

Country Assistance Evaluation of India

– Summary –

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by

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Preface

This is a summary of the report on ‘the Country Assistance Evaluation of India’, commissioned in the fiscal year 2003 by the Ministry of Foreign Affairs, the Government of Japan.

India has the largest land and population in Southwest Asia and plays an important role in the politics and economy of the region. India has been an important partner for Japan’s diplomacy in the region and both countries have maintained a friendly relationship for half a century since the establishment of a diplomatic relationship after the Second World War. The economic relationship between the two countries has been strengthening, particularly in regard to trade and investment, since the 1990’s when India commenced the implementation of full-scale economic liberalization policies. Japan’s ODA for India, which has been another important pillar of the close relationship between the two countries, dates back to the first yen loan in 1958 and has been active for more than 40 years.

In this view, the Study was designed to comprehensively analyze and evaluate Japan’s ODA policies for India and to establish lessons and recommendations to improve the formulation and implementation processes of Japan’s ODA policies for India in the future.

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The views expressed in this report are those of the IDCJ study team and do not necessarily reflect official views of the Ministry of Foreign Affairs or the Government of Japan.

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1. Evaluation Policies

- (1) The objectives of this evaluation are to establish lessons and recommendations to improve Japan's ODA policies for India and to fulfill the accountability of Japan's ODA to the Japanese public.
- (2) The evaluation objects are Japan's ODA policies for India formulated in the period from Fiscal year 1997 to 2001. The evaluation criteria are (i) the relevance of the contents, (ii) the effectiveness of the results and (iii) the appropriateness of the formulation and implementation processes of Japan's ODA policies for India.
- (3) The evaluation is subject to certain limitations. One is that it is impossible to measure the achievement levels of the output targets because the index and targeted level of output for each priority or sub-priority field have not been set at the formulation stage of aid policies. Another major limitation is that it is difficult to rule out possible impacts of Japan's economic sanctions against India on the evaluation of the effectiveness of the outputs. Economic sanctions, including the suspension of new yen loans, were exercised from May, 1998 to October, 2001 in response to underground nuclear testing by India, taking up three and a half years in the five-year period under evaluation.

2. Development Policies of India and Cooperation of Japan and Other Donors

- (1) Development policies of India
 - 1) Since the year 1951, India has formulated and implemented a series of five year development plans and the 10th Five Year Plan is currently in progress. The target period of evaluation falls under the period of the 9th Five Year Plan (1997-2002). The 9th Plan is composed of two volumes of plan papers: Volume I describes the macroeconomic issues and policies for each sector while Volume II describes how to realize the policies indicated in Volume I. It called for further economic liberalization and structural reform which had begun under the New Economic Policy introduced in the early 1990's. While adopting a target annual economic growth rate of 6.5%, the 9th Plan set agricultural and rural development and the development of such infrastructure as electricity supply and roads as the highest priority issues. Other priority targets of the Plan included social sector development, such as the supply of clean water and the consolidation of basic medical care, and environmental conservation for sustainable development.
 - 2) The New Economic Policy mentioned above was introduced in 1991 and, at the beginning, its introduction facilitated the growth of the service and manufacturing sectors. In the second half of the 1990's, however, the continuing fiscal deficit further suppressed public investment, while private investment in electricity and other infrastructure components failed to progress as anticipated.

- 3) As a result, despite the continued improvement of the social and economic indices for India as well as individual states, reduction in the gaps between states is yet to be achieved. Moreover, encouraged by the economic liberalization policies, such as deregulation of the foreign investment control, private investors may become more careful to select as favorable places or states as possible, resulting in widening social and economic gaps between states in the coming years. On the other hand, it remains crucial to tackle poverty by promoting the agricultural sector and improving the socio-economic conditions in rural areas which account for three-quarters of India's population.
- 4) One recent important move made by India is its announcement to restrict future bilateral assistance partners to Japan, the UK, Germany, the US, the EC and Russia. At the same time, the Government of India has indicated its policy of not receiving any tied aid in the future.

(2) Japan's cooperation

- 1) Among India's bilateral donors, Japan was almost consistently the top donor in terms of the total aid amount throughout the 1990's. At the same time, India ranks as one of the largest recipient countries in terms of volume for Japanese assistance. Thus, Japanese aid for India has been very important for both countries. The fields of Japanese cooperation have been expanded with yen loans playing a central role. Throughout the 1990's, loans accounted for approximately 90% of the net disbursements of Japanese aid for India each year with technical cooperation and grant aid accounting for the remaining 10%.
- 2) Japan's ODA policies for India give priority to three issues, i.e. "development of economic infrastructure", "alleviation of poverty" and "environmental conservation", based on the findings of the High-Level Mission on Economic and Technical Cooperation dispatched to India in March, 1995 and the conclusions of subsequent policy dialogues with the Indian side.
- 3) Following the decision by the Government of Japan to principally suspend new loans and grant aid subsequent to the underground nuclear testing by India in 1998, the number of projects and amount of aid disbursed to India recorded little growth towards the end of the 1990's. After the lifting of the suspension measure in October, 2001, loans and grant aid projects implemented in Fiscal 2001 were basically those which were continuing from the previous years.

(3) Cooperation of other donors

- 1) The general trend of the major bilateral donors in terms of the total aid amount in the evaluation period puts Japan in the leading position, followed by the UK and Germany. In the Year 2000/2001, Japan was at the top with US\$ 786.3 million, leaving the UK (US\$ 474.7 million) and Germany (US\$ 193.2 million) in second and third place. Among the leading international aid organizations, the World Bank topped the table with

US\$ 2,488.3 million, followed by the ADB with US\$ 1,155 million in the same year.

- 2) At present, the UK, the Netherlands, Denmark and the US provide only grant aid for India and the amount of these donors exceeds that of Japan in most years. Historically, the proportion of loans has been large in the case of such donors as Japan, Germany and France.
- 3) A quick review of the priority issues for each major donor reveals that most donors place poverty reduction as their goal and have set health and medical care, education, the environment and economic reform as priority areas for assistance to realize poverty reduction. The UK and the World Bank give priority to “health”, “education” and “agricultural and rural development”. The priority issues for Germany are “health” and “agricultural and rural development” while those for the US are “health” and “the empowerment of women”. In regard to the environment, all five major donors uphold “water and sanitation” as a priority issue. Among donors who attach importance to economic reform, the UK primarily targets “power” and the World Bank “power”, “transportation” and “manufacturing and others” as priority sectors for reform.

3. Evaluation of Japan’s ODA Policies for India

- (1) Relevance of contents of Japan’s ODA policies for India
 - 1) Japan’s ODA policies for India are found to be consistent with such upper policies as the ODA Charter and the Medium-Term Policy on ODA as well as India’s actual development needs. “India’s Position in Japan’s ODA” and “Priority Areas” in Japan’s ODA policies for India match up with “Basic Philosophy” and “Priority” of the ODA Charter. Similar matching is found for the “Emphasized Points” under the section of “Priority Issues and Sectors by Region (Southwest Asia)” of the Medium-Term Policy for ODA.
 - 2) In regard to India’s development needs, Japan’s ODA policies for India are consistent with the “Basic Concept” and “Priority Matters” of India’s 9th Five Year Plan. A review of the requested projects by India in the period from 1997 to 2001 found that the number of requests varied enormously among different areas of priority. Among the areas which received relatively many requests were “electric power” (21 loan projects and one grant aid project), “health and medical services” (seven grant aid projects) and “agricultural and rural development” (one loan project, four grant aid projects and one project-type technical cooperation). No request was made for “population and AIDS prevention”. It is noted that requests for loan assistance were made only for the extension of on-going projects during the period of the suspension of Japanese aid.
 - 3) The above trend of the requested number of projects among different priority sectors did not show any significant change from the period of Japan’s aid suspension when

consultations between the Japanese and Indian governments were halted to the period after their recommencement in 2002. For reference, the sectors for which requests for Japanese ODA were made in Fiscal 2002 were “electric power” (seven projects), “transportation” (including roads, railways and ports, inclusive of the development of tourism infrastructure, six projects), “health and medical services” (eight projects) and “afforestation” (four projects) among others.

(2) Effectiveness of the outputs of Japan’s ODA policies for India

- 1) Except for some sectors where the outputs could not be verified, inputs and outputs were made in all sectors.
- 2) Comparison of the sectors by the amount of financial input, personnel input and number of projects shows a very clear tendency. The scale of financial input was large in “the development of economic infrastructure”, particularly the “electric power” and “transportation” sectors and was small in “population and AIDS prevention”, “pollution control” and “improvement of urban environments”. To be more precise, 36 projects with a total cost of ¥587 billion were implemented in the electric power sector with the acceptance of 19 trainees and ¥129 billion was spent in the transportation sector with the acceptance of 79 trainees and the dispatch of 32 experts. In contrast, only two Grant Assistance for Grassroots Projects (¥4 million) were implemented for population and AIDS prevention with the acceptance of 15 trainees. Four Grant Assistance for Grassroots Projects (¥39 million) were implemented to improve urban environments with the acceptance of 13 trainees and the dispatch of one expert. In the case of pollution control, the only input was the acceptance of 18 trainees.

(3) Appropriateness of processes of Japan’s ODA policies for India

(3.1) Collaboration and consultation

- 1) In the policy formulation process, consultations were held between the related departments and the ODA implementation agencies on both an official and non-official basis. As the priority issues or sectors of Japan’s ODA policies for India are generally compatible with the JICA country program as well as the JBIC country implementation guidelines, there appears to be collaboration between the government and the ODA implementation agencies.
- 2) In regard to consultation with the Government of India, in addition to official consultations, the related departments and the ODA implementation agencies unofficially conducted the exchange of information and consultations with the Indian counterparts to identify the country’s development needs. However, consultations between the two countries were halted from Fiscal 1999 because of the suspension of new projects following the nuclear testing by India. The suspended dialogue was resumed in March 2002 following the dispatch of the Policy Dialogue Mission for Economic Cooperation

for India. In the implementing process in general, Japan's ODA policies for India appear to be actively used in official consultations with the Government of India. However, this does not necessarily mean that these Japanese policies are well recognized by people involved in ODA on the Indian side.

- 3) In regard to collaboration and information exchange with the private sector and NGOs, it is confirmed that the JBIC has been implementing yen loan projects in active collaboration with NGOs in such areas as irrigation, sericulture and electricity supply. In recent years, efforts have been made to organize seminars involving universities and NGOs at the project formulation stage. Although regular collaboration with other donors is not practiced in India, information exchange and consultations are conducted at joint meetings and unofficial meetings of specific sectors.

(3.2) Existence of evaluation system

- 1) No regular evaluation system of Japan's ODA policies for India was in place for either the policy formulation and implementation processes.
- 2) The Medium-Term Policy on ODA mentions the need for the establishment of an evaluation system.
- 3) There is an absence of a mechanism to periodically evaluate Japan's ODA policies for India.

4. Recommendations

- (1) The active utilization of Japan's ODA policies for India (Japan's Country Program for India, from now onwards) in official consultations with the Government of India would be required to ensure a full understanding of Japan's ODA policies by the Indian side.
- (2) Strengthening of assistance for the electric power sector in particular is desirable. For example, consistent assistance should be provided for the improvement of business efficiency, organizational reform, management reform, human resources development and capacity building in the sector. Japan's current efforts to achieve multiplication effects through a combination of hard and soft components for the sector should be further promoted.
- (3) It is necessary to consider reviewing the priority issues/areas/sectors for Japan's assistance, taking into account in an integrated manner the upper policies of Japan, records of past cooperation for India, fields of the requests made by the Indian side, socioeconomic and development trends in India and other donor activities and priorities in India.

- (4) Evaluation as part of Japan's Country Program for India should be clearly indicated in the said program under formulation in order to establish an evaluation mechanism for the country assistance policies.