



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 04-Feb-2020 | Report No: PIDC27785



BASIC INFORMATION

A. Basic Project Data

Country India	Project ID P171665	Project Name First Building Fiscal and Institutional Resilience for Growth Development Policy Loan for Punjab (P171665)	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Board Date May 18, 2020	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Republic of India	Implementing Agency Government of Punjab		

Proposed Development Objective(s)

The development objective of the proposed operation is to support the Government of Punjab's efforts toward strengthening policies, systems and capabilities for managing public finances, and improving resource efficiency in the Agriculture-Water-Electricity nexus.

Financing (in US\$, Millions)

SUMMARY

Total Financing	150.00
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DETAILS

Total World Bank Group Financing	150.00
World Bank Lending	150.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

Over the last three decades, in India, per capita incomes have quadrupled, poverty has declined, and education and health outcomes have improved, but significant challenges remain. High growth has underpinned improvements in living standards and provided resources to address infrastructure deficits and improve service delivery. However, sustaining high levels of economic growth will depend on India's success in addressing three key challenges. First, India is constrained in the availability of natural resources and needs to deploy these more efficiently. Second, growth needs to be more



inclusive. Third, the country must adapt its institutions and policy frameworks to increase the efficiency of government, tackle entrenched interests and transition to a public sector that delivers services effectively to citizens.

In many ways Punjab reflects this combination of significant achievements and daunting challenges. It was once India's most prosperous state, but it has since lost that distinction. A traditionally agrarian state, Punjab benefited greatly from the Green Revolution, which allowed it to become India's most prosperous and developed state (including in terms of built infrastructure and human development) in a matter of years. The huge grain surpluses produced by its farmers helped India achieve food self-sufficiency. However, starting in the 1980s agricultural yield began dropping, growth decelerated, even as the state struggled to deal with a legacy that included high staff costs and high state debt. When India's growth took-off, in the early 1990s, it decelerated further in Punjab.

The current growth model and a weak fiscal position is impacting Punjab's prospects. The state's current model of agriculture development, centered on water-intensive crops, widespread use of groundwater and other agricultural inputs have come with significant detrimental environmental effects, including declining soil productivity, soil degradation and water depletion. State-wide, over 80 percent of blocks are classified as 'overexploited'¹. Annual groundwater extraction in Punjab is 36 billion cubic meters (BCM) as opposed to the availability of 22 BCM. Water quality has also deteriorated: extensive use of nitrogenous fertilisers and pesticides has led to increasing nitrate concentration and accumulation of pesticide residues. In addition, some supportive measures put in place to help boost agricultural production have, over the years, become increasingly fiscally unsustainable: in Punjab power subsidies are over 10 percent of total state expenditures and more than twice as much as capital expenditures. Lastly, the limited financial headroom of the state means that cities are underfunded, and therefore unable to act as alternative engines of growth, in which modern industries and services can flourish.

The Government of Punjab (GoP) is keenly aware of the need to address the situation. The Government seeks to revitalize growth and structural transformation of the economy, while enhancing citizen's wellbeing and equity. To make this possible, the topmost priorities include restoring fiscal space for investment and arresting the depletion of natural resources, which also impacts the quality of life of citizens.

Relationship to CPF

The proposed operation is in direct alignment with the India CPF both in terms of (i) its focus on strategically engaging with India's states and (ii) its emphasis on supporting better policies, systems and capabilities.

The CPF supports the development agenda of India through a balanced focus on what areas merit attention and how to engage India to deliver results. The three priority areas of CPF are (i) promoting resource efficient growth (ii) enhancing competitiveness and enabling job creation and (iii) investment in human capital. These three "Whats" of the CPF will be combined with an application of four distinct "hows" as an approach to achieve results: (i) leveraging the private sector (ii) strengthening public sector institutions, (iii) engaging a Federal India and (iv) promoting a Lighthouse India that connects practical know-how for the benefit of India and the wider world. In addition, the CPF supports three cross cutting themes: pursuing climate smart engagement of support India's climate change mitigation and adaptation efforts; systematically addressing gender-based inclusion gaps; and harnessing high-impact technologies for development.

A key new feature of the CPF is development of strategic state partnerships, and the proposed DPO will support the state of Punjab under this new approach.

¹ Extraction exceeds recharge.



C. Proposed Development Objective(s)

The program's development objective is to support the Punjab authorities' efforts to (i) strengthen policies, systems and capabilities for managing public finances; and (ii) improve resource efficiency in the Agriculture-Water-Electricity nexus.

Key Results

Key results expected from the program include

Improvements in core metrics of administrative efficiency and governance quality in the areas of public procurement, planning, budget management, and data systems deployment. Improvements in our resource generation by urban local to improve fiscal space for investments in urban services.

Proof of concept for measures to promote efficiency and reduction in electricity and groundwater use for agriculture, crop diversification and improved systems for water use planning and management.

D. Concept Description

The proposed DPL will provide support under 2 pillars.

The main objective of Pillar 1 is to strengthen the policies, systems and capabilities of the state to manage its finances more efficiently. This pillar would support the GoP to develop coordinated strategy to (i) strengthen public financial management and public procurement, (ii) improve the state's strategic budgeting and planning capacity underpinned by strengthened data systems, and (iii) increase the fiscal space of urban local bodies for investments in infrastructure so as to allow cities to deliver higher quality services and become alternative engines of growth.

The main objective of Pillar 2 is to help the GoP establish proof of concept and set up policies and systems to promote a gradual shift in the state's agricultural model with the aim of reducing demands on scarce natural and fiscal resources. This pillar will support a mix of ongoing institutional and regulatory initiatives being undertaken by the GoP in the agriculture, power and groundwater management sectors, to support the state's transition towards greater resource use efficiency in agriculture.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The operation is expected to have significant positive impacts. First and foremost is supports a reorientation of the growth trajectory of the state that should not only allow for more sustainable outcomes but also minimize environmental costs (that tend to impact the poor disproportionately). Improvements in state capabilities would also allow citizens to benefit from better and faster services by the state.

The operation is not expected to have significant detrimental poverty and social impacts. A distributional analysis of proposed changes in the policies governing property taxation and water tariffs has been undertaken as part of project preparation which suggests that the reforms are likely to be progressive and would result only in modest additional expenditures for the most vulnerable households. A Poverty and Social Impact Analysis is also being carried out to



understand how various social and economic growth groups may be impacted by the shifts in the development model that the operation seeks to leverage.

Environmental, Forests, and Other Natural Resource Aspects

The operation is expected to have significant positive environmental impact chiefly by promoting policy reforms and programs that would support electricity and groundwater savings as well as crop diversification by the farmers to shift away from the current water-intensive practices that have a direct detrimental impact on groundwater levels and quality and make Punjab's agriculture highly vulnerable to climate change.

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APPROVAL

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