

Guidelines for Bank Lending in Key Sectors

Selected Indicators* of Bank Portfolio Performance and Management (as of June 30, 2004)		
Program Priorities	Key Sector or Sub-Sector	Instruments and Guidelines for Lending
Helping Government to be More Effective		<p><i>In addition to the specific sectoral guidelines listed below, there would be four basic requirements for investment lending in any state or sector:</i></p> <ul style="list-style-type: none"> ♦ Adequate sector governance backed by commitment at the state or central level; ♦ Lending to states within the framework of a Medium Term Fiscal Reform Program agreed between the state and GoI; ♦ An approach that is at least supportive of fiscal and administrative decentralization; and ♦ Satisfactory implementation of steps to improve portfolio performance in the state or sector.
Promoting Private Sector-Led Growth	Power	<p>At the state level, in the energy sector, the Bank could provide AAA, TA and a range of lending and credit enhancement instruments contingent on the level of commitment and track record for reform in a state:</p> <ul style="list-style-type: none"> ♦ Where a state government is indicating a <i>serious interest in pursuing reforms</i>, the Bank could provide AAA/TA to help shape reform strategies and mechanisms for implementation. ♦ In states that have <i>demonstrated commitment to reform</i> by upfront action and policy changes on structural and governance reforms and clear initial improvements in cost recovery and financial performance, the Bank would consider TA and investment loans confined to financing items needed to advance reform implementation. (Such states might also benefit from structural adjustment lending in the context of overall progress with structural reforms – of which power reforms would be one part). ♦ In states that are <i>following through</i> with well-designed privatization transactions and the facilitation of new entry, the Bank could provide support through Sector Adjustment Lending, and partial risk guarantees. ♦ In states that are willing to open rural access and apply tariffs that at least cover the recurrent costs of <i>rural electrification</i>, investment loans/guarantees to support <i>rural electrification</i> could be considered. <p>At the Center, TA and investment or guarantee instruments, for the expansion and improvement of rural energy access, both through formal utilities and alternative technologies and service delivery modes. This would be dependent:</p> <ul style="list-style-type: none"> ♦ In part on policy reforms for rural supply that make rural services sustainable on at least a recurrent basis. The Bank will look to the presence of such reforms as a precursor for significant financial engagement in the sub-sector. Where such reforms are in place, both investment lending and guarantee instruments would be considered to support expansion of access and scaling up of innovative service delivery arrangements.

Annex 5 (continued)

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		<p><i>Also at the Center, an investment lending engagement with PowerGrid (for Transmission and for Hydropower), contingent on:</i></p> <ul style="list-style-type: none"> ◆ Continuing payment discipline for state power purchases from the central utilities; ◆ Progress in implementing the open access policy under the Electricity Act; and ◆ Good implementation performance under existing projects.
	Railways	<p><i>At the Center, instruments would include AAA and investment lending with lending contingent on:</i></p> <ul style="list-style-type: none"> ◆ Overall progress in Indian Railway's reform process, in accordance with its reform program agreed with ADB and the policies of the 10th Plan, in particular: <ul style="list-style-type: none"> ❖ Progress in the development and implementation of a modern commercial financial and cost accounting system; ❖ Progress in a staff rationalization program; ❖ Development and implementation of a business lines approach; and ❖ Progress in preparing an investment program to maximize commercial and financial viability.
	State Highways and Rural Roads	<p><i>At the state level, Bank instruments would include investment lending and guarantees, contingent on:</i></p> <ul style="list-style-type: none"> ◆ Commitment of the state to economic prioritization of road expenditures; including adoption of a sound multi-year program, and adequacy and stability of funding for road maintenance; ◆ Commitment and capacity for responsible management of environmental and social impacts, effectiveness of coordination with related Departments; ◆ Clarity of asset classification and ownership; ◆ Separation of client and provider functions in road agency; phasing down of force-account works, right-sizing, appropriate use of the private sector in design, supervision (FIDIC) and construction; ◆ Investment in management information and M&E, public information, involvement of road users in planning and monitoring; ◆ Coordination with other lenders; and ◆ <i>Additional for state highways:</i> High traffic levels and clear capacity constraints providing significant opportunities for high ERR investment. ◆ <i>Additional for rural roads:</i> application of appropriate rural road design standards, agreement on prioritization of a core network, low levels of connectivity.
	Urban Transport	<p><i>Instruments would include AAA and investment lending limited to a few major urban centers and contingent on:</i></p> <ul style="list-style-type: none"> ◆ Existence of a statewide urban policy aiming to clarify roles in urban development (including transport) and to enable ULBs to become financially viable; ◆ Quality of municipal management, including capital planning and budgeting, financial management, revenue administration, and financial performance; ◆ Willingness to prioritize investment using economic criteria; development of a sound urban transport development strategy and investment program, commitment to the introduction of modern traffic management and enforcement; and ◆ Commitment to institutional reforms required for citywide transport management.
	Urban Development	<p><i>Based on upfront AAA work, the Bank would only consider SILS for States/megacities that have:</i></p> <ul style="list-style-type: none"> ◆ Demonstrated commitment through early actions in undertaking a critical core of URIF reforms and willingness to pursue additional reform of the sector;

Annex 5 (continued)

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		<ul style="list-style-type: none"> ◆ Recognizing that the urban reform agenda includes a wide ranging and complex set of issues which cannot be addressed through one project, and there is, as yet, no sustainable and scalable model for financing urban investments, the Bank would be prepared to establish long term partnerships and work with committed counterpart states/megacities on a series of sequential operations, subject to continuing demand and progress on reform and commitment by the state and Gol; ◆ Engagement at the state level would depend on the financial capacity of ULBs to both undertake investments and develop viable models for operations and maintenance; ◆ The Bank's ability to deal directly with ULBs is limited and the role of the state governments in 'wholesaling' Bank's support for reforms would be critical, except probably in case of the largest cities. Thus it is proposed that the Bank's engagement in the urban sector privilege those states where both the state government as well as at least some ULBs are reform-oriented; and ◆ Only on an exceptional basis would the program include stand alone projects in individual cities to pilot slum improvement approaches, or specific public private partnerships, and regulatory reform. <p>At the Center, the Bank could offer AAA and the possibility of new lending to finance reforms via Gol's own urban programs, such as the URIF.</p>
	Urban Water Supply and Sanitation	<p>Based on upfront AAA work, the Bank would only consider full scale investment lending for states/cities that have:</p> <ul style="list-style-type: none"> ◆ Demonstrated commitment to reforming their UWSS sector by publishing a "UWSS Sector Vision" after consulting with key stakeholders; ◆ Prepared (if needed as part of initial pilot SILs) credible plans for reforming the UWSS Sector, and have an adequate legislative and regulatory framework; ◆ Designed roll-out activities after extensive consultation with affected stakeholders and detailed evaluation of lessons learned from pilot SILs; ◆ Agreed to support actions to develop domestic private sector capacities for delivering UWSS services; and ◆ Designed policies to specifically address the need of the urban poor.
	Irrigation and Drainage	<p>Knowledge-based services and investment lending would be provided on a programmatic basis (i.e., over a 10-12 year time horizon) to selected states that are willing to:</p> <ul style="list-style-type: none"> ◆ Commit upfront to unbundling overall water resource management from existing irrigation and drainage (I&D) institutions; ◆ Analyze key issues and options to improve the productivity of water in the irrigation and drainage sector and develop a prioritized investment program on the basis of a full appraisal of options (on economic, environmental, social, technical and financial aspects); ◆ Strengthen and professionalize I&D institutions for efficient and affordable service delivery; ◆ Establish and operationalize decentralized service delivery mechanisms (including corporatization, public-private partnerships and water user associations); ◆ Develop an agricultural management strategy focusing on intensification and diversification; ◆ Develop and adopt a strategy for financial sustainability of service delivery operations;

Annex 5 (continued)

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		<ul style="list-style-type: none"> ✦ Develop an appropriate knowledge-base and analytical capacity to assist in resource management and service delivery; and ✦ Pilot tradable water rights/entitlements where possible.
	Agricultural Technology and Related Agricultural Services	<p>Knowledge based services and investment lending in agricultural research would be based on ICAR and State Agricultural University commitment to:</p> <ul style="list-style-type: none"> ✦ Shifting the research focus to a farming systems approach within a pluralistic agricultural technology system that incorporates participation of farmers and other stakeholders in determining the research agenda ✦ Increasing institutional accountability in using public funds ✦ Promoting public-private partnerships, including through effective competitive grant programs and other innovations <p>Knowledge-based services and investment lending to GOI and states in agricultural extension and related support services will be based on their demonstrated commitment to:</p> <ul style="list-style-type: none"> ✦ Analyze the policy, fiscal and institutional framework for agricultural extension and related support services; ✦ Foster client driven public extension systems, which are decentralized to district and block levels with effective integration of the extension programs of various line departments at these levels; ✦ Promote public-private partnerships and increased private sector participation in the delivery of agricultural extension and other related services (market information, livestock services, etc); and ✦ Improve the policy and regulatory environment for private sector participation in agricultural marketing.
Supporting Critical Pro-Poor Interventions	Health, Nutrition and Population	<p>AAA and investment lending for state health systems projects would be contingent upon a comprehensive state health policy and plans that:</p> <ul style="list-style-type: none"> ✦ Focus on HNP outcomes specified as goals, with specific provision for their measurement; ✦ Consider the whole health system, both public and private sectors, and the ways in which both can contribute to achieving priority health outcomes; ✦ Orient the role of the public sector to improve priority health outcomes, with more emphasis on oversight and stewardship of the sector as a whole; ✦ Increase accountability, efficiency and effectiveness in the private and public sector; ✦ Emphasize sustainability, improved financial management and improved risk protection particularly for the poor; ✦ Select strategies and interventions on the basis of their cost effectiveness in achieving the priority health outcomes – this would include review and rationalization of the proposed infrastructure investments, ensuring that they were linked to need and achieving the health outcomes, and with consideration of the private sector facilities and services already available in each area; ✦ Create integrated disease control programs and strengthened disease surveillance; and ✦ Include mechanisms for donor coordination.
	Education	<p>Bank involvement in education would be through AAA and investment lending that would provide resources to the Center and states that have:</p> <ul style="list-style-type: none"> ✦ Made an explicit commitment to fund/support SSA programs and goals; ✦ Moved towards decentralized planning and service delivery; ✦ A financing plan linked to outcomes;

Annex 5 (continued)

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		<ul style="list-style-type: none"> ◆ A focus on inter-district variations in educational performance and additional support given to weaker districts in the state; ◆ Monitoring and evaluation systems in place for understanding and analyzing outcomes; and ◆ Recognition of the ability of the private sector to assist government in developing education in the state.
	Rural Water Supply and Sanitation (RWSS)	<p>Investment lending will be focused at the state level for states that commit upfront to developing a statewide and sector wide approach that incorporates the reforms outlined below for all new schemes in the state, irrespective of source of financing:</p> <p>Institutional</p> <ul style="list-style-type: none"> ◆ Decentralized Service-Delivery Approach: Providing central institutional role for village-level rural local governments (GPs), in partnership with user groups, in RWSS service provision, including in scheme implementation and O&M. Investment funds to be provided to and managed by GP/user groups; ◆ Transfer of RWSS functions, particularly single-village water supply schemes, and all sanitation functions to GPs, with associated support interventions to build capacity of PRIs and user groups; and ◆ Demand-Responsive Approach: Adopting self-selection of villages, based on demand expressed by GPs/user groups, using transparent eligibility and prioritization criteria. <p>Financing</p> <ul style="list-style-type: none"> ◆ Recurrent O&M costs of RWSS services (including billed power costs) to be recovered through user charges (except for multi-village schemes and water quality-affected habitations, where a partial subsidy may be necessary); and ◆ Capital cost sharing by users, in proportion to service levels demanded by them. Partial subsidy for basic water supply service (40 litres per capita per day), and 100% user-financing of incremental service levels over basic service level. Declining and targeted subsidies to household for sanitation. <p>Sanitation and Hygiene Promotion</p> <ul style="list-style-type: none"> ◆ Integrated approach to water supply, environmental sanitation works, and changing hygiene behavior, including common support mechanism. <p>Water Source Protection, Development and Management</p> <ul style="list-style-type: none"> ◆ Developing and adopting satisfactory water policies (and associated actions) that are relevant to the sustainability of water sources used for drinking water schemes; and ◆ Improving water resources management by supporting water conservation and recharge measures, promoting integrated water resources management by communities and GPs, and promoting rain water harvesting. <p>At the Center, TA could be offered to GoI. In addition, investment lending could be offered at the national level:</p> <ul style="list-style-type: none"> ◆ If it is ultimately decided to move towards channeling all central funds to state schemes meeting the above criteria.
	Rural Livelihoods	<p>Investment lending would be in those states that demonstrate commitment to:</p> <ul style="list-style-type: none"> ◆ Incorporate a community driven approach that involves direct support to community/user groups (wherein communities identify, design, prioritize, share costs of investments, manage funds, implement and have a substantial role in operation and maintaining investments);

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		<ul style="list-style-type: none"> ✦ Implement effective targeting methodologies for reaching the poorest; and ✦ Establish a credible poverty monitoring and evaluation system.
	<p style="color: #C8513E;">Broad-based Rural Service Delivery and Strengthening of Local Governments</p>	<p>Investment lending would be piloted in a few states that demonstrate commitment to the following principles:</p> <ul style="list-style-type: none"> ✦ Implementing a legal framework that supports administrative and fiscal decentralization; and ✦ Supporting the role of sub-national government entities to provide services and basic infrastructure to their constituents.
	<p style="color: #C8513E;">Natural resources Management (Forestry and Watersheds)</p>	<p>AAA and investment lending in those states that demonstrate commitment to:</p> <ul style="list-style-type: none"> ✦ Analyze the legal, policy and institutional constraints to, and opportunity for, poverty reduction through natural resources management; and ✦ For <i>forestry projects</i>, focus on sustainable improvement of incomes and welfare of poor communities, including through (but not limited to) sustainable use and marketing of natural resources and appropriate conferral of rights. ✦ For <i>watershed management</i>, reconcile the need for collective action by resource users with the need to address a higher level of environmental externalities through appropriate institutional mechanisms and the participation of all stakeholders (local government, civil society, line agencies).