

USAID India Economic Growth Program



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India's Performance




- } Population: 1 + billion
- } GDP: \$510 billion, grew over 7% in 2003
- } Inflation: down to 4.5%
- } Capital Markets: Settlement cycle for security trades down from 30 days to T+2
- } Banking sector: non-performing assets less than 5%

Why USAID's EG support?

There is continued need



- } India's GDP is half that of China, both starting from the same point in 1950; growth is insufficient to employ growing population
- } 300 million people or more live below poverty line
- } Fiscal deficit of central and state governments is 10% of GDP
- } Financing gap for infrastructure is \$600-\$800 million/year, while \$100 million alone is available from public funds

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- } Only 2% of India's population participates in the securities market; only 10% of India's population that *can afford* insurance has some sort of health insurance
 - } Current population is 70% rural but rural economy is 28% of GDP. In 2030, half the population will live in cities.
 - } Only 28% of households are connected to sanitation systems
 - } Agriculture productivity in basic crops dropped to 1-2% of GDP

Need

and Opportunity



- } India is a major power in South Asia and beyond
- } US-India Economic Dialogue
- } GOI demand for targeted USAID assistance
- } Recent election: Analysis from Professor Pratap Bhanu Mehta: "It is an expression of the fact that the reform of the state has not gone far enough"

EG Program



Increased Transparency and Efficiency in the Allocation and Mobilization of Resources (in selected states)

Meaning...

Mobilize domestic and international capital for productive investments in people, infrastructure and job/income generation

Through..



- } Improved **financial governance**, private and public, to increase productive investment (and reduce wastage)
- } Greater **capacity to create partnerships** among private, public, academic, and community sectors, and through use of technology.

I. Increasing long term capital for investment and broadened access through enabling policy and regulatory environment



} **Effective capacity to regulate and develop financial markets:**

| **Securities** (strengthening of Securities Exchange Board of India, 5 year TA contract)

| **Insurance** (5 year TA contract to assist Insurance Regulatory and Development Agency in regulating and developing industry)

| **Commodities futures** (exploratory TA task order to expand and stabilize Futures Market)

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- } **Municipal bond market development** (Financial Institution Reform and Expansion, Debt project, FIRE D, capacity building of municipal sector, with DCA to support pooled financing for infrastructure investment)
 - } **Enterprise finance:** use of DCA to leverage wholesale capital for MFI's; TA for BDS and finance for growth-oriented microenterprise (new task order); Venture Capital Fund for small business (SEAF).

II. Increased investment in physical and human capital through better allocation of public funds and expansion of resources



- } **State Fiscal Reform:** Build capacity of three-four Indian states to make good fiscal policy, including productive and accountable decisions on public expenditures and tax/non-tax revenue mobilization, based on more accurate data and sound analysis (5 year/\$11.6 million TA contract)
- } **Urban/Municipal reform and infrastructure investment:** Build capacity of local government institutions in financial and service management to increase investment in basic infrastructure and improve service delivery, focused on water and sanitation (new 5 year TA contract for capacity building and transaction structuring)

Fiscal reform cont.



- } **Increased resources:** reduction of ineffective public subsidies, and increased tariff and tax collection in water, energy, fertilizers, wheat/rice crops (TA contracts for analysis and system development.)



} State and local reform incentive funds:

| **The State Facility:** incentive fund for state reduction in deficits and improved fiscal management (short term TA contract providing international comparative analysis)

| **Urban incentive funds:** incentive funds for policy and regulatory reform at the state level guiding local procedures, restructuring grants, private sector participation incentives (TA on policy and systems)

III. Partnerships and Technology: Building Capacity and Utilization



- } **US-Asian Environmental Partnership (US-AEP):** Improve water and sanitation, air quality, and environmental governance through tech transfer and development of partnerships for funding and technical support (Staff and limited program funds for partnership development)
- } **Agriculture Bio-Tech:** development and commercialization of new crop technologies within well regulated research and development processes (grants and coop agreements for research and development)
- } **Agriculture market development:** more efficient markets for expanded and diversified production utilizing new technologies
- } **Private participation in service delivery:** focus on water and sanitation (FIRE D TA contract)
- } **E-Governance** providing greater accountability and efficiency in state and local government, and civil society (grants and TA)

Program Example:

Improved regulation of securities market, FIRE R (Financial Institution Reform and Expansion)



| First phase (1995-98) of the FIRE-R program helped:

| establish securities depository;

| robust clearing and settlement systems and practices;

| strengthen Securities and Exchange Board of India (SEBI)'s oversight capacity;

| develop legal, regulatory and institutional frameworks for exchange traded financial futures and options; and

| improve disclosure and market conduct practices in the mutual fund industry.

Current phase of the program

- } Assisting SEBI and the Ministry of Finance in
 - | implementation of a comprehensive surveillance system for cash and derivatives markets;
 - | on-site and off-site supervision and enforcement;
 - | a regulatory framework for licensing, testing and certification of market intermediaries that interface with investors; and
 - | the development of curriculum for law school professors to introduce teaching of securities laws and regulations in Indian law schools.

Program basics:




- | Five year \$9 + million technical assistance contract
- | Five year Agreement with the U.S. Securities and Exchange Commission (SEC) to help build SEBI's capacity.

Results



- { Reduction in systemic Risk; reduced settlement cycle from three weeks to T+2 system;
- { Legal, Regulatory and Institutional Framework for Derivatives Markets established;
- { Restructuring and empowerment of SEBI;
- { Institutionalization of Securities Law Education;
- { Risk management of mutual funds brought to international standards.
- { Framework developed for licensing, testing and certification of Market Intermediaries

Program example: Municipal infrastructure finance with DCA



Leveraging market-oriented discipline and private sector funds in water and sanitation projects and service delivery: FIRE D technical assistance supporting municipal credit-worthiness and project preparation for financing with DCA guarantee; private funds leveraged through pooled municipal bonds

- } Tamil Nadu: pooled bond issued to finance 14 municipalities in water and sanitation improvements
 - | Cost to USAID: \$ 392,960 subsidy
 - | Guarantee leveraged: \$ 3.2 million
 - | Total project cost: \$ 6.4 million

DCA #2



} Karnataka: project preparation and institutional support to Karnataka Urban Infrastructure Development Finance Corporation (KUIDFC) in issuing a bond-financed water investment for 8 municipalities in greater Bangalore. DCA guarantee leveraged private funds with matched funding from user fees (1/3) and state funds (1/3)

- | Cost to USAID: \$779,030 subsidy
- | Guarantee funds: \$10.85 million
- | Bond Issue: \$ 21.7 million
- | JBIC likely to fund: \$30 million for sanitation
- | Total project: \$ 120 million

Results



- } Tamil Nadu: 900,000 people with better water and sanitation services
- } Karnataka: 1.2 million people to get better water and sanitation services
- } Market standards utilized in project preparation and finance
- } Pooled bond finance tested and proved;
- } Private funds leveraged; user funds leveraged
- } Partnership among users, state, municipal, private sector, and other donors developed.

New programs



1. **State fiscal reform, reducing deficits and increasing productive expenditures (REFORM program):** support to three state governments in..
 - { establishing fiscal planning/analysis cells & debt/investment management
 - { promoting treasury reform
 - { developing databases, MIS, budget/accounting systems
 - { improving procurement policies and systems
 - { strengthening investment project appraisal and selection
 - { improving socio-economic data collection methodology
 - { building capacity of states' training institutions in fiscal management
 - { building national level data base on fiscal transfers



2. Growth oriented micro-enterprise: building a bridge from micro to small enterprise (new contract in procurement):

Expanding capacity of existing finance and business service institutions to support growing microenterprises. Focus on agro-business and urban services (cluster approach) and enhancement of SME policy.

3. **Agriculture partnerships:** US/India university linkages to promote research, product and market development, and policy analysis.
4. Development of a safe and vibrant **insurance market** (new contract).

Key Factors in EG Strategy



- } GOI interest in using perceived US comparative advantage in: capital market development, technical assistance capacity building in state and local reform; bio-tech development; partnership structuring
- } Long term investments: 5-15 year TA commitments for institutional development, with supporting policy reform
- } Quality staff, quality partners

Issues



- } Management of EG Office: consolidation of multiple units and programs; development of “team” vision
- } \$, DA and ESF
- } Fluidity of movement among counterparts in GOI.
- } New government?