

Session 7

Review of 10 PBL Operations

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Introductory Course on Economic Analysis of
Policy-Based Lending Operations
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Outline

- I. Motivation/Objective
- II. Conceptual Framework
- III. Salient Features
- IV. Preliminary Assessment
- V. Lessons Learned

I. Motivation

- PRMRPs account for \$1.4 billion in lending and \$63 million in supporting TA
- Supports policy reforms in broad (and most politically sensitive) areas of the economy
- Supports creation of an enabling environment for other activities
- Goes to the heart of development policies/country's economic management

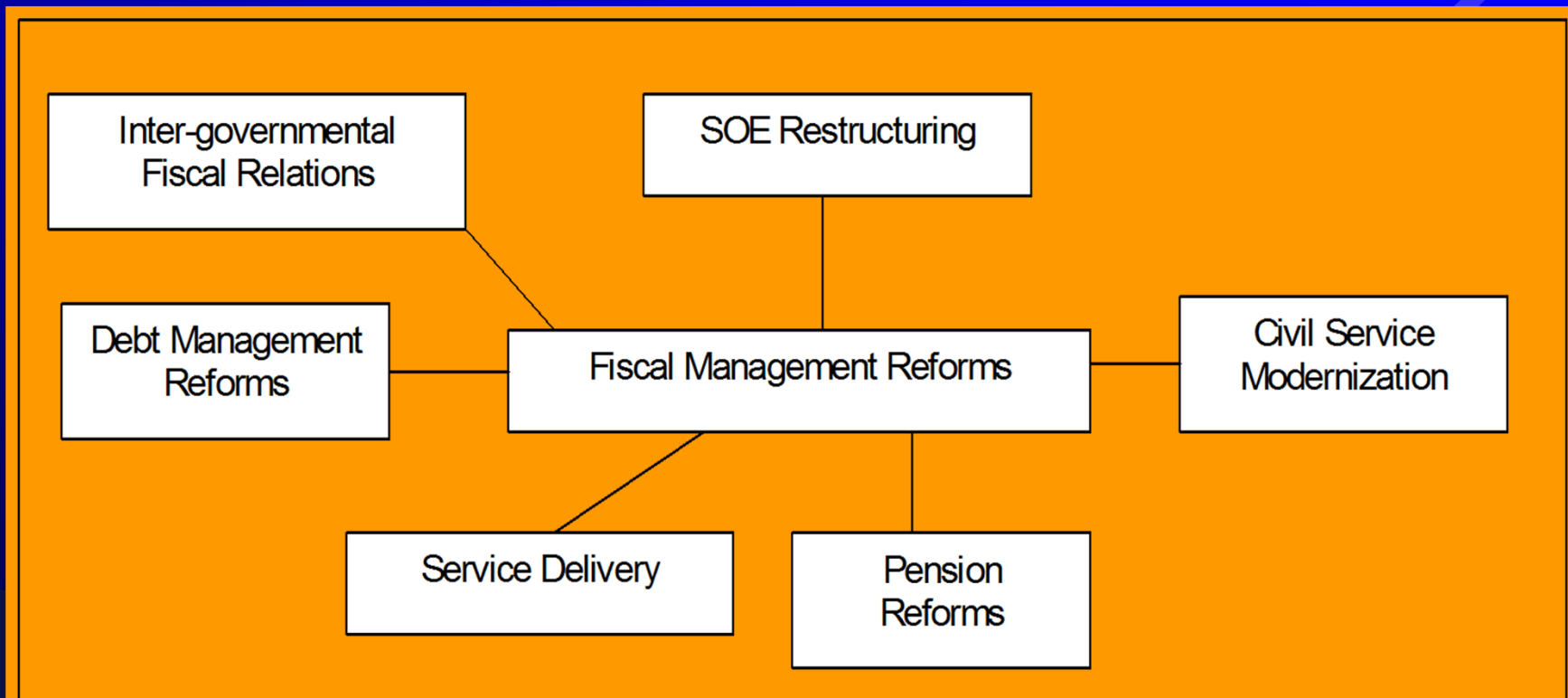
Table 1: List of PRMRPs and Key Characteristics

COUNTRY	PROGRAM NAME	PROGRAM STRUCTURE AND AMOUNT	SCOPE OF TECHNICAL ASSISTANCE AND AMOUNT APPROVED		DATE OF BOARD APPROVAL
			Preparatory	Piggybacked to Loan	
Gujarat (IND)	Public Sector Resource Management Program	Program loan \$250 million	Restructuring State Owned Enterprises of Gujarat: \$600,000 (JSF) Support of Gujarat Industrial Investment Corporation: \$500,000 Support Gujarat's Reform of Public Finance: \$600,000	Institutional Strengthening of the GIDB: (TA No. 2716) \$930,000	18 th December 1996
Madhya Pradesh (IND)	Public Resource Management Reform Program	Program loan \$250 million	Support for Public Finance Reform and Institutional Strengthening: \$780,000 Strengthening Local Government: \$700,00	Capacity Building for Public Enterprise Reforms and Social Safety Net in Madhya Pradesh: (TA No. 3338) \$600,000	2 nd December 1999
Kerala (IND)	Modernizing Government and Fiscal Reform in Kerala Program	Cluster program including two subprograms \$300 million [Subprogram 1: \$200 million]	Supporting Fiscal Reforms in Kerala \$1,000,000 Strengthening State Government Effectiveness and Accountability in Kerala: \$150,000	Institutional Development for Poverty Alleviation (financed by Government of Netherlands) \$6.5 million	18 th December 2002
Nepal (NEP)	Public Sector Management Program	Program loan \$35 million		Support the Government in the privatization/liquidation process \$425,000	8 th July 2003
Punjab (PAK)	Punjab Resource Management Program (Subprogram 1)	Cluster program including three subprograms \$500 million [Subprogram 1: \$200 million]	Enhancing Capacity for Resource Management and Poverty Reduction in Punjab \$250,000	Support to Public Resource Management \$4 million	4 th December 2003
Balochistan (PAK)	Balochistan Resource Management Program	Program loan \$110 million	Capacity Building for program implementation \$400,000	Supporting Public Resource Management Reforms In Balochistan \$3 million	25 th November 2004
Sri Lanka (SRI)	Fiscal Management Reform Program	Program loan \$45 million	Support to the Revenue Administration (TA No. 3906) \$500,000	Project loan for Institutional Strengthening of Fiscal Management Institutions ^a \$10 million	14 th December 2004
Assam (IND)	Governance and Public Resource Management Sector Development Program	Cluster program including two subprograms \$225 million [Subprogram 1: \$125 million]		Project loan for Capacity of Public Financial Management Institutions ^b \$25 million	16 th December 2004
Punjab (PAK)	Punjab Resource Management Program (Subprogram 2)	Second subprogram \$200 million	Support for Subprogram 2 of Punjab Resource Management \$250,000		14 th December 2005
Afghanistan (AFG)	Fiscal Management and Public Administration Reform Program	Cluster program including two subprograms \$105 million [Subprogram 1: \$48 million]		Capacity Building for Institutional Development \$7 million	14 th December 2005



II. Conceptual Framework

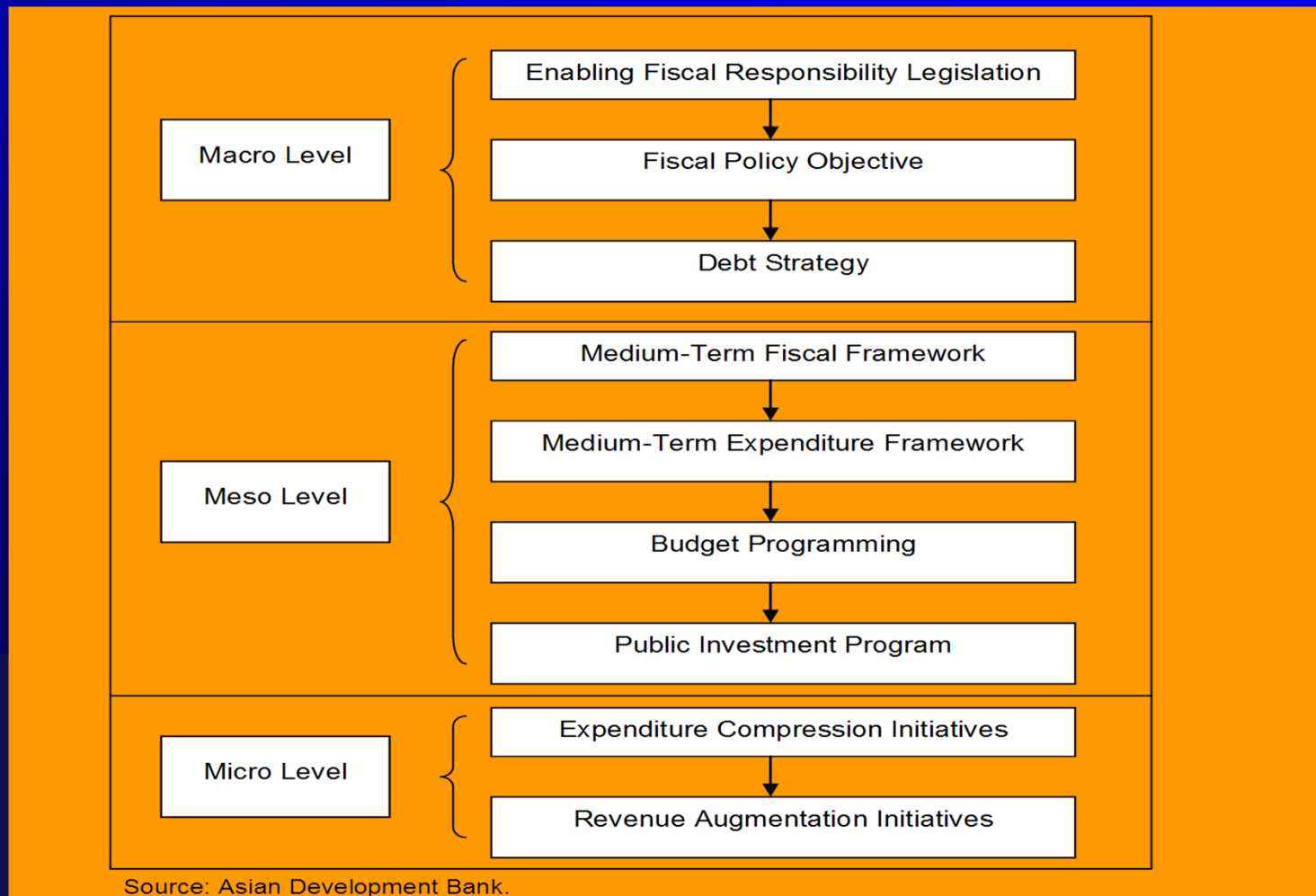
PRMRP Structure—Key Design Parameters



SOE = state-owned enterprise.
Source: Asian Development Bank.

II. Conceptual Framework

FMR Structure– Key Design Parameters

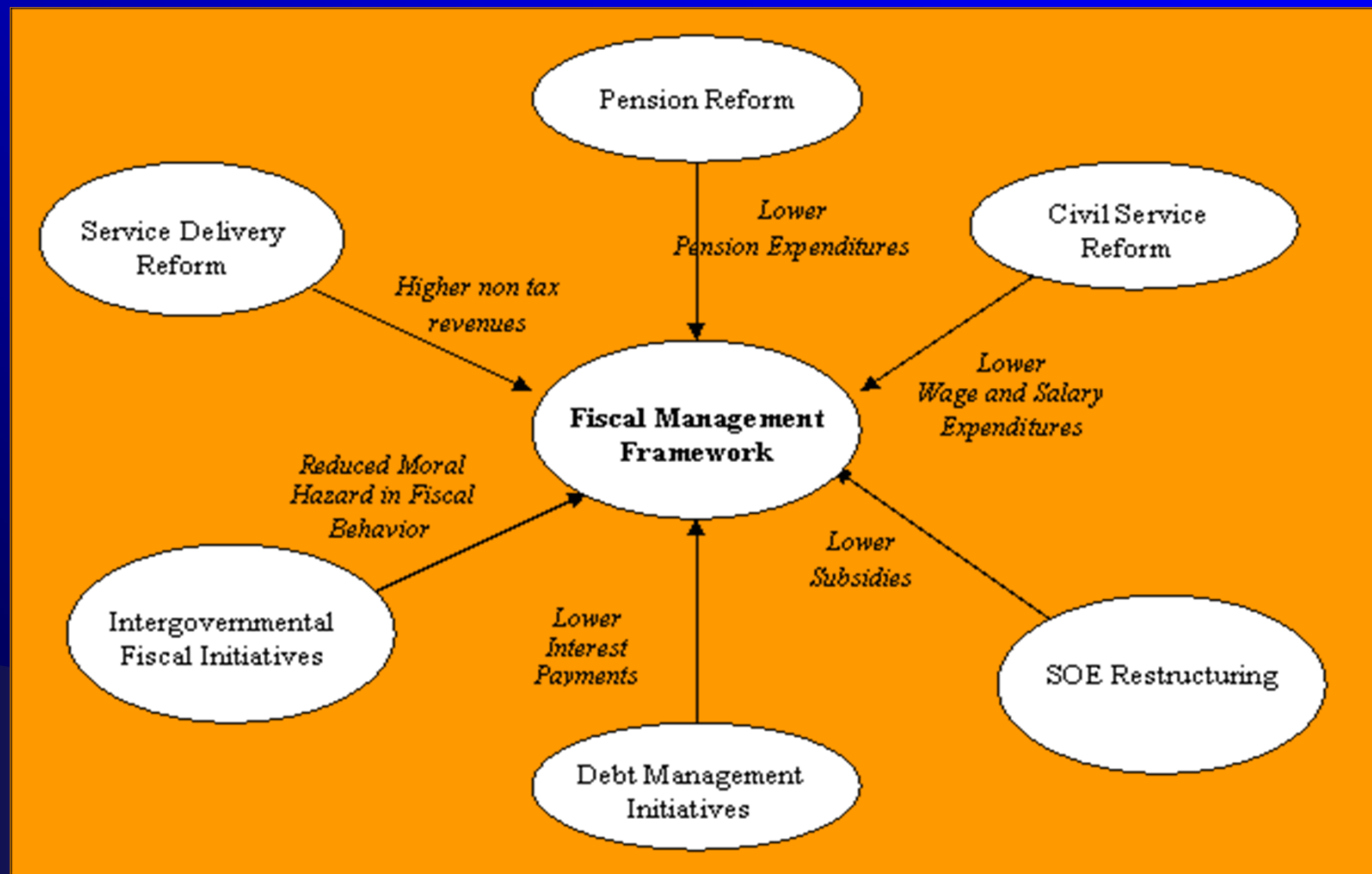


Fiscal Space (FS)

- **Definition.** Availability of budgetary room that allows governments to provide resources for a desired purpose without prejudicing the sustainability of its financial position.
- **Why FS is important?** (i) If most of the government resources are tied up in non-discretionary spending categories, not much left for discretionary programs; (ii) as corollary, FS ensures that resources are available to meet unanticipated challenges.
- **Creation of FS entails:** (i) expenditure compression and/or; (ii) revenue augmentation. Closely linked to fiscal sustainability.

II. Conceptual Framework

PRMRPs – The Fiscal Link



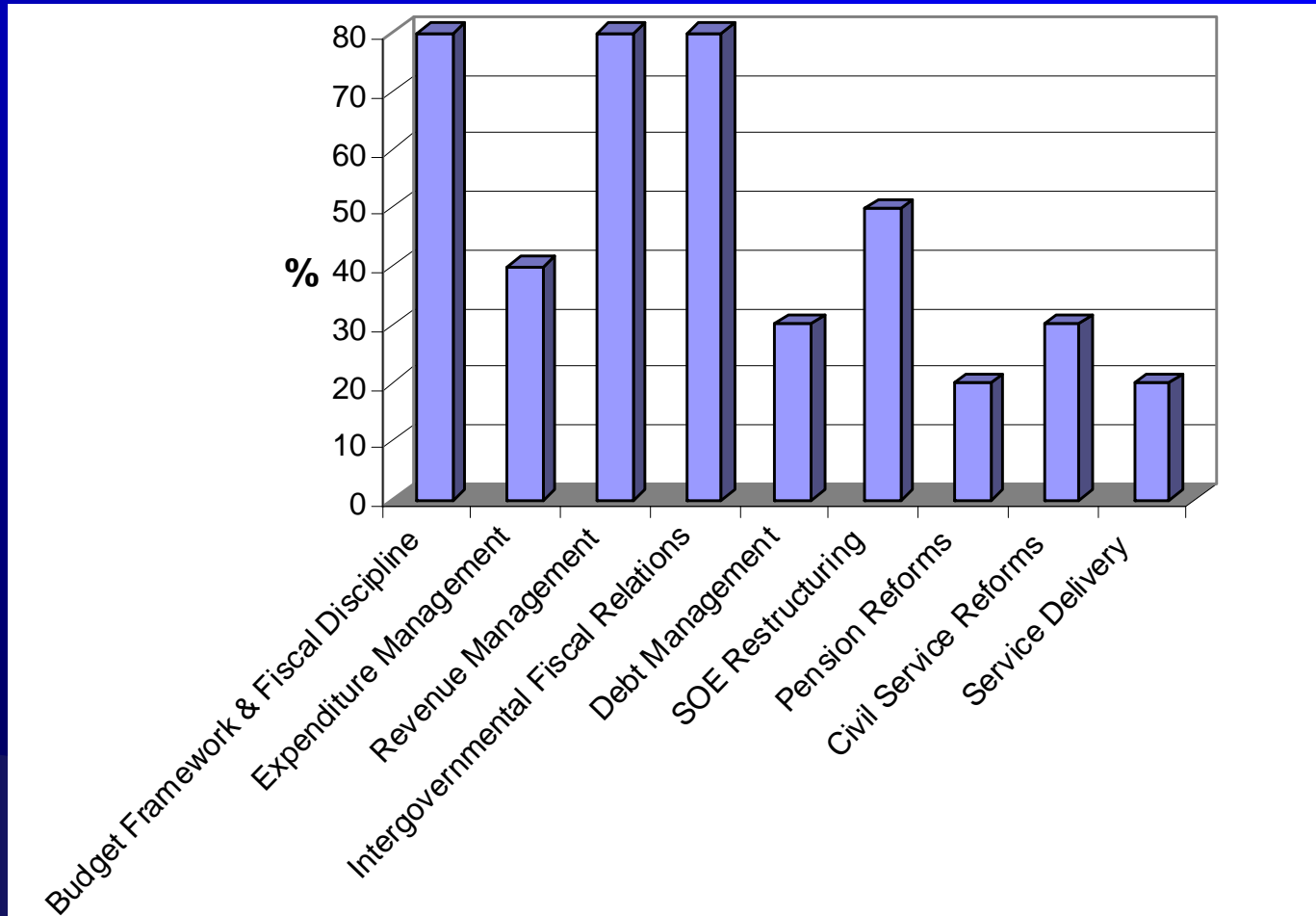
II. Conceptual Framework

Key Decisions

- Horizontal versus Vertical Dimensions – Combining policy actions that provide coverage across components (hd) while drilling down to micro level policy initiatives (vd)
- Fiscal space creation - Requires combination of revenue augmenting and expenditure compression measures

III. Salient Features

Thrust of Programs



III. Salient Features

Sources of Fiscal Risks

	Direct Liabilities	Contingent Liabilities
Explicit liabilities	<ul style="list-style-type: none"> • Foreign and domestic sovereign debt • Budget expenditures—both in the current fiscal year and those legally binding over the long term (civil servant salaries and pensions) 	<ul style="list-style-type: none"> • Guarantees for borrowing and obligations of sub-national governments and public or private entities (development banks) • Umbrella guarantees for various loans (mortgage loans, student loans, agriculture loans, small business loans)
Implicit liabilities	<ul style="list-style-type: none"> • Future public pensions if not required by law • Social security schemes if not required by law • Future health care financing if not required by law • Future recurrent cost of public investments 	<ul style="list-style-type: none"> • Defaults of sub-national governments and public or private entities on non-guaranteed debt and other obligations • Liability clean-up in entities being privatized • Bank failures (support beyond state insurance) • Failures of non-guaranteed pension funds, or other social security funds • Default of central bank on its obligations (foreign exchange contracts, currency defense) • Collapses due to sudden capital outflows • Environmental recovery, disaster relief, military financing

III. Salient Features

- Support the development of an *enabling environment* needed to support fiscal space creation *from within*
- Identify direct measures to help create fiscal space
- Transform budget process into active tool for achieving fiscal policy/development objectives

III. Salient Features - Creation of an Enabling Environment

1. Supporting Participatory Budgeting
2. Establishing key institutions: Budget Law (AFG), Fiscal Responsibility Act (SRI, AS, AFG, KER), Fiscal Policy Unit (AFG, AS), Budget Coordination Committee (SRI, AFG, AS), Debt Management Unit (AS)
3. Preparing MTFE anchored on credible assumptions (KER, AS, AFG)
4. Developing Public Awareness Campaigns, particularly targeting timely and accurate tax filing (SRI, AS, AFG)
5. Developing institutional capacity i.e., training in RA, PEMS (AII)

III. Salient Features-Direct Measures

Revenue Side –

1. Revenue Administration – integration of common functions, automation of workplace, develop compulsory tax identification number, strengthen audit work and electronic tax filing of LTU.
2. Tax Measures - consolidation of tax code, adoption of ad valorem excise, closing of tax loopholes, elimination of tax holidays and clear up tax arrears.

III. Salient Features-Direct Measures

Expenditure Management Side –

1. Freeze intake of new recruits or reduce recruitment ratios, assess retirement waves.
2. Reduce growth of salary increases, allowances, commutations for retirement scheme, refinancing or restructuring of debt.
3. Reduce transfers including subsidies to households (better targeting), to SOEs (restructuring of SOEs), move to defined contribution pension schemes.
4. Management (short-term) – Identify contingent liabilities and transfer to budget, reduce and eventually eliminate payment arrears.
5. Management (long-term) – Move towards results-based budgeting, accrual-based accounting.

IV. Preliminary Assessment-Ownership

Ownership	GUJ	MP	KER
Effectively Implement Program	✓ ✓ ✓	✓ ✓ ✓	✓ ✓ ✓
Government Involvement in Preparation	✓ ✓ ✓	✓ ✓	✓
Timely Implementation	24 months delay	14 months delay	9 months delay

IV. Preliminary Assessment-Effectiveness

- (i) Any structural breaks resulting from reforms?
- (ii) How much leveraging of private investment resulting from reforms?
- (iii) How much leveraging from ADB?

IV. Preliminary Assessment-Effectiveness

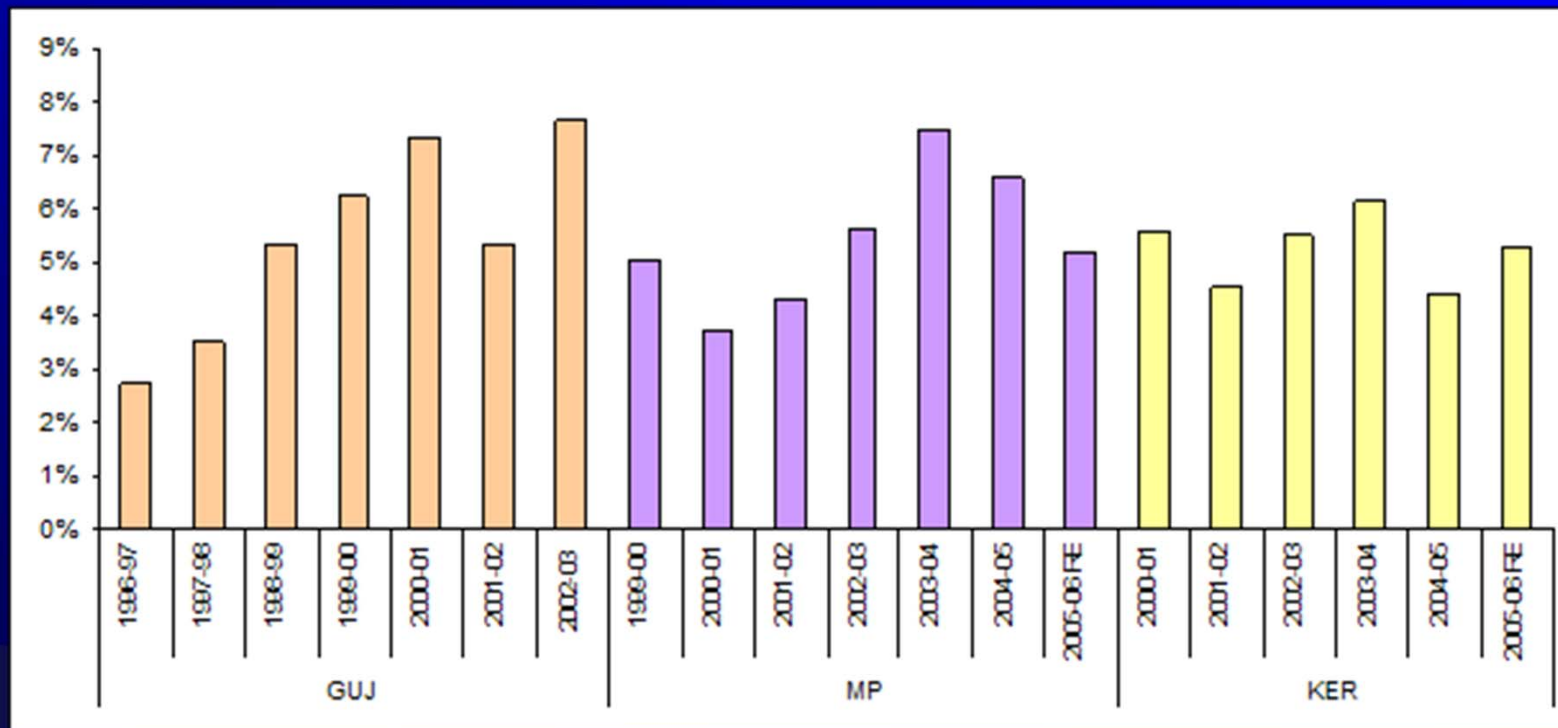
Effectiveness	MP	KER	SRI
Structural Breaks from Past	Introduction of legislation on merit based appointments in the civil service	Fiscal responsibility legislation addresses off-budget items	Civil servants brought into the income tax net

IV. Preliminary Assessment-Effectiveness

PRMRP	Approval	Followed On PRMRPs	Preceded PRMRPs
Gujarat	Dec 1996	<ol style="list-style-type: none"> 1. Power Sector Development (2000) (\$350 million) 2. Private Sector Infrastructure Facility at State Level (2001) (\$200 million) 	
Madhya Pradesh	Dec 1999	<ol style="list-style-type: none"> 1. Power Sector Development (2001) (\$350 million) 2. Private Sector Infrastructure Facility at State Level (2001) (\$200 million) 3. State Roads Sector Development Program (2002) (\$180 million) 4. Urban Water Supply and Environmental Improvement (2003) (\$200 million) 5. Power Sector Investment Program (2007) (\$___ million) 	
Kerala	Dec 2002	<ol style="list-style-type: none"> 1. Kerala Sustainable Development (2005) (\$221.2 million) 	
Nepal	Jul 2003	<ol style="list-style-type: none"> 1. Community-Based Water and Sanitation Sector Development Program (2003) (\$24 million) 2. Kathmandu Valley Water Services Sector Development Program (2003) (\$15 million) 	<ol style="list-style-type: none"> 1. Urban and Environmental Improvement (2002) (\$30 million)
Punjab 1	Dec 2003	<ol style="list-style-type: none"> 1. Southern Punjab Basic Urban Services (2003) (\$90 million) 2. Punjab Devolved Social Services Program (2004) (\$150 million) 	<ol style="list-style-type: none"> 1. Decentralization Support Program (2002) (\$205 million) 2. Punjab Road Development Sector (2002) (\$150 million) 3. Punjab Community Water Supply and Sanitation (2002) (\$50 million)
Balochistan	Nov 2004	<ol style="list-style-type: none"> 1. Restructuring of Technical Education and Vocational Training System Project (2004) (\$16 million) 2. Balochistan Devolved Social Services Program (2005) (\$200 million) 	
Sri Lanka	Dec 2004	<ol style="list-style-type: none"> 1. Local Government Infrastructure Improvements (2005) (\$50 million) 2. Secondary Towns and Rural Community Based Water Supply and Sanitation (2006) (\$60 million) 	
Assam	Dec 2004		<ol style="list-style-type: none"> 1. Assam Power Sector Development Program (2003) (\$250 million)
Punjab 2	Dec 2005	<ol style="list-style-type: none"> 1. Punjab Irrigated Agriculture Investment Program (2006) (\$218 million) 	
Afghanistan 1	Dec 2005	<ol style="list-style-type: none"> 1. Power Transmission and Distribution (2005) (\$26.5 million) 2. Western Basins Water Resource Management (2005) (\$47.3 million) 	<ol style="list-style-type: none"> 1. Telecom Development Company (2004) (\$35 million)

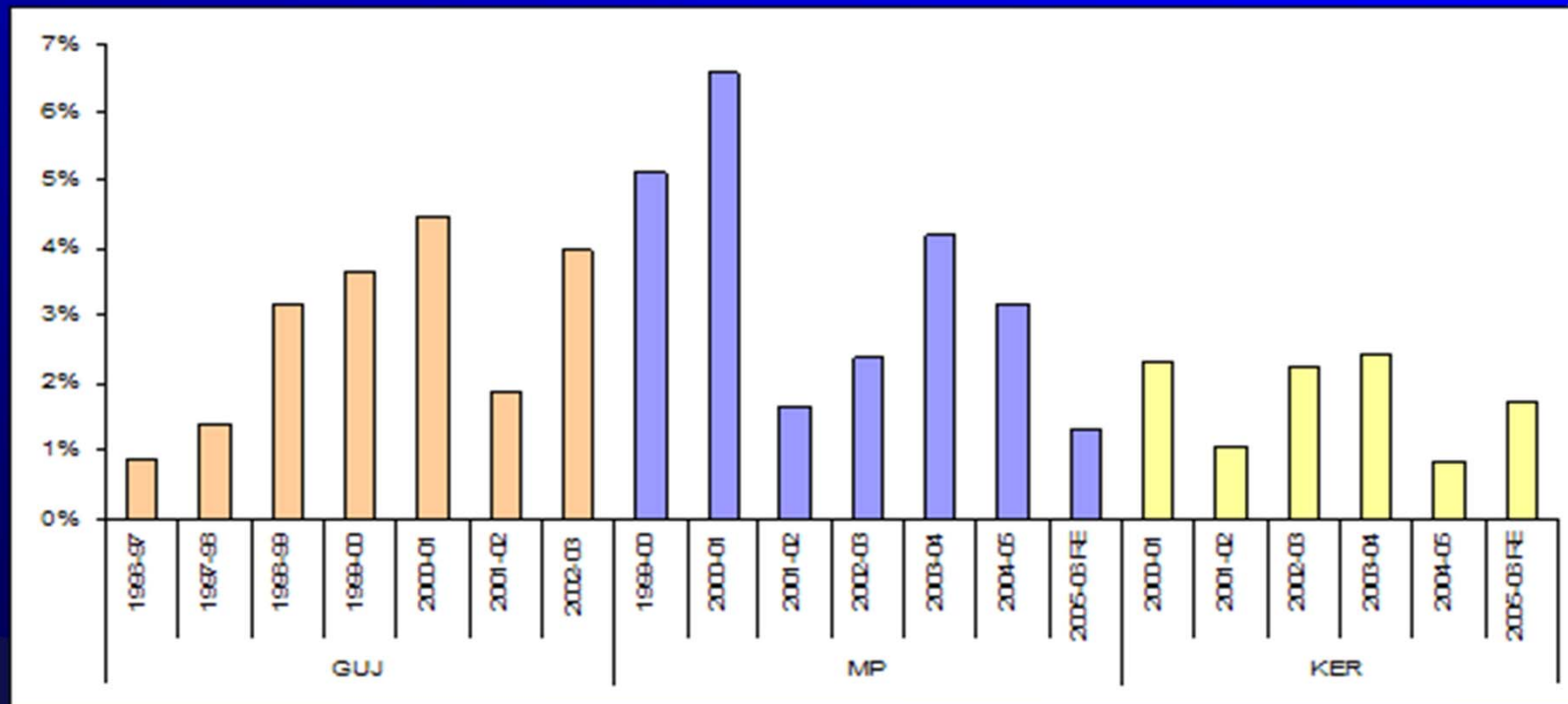
IV. Preliminary Assessment-Sustainability

Fiscal Deficit as Share of GSDP



IV. Preliminary Assessment-Sustainability

Primary Deficit as Share of GSDP



V. Lessons Learned-What works?

- Improving revenue collection
- SOE Restructuring
- Inter-governmental transfers

What doesn't?

- Expenditure compression

V. Lessons Learned-What works?

Recommendations:

- Adopt Cluster Modality Approach (G)
- Focus on More Realistic Assessment of Attainable Outcomes (G)
- Downplay Quantitative Fiscal Targets (S)

V. Lessons Learned – For who?

- Strong Government Ownership
i.e., political stability, history of alternating governments, coalition parties?

Recommendations:

- Strive for Strong Government Ownership (G)
- Support Complementary Goals (S)
- Support Meaningful Training Programs (S)

V. Lessons Learned-In what circumstances?

- Government is taking lead in reforms
- Strong institutional foundations
- Building programs around electoral calendar

Recommendations:

- Ensure Proper Sequencing of Reforms (G)
- Focus on Institutional Strengthening (G)
- Strengthen Implementation Arrangements (G)
- Strengthen Strategic Risk Management (S)
- Develop a Proactive Communication Policy (S)

V. Lessons Learned-How does it work?

- PRMRPs are about structural change that needs to be supported by systems and procedures leading to institutional change
- Ensure effective instruments of coordination, effective sequencing, avoiding top-down measures, tailoring measures to meet local requirements

V. Lessons Learned-How does it work?

Recommendations

- Balance vertical and horizontal dimensions (G)
- Highlight systems and procedures (G)
- Develop supporting infrastructure (G)
- Support fiscal legislation (S)
- Ensure balanced composition of adjustment (S)
- Finding a champion of reforms (S)

Thank You!

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