090.50	1314.39	1562.12	
To banking system (1) + (2)	1272.57	1403.94	1496.35	1763.68	1935.01	2278.18	2542.12	2925.07	
3. To private sector	673.32	829.72	1134.96	1573.72	1952.69	2083.98	2444.52	2894.06	
a. Small savings	501.00	557.55	601.28	672.85	817.10	917.86	1039.28	1253.61	
b. Others	1056.76	1215.65	1498.91	1868.71	2124.72	2353.80	2632.97	3004.31	
4. External debt (DRS)	914.26	1215.43	1553.92	1670.83	1880.87	1904.48	1940.95	2245.32	2443.29
5. Total outstanding debt	3744.59	4392.57	5150.46	5976.07	6757.70	7454.31	8155.32	9427.40	10642.94
(% of GDPmp)									
Reserve Bank of India	15.3	14.1	12.6	11.0	9.5	9.8	8.7	8.7	
Commercial banks	6.7	6.9	7.0	9.1	9.1	9.0	9.3	10.0	
Small savings	8.6	8.4	7.9	7.7	7.9	7.5	7.4	8.0	
Others	18.2	18.2	19.6	21.3	20.5	19.3	18.7	19.2	
External debt (from DRS)	15.8	18.2	20.4	19.1	18.1	15.6	13.8	14.4	
Total outstanding debt	64.6	65.8	67.5	68.1	65.1	61.2	57.8	60.3	59.3
(% of total outstanding debt)									
Reserve Bank of India	28.1	26.6	24.0	20.3	18.4	19.6	18.2	17.6	
Commercial banks	12.3	13.0	13.2	16.7	17.6	18.0	19.5	20.2	
Small savings	15.9	15.7	15.0	14.1	15.2	15.1	15.4	16.2	
Others	33.6	34.3	37.3	39.1	39.4	38.8	39.0	38.8	
External debt (from DRS)	15.8	18.2	20.4	19.1	18.1	15.6	13.8	14.4	
Total outstanding debt	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

(Contd.)

	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8 ^a	1998-9 ^a
<i>Memo Items:</i>									
External debt (US \$ billion) from DRS	46.60	46.95	49.76	53.26	59.71	55.48	54.11	56.84	57.58
External debt from DRS (Rs billion)	914.26	1215.43	1553.92	1670.83	1880.87	1904.48	1940.95	2245.32	2443.29
External debt (from budget)	315.25	369.48	422.69	473.45	509.28	512.49	542.39	553.32	559.60

^a Provisional.

Note: End of year stocks are used to calculate outstanding debt and external debt as shown in the central Budget.

Source: RBI, *Report on Currency and Finance*, various issues; MoF, Union Budget & Indian Economic Statistics (Public Finance); Ministry of Finance, *Economic Survey*, various issues; World Bank staff estimates.

Table A4.13
Outstanding Debt of State Governments

(Rs billion at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7 ^a	1997-8 ^a
1. To Reserve Bank of India	9.90	14.14	16.70	20.90	17.50	19.26	25.17	25.65	25.81	19.52	20.00
2. To commercial banks	75.37	89.92	100.83	125.32	182.01	246.77	250.33	263.53	273.79	330.00	392.20
a. SG securities	69.47	85.02	103.49	122.90	150.12	171.82	195.09	227.97	301.34	363.21	431.66
b. Others	5.90	4.90	-2.66	2.42	31.89	74.95	55.24	35.56	-27.55	-33.21	-39.47
To banking system (1)+(2)	85.27	104.06	117.53	146.22	199.51	266.03	275.50	289.18	299.60	349.52	412.20
3. To private sector	130.75	164.07	201.30	237.11	254.24	252.46	328.78	448.73	557.86	649.49	763.53
a. Provident fund	95.83	115.85	138.91	169.61	198.70	234.92	278.22	326.01	375.02	437.24	511.18
b. Others	34.92	48.22	62.39	67.50	55.54	17.54	50.56	122.72	182.84	212.25	252.35
4. To central govt (a-b-c)	483.69	542.06	623.41	719.56	809.63	903.29	996.49	1107.36	1264.80	1455.69	1672.20
a. Loans from centre	495.34	562.22	641.39	741.17	834.90	924.12	1019.45	1167.05	1315.06	1505.69	1722.20
b. States' holding of treasury bill	8.88	17.38	15.18	18.80	24.95	20.83	22.96	59.69	50.26	50.00	50.00
c. States' holding of CG sec.	2.77	2.78	2.80	2.81	0.32	0.00	0.00	0.00	0.00	0.00	0.00
5. Total outstanding debt	699.71	810.20	942.24	1102.89	1263.38	1421.78	1600.77	1845.27	2122.26	2454.70	2847.93

^a Provisional.

Note: End of year stocks are used to calculate outstanding debt.

Source: RBI, *Report on Currency and Finance*, various issues; MoF, *Union Budget & Indian Economic Statistics (Public Finance)*; MoF, *Economic Survey*, various issues; World Bank staff estimates.

Table A4.14
Outstanding Debt of Central and State Government

(Rs billion at current prices)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7 ^a	1997-8 ^a
1. To Reserve Bank of India	526.87	596.14	736.83	905.34	960.98	984.49	993.00	1014.78	1213.49	1247.25	1382.95
a. Centre	516.97	582.00	720.13	884.44	943.48	965.23	967.83	989.13	1187.68	1227.73	1362.95
b. State	9.90	14.14	16.70	20.90	17.50	19.26	25.17	25.65	25.81	19.52	20.00
2. To commercial banks	316.83	377.58	434.68	513.45	642.47	777.89	1046.18	1209.41	1364.29	1644.39	1954.32
a. Centre	241.46	287.66	333.85	388.13	460.46	531.12	795.85	945.88	1090.50	1314.39	1562.12
b. State	75.37	89.92	100.83	125.32	182.01	246.77	250.33	263.53	273.79	330.00	392.20
To banking system (1) + (2)	843.70	973.72	1171.51	1418.79	1603.45	1762.38	2039.18	2224.19	2577.78	2891.64	3337.27
3. To private sector	1072.40	1294.35	1509.86	1751.65	1976.89	2311.00	2824.41	3271.17	3729.00	4221.74	4921.45
a. Small savings	283.58	338.33	417.91	501.00	557.55	601.28	672.85	817.10	917.86	1039.28	1253.61
b. Others	788.82	956.02	1091.95	1250.65	1419.34	1709.72	2151.57	2454.07	2811.14	3182.46	3667.84
4. External debt	359.77	477.79	732.14	914.26	1215.43	1553.92	1670.83	1880.87	1904.48	1940.95	2245.32
5. Total outstanding debt	2275.87	2745.87	3413.50	4084.70	4795.78	5627.30	6535.42	7376.22	8211.25	9054.33	10,550.67
Loans to states from centre	495.34	562.22	641.39	741.17	834.90	924.12	1019.45	1167.05	1315.06	1505.69	1722.20

^a Provisional.

Note: End of year stocks are used to calculate outstanding debt and external debt as shown in the central budget.

Source: RBI, *Report on Currency and Finance*, various issues; MoF, *Union Budget & Indian Economic Statistics (Public Finance)*; MoF, *Economic Survey*, various issues; World Bank staff estimates.

TABLE A4.15(a)
Projected and Actual Plan Outlays by Sectors

(Rs billion at current prices)

	Eighth Plan					Annual Plan			
	(1992-3-1996-7) Projected	1992-3 Actuals	1993-4 Actuals	1994-5 Actuals	1995-6 Actuals	1996-7 Revised	1997-8 Revised	1998-9 Revised	
A Agriculture & allied programmes	636.43	105.91	126.60	157.12	154.60	165.41	172.24	97.46	
Agriculture	224.67	42.16	42.64	53.50	50.85	63.26	62.22	38.64	
Rural development	344.25	50.91	70.33	87.17	99.67	97.89	101.63	58.82	
Special area programme	67.50	12.84	13.64	16.45	4.08	4.26	8.40	0.00	
B Irrigation & flood control	325.25	47.05	53.71	61.04	72.45	85.58	106.38	3.75	
Minor irrigation	59.77	9.95	10.48	11.85	—	—	—	—	
Major irrigation	224.15	30.47	35.71	41.59	—	—	—	—	
Flood control	16.23	3.30	3.66	3.08	—	—	—	—	
Command area development	25.10	3.33	3.85	4.52	—	—	—	—	
C Industry and minerals	469.22	74.44	84.81	90.88	108.08	122.80	125.22	115.51	
Village & small scale	63.34	9.95	11.52	15.12	17.94	16.68	17.28	9.92	
Large & medium industries	405.88	64.49	73.29	75.76	90.14	106.12	107.95	105.59	
D Energy	1155.61	202.90	269.09	274.82	268.93	296.15	325.69	300.82	
Power	795.89	121.57	147.73	163.46	165.11	165.32	187.37	109.06	
Petroleum	240.00	56.98	95.89	86.44	81.24	105.28	109.15	147.33	
Coal	105.07	22.77	22.93	22.39	19.48	19.32	23.29	37.17	
E Transport	559.26	106.63	119.77	120.97	137.67	188.96	186.40	161.86	
Railways	272.02	61.62	59.01	54.72	63.35	83.00	84.03	95.00	
Roads & road transport	169.52	28.48	32.49	38.44	—	—	—	—	
Ports & shipping ^a	76.14	7.28	16.20	13.13	—	—	—	—	
Civil aviation	40.83	8.82	11.46	14.44	—	—	—	—	
F Communication & broadcasting	289.66	51.51	62.02	72.74	86.26	100.77	111.44	148.78	
G Science & technology	90.42	9.30	11.53	14.07	17.65	19.35	21.18	27.66	
H Social services	751.55	113.23	140.16	174.09	208.48	278.65	309.39	183.10	
Education	196.00	26.19	31.47	35.66	53.56	73.46	82.08	45.67	
Health & family welfare	140.76	22.22	26.13	33.11	36.73	41.47	49.04	36.84	
Housing & urban development	105.50	14.42	21.47	20.81	28.92	56.16	61.21	39.05	
Water supply & sanitation	167.11	22.84	27.20	32.60	—	—	—	—	
Other social services	142.19	27.55	33.89	51.92	—	—	—	—	
I Others	63.60	17.56	13.11	15.94	19.68	34.21	38.34	12.94	
J Total	4341.00	728.52	880.81	981.67	1073.80	191.89	1396.26	1051.87	

— Not available.

^a Covers Major and Minor ports, Shipping, Lighthouses and Inland Water.

Note: The Plan totals are at base year prices for projections and at current prices for actuals.

Source: Planning Commission.

TABLE A4.15(b)
Projected and Actual Plan Outlays by Sectors

(annual averages at constant 1980-1 prices—Rs billion)

	Eighth Plan								
	(1992-3—1996-7) Projected	1992-3 Actuals	1993-4 Actuals	1994-5 Actuals	1995-6 Actuals	1996-7 Revised	1997-8 Projected	1997-8 Revised	1998-9 Projected
A Agriculture & allied programmes	46.0	38.3	42.5	49.5	44.7	43.6	43.9	41.2	21.2
Agriculture	16.2	15.2	14.3	16.9	14.7	16.7	15.9	14.9	8.4
Rural development	24.9	18.4	23.6	27.5	28.8	25.8	23.7	24.3	12.8
Special area programme	4.9	4.6	4.6	5.2	1.2	1.1	4.3	2.0	0.0
B Irrigation & Flood Control	23.5	17.0	18.0	19.2	20.9	22.6	17.9	25.4	0.8
Minor irrigation	4.3	3.6	3.5	3.7	—	—	0.0	—	—
Major irrigation	16.2	11.0	12.0	13.1	—	—	0.0	—	—
Flood control	1.2	1.2	1.2	1.0	—	—	0.0	—	—
Command area development	1.8	1.2	1.3	1.4	—	—	0.0	—	—
C Industry and minerals	33.9	26.9	28.4	28.6	31.2	32.4	33.2	30.0	25.1
Village & small scale	4.6	3.6	3.9	4.8	5.2	4.4	4.5	4.1	2.2
Large & medium industries	29.3	23.3	24.6	23.9	26.0	28.0	28.7	25.8	23.0
D Energy	83.5	73.3	90.2	86.6	77.7	78.1	84.3	77.9	65.4
Power	57.5	43.9	49.5	51.5	47.7	43.6	46.9	44.8	23.7
Petroleum	17.4	20.6	32.2	27.2	23.5	27.8	28.6	26.1	32.0
Coal	7.6	8.2	7.7	7.1	5.6	5.1	7.7	5.6	8.1
E Transport	40.4	38.5	40.2	38.1	39.8	49.8	43.3	44.6	35.2
Railways	19.7	22.3	19.8	17.2	18.3	21.9	18.4	20.1	20.7
Roads & road transport	12.3	10.3	10.9	12.1	—	—	0.0	—	—
Ports & shipping ^a	5.5	2.6	5.4	4.1	—	—	0.0	—	—
Civil aviation	3.0	3.2	3.8	4.5	—	—	0.0	—	—
F Communication & broadcasting	20.9	18.6	20.8	22.9	24.9	26.6	19.9	26.7	32.4
G Science & technology	6.5	3.4	3.9	4.4	5.1	5.1	4.2	5.1	6.0
H Social services	54.3	40.9	47.0	54.8	60.2	73.5	53.6	74.0	39.8
Education	14.2	9.5	10.6	11.2	15.5	19.4	12.8	19.6	9.9
Health & family welfare	10.2	8.0	8.8	10.4	10.6	10.9	9.0	11.7	8.0
Housing & urban development	7.6	5.2	7.2	6.6	8.4	14.8	8.7	14.6	8.5
Water supply & sanitation	12.1	8.3	9.1	10.3	—	—	0.0	—	—
Other social services	10.3	10.0	11.4	16.4	—	—	0.0	—	—
I Others	4.6	6.3	4.4	5.0	5.7	9.0	7.4	9.2	2.8
J Total	313.8	263.4	295.4	309.3	310.2	340.6	307.6	334.0	228.7
Memo item: Investment deflator	276.6	276.6	298.2	317.4	346.2	379.3	418.1	418.1	459.9

— Not available.

^a Covers Major and Minor ports, Shipping, Lighthouses, and Inland water.

Source: Planning Commission.

TABLE A4.15(c)
Projected and Actual Plan Outlays by Sectors

(percentage distribution and achievement rates)

	Seventh Plan		Annual Plans		Eighth Plan		Eight Plan					
	1985-6-1989-90		1990-91	1991-2	1992-3-1996-7		1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
	% share ^a	Achievement ^b	Achievement ^b	Achievement ^b	% share ^a	Achievement ^b						
A Agriculture & allied programmes	12.4	111.1	93.4	90.1	14.7	101.6	112.6	113.4	88.3	82.2	93.8	
Agriculture	5.8	95.3	89.6	86.1	5.2	89.5	84.0	92.9	79.8	86.7	93.4	
Rural development	4.9	134.2	96.5	93.2	7.9	112.2	143.8	132.3	105.9	90.0	102.4	
Special area programme	1.6	97.0	95.1	93.4	1.6	108.8	107.2	109.1	23.8	21.8	47.2	
B Irrigation & flood control	9.4	76.6	96.7	90.1	7.5	95.4	101.0	98.0	102.3	104.5	142.3	
Minor irrigation	1.6	89.2	94.5	87.1	1.4	91.4	89.4	91.6				
Major irrigation	6.4	74.7	99.3	91.8	5.2	97.4	105.9	101.7				
Flood control	0.5	78.2	84.3	91.6	0.4	91.7	94.2	85.0				
Command area development	0.9	67.2	91.0	81.9	0.6	93.0	99.7	93.0				
C Industry and minerals	12.3	103.1	75.4	76.2	10.8	75.3	79.6	75.1	78.9	80.8	90.2	
Village & small scale	1.5	92.5	89.2	79.3	1.5	86.0	92.3	110.2	103.3	81.5	92.5	
Large & medium industries	10.8	104.7	73.6	75.7	9.3	73.9	77.9	70.7	75.3	80.6	89.9	
D Energy	30.6	87.9	90.6	92.6	26.6	86.1	105.9	83.5	74.9	76.7	92.4	
Power	19.0	86.6	91.3	106.1	18.3	81.4	91.7	93.5	82.0	76.9	95.5	
Petroleum	7.2	97.7	94.7	67.9	5.5	94.1	146.9	70.5	65.4	80.5	91.4	
Coal	4.1	75.4	81.1	67.8	2.4	94.7	88.5	77.3	64.2	55.0	72.6	
E Transport	12.8	101.6	86.8	93.9	12.9	90.7	94.5	81.5	84.7	95.3	103.0	
Railways	6.9	105.1	97.9	101.3	6.3	108.1	96.0	74.5	81.3	98.4	109.2	
Roads & road transport	4.0	92.2	97.9	91.2	3.9	97.8	103.5	104.1				
Ports & shipping ^c	1.3	88.3	37.5	62.0	1.8	35.5	73.3	64.3				
Civil aviation	0.4	196.3	61.7	124.2	0.9	84.0	101.2	84.0				
F Communication & broadcasting	3.4	126.8	92.2	92.3	6.7	105.3	117.7	109.4	109.9	110.5	133.9	
G Science & technology	1.4	96.2	85.0	84.7	2.1	93.8	107.9	100.4	112.8	101.2	121.4	
H Social services	16.4	88.1	100.3	91.5	17.3	88.1	101.2	106.0	105.9	113.5	138.1	
Education	3.5	94.4	93.3	91.2	4.5	88.9	99.1	92.1	111.6	125.4	153.5	
Health & family welfare	3.6	82.7	104.6	100.7	3.2	96.3	105.1	107.5	103.7	100.8	130.6	
Housing & urban development	2.4	89.6	128.2	77.3	2.4	71.7	99.0	85.2	98.6	141.2	168.7	
Water supply & sanitation	3.6	85.2	95.9	89.3	3.8	96.6	106.6	104.0				
Other social services	3.3	89.4	90.8	96.6	3.3	85.6	97.7	133.2				
I Others	1.3	187.3	86.1	70.2	1.5	119.6	82.9	73.8	69.7	101.5	124.7	
J Total	100.0	96.1	90.2	89.5	100.0	90.2	101.2	92.1	87.8	91.7	108.6	

^a Percentage share in total plan outlay.

^b Actual outlay as a percentage of target outlay for the Plan.

^c Covers Major and Minor ports, Shipping, Lighthouses, and Inland Water.

Note: Derived from Table A4.15(b).

TABLE A5.1
Money Supply and Sources of Change, 1988-9-1998-9

	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-99
	(Rs billion)										
Broad money supply (M3)	2002.41	2309.48	2658.28	3170.49	3668.25	4344.07	5314.26	6040.07	7018.48	8272.09	9743.28
Narrow money supply (M1)	711.01	810.58	928.92	1144.06	1240.66	1507.78	1922.57	2148.35	2406.15	2674.81	3041.98
Currency with public	380.71	463.00	530.48	610.98	682.73	823.01	1006.81	1182.58	1320.87	1460.04	1701.19
Deposit money (total)	323.40	341.60	391.70	524.23	544.80	659.52	881.93	932.33	1053.34	1179.36	1302.67
Time deposits with banks	1291.40	1498.90	1729.36	2026.43	2427.59	2836.29	3391.69	3891.72	4612.33	5597.28	6701.30
Sources of change											
Net bank domestic credit	2300.36	2688.57	3119.62	3462.56	3963.73	4416.92	5151.42	6024.26	6649.27	7633.30	8736.14
To government	973.73	1171.53	1401.93	1582.63	1762.38	2039.18	2224.19	2577.78	2886.20	3305.92	3866.72
From the RBI	596.15	736.83	888.48	940.16	984.49	993.00	1014.78	1213.49	1241.81	1351.60	1525.39
From other Banks	377.58	434.70	513.45	642.47	777.89	1046.18	1209.41	1364.29	1644.39	1954.32	2341.33
To commercial sector	1326.63	1517.04	1717.69	1879.93	2201.35	2377.74	2927.23	3446.48	3763.07	4327.38	4869.42
From RBI	55.24	63.49	63.42	72.60	62.20	64.45	65.93	68.55	62.47	81.86	122.26
From other banks	1271.39	1453.55	1654.27	1807.33	2139.15	2313.29	2861.30	3377.93	3700.60	4245.52	4747.16
Net foreign exchange assets of banking sector	68.00	66.51	105.81	212.26	244.43	546.12	790.32	821.41	1054.96	1265.69	1486.33
Government's currency liabilities to the public	14.75	15.55	16.21	17.04	18.24	19.90	23.79	25.03	29.18	33.52	37.05
Net non-monetary liabilities	380.70	461.15	583.36	521.37	558.15	638.87	651.27	830.63	714.93	660.42	516.24
of RBI	169.36	175.36	270.22	274.15	282.46	260.37	293.58	322.96	351.83	432.82	604.64
of other banks	211.34	285.79	313.14	247.22	275.69	378.50	357.69	507.67	363.10	227.60	-88.40
GDP at market prices	4281.00	4941.23	5792.64	6671.65	7635.61	8769.52	10,378.42	12,179.63	14,098.49	15,635.52	18,048.59

Note: 1998-9 figures are as of 31 March on the basis of the closure of government accounts.

Source: MoF, *Economic Survey*, various issues; RBI, RBI Bulletin (Weekly Statistical Supplement).

TABLE A5.2
Base Money Supply and Sources of Change, 1985-6—1998-9

	(Rs billion)											
	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9
Total Base Money Supply	534.90	629.59	775.91	877.79	995.05	1107.79	1386.71	1692.82	1944.57	1999.85	2264.02	2592.20
Currency with public	335.59	380.71	463.00	530.48	610.98	682.73	823.01	1006.81	1182.58	1320.87	1460.04	1701.19
Other deposits with the RBI	3.97	6.94	5.98	6.74	8.85	13.13	25.25	33.83	33.44	31.94	35.41	38.12
Cash with banks	15.63	19.72	19.86	22.34	26.40	30.53	30.94	40.00	43.11	51.30	50.51	55.86
Bank deposits with the RBI	179.71	222.22	287.07	318.23	348.82	381.40	507.51	612.18	685.44	595.74	718.06	797.03
Sources of Change												
RBI claims	609.18	722.18	875.03	1051.97	1063.78	1145.54	1112.96	1215.41	1501.59	1374.33	1504.42	1647.65
On government (net)	526.87	596.15	736.83	888.48	940.16	984.49	993.00	1014.78	1213.49	1241.81	1351.60	1525.39
On banks	44.41	70.79	74.71	100.07	51.02	98.85	55.51	134.70	219.55	70.05	70.96	0.00
On commercial sector	37.90	55.24	63.49	63.42	72.60	62.20	64.45	65.93	68.55	62.47	81.86	122.26
Net foreign exchange assets of RBI	54.17	62.02	60.69	79.83	188.38	226.47	514.22	747.20	740.92	948.17	1158.90	1379.54
Government's currency liabilities to the public	13.80	14.75	15.55	16.21	17.04	18.24	19.90	23.79	25.03	29.18	33.52	37.05
Net non-monetary liabilities of the RBI	142.25	169.36	175.36	270.22	274.15	282.46	260.37	293.58	322.96	351.83	432.82	604.64

Note: 1998-9 figures are as of 31 March on the basis of the closure of government accounts.

Source: MoF, *Economic Survey*, various issues; RBI, RBI Bulletin (Weekly Statistical Supplement).

TABLE A5.3
Selected Monetary Policy Instruments

	Bank rate	Minimum cash reserve ^a ratio	Statutory liquidity ratio ^b
1985 June 8	10	9.0	36.5
July 6	10	9.0	37.0
1987 February 28	10	9.5	37.0
April 25	10	9.5	37.5
October 24	10	10.0	37.5
1988 January 2	10	10.0	38.0
July 2	10	10.5	38.0
July 30	10	11.0	38.0
1989 July 1	10	15.0	38.0
1990 September 22	10	15.0	38.5
1991 July 4	11	15.0	38.5
October 9	12	15.0	38.5
1992 April 1	12	15.0	30.0
1993 April 17	12	14.5	30.0
May 15	12	14.0	30.0
September 17	12	14.0	25.0
1994 June 11	12	14.5	25.0
July 9	12	14.8	25.0
August 6	12	15.0	25.0
1995 November 11	12	14.5	25.0
December 9	12	14.0	25.0
1996 April 27	12	13.5	25.0
May 11	12	13.0	25.0
July 6	12	12.0	25.0
October 26	12	11.5	25.0
November 9	12	11.0	25.0
1997 January 4	12	10.5	25.0
January 18	12	10.0	25.0
April 16	11	10.0	25.0
June 26	10	10.0	25.0
October 22	9	10.0	25.0
October 25	9	9.8	25.0
November 22	9	9.5	25.0
December 6	9	10.0	25.0
1998 January 17	11	10.5	25.0
March 18	11	10.5	25.0
March 28	11	10.3	25.0
April 2	10	10.3	25.0
April 11	10	10.0	25.0
April 29	9	10.0	25.0
1999 March 1	8	10.5	25.0
May 8	8	10.0	25.0

^a Minimum cash reserves to be deposited with the RBI as % of net demand and time liabilities (NDTL).

^b The ratio of liquid assets, exclusive of those under (a), to aggregate demand and time liabilities upto 28 March 1985 and net demand and time liabilities with effect from 29 March 1985.

Note: Dates given are those on which the announced measures take effect.

Sources: RBI, Report of the Committee to Review the Working of the Monetary System, 1985; RBI, *Annual Report*, various issues.

TABLE A5.4
Structure of Short-term and Long-term Interest Rates

	1980-1	1985-6	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9
	(per cent per annum)												
	A. Short-term rates												
Reserve Bank rate	9.0	10.0	10.0	10.0	10.0	12.0	12.0	12.0	12.0	12.0	12.0	10.5	8.0
Treasury bills:													
91-day ^a	4.6	4.6	4.6	4.6	4.6	4.6	8.8-10.7	7.1-11.1	7.2-11.9	11.4-13.0	6.9- 12.97	5.7-7.3	7.16-10.05
182-day			8.48-9.16	9.0-9.48	10.0-10.1	8.8-10.1	7.8-8.4						
364-day							9.9-10.3	10.0-11.4	9.4-11.9	12.1-13.2	10.1- 13.1	8.0-9.4	7.97-10.72
Call money rate (Bombay)	7.1	10.0	9.8	15.9	15.9	19.6	14.4	7.0	9.4	17.7	7.8	8.7	0.0
Commercial bank rates:													
Maximum deposit rate ^b	10.0	11.0	10.0	10.0	11.0	13.0	11.0	10.0	11.0	12.0	10.0	Free	Free
Minimum lending rate	13.5	n.a.	16.0	16.0	16.0	19.0	17.0	14.0	Free	Free	Free	Free	Free
	B. Long-term rates												
IDBI prime lending rate	14.0	14.0	14.0	14.0	14.0-15.0	18.0-20.0	17.0-19.0	14.5-17.5	15.0	16.0-19.0	16.2	13.3	13.5
Company deposit rates: ^c													
Private sector companies ^d													
(i) 1 year	9.0-13.5	10.0-15.0	10.0-14.0	10.5-14.0	10.5-14.0	10.5-15.0	12.0-15.0	12.0-14.0	13.0-14.0	12.0-15.0	13.0-15.0	9.5-15.0	11.00-15.00
(ii) 2 years	10.0-14.5	12.0-15.0	12.0-14.0	12.0-14.0	12.0-14.0	12.0-15.0	13.0-15.0	13.0-14.0	14.0-15.0	13.0-15.0	14.0-15.0	10.5-15.0	12.00-15.00
(iii) 3 years	13.0-15.5	13.0-15.0	13.5-14.0	13.5-14.0	13.5-14.0	14.0-15.0	15.0	14.0	14.0-15.0	14.0-15.0	15.0	11.5-15.0	11.50-15.00
Public sector companies													
(i) 1 year	11.0	11.5-12.0	10.5-12.0	10.5-12.0	10.5-12.0	10.5-15.0	13.0	12.0-15.0	12.0-15.0	13.0-15.0	13.0-15.0	13.0-15.0	9.00-15.00
(ii) 2 years	12.0	12.0-13.0	11.5-13.0	11.5-13.0	11.5-13.0	11.5-15.0	14.0	13.0-15.0	13.0-15.0	14.0-15.0	13.0-15.0	14.0-15.0	10.00-15.00
(iii) 3 years	13.5	13.5-14.5	13.0-14.0	13.0-14.0	13.0-14.0	13.0-15.0	15.0	14.0-15.0	14.0-15.0	15.0	14.0-15.0	15.0	11.00-15.00
Average yield—ordinary shares	5.9	3.2	3.8	3.2	2.6	2.1	1.7	2.2	1.8	3.1	4.2	5.2	6.5
Redemption yield—Government of India securities													
(i) Short-term (1-5 years)	4.7-6.0	5.4-9.8	7.03-23.88	7.56-18.36	7.0-21.7	8.4-26.3	9.1-23.8	11.9-12.9	9.8-11.8	6.0-14.3	5.2-16.2	5.5-17.7	4.45-17.13
(ii) Medium-term (5-15 years)	5.8-6.8	6.5-9.5	6.76-13.77	7.69-15.06	9.4-12.7	9.5-13.4	9.5-14.8	12.7-13.3	11.3-13.9	5.8-14.1	5.8-14.4	5.2-14.0	5.75-13.74
(iii) Long-term (above 15 years)	6.4-7.5	8.4-11.5	9.36-11.73	10.05-11.80	10.9-12.0	9.9-12.4	8.8-12.5	12.9-13.4	11.8-13.5	11.8-13.0	9.0-14.2	9.0-13.2	7.00-13.04

^a Effective 8 January 1993, a new auction system for 91-day Treasury Bills was introduced.

^b Effective 22 April 1992, a single 'maximum deposit rate' has been prescribed for deposits of various maturities. Earlier different rates were prescribed for different deposit maturities.

^c Deposits accepted from the public.

^d Well-established private sector companies.

Note: Data for 1998-9 is preliminary.

Source: RBI, *Report on Currency and Finance*, various issues.

Table A5.5
Sectoral Deployment of Gross Bank Credit

(Rs billion—change during year)

	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	Apr.-Oct.	
												1997-8	1998-9
Gross bank credit	76.91	154.68	169.43	153.48	79.86	211.34	97.18	401.28	348.75	271.31	412.92	33.46	126.38
Public food procurement credit	-29.14	-14.21	12.37	25.00	1.64	20.73	41.64	13.68	-24.84	-21.94	48.88	26.16	42.43
Gross non-food credit	106.05	168.89	157.06	128.48	78.22	190.61	55.54	387.60	373.59	293.25	364.04	7.30	83.95
Priority sectors	40.20	51.49	61.64	25.32	25.10	44.07	40.48	102.81	91.68	115.51	146.27	33.55	39.24
Agriculture	14.39	19.41	25.76	2.24	14.07	18.06	12.45	27.75	30.61	43.98	34.27	14.76	17.50
Small scale industries	17.12	23.15	24.08	16.38	9.69	18.76	25.91	50.21	42.46	40.60	75.64	3.95	5.92
Other priority sectors	8.69	8.93	11.80	6.70	1.34	7.25	2.12	24.85	18.61	30.93	36.36	14.84	15.82
Industry (medium & large)	37.97	70.32	60.87	62.46	25.82	115.46	-7.71	168.07	183.81	95.51	149.26	-11.42	22.93
Wholesale Trade (other than food procurement)	5.18	11.69	7.05	4.38	2.44	8.15	3.61	24.19	22.31	3.60	8.77	-9.52	-0.61
Other sectors	22.70	35.39	27.60	36.32	24.86	22.93	19.16	92.53	75.79	78.63	59.74	-5.31	22.39
Export credit (included in gross non-food credit)	7.71	22.24	21.04	9.41	11.08	50.62	17.30	79.65	45.39	4.18	39.39	-11.66	-10.56
Priority sector advances as per cent of net bank credit ^a	44.10	43.20	42.40	39.20	38.70	35.10	35.30	33.30	32.10	0.65	0.29		

^a In the last month of each period, advances include Participation Certificates.

Source: MoF, *Economic Survey*, various issues.

TABLE A6.1
Production of Major Crops

	1980-1	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9
Total foodgrains	129.6	140.4	169.9	171.0	176.4	168.4	179.5	184.3	191.5	180.4	199.4	192.4	202.5
Kharif	77.6	74.6	95.6	101.0	99.4	91.6	101.5	100.4	101.1	95.1	103.9	101.1	102.6
Rabi	51.9	65.8	74.3	70.0	77.0	76.8	78.0	83.9	90.4	85.3	95.5	91.3	99.9
Total cereals	119.0	129.4	156.1	158.2	162.1	156.4	166.6	170.9	177.5	168.1	185.2	179.4	186.7
Kharif	73.9	70.2	90.0	95.5	94.0	87.2	95.8	95.0	96.4	90.5	98.4	96.8	96.6
Rabi	45.1	59.2	66.1	62.7	68.1	69.2	70.8	75.9	81.1	77.6	86.8	82.6	90.1
Rice	53.6	56.9	70.5	73.6	74.3	74.7	72.9	80.3	81.8	77.0	81.7	82.3	84.7
Kharif	50.1	49.0	63.4	65.9	66.3	66.4	65.3	70.7	72.6	67.9	71.3	71.6	71.8
Rabi	3.5	7.8	7.1	7.7	8.0	8.3	7.6	9.6	9.2	9.1	10.4	10.7	12.9
Wheat	36.3	46.2	54.1	49.8	55.1	55.7	57.2	59.8	65.8	62.1	69.4	65.9	71.0
Barley (jowar)	10.4	12.2	10.2	12.9	11.7	8.1	12.8	11.4	9.0	9.3	10.9	8.0	8.5
Kharif	7.5	8.6	7.1	9.2	8.3	5.7	9.4	7.3	5.9	5.6	7.0	5.0	5.3
Rabi	2.9	3.6	3.1	3.7	3.4	2.4	3.4	4.1	3.1	3.7	3.9	3.0	3.2
Maize	7.0	5.7	8.2	9.7	9.0	8.1	10.0	9.6	8.9	9.5	10.8	10.9	10.8
Bajra	5.3	3.3	7.8	6.6	6.9	4.7	8.9	5.0	7.2	5.4	7.9	7.7	6.9
Total pulses	10.6	11.0	13.8	12.8	14.3	12.0	12.8	13.3	14.0	12.3	14.2	13.1	15.9
Kharif	3.8	4.4	5.6	5.5	5.4	4.4	5.6	5.4	4.7	4.6	5.5	4.4	6.1
Rabi	6.8	6.6	8.2	7.3	8.9	7.6	7.2	7.9	9.4	7.7	8.7	8.7	9.8
Gram	4.3	3.6	5.1	4.2	5.4	4.1	4.4	5.0	6.4	5.0	5.6	6.1	6.6
Tur	2.0	2.3	2.7	2.7	2.4	2.1	2.3	2.7	2.1	2.3	2.7	1.9	2.7
Total oilseeds ^a	9.4	12.6	18.0	16.9	18.6	18.6	20.1	21.5	21.3	22.1	24.4	22.0	25.7
Kharif	5.0	6.4	10.5	9.6	9.8	9.3	12.0	12.3	11.9	13.1	14.4	14.5	16.3
Rabi	4.4	6.2	7.5	7.3	8.8	9.3	8.1	9.2	9.4	9.0	10.0	7.5	9.4
Groundnut	5.0	5.8	9.7	8.1	7.5	7.1	8.6	7.8	8.1	7.6	8.6	7.8	9.0
Kharif	3.7	4.2	7.5	6.1	5.1	5.0	6.7	5.7	6.1	6.1	6.9	6.1	7.1
Rabi	1.3	1.7	2.2	2.0	2.4	2.1	1.9	2.1	2.0	1.5	1.7	1.7	1.9
Rapeseed & mustard	2.3	3.4	4.4	4.1	5.2	5.9	4.8	5.3	5.8	6.0	6.7	4.7	6.1
Sugarcane	154.2	196.7	203.0	225.6	241.0	254.0	228.0	229.7	275.5	281.1	277.6	276.3	290.7
Cotton	7.0	6.4	8.7	11.4	9.8	9.7	11.4	10.7	11.9	12.9	14.2	11.1	12.8
Jute & mesta	8.2	6.8	7.9	8.3	9.2	10.3	8.6	8.4	9.1	8.8	11.1	11.1	9.8
Jute	6.5	5.8	6.7	7.1	7.9	8.9	7.5	7.3	8.0	7.7	10.0	10.0	8.9
Mesta	1.7	1.0	1.2	1.2	1.3	1.4	1.1	1.1	1.1	1.1	1.2	1.1	0.9
Potato	9.7	14.1	14.9	14.8	15.2	16.4	15.2	17.4	17.4	18.8	24.2	17.6	22.2

^a Includes groundnuts, rapeseed and mustard, sesame, linseed, castorseed, nigerseed, safflower, sunflower, and soybean.

Note: Unit of measurement of all commodities is million tonnes, except in the case of cotton, jute, and mesta where production is in terms of millions of bales. Figures for 1997-8 are provisional.

Source: MoF, *Economic Survey*, various issues.

TABLE A6.2
Irrigated Area under Different Crops

(million hectares)

	1980-1	1984-5	1985-6	1986-7	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6
Total foodgrains	37.8	40.1	40.4	41.8	40.5	43.9	44.3	44.9	45.8	46.9	48.3	49.9	49.7
Total cereals	35.8	38.4	38.3	39.5	38.4	41.8	41.9	42.3	43.4	44.4	45.6	46.8	46.7
Rice	16.4	17.7	17.7	18.1	17.0	19.1	19.4	19.4	20.2	20.1	20.7	21.4	21.5
Jowar	0.8	0.7	0.7	0.8	0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Bajra	0.6	0.6	0.6	0.7	0.8	0.6	0.7	0.5	0.7	0.6	0.7	0.6	0.6
Maize	1.2	1.0	1.1	1.3	1.2	1.2	1.2	1.2	1.3	1.3	1.4	1.3	1.4
Wheat	15.6	17.5	17.3	17.7	17.8	19.1	18.8	19.5	19.6	20.8	21.4	22.0	21.7
Barley	0.9	0.6	0.7	0.6	0.6	0.6	0.5	0.5	0.6	0.6	0.5	0.6	0.5
Total pulses	2.0	1.8	2.1	2.3	2.0	2.2	2.3	2.6	2.4	2.5	2.6	3.1	3.1
Other crops													
Oilseeds ^a	2.3	3.5	3.4	3.4	4.3	5.0	5.2	5.8	6.8	6.4	6.5	6.8	7.3
Cotton	2.1	1.9	2.3	2.2	2.1	2.4	2.6	2.5	2.6	2.7	2.6	2.7	3.1
Sugarcane	2.4	2.6	2.6	2.8	3.0	3.0	3.1	3.4	3.6	3.5	3.3	3.6	3.9

^a Oilseeds include groundnut, rapeseed and mustard, linseed, sesame, and others.

Source: MoF, *Economic Survey*, various issues.

TABLE A6.3
Yield per Hectare of Major Crops

	1980-1	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9
Total foodgrains	1023	1173	1331	1349	1380	1382	1457	1501	1548	1491	1614	1551	1611
Kharif	933	996	1166	1241	1231	1174	1302	1324	1341	1292	1379	1362	1387
Rabi	1195	1468	1628	1544	1635	1751	1725	1787	1864	1799	1980	1832	1931
Total cereals	1142	1315	1493	1530	1571	1574	1654	1701	1763	1703	1831	1772	1836
Kharif	1015	1082	1270	1366	1357	1305	1440	1465	1486	1428	1523	1519	1518
Rabi	1434	1763	1964	1875	2010	2126	2068	2132	2260	2195	2376	2201	2365
Rice	1336	1465	1689	1745	1740	1751	1744	1888	1911	1797	1882	1895	1905
Kharif	1303	1368	1627	1677	1670	1676	1676	1807	1841	1721	1793	1810	1792
Rabi	2071	2640	2548	2678	2671	2720	2720	2816	2731	2678	2856	2770	2935
Wheat	1630	2002	2244	2121	2281	2394	2327	2380	2559	2483	2679	2470	2596
Barley (jowar)	660	762	697	869	814	655	982	898	779	823	956	727	833
Kharif	737	892	789	1053	969	757	1230	1065	988	996	1214	933	1021
Rabi	520	568	550	604	582	496	632	704	555	650	696	528	639
Maize	1159	1029	1395	1632	1518	1376	1676	1602	1448	1595	1720	1721	1785
Bajra	458	378	646	610	658	465	836	521	700	577	788	792	732
Total pulses	473	515	598	549	578	533	573	598	610	552	635	572	661
Kharif	361	435	504	480	471	393	495	492	351	448	512	415	586
Rabi	571	587	686	616	672	672	654	701	589	640	747	706	718
Gram	657	629	753	652	712	739	684	783	853	700	813	812	790
Tur	689	685	779	763	673	588	652	762	644	670	756	563	750
Total oilseeds ^a	532	629	824	742	771	719	797	799	843	851	926	840	948
Kharif	492	559	805	691	698	604	804	759	797	835	902	937	996
Rabi	588	720	851	822	872	886	786	860	910	876	963	699	877
Groundnut	736	855	1132	930	904	818	1049	941	1027	1007	1138	1078	1176
Kharif	629	737	1066	824	751	687	969	813	913	928	1076	997	1083
Rabi	1444	1425	1442	1532	1611	1501	1473	1624	1650	1529	1490	1512	1471
Rapeseed & mustard	560	748	906	831	904	895	776	847	950	916	1017	667	894
Sugarcane	57,844	60,000	61,000	65,000	65,000	66,000	64,000	67,000	71,000	68,000	66,000	70,000	69,288
Cotton	152	168	202	252	225	216	257	249	257	242	265	213	240
Jute & mesta	1130	1274	1540	1646	1634	1662	1658	1713	1760	1712	1818	1795	1730
Jute	1245	1496	1748	1879	1833	1837	1857	1907	1949	1875	1998	1960	1812
Mesta	828	680	909	956	988	1019	955	1008	1023	1078	1030	1019	992
Potato	13,256	16,000	1,6000	16,000	16,000	160,00	15,000	17,000	16,000	17,000	19,000	14,600	17,800

^a Includes groundnut, rapeseed and mustard, sesame, linseed, castorseed, nigerseed, safflower, sunflower, and soybean.

Note: Figures for 1997-8 are provisional.

Source: MoF, *Economic Survey*, various issues.

TABLE A6.4
Net Availability, Procurement, and Public Distribution of Foodgrains

	(million tonnes)												
	1980-1	1986-7	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
Net production	113.4	125.5	122.8	148.7	149.7	154.3	147.3	157.5	161.2	167.6	157.9	174.5	168.0
Net imports	0.7	-0.2	3.8	1.2	1.3	-0.1	-0.4	3.1	1.1	0.4	-1.2	1.0	2.2
Change in government stocks	-0.2	-9.5	-4.6	2.6	6.2	-4.4	-1.5	10.8	7.5	-1.8	-8.5	-1.7	6.2
Net availability	114.3	134.8	130.8	147.2	144.8	158.6	148.4	149.8	154.8	169.8	165.2	177.2	164.0
Procurement	13.0	15.7	14.1	18.9	24.0	19.6	17.9	28.1	26.0	22.6	19.6	22.5	25.4
Public distribution	13.0	18.7	18.6	16.4	16.0	20.8	18.8	16.4	14.0	15.3	18.3	17.5	20.0

Note: Production figures relate to agricultural year. Figures for procurement and public distribution relate to calendar years.

Source: MoF, *Economic Survey*, various issues.

TABLE A6.5a
New Index of Industrial Production

(1993-4 = 100)

	Weight	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9	1997-8 over 1996-7	1998-9 over 1997-8
General index	100.0	100.0	108.4	122.3	129.1	137.6	143.1	6.6	4.0
Mining & quarrying	10.5	100.0	107.6	117.9	115.6	122.4	120.3	5.9	-1.7
Electricity generated	10.2	100.0	108.5	117.3	122.0	130.0	138.4	6.6	6.5
Manufacturing index	79.4	100.0	108.5	123.5	131.8	140.6	146.7	6.7	4.3
Food products	9.1	100.0	121.6	129.8	134.3	133.8	134.6		
Beverages, tobacco, etc.	2.4	100.0	103.0	116.7	132.4	158.1	178.3	19.4	12.8
Cotton textiles	5.5	100.0	99.1	109.5	122.7	125.6	115.9	2.4	-7.7
Jute textiles	2.3	0.0	114.5	131.3	145.1	172.0	176.8	18.5	2.8
Textile products	0.6	100.0	95.1	102.4	97.8	114.3	106.0	16.9	-7.3
Wood & wood products	2.5	100.0	98.5	133.7	146.3	158.7	153.1	8.5	-3.5
Paper & paper products	2.7	100.0	99.3	123.2	131.9	128.5	121.0	-2.6	-5.8
Leather & leather products	2.7	100.0	108.6	125.5	136.9	146.4	169.7	6.9	15.9
Rubber, plastic, & petroleum prod.	1.1	100.0	86.8	99.1	108.4	110.8	119.8	2.2	8.1
Chemical & chemical products	5.7	100.0	107.7	116.1	118.4	124.6	138.7	5.2	11.3
Non-metallic mineral products	14.0	100.0	105.3	117.2	122.7	140.5	149.4	14.5	6.3
Basic metal & alloy products	4.4	100.0	108.0	131.7	141.9	161.4	174.5	13.7	8.1
Metal products	7.5	100.0	113.1	131.0	139.8	143.5	140.5	2.6	-2.1
Machinery & machine tools	2.8	100.0	104.7	100.6	110.9	120.2	141.4	8.4	17.6
Transport equipment	9.6	100.0	112.8	134.7	141.7	149.5	151.7	5.5	1.5
Miscellaneous products	4.0	100.0	113.2	132.8	149.9	153.8	177.6	2.6	15.5

Note: Figures for 1997-8 are provisional.

Source: CSO, IIP Division.

TABLE A6.5b
Index of Industrial Production

(1980-1 = 100, old series)

	Weight	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1996-7 over 1995-6	1997-8 over 1996-7
General index	100.0	166.4	180.9	196.4	212.6	213.9	218.9	232.0	253.8	284.5	304.7	317.5	7.1	4.2
Mining & quarrying	11.5	184.6	199.1	211.6	221.2	222.5	223.7	231.5	248.9	267.3	268.1	281.2	0.3	4.9
Electricity generated	11.4	181.0	198.2	219.7	236.8	257.0	269.9	290.0	314.7	340.1	353.4	377.4	3.9	6.8
Manufacturing index	77.1	161.5	175.6	190.7	207.8	206.2	210.7	223.5	245.4	278.8	303.0	313.9	8.7	3.6
Food products	5.3	139.0	148.5	150.9	169.8	178.0	175.3	160.0	181.6	207.0	214.1	208.9		
Beverages, tobacco, etc.	1.6	84.9	92.1	103.0	104.8	107.3	113.7	137.8	134.8	160.9	184.6	193.4	14.7	4.8
Cotton textiles	12.3	111.2	107.8	112.3	126.6	139.0	150.1	160.5	155.8	173.1	191.7	202.2	10.7	5.5
Jute textiles	2.0	91.0	101.9	97.4	101.6	90.8	87.0	103.2	91.4	93.6	95.8	104.1	2.3	8.7
Textile products	0.8	91.7	134.2	151.7	103.2	97.2	75.8	73.4	78.6	89.7	95.5	88.9	6.5	-6.9
Wood & wood products	0.5	161.7	171.7	176.0	197.2	185.0	190.5	199.3	205.5	240.8	232.9	208.9	-3.3	-10.3
Paper & paper products	3.2	166.3	171.3	181.5	198.0	203.0	210.9	224.8	258.1	286.7	311.4	335.3	8.6	7.7
Leather & leather products	0.5	185.5	177.4	188.3	194.3	181.3	187.7	204.3	211.9	227.3	231.9	229.3	2.0	-1.1
Rubber, plastic, & petroleum prod.	4.0	155.1	168.3	173.5	174.0	172.0	174.6	176.4	193.2	211.1	215.8	236.9	2.2	9.8
Chemical & chemical products	12.5	200.9	233.4	247.6	254.1	261.2	276.9	297.9	307.4	332.3	348.0	357.0	4.7	2.6
Non-metallic mineral products	3.0	158.1	184.6	189.9	193.1	205.2	208.9	218.5	236.0	264.5	286.2	320.9	8.2	12.1
Basic metal & alloy products	9.8	135.6	144.9	143.7	158.8	167.8	168.4	224.2	214.6	225.7	303.6	316.0	34.5	4.1
Metal products	2.3	129.6	133.5	142.6	143.1	133.1	124.6	126.5	148.8	173.8	177.1	178.7	1.9	0.9
Machinery & machine tools	6.2	139.2	161.2	171.9	186.9	183.3	181.1	189.2	228.2	274.3	279.5	281.2	1.9	0.6
Electrical machinery	5.8	335.2	346.0	459.2	563.6	493.7	483.6	460.1	460.1	460.1	460.1	460.1	0.0	0.0
Transport equipment	6.4	151.9	171.3	181.1	192.5	191.1	200.6	211.2	239.1	297.9	354.5	329.7	19.0	-7.0
Miscellaneous products	0.9	272.1	306.3	333.2	321.8	269.9	281.3	267.0	269.7	300.7	283.2	299.4	-5.8	5.7

Note: Figures for 1997-8 are provisional.

Source: CSO, IIP Division.

TABLE A6.6
Production, Imports, and Consumption of Fertilizers

(000' nutrient tonnes)

(Apr.-Mar.)	Nitrogenous ^a			Phosphatic ^b			Potassic		Total		
	Production	Imports	Consumption	Production	Imports	Consumption	Imports	Consumption	Production	Imports	Consumption
1980-1	2163.9	1510.2	3678.1	841.5	452.1	1213.6	796.8	623.9	3005.4	2759.1	5515.6
1981-2	3143.3	1055.1	4068.7	950.0	343.2	1322.9	643.8	676.2	4093.3	2042.1	6067.8
1982-3	3429.7	424.6	4242.5	983.7	63.4	1432.7	643.7	726.3	4413.4	1131.7	6401.5
1983-4	3491.5	656.1	5204.4	1064.1	142.6	1730.3	556.4	775.4	4555.6	1355.1	710.1
1984-5	3917.3	2008.6	5486.1	1317.9	745.2	1886.4	871.0	838.5	5235.2	3624.8	8211.0
1985-6	4328.0	1680.0	5661.0	1428.0	816.0	2005.0	903.0	808.0	5756.0	3399.0	474.0
1986-7	5410.0	1103.0	5716.0	1660.0	255.0	2079.0	952.0	850.0	7070.0	2310.0	8645.0
1987-8	5466.0	175.0	5717.0	1665.0	0.0	2187.0	809.0	880.0	7131.0	984.0	8784.0
1988-9	6712.0	219.0	7251.0	2252.0	407.0	2721.0	982.0	1068.0	8964.0	1608.0	11,040.0
1989-90	6747.0	523.0	7386.0	1796.0	—	3014.0	1280.0	1168.0	8543.0	3114.0	11,568.0
1990-1	6993.0	414.0	7997.0	2052.0	1311.0	3221.0	1328.0	1328.0	9045.0	2758.0	12,546.0
1991-2	7301.0	566.0	8046.0	2562.0	1016.0	3321.0	1236.0	1361.0	9863.0	2769.0	12,728.0
1992-3	7430.0	1160.0	8426.0	2306.0	967.0	2842.0	1082.0	884.0	9736.0	2988.0	12,152.0
1993-4	7231.0	1564.0	8789.0	1816.0	687.0	2669.0	880.0	908.0	9047.0	3166.0	12,366.0
1994-5	7948.0	1476.0 ^d	9507.0	2493.0	722.0 ^d	2932.0	1109.0 ^d	1125.0	10,438.0	2965.0 ^d	13,564.0
1995-6	8777.0	1938.0	9823.0	2558.0	380.0	2898.0	1423.0	1156.0	11,335.0	3955.0	13,877.0
1996-7	8599.0	1155.0	10,302.0	2556.0	246.0	2977.0	613.0	1029.0	11,155.0	1975.0	14,308.0
1997-8 ^c	10,086.0	1362.0	10,900.0	2976.0	672.0	3915.0	1140.0	1373.0	13,062.0	3174.0	16,188.0
1998-9 ^c	10,426.0	549.0	12,273.0	2998.0	748.0	4411.0	832.0	1487.0	13,424.0	2165.0	18,171.0

— Not available.

^a Excludes nitrogen meant for non-agricultural purposes.

^b Excludes data in respect of bonemeal and rockphosphate.

^c Anticipated.

^d Incorporates import of urea in nutrient terms, the only controlled fertilizer imported on government account.

Source: The Fertilizer Association of India, *Fertilizer Statistics*, various issues; MoF, *Economic Survey*, various issues.

TABLE A6.7
Indian Railways: Freight and Passenger Traffic

Year	Revenue-earning freight traffic			Passenger traffic					
	Originating tonnage (million tons)	Net tonnes-kilometres (million)	Average lead (kilometres)	Non-suburban			Suburban ^a		
				Passenger originating (million)	Passenger-kilometres (million)	Average lead (kilometres)	Passenger originating (million)	Passenger-kilometres (million)	Average lead (kilometres)
1980-1	195.9	147,652	754	1613	167,472	103.9	2000	41,086	20.5
1981-2	221.2	164,253	743	1640	176,822	107.8	2064	43,965	21.3
1982-3	228.8	167,781	733	1626	181,142	111.4	2029	45,789	22.6
1983-4	230.1	168,849	734	1491	180,808	121.3	1834	42,127	23.0
1984-5	236.4	172,632	730	1449	182,318	125.8	1884	44,264	23.5
1985-6	258.5	196,600	760	1549	195,175	126.0	1884	45,439	24.1
1986-7	277.8	214,100	771	1610	208,057	129.0	1970	48,411	24.6
1987-8	290.2	222,528	767	1637	217,632	133.0	2171	51,859	23.9
1988-9	302.1	222,374	736	1495	211,819	141.6	2022	52,023	25.7
1989-90	310.0	229,602	741	1544	226,045	76.9	2129	54,933	25.8
1990-1	318.4	235,785	741	1599	236,066	147.6	2281	59,724	26.2
1991-2	338.0	250,238	740	1637	251,174	153.4	2436	63,543	26.1
1992-3	350.1	252,388	721	1467	239,655	163.3	2298	60,547	26.4
1993-4	358.7	252,411	704	1406	233,200	165.9	2318	63,147	27.2
1994-5	373.0	259,810	697	1451	243,798	168.0	2359	63,275	26.8
1995-6	390.7	270,489	692	1534	268,708	175.2	2527	73,651	29.1
1996-7	409.0	277,567	679	1575	280,470	178.1	2641	77,104	29.2
1997-8	429.4	284,249	662	1691	301,053	178.0	2727	79,475	29.1
1998-9	424.0	282,374	666	1767	312,668	176.9	2827	82,915	29.3

^a Passengers booked between stations within the suburban areas of Bombay; from 1988-9 onwards suburban passenger traffic include Metro Railway, Calcutta.

Note: Figures for 1998-9 are revised estimates.

Source: Ministry of Railways, Railway Budget.

TABLE A6.8
Petroleum Summary
Commodity Balance of Petroleum and Petroleum Products

(million tonnes)

	1980-1	1985-6	1986-7	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7 ^a	1997-8 ^a	1997-8 ^a
A. Crude Petroleum															
1. Refinery throughput	25.8	42.9	45.7	47.7	48.8	51.9	51.8	51.4	53.5	54.3	56.5	58.7	62.9	65.1	0.0
2. Domestic production	10.5	30.2	30.5	30.4	32.0	34.1	33.0	30.4	27.0	27.0	32.2	35.2	32.9	33.9	0.0
(a) Onshore	5.5	9.4	9.9	10.2	10.9	12.4	11.8	11.4	11.2	11.6	12.0	11.9	11.4	11.5	0.0
(b) Offshore	5.0	20.8	20.6	20.2	21.1	21.7	21.2	19.0	15.8	15.4	20.2	23.3	21.5	22.4	0.0
3. Imports	16.2	15.1	15.5	18.0	17.8	19.5	20.7	24.0	29.2	30.8	27.3	27.3	33.9	34.4	0.0
4. Exports	—	0.5	—	—	—	—	—	—	—	—	—	—	—	—	0.0
5. Net imports (3-4)	16.2	14.6	15.5	18.0	17.8	19.5	20.7	24.0	29.2	30.8	27.3	27.3	33.9	34.4	0.0
B. Products															
1. Domestic consumption ^b	30.9	40.8	43.4	46.4	50.1	54.1	55.0	57.0	58.9	60.8	67.4	74.7	79.2	84.5	0.0
of which:															
(a) Naphtha	2.3	3.1	3.2	2.9	3.4	3.4	3.4	3.5	3.4	3.2	3.4	3.7	4.0	4.7	0.0
(b) Kerosene	4.2	6.2	6.6	7.2	7.7	8.2	8.4	8.4	8.5	8.7	9.0	9.3	9.6	9.9	0.0
(c) High speed diesel	10.3	14.9	16.0	17.7	18.8	20.7	21.1	22.7	24.3	25.9	28.3	32.3	35.0	36.2	0.0
(d) Fuel oils	7.5	7.9	7.9	8.1	8.5	8.8	9.0	9.2	9.3	9.1	9.9	10.7	10.8	11.0	0.0
2. Domestic production	24.1	39.9	42.8	44.7	45.7	48.7	48.6	48.3	50.4	51.1	52.9	55.1	59.0	61.3	0.0
(a) Naphtha	2.1	5.0	5.6	5.5	5.4	5.2	4.9	4.5	4.6	4.7	5.7	6.0	6.1	6.1	0.0
(b) Kerosene	2.4	4.0	4.9	5.1	5.2	5.7	5.5	5.3	5.2	5.3	5.3	5.3	6.2	6.7	0.0
(c) High speed diesel	7.4	14.6	15.5	16.3	16.7	17.7	17.2	17.4	18.3	18.8	19.6	20.7	22.2	23.4	0.0
(d) Fuel oils	6.1	8.0	8.0	8.5	8.9	9.0	9.4	9.6	10.4	10.3	9.8	9.6	10.3	11.1	0.0
3. Imports	7.3	3.9	3.1	3.9	6.5	6.6	8.7	9.4	11.3	12.1	14.0	20.3	20.3	19.5	0.0
4. Exports ^c	—	2.0	2.5	3.4	2.3	2.6	2.6	2.9	3.7	4.0	3.3	3.4	3.2	2.9	0.0
5. Net imports	7.3	1.9	0.6	0.5	4.2	4.0	6.1	6.5	7.6	8.1	10.7	-3.4	17.1	16.6	0.0

— Not available.

^a Provisional.

^b Excludes refinery fuel consumption.

^c Excludes supplies of POL products to Nepal.

Source: MoF, *Economic Survey*, various issues.

TABLE A6.9
Generation, Consumption and Capacity of Electricity

(000' GWH)

	1980-1	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7 ^a	1997-8 ^a
A. Generation of Electricity by Source and Region												
1. Thermal ^b												
Northern	13.69	37.74	41.24	48.82	52.13	60.44	66.17	71.45	72.45	81.76	85.99	88.30
Western	25.37	61.80	63.39	73.08	76.95	84.33	88.50	96.27	102.92	115.75	120.97	127.78
Southern	9.22	28.07	30.53	34.03	35.76	40.39	44.31	51.03	54.80	65.19	71.24	75.47
Eastern	12.53	20.77	21.40	21.55	20.39	22.40	24.56	28.36	30.54	34.67	37.62	42.53
North-eastern	0.50	1.24	1.15	1.22	1.31	1.19	1.23	1.08	1.42	1.95	2.10	2.02
All-India	61.30	149.61	157.71	178.70	186.55	208.75	224.77	248.19	262.13	299.32	317.92	336.10
2. Hydro												
Northern	15.08	20.86	23.57	25.01	27.16	27.21	25.45	24.34	30.24	29.26	29.01	30.96
Western	7.81	5.06	7.54	6.87	8.31	8.16	7.27	8.72	10.30	7.55	7.84	8.29
Southern	20.28	17.35	21.64	24.54	29.17	29.63	30.70	30.72	35.05	28.43	25.14	28.81
Eastern	2.96	3.19	3.76	4.11	5.34	5.87	4.52	4.48	5.26	5.51	4.97	4.40
North-eastern	0.41	0.97	1.36	1.58	1.66	1.89	1.93	2.20	1.86	1.83	1.94	2.02
All-India	46.54	47.44	57.87	62.12	71.64	72.76	69.87	70.46	82.71	72.58	68.90	74.48
3. Nuclear												
Northern	1.23	1.39	1.87	1.73	2.16	1.66	2.77	1.50	1.34	2.75	2.82	3.91
Western	1.77	1.61	1.90	1.55	1.90	1.71	1.97	2.43	1.88	3.82	4.26	4.24
Southern	—	2.04	2.05	1.35	2.07	2.16	1.98	1.39	2.43	1.41	1.99	1.89
All-India	3.00	5.04	5.82	4.63	6.14	5.53	6.72	5.32	5.65	7.98	9.07	10.04
4. Utilities—All India (1+2+3)	110.84	202.09	221.40	245.44	264.33	287.03	301.36	323.97	350.49	379.88	395.89	420.62
5. Self-generation in industry and railways	8.42	16.89	19.91	23.23	25.11	28.60	31.35	32.28	35.07	38.16	40.99	43.75
6. Total—All India (4+5)	119.26	218.98	241.31	268.66	289.44	315.63	332.71	356.25	385.56	418.04	436.88	464.37
B. Consumption of Electricity by Sectors												
1. Mining & manufacturing ^c	55.35	82.97	92.05	100.40	105.38	110.62	116.17	121.38	129.83	137.13	140.87	
2. Transport	2.31	3.62	3.77	4.07	4.11	4.52	5.07	5.62	5.89	6.22	6.62	
3. Domestic	9.25	22.12	24.77	29.58	31.98	35.85	39.72	43.34	47.92	51.74	55.27	
4. Agriculture	14.49	35.27	38.88	44.06	50.32	58.56	63.33	70.70	79.30	85.73	84.02	
5. Others	8.30	15.42	17.02	17.01	19.74	21.42	22.38	24.41	26.40	28.65	30.16	
6. Total	89.70	159.40	176.49	195.12	211.53	230.97	246.67	265.45	289.34	309.47	316.94	

(Contd.)

	1980-1	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7 ^a	1997-8 ^a
C. Installed Capacity (000' MW)												
<i>Utilities</i>												
Thermal	17.6	35.6	39.7	43.8	45.8	48.1	50.7	54.3	58.1	60.1	61.0	64.0
Hydro	11.8	17.3	17.8	18.3	18.8	19.2	19.6	20.4	20.8	21.0	21.7	22.0
Nuclear	0.9	1.3	1.5	1.5	1.5	1.8	2.0	2.0	2.2	2.2	2.2	2.2
Total	30.3	54.2	59.0	63.6	66.1	69.1	72.3	76.7	81.1	83.3	84.9	88.2
<i>Non-Utilities</i>												
	3.1	6.3	7.5	8.2	8.6	9.3	10.1	10.2	11.1	11.9	12.1	12.9

— Not available.

^a Provisional data.

^b Includes steam, diesel, wind, and gas.

^c Includes industrial power from utilities plus net generation in the non-utilities.

Source: Central Electricity Authority, Power Data Bank & Information Directorate.

TABLE A6.10
New Index Numbers of Wholesale Prices by Years

(Base 1981-2 = 100)

	Weights	1987-8	1988-9	1989-90	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9	per cent change ^a
Total Food Articles	17.386	161.1	177.1	179.3	200.6	241.1	271.0	284.4	312.7	335.7	375.1	388.0	440.9	13.6
Foodgrains	7.917	141.3	161.8	165.4	179.2	216.4	242.4	260.8	293.2	313.0	353.8	362.7	392.7	8.3
Other food	9.469	177.7	189.9	190.9	218.5	261.8	294.9	304.2	329.0	354.7	392.8	409.1	481.3	17.6
Industrial Raw Material	14.909	142.8	140.3	145.3	166.6	191.7	192.2	211.8	248.7	267.3	273.9	283.0	307.0	8.5
Non-food articles	10.881	163.0	160.2	166.0	194.2	229.2	228.7	249.1	299.0	321.7	329.8	340.5	376.4	10.5
Minerals	4.828	100.5	98.5	102.2	109.0	113.5	116.1	133.9	143.6	157.5	157.3	162.9	162.1	-0.5
Fuel, Power, & Lub.	10.663	143.3	151.2	156.6	175.8	199.0	227.1	262.4	280.4	285.4	324.2	365.7	381.3	4.3
Manuf. Products	57.042	138.5	151.5	168.6	182.8	203.4	225.6	243.2	268.8	293.1	305.0	317.5	332.0	4.6
Food products	10.143	140.5	147.8	165.4	181.7	206.3	223.8	246.7	270.5	278.8	297.3	321.3	344.6	7.3
Beverage & tobacco	2.149	155.0	180.7	207.7	242.1	265.7	293.7	306.6	342.1	373.9	392.9	442.0	482.7	9.2
Textiles	11.545	126.6	139.6	158.2	171.2	188.3	200.7	219.9	256.8	294.6	304.1	310.3	320.3	3.2
Chemicals and chemical products	7.355	131.9	135.8	140.0	147.9	168.4	192.6	207.8	232.6	249.9	259.3	269.3	281.8	4.6
Basic metals and products	7.632	149.7	176.4	205.6	219.9	234.8	256.6	276.6	300.5	329.0	339.6	348.8	353.1	1.2
Machinery and machine tools	6.268	132.3	150.8	166.2	180.2	208.3	230.6	237.9	262.8	282.8	295.0	299.4	304.7	1.8
Transport eqpt.	2.705	135.5	148.9	166.2	181.3	202.5	218.1	223.8	238.5	254.5	265.9	274.9	285.8	4.0
All Commodities	100.0	143.5	154.2	165.7	182.7	207.8	228.7	247.8	274.7	295.8	314.6	329.8	352.4	6.9
<i>Memo items:</i>														
<i>Administered prices:</i>														
Petroleum crude and natural gas	4.3	93.5	89.1	91.8	99.6	101.0	102.7	120.7	129.1	130.2	132.1	138.1	135.8	-1.7
Petroleum products (Mineral oils)	6.7	126.3	129.2	129.7	154.7	179.6	204.1	223.6	235.0	235.2	270.1	301.0	306.8	1.9
Coal mining	1.3	183.0	212.3	231.8	232.8	249.9	301.2	346.4	364.0	368.1	416.8	489.0	503.3	2.9
Electricity	2.7	166.7	176.6	187.7	200.9	222.8	249.0	318.3	352.6	369.7	413.2	466.5	506.4	8.6
Urea N-content	1.0	111.5	99.6	99.0	99.0	125.2	127.4	126.6	148.6	153.6	155.2	169.8	173.0	1.9
<i>Decontrolled prices:</i>														
Iron and steel	2.4	143.4	163.8	188.8	201.5	212.6	233.0	252.7	270.5	290.8	305.5	315.8	319.5	1.2
Fertilizers	1.7	107.6	98.9	99.1	99.1	123.9	160.8	181.6	196.6	210.7	211.9	223.5	227.4	1.7
Super phosphate	0.1	123.0	110.7	119.6	119.6	150.1	278.7	350.7	343.1	367.1	375.9	379.4	386.5	1.9
Ammonium phosphate	0.1	100.3	96.5	96.5	96.5	121.1	232.8	304.4	304.4	304.4	304.4	304.4	344.0	13.0
Lubricants	0.5	123.9	148.3	152.2	182.1	226.5	275.5	330.0	337.9	342.6	385.6	401.9	420.9	4.7

^a Refers to per cent change in fiscal year 1998-9 over 1997-8.

Note: This WPI series based 1981-2 was introduced as of July 1989. Data for 1998-9 are provisional.

Source: Ministry of Industry, Office of the Economic Adviser.

TABLE A6.11
Consumer Price Index Numbers for Industrial Workers, Urban Non-manual
Employees and Agricultural Labourers

Year (April-March)	Industrial workers		Urban non-manual employees	Agricultural labourers ^{a, b}
	Food index (1982 = 100)	General index (1982 = 100)	(1984-5 = 100)	General index (1960-1=100)
1989-90	177.0	173.0	145.0	746.0
1990-1	199.0	193.0	161.0	803.0
1991-2	230.0	219.0	183.0	958.0
1992-3	254.0	240.0	202.0	1076.0
1993-4	272.0	258.0	216.0	1114.0
1994-5	297.0	279.0	232.0	1204.0
1995-6	337.0	313.0	259.0	234.0
1996-7	369.0	342.0	283.0	256.0
1997-8	388.0	366.0	302.0	269.0
1998-9	—	414.0	337.0	294.0
Average of weeks				
1996				
March	339	319	264	1395.9
June	361	333	274	247.0
September	372	344	274	259.0
December	380	350	289	263.0
1997				
March	373	351	291	262.0
June	376	355	295	259.0
September	383	361	301	263.0
December	396	372	307	265.0
1998				
March	401	380	312	284.0
June	432	399	326	282.0
September	456	420	340	297.0
December	—	429	345	305.0
1999				
March	—	414	340	296.0
Percentage change in index over the corresponding month of previous year				
1996				
March	9.0	8.9	8.2	7.4
June	9.1	8.8	7.9	—
September	7.8	8.5	5.0	—
December	10.5	10.4	10.3	—
1997				
March	10.0	10.0	10.2	—
June	4.2	6.6	7.7	4.9
September	3.0	4.9	9.9	1.5
December	4.2	6.3	6.2	0.8
1998				
March	7.5	8.3	7.2	8.4

(Contd.)

Year	Industrial workers		Urban non-manual employees	Agricultural labourers ^{a, b}
	Food index (1982 = 100)	General index (1982 = 100)	(1984-5 = 100)	General index (1960-1 = 100)
(April-March)				
June	14.9	12.4	10.5	8.9
September	19.1	16.3	13.0	12.9
December	—	15.3	12.4	15.1
1998				
March	—	8.9	9.0	4.2

— Not available.

^a Indices relate to agricultural years (June-July).

^b Earlier base of 1960-1 was discontinued w.e.f. November 1987.

Source: Ministry of Labour, Labour Bureau, Simla; CSO; MoF, *Economic Survey*, various issues; CMIE, *Monthly Review of the Indian Economy*.

INDIA

REDUCING POVERTY, ACCELERATING DEVELOPMENT

Worldwide experience suggests that the primary conditions for sustained economic growth and poverty reduction are sound macroeconomic policies, open trade relations, and increases in human and physical capital. However, sustained development and poverty reduction also hinge on a *comprehensive development framework*. Markets need to be incentive based, yet regulated, functioning alongside an adequately supervised financial sector. Other prerequisites include effective health, education and social services, quality infrastructure and public services, and policies oriented to environmental and human development.

This World Bank Country Study for India is the first of its kind in the Bank's new comprehensive approach to country reports. It argues that reforms that reduce the risk of macroeconomic instability in such a framework would also be effective in reducing poverty — by increasing the access of the poor to human development, reducing distortions and expanding the demand for labour. In this context, the report:

- reviews the performance of the Indian economy
- analyses various facets of development
- identifies potential vulnerabilities
- emphasizes the role of these reforms to overcome initial lags and increase the pace of development in poorer states
- highlights the main areas for policy reforms as
 - improvement in infrastructure, both public and private
 - expansion in core public activities through realignment of central and state governments
 - increased expenditure on health and education
 - deregulation of goods and factor markets
 - privatization of areas such as power
 - cuts in explicit and implicit subsidies
 - strengthening of the financial system, and
 - improvement of governance through streamlining of the legal system

Its statistical richness and analytical quality make this country report on India invaluable for the government, academia, business and financial circles. Students, teachers, and researchers will find it an indispensable resource.



THE WORLD BANK

OXFORD
UNIVERSITY PRESS

www.oup.com



ISBN-0-8213-4775-6