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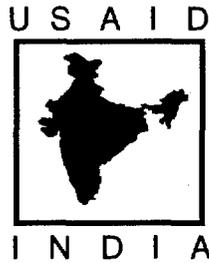


1. EXECUTIVE SUMMARY

Defying conventional wisdom in July, 1991, Indian leaders decided to discard forty years of failed socialist policies. Their bold economic reform agenda seeks to restore macroeconomic stability, liberalize the domestic economy, and integrate India with the global economy. The daunting process of dismantling years of bureaucratic controls continues today. Considerable progress has been made, but there is still much unfinished business. The consensus, however, of most outside observers is that India has embarked on a fundamental and irreversible restructuring of its economy, and that it could result in accelerated broad-based economic growth and the alleviation of the world's greatest concentration of poverty. We agree with this assessment.

At the same time, demographic pressures continue to undermine the gains from economic growth. With a population that will reach one billion by the year 2000, India will surpass China as the most populated country on earth early in the next century. If unchecked, India's population could exceed two billion by the year 2050; the equivalent of India absorbing the present-day population of China in the next two generations. Fortunately, Indian policy-makers are beginning to appreciate the dimensions of this population crisis and are redoubling efforts to improve their stagnating family planning programs, which have remained in a time warp for the past twenty years.

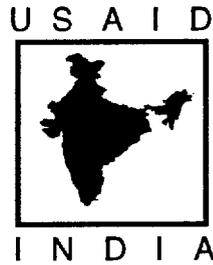
Environmental degradation due to the population explosion, increasingly intensified agricultural production, and capital-intensive and outmoded industrial production, is equally alarming. India is now the fifth largest contributor in the world to greenhouse gas emissions and such emissions will triple in less than twenty years. Much of these emissions result from poor energy efficiency. Biodiversity loss is similarly reaching crisis proportions. Unless important steps are taken to protect India's natural resource base now, costly and even irreparable damage will be inflicted upon future generations of both Indians and the global community.



Social and economic development in India requires accelerated broad-based economic growth to increase incomes, create jobs and reduce poverty. However, to be sustainable, India's population growth must be stabilized and its environment must be protected. **The goal of the USAID program is, therefore, to help India make significant progress towards sustainable development by the year 2000 by focusing on three primary program objectives: accelerating broad-based economic growth, stabilizing population growth, and protecting the environment.**

Accelerating broad-based economic growth in India will be assisted by strengthening financial markets; supporting enterprise deregulation; and accessing technology and business skills, particularly for smaller and medium-sized firms. By strengthening financial markets, we will be mobilizing the relatively high rate of household savings in India to generate the investments required for rapid economic growth. By supporting the further deregulation of the economy, we will be establishing an enabling policy environment conducive for growth. By helping smaller firms participate in the economic transformation of India, we will be strengthening the bases for growth.

Stabilizing population growth in India will be aided by empowering women to have greater control over their productive and reproductive lives; by introducing innovations in family planning services; and by upgrading child survival programs. We will focus in northern India where total fertility levels have not dropped since independence. A special initiative will be mounted to empower women because this is an important determinant of family size and critical to longer-term sustainable development in India. Innovations in family planning services will be introduced in the State of Uttar Pradesh; since services offer the single most effective means of reducing fertility and because Uttar Pradesh (the largest state in India) will serve as a demonstration for all of northern India. By improving the chances of child survival, we will be creating conditions in which improved family planning services will be accepted.

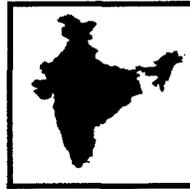


Protecting the environment will be supported by improving India's air quality; enhancing efficiency in energy generation, management and use; and strengthening biodiversity preservation. These measures will improve the international competitiveness of Indian firms and the health of India's populace, and diminish global warming trends. By preserving India's rich biological resources, we will be conserving a heritage of importance to the entire world.

If USAID's program objectives of accelerated broad-based economic growth, stabilized population, and protected natural resource base are achieved, India will approach the next millennium as a modern and prosperous society where the benefits of development are widely shared. However, failure could result in the world's largest democracy becoming Asia's poorest country; with issues of caste, religion and regional autonomy threatening the foundations of Indian democracy.

The stakes for the United States are enormous. The single most important means to reduce world poverty would be for India to develop in a self-sustaining fashion. A prosperous and globally integrated India offers the potential for billions of dollars of increased US exports and thousands of jobs for Americans at home. Likewise, measures to control population and reduce pollution greatly reduce dangers associated with global warming, loss of biodiversity, refugee influxes, and spreading regional conflicts.

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2. INDIA : THE TIGER LEAVES ITS CAGE

TIGERS, ELEPHANTS, AND CAGES.

During the long era of failed Indian socialism, its leaders often spoke of their economy as an elephant: immense, cautious, slow-moving, but also sure-footed, strong and purposeful. In May, 1991, The Economist suggested another image: the Indian economy as a caged tiger. This tiger, once set free of government controls, can be an economic miracle in the making; capable of reducing poverty significantly and rivaling the thriving economies of East Asia. Just two months later, the Indian tiger decided to leave its cage.

With one sixth of all humankind, India is the largest and most diverse democracy on the face of the earth. Two years ago, India decided to discard its socialist past and rely on free markets to accelerate economic growth and reduce massive and chronic poverty. The liberalization of the economy is continuing apace; the tiger has left its cage, if sometimes haltingly. There is already evidence that accelerated growth may be around the corner.

Yet unchecked population pressures threaten to dilute the benefits of economic growth. And continuing environmental degradation endangers future generations of Indians, as well as the earth itself. If the economic revolution remains on track, population is stabilized, and the environment is protected, India will enter the next millennium with the ability to become a modern and prosperous society where the benefits of growth are widely shared. However, if these objectives are not achieved, India could become the poorest country in Asia; with poverty, instability and pollution spilling across its borders. The stakes are high for India; as for the larger global community.

It would be hard to imagine another country with so much unrealized potential. At independence, India stood economically on par with such "Asian Tigers" as South

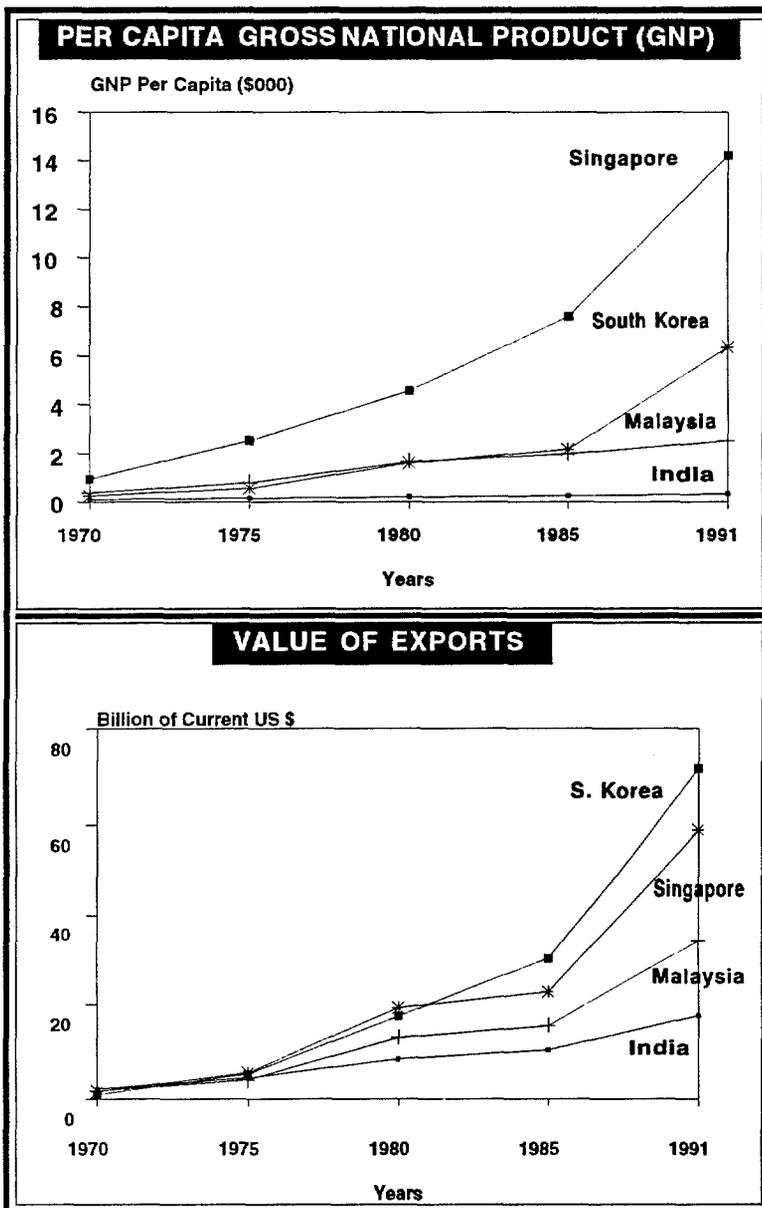
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Korea, Singapore and Malaysia. Over the past two generations, India has managed to achieve self sufficiency in food production (albeit at a very low nutritional level), to establish the tenth largest industrial base in the world, and to educate the

third largest pool of scientific and technical manpower.



Yet misguided economic policies promoted economic isolation, extensive bureaucratic controls over private sector decision-making, and outright nationalization of key industrial and service sectors. The result has been slow growth in national incomes; a relative decline in exports; and capital-intensive, highly polluting and inefficient production.

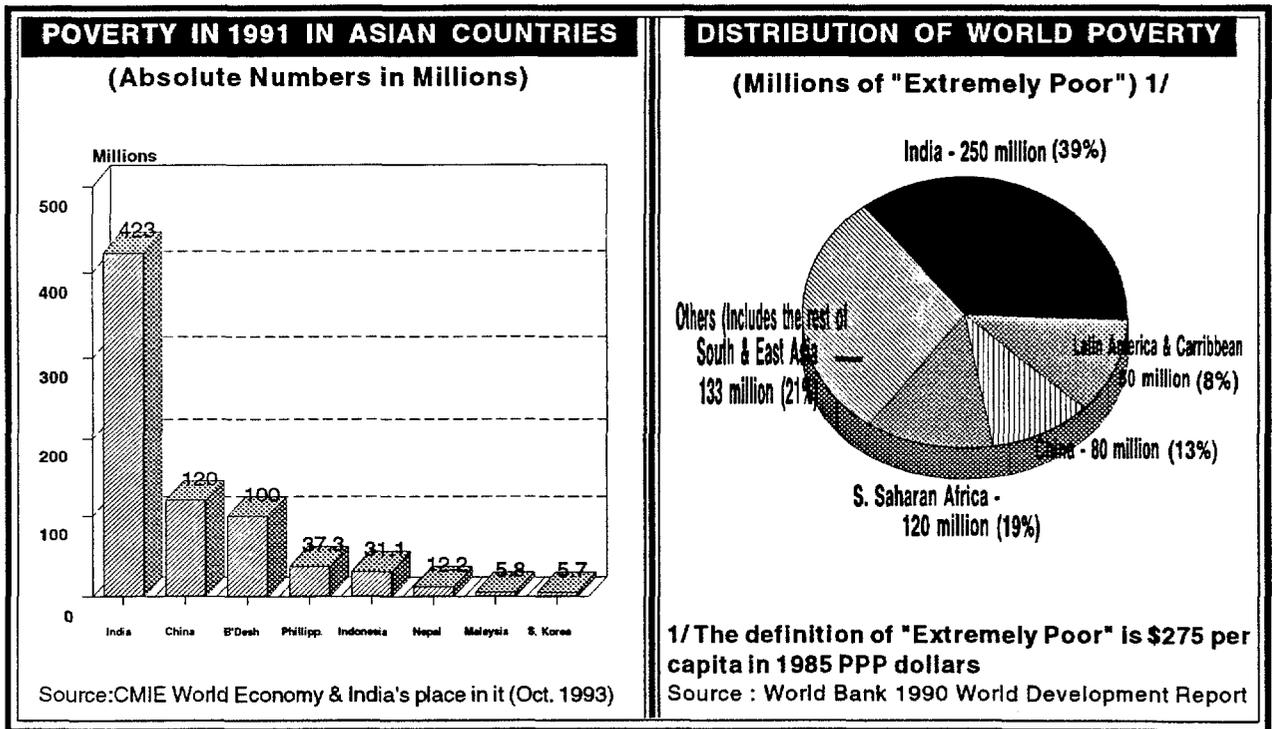
At independence, India accounted for two percent of world trade; today the figure is one-half of one percent.

Slow economic growth has unfortunately been coupled with an inexorable rise in population. Although India has been successful in stabilizing population growth



in the south, fertility rates remain unchecked in the north. Every year, India gives birth to another 20 million people who must be fed, housed, educated and employed. Yet social spending has been crowded out by the Government budgeting large sums on loss-producing state-owned enterprises, directed credits in unproductive areas, and populist subsidies to relatively privileged groups.

This recipe - slow economic growth, rising population and constrained social spending - has resulted in the world's greatest concentration of poverty. India is home to one of every four childhood deaths and two of every five maternal deaths in the world today. There are more illiterate people in India today, than at independence. Thirty to forty percent of the world's poor are Indians, more than in all of subSaharan Africa and more than in all the rest of Asia. This poverty has been partially responsible for the rise in violent conflicts over issues of caste,



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religion, and regional autonomy; which threaten both the very foundations of Indian democracy and national integrity.

Environmental degradation has been accelerating in India as a result of the population explosion; increasingly intensified agricultural production; and capital-intensive and outdated industrial production, heavy in emissions, which foul India's and the world's air. India is now the fifth largest contributor in the world to greenhouse gas emissions; air and water quality is deteriorating in crowded urban areas; and the biodiversity of its rich ecosystem is disappearing, an inestimable loss to all mankind.

Change in diverse, democratic societies such as India is often prompted by crises. Indeed the collapse of the former Soviet Union (India's erstwhile role model) and a major economic crisis (where foreign exchange reserves dwindled to less than 14 days of imports) conspired for a radical reorientation of India's economic policy framework. The minority government of Narasimha Rao, which came to power in June, 1991, embarked on a wholesale dismantling of the bureaucratic controls which had long constrained India's entrepreneurial talent. The process of reform continues today and is increasingly supported in India's body politic. The World Bank, International Monetary Fund, and bilateral donors have all expressed belief that these reforms represent a historic, irreversible and welcomed new direction in Indian economic policy.

Crisis resulting from unchecked population growth and environmental pollution are less immediate and therefore bold redirections are more difficult to effect. Yet there are encouraging signs that the dangers to sustainable development are increasingly understood. The Indian government is openly questioning its family planning programs and is searching for more effective interventions. And Indian environmental activists are increasingly being heard: In one recent example, the Indian Supreme Court decided to close foundries, glass factories, and a petroleum refinery damaging one of the wonders of the world, the Taj Mahal.



India has always belonged to the group of nations who have valued democratic government. Of late it has concluded that free-markets and global economic integration are the best means for it to accelerate broad-based economic growth. In the words of the Finance Ministry, "... the goal of our economic reforms is to improve the living standards of all of our people, not just the rich and privileged. The alternative of continuing widespread poverty, unemployment, illiteracy, disease, malnutrition, rising inflation and stagnant production is unacceptable...".

The stakes for the United States are tangible. The single most important means to reduce world poverty would be for India to develop in a sustainable fashion. A prosperous and outward-looking India also offers tremendous potential for increased exports and jobs for Americans. Likewise, measures to control population and alleviate pollution greatly reduce dangers associated with global warming, refugee influxes and spreading regional conflicts.



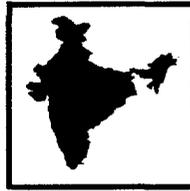
3. SUSTAINABLE DEVELOPMENT BY THE YEAR 2000

The goal of the AID program is to assist India achieve sustainable development. Sustainable development for India means that economic growth is accelerated to more than double its recent rates; the natural resource base is conserved; the benefits of economic growth are widely shared; and the incidence of poverty, illiteracy, malnutrition and disease are greatly reduced. While it will take some time for development in India to be completely self-sustaining, we are optimistic that India could make substantial progress towards this goal by the end of the decade.

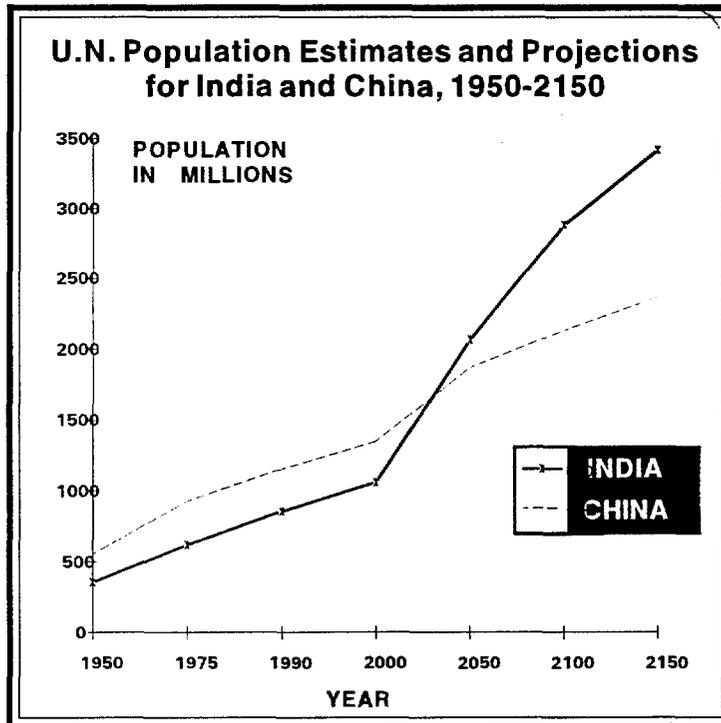
The fundamental requirement for sustainable development in India is an accelerated rate of economic growth that increases the production, productivity and international competitiveness of the Indian economy; that generates greater foreign exchange earnings; that multiplies the numbers, types and interrelationships between enterprises in all sectors; and that greatly expands productive employment and opportunities for entrepreneurship. It is not unreasonable to assume that growth in Gross National Product can reach 6 percent within the next two years and grow to 10 percent by the end of the decade if the process of policy reform and economic restructuring continues apace. Likewise, accelerated growth could lead to an export boom of 15 percent or more per year for the rest of the decade.

The importance of accelerated economic growth to sustainable development in India cannot be minimized. In a democratic society such as India, a growing economic pie is absolutely imperative to create the additional productive employment necessary to raise incomes and living standards; and to increase social sector spending to tackle chronic poverty, illiteracy, hunger and disease. And India is simply too large a nation to be able to rely on the largess and welfare of the donor community. The only way that massive and chronic poverty will be alleviated is by India generating the necessary resources on its own.

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At the same time, India's population is growing by approximately 2.1 percent per year. With a population which is expected to reach one billion by the year 2000, the United Nations estimates that India's population size may well grow to over two billion by 2050, which is more than the current population of India and China combined. Development in India cannot be sustained - no matter how fast the economy grows - if India has to absorb, feed, house, educate and find jobs for the current population of China in the years

ahead. While we do not believe that India will achieve replacement level fertility by the year 2000, we are optimistic that successful models for family planning services can be developed for northern India, where the fertility levels are still high. ✓

Accelerating economic growth in the short-term while damaging the environment in the long-run is self-defeating. India's large population, limited natural resources and extensive industrial base, cause pollution problems which are of global dimensions. The U.N. Global Environment Monitoring System ranks Delhi, Calcutta and Bombay among the ten most polluted cities in the world. India is an important source of greenhouse gas emissions; and its high levels of pollutants are major threats to global air quality. Pollution also threatens India as one of the world's most important centers for biodiversity. By the year 2000, India should be able to take important steps to correct such degradation, and thereby contribute to an improved Indian and global ecosystem.



Given the above impediments to sustainable development in India, **USAID will focus on three primary program objectives for the remainder of this decade:**

- 1. Accelerating broad-based economic growth**
- 2. Stabilizing population growth**
- 3. Protecting the environment.**

We have carefully selected these three interrelated program objectives because of their importance to achieving sustainable development in India, and to addressing global problems of concern to the United States. This strategy builds on the USAID program which has been put in place over the past several years, yet makes important modifications to reflect the new priorities of the Agency (particularly the environment). Partnerships have been forged with others: We have leveraged more than \$ 1.4 billion from other donors and \$1 billion from the Indian public and private sectors. Participation is particularly important for program implementation as four-fifths of all resources are managed by non- governmental entities. Our program interventions are sharply focused with concrete targets and fixed deadlines. ✓

USAID will help India accelerate broad-based economic growth by strengthening financial markets; supporting enterprise deregulation; and accessing technology and business skills, particularly for smaller-sized firms.

- Financial markets will be strengthened because more efficient financial markets can better mobilize India's relatively high rate of household savings for generating the investments necessary for economic growth.
- Enterprise policy reforms will be supported because they are critical to liberalizing all sectors of the domestic economy; integrating India with the global economy; and thereby spurring production, increases in productivity, and improved quality for global competitiveness.



- Technology and business skills will be accessed to help smaller Indian enterprises restructure for a more competitive environment. After years of protection, many firms are ill-equipped for competition and without enterprise growth, the reform program will fail.

USAID will help India stabilize population growth in the north by empowering women to have greater control of their productive and reproductive lives, by introducing innovations in family planning services, and by upgrading child survival programs.

- ✓ ● A special initiative will be mounted to increase women's control over their productive and reproductive lives because this is an important determinant of family size. Over the long-term, improving the status of women will be critical to India truly achieving sustainable development.
- Innovations in family planning services in northern India will be introduced because it offers the single most effective means of reducing fertility in northern India, where forty years of more traditional Government programs have failed.
- Child survival programs will be upgraded, with a special concentration in northern India, because expectations by couples regarding how many children will survive is an important factor in deciding on family size.

USAID will help India protect its environment by improving air quality; enhancing efficiency in energy generation, management and use; and strengthening biodiversity preservation.

- India's air quality will be improved because air degradation is so severe that it is affecting the international competitiveness of Indian firms, the health of India's populace, and global warming trends.

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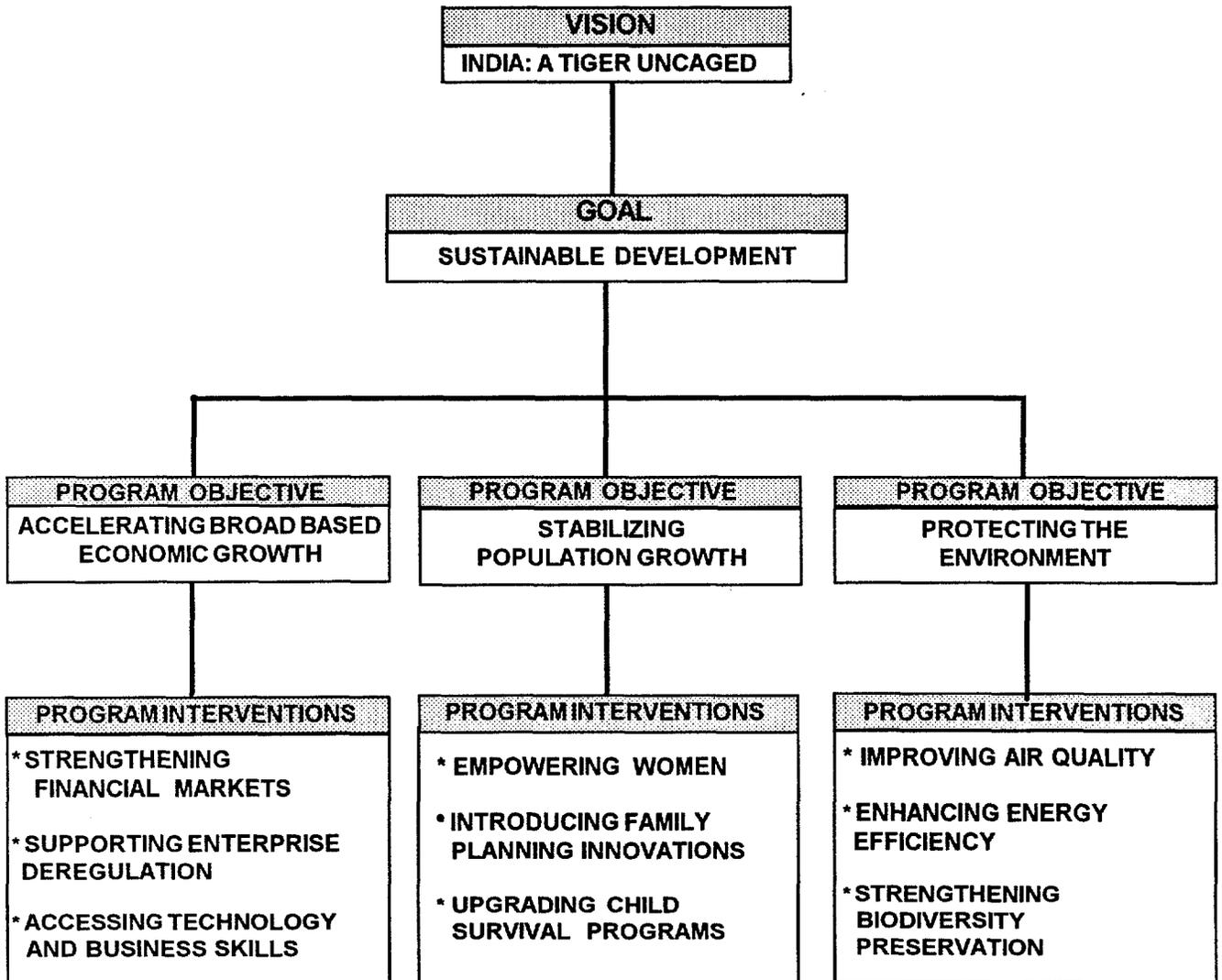
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- The efficiency by which energy is generated, managed and used will be enhanced because pollution associated with the generation of commercial energy is the major determinate of poor air quality, as well as being the overwhelming contributor to greenhouse gas emissions in India.
 - India's rich heritage of biological resources will be preserved because of the threats imposed by unsustainable agricultural and industrial development, and the importance of Indian germplasm to global plant genetic conservation.

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4. PROGRAM OBJECTIVE I : ACCELERATING BROAD-BASED ECONOMIC GROWTH

Dating back to Jawaharlal Nehru's introduction of economic self-reliance in the early years of independence, Indian policy-makers developed a vast, intrusive and bureaucratic system of controls over the economy. This system banned most imports and discouraged foreign investments to protect local industry from international competition. Domestic investments were channeled into large, capital-intensive, government-owned enterprises which were unconcerned with the dictates of supply and demand.

Although India always permitted a mixed economy, private entrepreneurs were required to follow a regime of licenses and controls that influenced such basic enterprise decisions as what to produce, where to manufacture, and how much to charge. Labor laws were rigid and not conducive to responding to market conditions. In perhaps one of the most perverse expressions of state control, both public and private sector enterprises were not permitted to go out of business; there being no "exit policy" for unsuccessful ventures. At the end of 1987, there were 160,000 "sick" firms experiencing losses and with liabilities exceeding assets.

The tight regulatory environment confronting Indian businessmen was in many ways sustained by equally intrusive financial sector policies. Interest rates were administratively controlled and the banking system was nationalized in the late 1960s. Banks were obliged to provide subsidized credit to priority sectors and inefficient public sector clients. As a consequence, some 30 percent of the loans made by the nationalized banking system are non-performing.

By contrast, India's capital markets were less tightly regulated and consequently grew in the 1980s to become an important source of capital for industrial expansion. Yet this expansion of 22 stock exchanges, with 20 million shareholders and \$50 billion in capitalization, occurred in the context of gross irregularities, operational inefficiencies and institutional failures which threaten the survival of India's domestic capital market.



The consequence of these misguided policies is that Indian industries lag far behind their progressive Asian neighbors. The vast majority of locally manufactured goods are made under license from foreign designs. Indian firms fall far below international "best practice" standards in terms of technology, scale, and efficiency, and offer products at high prices and variable quality.

The problems within Indian enterprises go far beyond technological stagnation. Years of bureaucratic controls, nationalized banks and protected markets have weakened the very fabric of business management skills and know-how in the private sector. Modern marketing skills, relationships with suppliers, creative financial engineering, increased participation by labor in the running of enterprises, and achieving just-in-time inventory controls are just a few examples of the business skills which require upgrading for Indian enterprises to compete in the global marketplace.

The bankruptcy of India's economic policies started to become evident in the early 1980s, when some modest experiments in liberalization began. Yet in India's open political system it took time to build up a consensus, and a financial crisis (caused by unsustainable fiscal and current account deficits and aggravated by the Gulf War), to trigger the bold redirection of Indian economic policy. After several years of political stalemate, the Congress Party formed a coalition government in July, 1991, and began to dismantle the obsolete system it had created.

OUTDATED TECHNOLOGY IN VOGUE

Newcomers to India are often surprised to see the number of older vehicles on the roads. Closer inspection, however, reveals that these are really old technologies imbedded in recently manufactured vehicles. In the words of the May, 1991 *Economist*: "Only in India is it possible to choose between a brand-new 1950s Austin and a factory-fresh 1950s Hillman". Lack of competition in a protected market resulted in no innovations to even the simplest door handles in more than forty years.



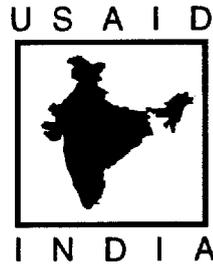
The objective of these reforms has been to restore macroeconomic stability, liberalize the domestic economy, and integrate India with the global economy. Much has been accomplished over the past two years. The industrial licensing system has been largely disbanded; trade policy has been liberalized with import and export controls significantly reduced; tariff rates have been reduced; foreign companies can now freely invest in India; the Indian rupee is now fully convertible on the trade account; many previously controlled prices have been freed; and government spending has been limited. Some modest steps have also been taken to liberalize interest rates and free the banking system from government interference.

Most important of all, India's major political parties are committed to economic liberalization, notwithstanding the inevitable posturing during election campaigns. Although there are still significant differences regarding the pace and sequencing of reforms and individual measures, there is a strong consensus that economic liberalization is both inevitable and irreversible.

The results of these reforms are starting to become visible: A modest increase in growth of real Gross Domestic Product, a significant decline in inflation, a substantial reduction in the budget deficit, a major increase in foreign exchange reserves, a greater role for the private sector and market forces in the economy, and a resurgence in exports (albeit from a low base).

RECORD OF THE REFORMS		
	1991	1993
● GDP Growth Per Annum	1.2%	4.0%
● Inflation	14.0%	7.0%
● Central Government Fiscal Deficit (% GDP)	8.0%	5.6%
● Foreign Currency Reserves	\$ 2 billion	\$ 8 billion
● Foreign Investment Approvals	\$ 0.18 billion	\$ 3.0 billion

The liberalized policies are also beginning to expand foreign investments in India. Over the past two years, India approved \$1 billion in new investment proposals



from American companies (a 170 percent increase from the accumulated total US investments in India since independence). These developments are forcing local enterprises to rethink their business strategies. Alliances with foreign enterprises are likely to become a key means of increasing the competitiveness of outward-looking, export-oriented firms; but access to such alliances is difficult for smaller-sized firms. At the same time, the influx of foreign investment is also causing fears among the Indian business community that they will perish in a foreign investment onslaught.

However, state controls over the economy have not been eradicated. In many ways, the easy policy options have been taken; with the more politically-sensitive but essential tough choices still on the table. For example, the Government has yet to embrace an explicit privatization policy; banks remain in government hands and organized labor has fiercely resisted banking reform and modernization; tariffs, although lower than they were, still remain high by international standards; laws still prevent companies from redeploying or firing workers; and an exit policy is still to be promulgated. And the omnipresent and obstructive bureaucracy continues to hold on to its remaining powers over the economy. Until these policies are liberalized, and enterprises are restructured on a competitive basis, accelerated broad-based economic growth will remain a distant dream.

PROGRAM STRATEGY

To accelerate broad-based economic growth in India, USAID seeks to strengthen Indian financial markets; support the continued deregulation of enterprise; and access technology and business skills, particularly for smaller-sized firms. Such an integrated approach is necessary because policy reforms in the enterprise and financial sectors are intertwined and cannot be separated. Likewise, it is equally necessary to help smaller-sized Indian enterprises succeed in a competitive environment as it is to remove state controls over the economy. Unless broad-based production and exports grow, support for the entire liberalization process will falter.



To increase economic growth to 8 percent in the medium term, India will need to both raise investment from the present level of 24 to 27 percent of GDP, and improve the return on those investments by relying on free market forces. Substantial improvements in the financial markets will be necessary to mobilize internally-generated savings and serve the increasingly complex needs of Indian industry, agriculture, housing and trade. USAID has a long and successful association with India's leading financial institutions and has made important contributions to venture capital for the commercialization of technology and private housing finance for lower and medium income families. We will ensure the sustainability of these efforts and also improve the legal, regulatory, and operational environment of India's capital markets over the next several years.

Enterprise deregulation has only partially been realized. There are still many administrative hurdles which inhibit entrepreneurial growth across all sectors. We will continue to support targeted opportunities to contribute to domestic liberalization and global integration. It will be important to develop partnerships with business associations, economic policy decision-makers, and academic think-tanks to ensure the sustainability and irreversibility of reforms which allow private businesses to make rational economic choices. We will carefully target ourselves on the following issues to ensure maximum impact: An exit policy for sick companies, reforms for expanded trade and investment, and privatization of infrastructure.

The success of India's policy reforms rest, to a great extent, with Indian enterprise. Many changes must occur before the business sector can become the lead engine in India's drive for accelerated market-led growth. Protectionist policies of the past created enterprises that are slow to respond to change and are unfamiliar with the ways of international business. If Indian enterprises are to become dynamic and competitive, they will require access to state-of-the-art technologies and modern business techniques to bring their products up to global standards. Given the enormity of this task, we will concentrate attention on agribusiness because of its potential contribution to economic growth, export earnings, and poverty alleviation in rural India.

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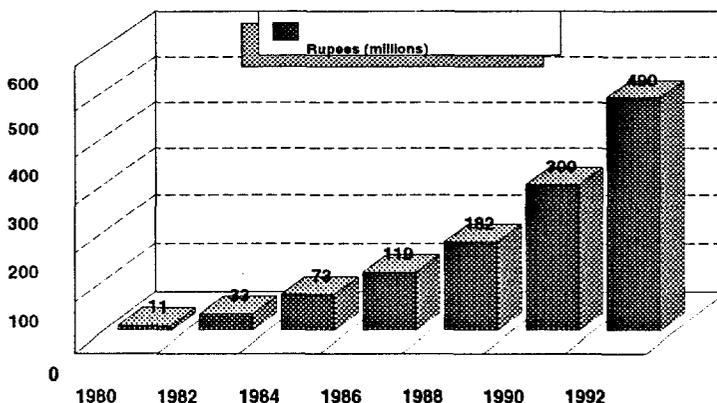
This program strategy also relies heavily on the dynamism of smaller-scale, more labor-intensive enterprises to form the engine for accelerated economic growth in India. Such firms tend to be more dynamic and can respond quickly to market conditions; yet they require support to gain access to modern technologies and business skills. It is not coincidental that our assistance to venture capital in India has found that such firms are better positioned to develop and commercialize new technologies in the marketplace, when provided access to state-of-the-art technologies, business skills and joint venture partners.

STRENGTHENING FINANCIAL MARKETS

HOUSING FINANCE SYSTEM EXPANDS RAPIDLY

The private sector housing finance system in India has expanded rapidly since USAID's assistance to the sector began in 1981. From only one registered housing finance company in 1979 with a loan volume of \$2 million, the system has grown to include more than 270 companies and 302 branch offices with over \$490 million in loans in 1992. USAID's housing guarantees, expert advice, and training have had a significant impact on developing the rules by which the system operates and have increased the availability of housing finance. Moreover, our programs have demonstrated the viability of lending to below median income households: more than 50 percent of all private housing finance company loans have gone to these households, and one quarter of all borrowers are low income families.

TOTAL LOAN VOLUME SANCTIONED BY MARKET-ORIENTED HFC's



USAID has significantly contributed to the rapid expansion of the national housing finance system. This system has provided a highly visible example of successful market-rate lending and was often cited in government discussions that resulted in the deregulation of interest rates for the entire financial sector. Housing finance will remain a central component of efforts to improve the financial markets in India. Specific aims of the future program include increased financial resources mobilized by the housing sector, expansion of market-oriented housing finance

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institutions, and an expanded supply of housing finance to low-income households.

USAID will also support efforts to revamp India's capital markets to enable them to serve as efficient and reliable sources of development finance. We will seek to address changes needed in the regulatory framework governing capital market operations; underwrite institutional development and restructuring activities aimed at modernizing India's capital markets with the intent of increasing the efficiency of market operations; and broaden and deepen the debt market by expanding the capacity of that market to serve as a major source of private sector finance for urban infrastructure projects. Special attention will be given to developing automated exchanges to allow small startup companies access to the financial resources available in India's equity markets.

SUPPORTING ENTERPRISE DEREGULATION

"NO-EXIT POLICY" AND JOBS

The consequences of not allowing businesses to adjust their labor requirements is aptly illustrated in the experience of one Indian industrialist who explained that although his plant could optimally employ 1600 workers, he was afraid to hire such a large number because of his inability to retrench during periods of economic slowdown. Instead, he invested his capital in machinery and limited the number of employees to 400. These 400 workers have jobs with life-long security, but there are another 1200 would-be employees who, as a result of the Government's interference in this firm's operations, do not have any jobs at all.

Exit policy, an improved international trade and investment regime, and privatization of infrastructure will be the keys to our efforts to support deregulation of enterprise. For an exit policy and privatization efforts to succeed, it is imperative that an effective social safety net be in place for workers retrenched as a result of economic restructuring. This is both a humane and a politically-astute gesture, given the role of labor

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unions in India's political parties. Under a PL 480 Title III food aid program, we helped establish such a safety net - the National Renewal Fund. Over the next few years, our objective will be to work within a multi-donor context to ensure that this Fund is indeed functioning as intended and providing both a safety net and a vehicle for worker retraining and redeployment.

Given India's long-standing economic isolation, it is particularly important that efforts to stimulate international trade and investment succeed. We have initiated a number of training programs, studies and consultancies to address particular features of India's economic relations with the outside world. Among them are investigations of India's export and direct foreign investment policies, a comparison of India's foreign investment climate with other developing countries, and a study of international economic relations with the United States. We have also initiated efforts to bring in world renowned experts from other countries to learn how domestic deregulation and global integration was approached in East Asia, Latin America and Eastern Europe. We plan to assist progressive Indian states establish a more favorable business climate for expanded trade and investment.

Privatization of infrastructure is critical to India's long-term development. Without an expansion of power, telecommunications and urban public works, accelerated economic growth will not be realized. Yet constrained government

AMERICAN DEVELOPERS TO POWER INDIA'S GROWTH

To accelerate economic growth, India must double its present electrical generation capacity in the next thirteen years, at a cost of \$100 billion. To meet these ambitious targets, legislation was passed in 1991 which encourages private power investments. In response, 68 proposals worth billions of dollars have been submitted by private domestic and foreign companies; more than half from American power developers. Yet numerous outdated policy and regulatory hurdles need to be overcome before these proposals result in actual investments. USAID is supporting the retooling of the policy and regulatory environment to make private power succeed in India.



spending and grossly inefficient state-owned utilities make such an expansion impossible. USAID is leading donor efforts to improve the policy framework for the privatization of infrastructure in the power sector and urban public works; and we may assume an equivalent role in telecommunications.

It is important to note that we do not expect to be engaged in the privatization of public sector manufacturing units. The policy of the Government of India is to open up all markets to private sector entrants and level the playing field for true competition. Since the Government at present does not intend to truly privatize such units, in the sense of selling off majority ownership, we do not see a role for USAID in privatization of state-owned manufacturing units.

ACCESSING TECHNOLOGY AND BUSINESS SKILLS

The ability of smaller Indian firms to adjust to the competitive global economy after having lived in a highly regulated and protected business environment will determine the success of the economic transformation of India. Policies alone won't ensure a successful transition. Programs will need to be tailored for such restructuring. Yet the Indian economy is so vast that USAID must work only on the most strategic and critical bottlenecks. USAID will not deal on a transaction or individual firm basis unless such assistance has spill-over effects that, in a larger sense, support our broad-based economic growth objectives.

There are three such strategic interventions that will be pursued for the remainder of this decade. Building on the results of our PACT program, we will seek to institutionalize and ensure the sustainability of financing for the development of appropriate technology through joint ventures. The second will link the vast system of Indian national laboratories with the needs of private enterprise to create new technologies for regional growth. The third intervention will improve the operating environment for private agribusiness in horticulture.

These interventions seek to redirect the large investments made by India in its scientific and technical manpower base and institutions towards the needs of a

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market economy, and to help Indian firms upgrade their research and development skills through joint ventures with American counterparts. The sectoral focus on agribusiness has considerable potential for accelerating economic growth, increasing export earnings, and alleviating rural poverty.

PACT MUSHROOMS

A \$500,000 investment by USAID in a PACT joint venture to develop a new mushroom growing technology illustrates just how successful PACT has been in terms of accelerating economic growth and alleviating poverty. As a result of our financial contribution, the joint venture partners contributed \$7 million which generated approximately 1,000 jobs in India, saved \$10 million for the American partner, and will earn \$75 million in net foreign exchange for India by the year 2000. The PACT success has spurred another nine companies to launch similar mushroom projects, built around the combined factors of technology and unskilled workers. Total employment is expected to reach 10,000; mostly in rural and peri-urban areas, with a large female labor share.

ACE COMES UP ROSES

India is the second largest vegetable and third largest fruit producer in the world; yet crop losses reach 30 percent and export earnings are less than 0.4 percent of international horticultural trade. Under the ACE Project, USAID is helping two Indian companies produce 17 million roses for export to European markets. ICICI, our ACE partner, is syndicating additional agribusiness investments. The Government also realizes horticulture's potential and is offering various incentives to stimulate this industry. As with the mushroom investment under PACT, we expect a large job multiplier as more Indian firms discover the opportunities in selling flowers to the European markets.

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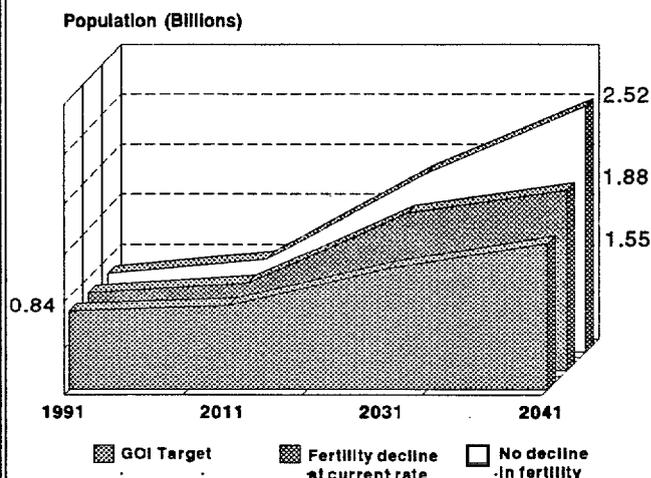
5. PROGRAM OBJECTIVE NO. II: STABILIZING POPULATION GROWTH

With an estimated 1993 population of 897 million and a growth rate of 2.1 percent per year, India will have a population that will reach the billion mark by the end of the decade and overtake China as the most populous country in the world during the next century. Demographers believe that India's population may reach 2 billion by the year 2050. There are presently over 25 million births per year in India, and 178 million people were added to the population in the last decade — more than in the three decades between 1931 and 1961. The two fastest growing segments of Indian society are the under-15 age group and the over-60 age group. Together they account for 42 percent of the population and represent a huge double dependency for the country's wage earners.

Population Profile

Demographically, India is two countries. While over half the country is well into the demographic transition from high fertility/mortality to low fertility/mortality, the other half has barely entered it. The latter group is represented by the four contiguous Hindi-belt states of the north- Bihar, Uttar Pradesh, Rajasthan and Madhya Pradesh- which alone account for 40 percent of India's population. The continuing high fertility and high but slowly declining mortality of these states effectively off-sets fertility decline in the rest of the country. If current trends continue, it will be at least 50 years before these states move through the demographic transition and the country's population is stabilized.

Projected Population Growth (1991 - 2041)



Source : Rapid III Project Projections



India was the first country in the world to establish a national family planning program. This program has been relatively successful in southern India, but fertility rates in the north have declined little since independence. Like the country's economy, India's family planning program has remained in something of a time warp. There have been limitations on introducing new technologies which other countries have effectively adopted; little fresh thinking on new creative approaches to implementing family planning programs; and indeed precious little public dialogue on the impact of demographic trends to India's larger development prospects.

India's traditional approach to family planning, emphasizing terminal methods and target setting, has failed to keep pace with tremendous advances in contraceptive development, reproductive health and demand generation made over the past two decades. While the aggressive sterilization campaigns of the early 1970s have subsided, the national family planning program's image still remains tarnished and lacks broad community support. Many Indians view family planning as the "duty" of a good citizen, rather than as a means to enhance the health and well-being of the family. At the same time, family planning is considered politically sensitive, and receives little open political support.

Fortunately, the potential for positive change is greater now than at any time in the past. Faced with a population crisis every bit as serious as its economic crisis, the Government is currently reevaluating its approach. In addition to advocating the use of birth spacing methods to encourage the participation of young couples in the program, it is also promoting a greatly expanded role for non-governmental organizations in service provision. The Government plans to place much greater emphasis on new contraceptive technologies including barrier methods that protect against both pregnancy and sexually transmitted diseases and experiment with such service outreach approaches as community-based distribution and social marketing, which have been proven successful in other settings.

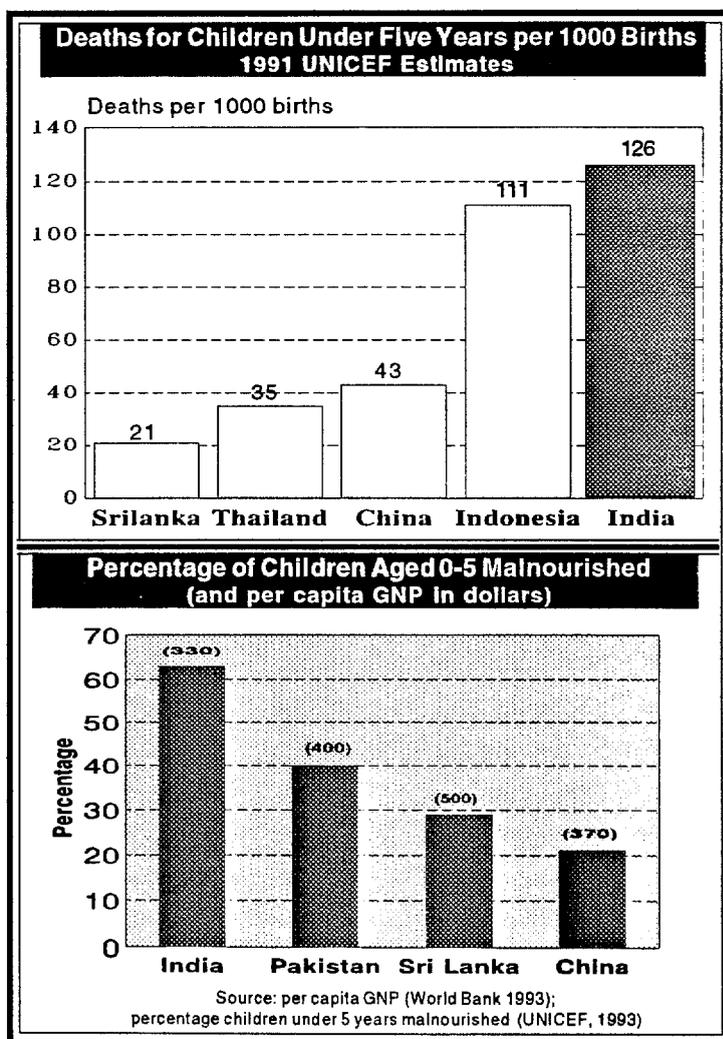
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India recognizes that an intensive family planning effort is required in the four large northern Hindi-speaking states of Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh. These states have the highest population growth rate in India. Not surprisingly, the family planning program performance has been weakest in this region. The proportion of couples who currently practice contraception in these four states is approximately 30 percent, while the southern states, such as Kerala and Tamil Nadu, have averaged 52 percent and 54 percent respectively. A reduction in India's rapid population growth will not be realized until fertility decreases in these northern states.

Rapid population growth in India is linked with poor health conditions, especially for mothers and children. High fertility means many births to young mothers, with short birth intervals, which greatly increases the risks of mothers and children. High infant mortality likewise impedes ready acceptance of family planning practices by eligible couples, further eroding efforts to stem population growth. Conversely, population growth exacerbates the country's ability to deal more effectively with lowering infant and child mortality. Mortality under the age of five in India is over ten times that of the working age population and accounts for half of all deaths in the country.



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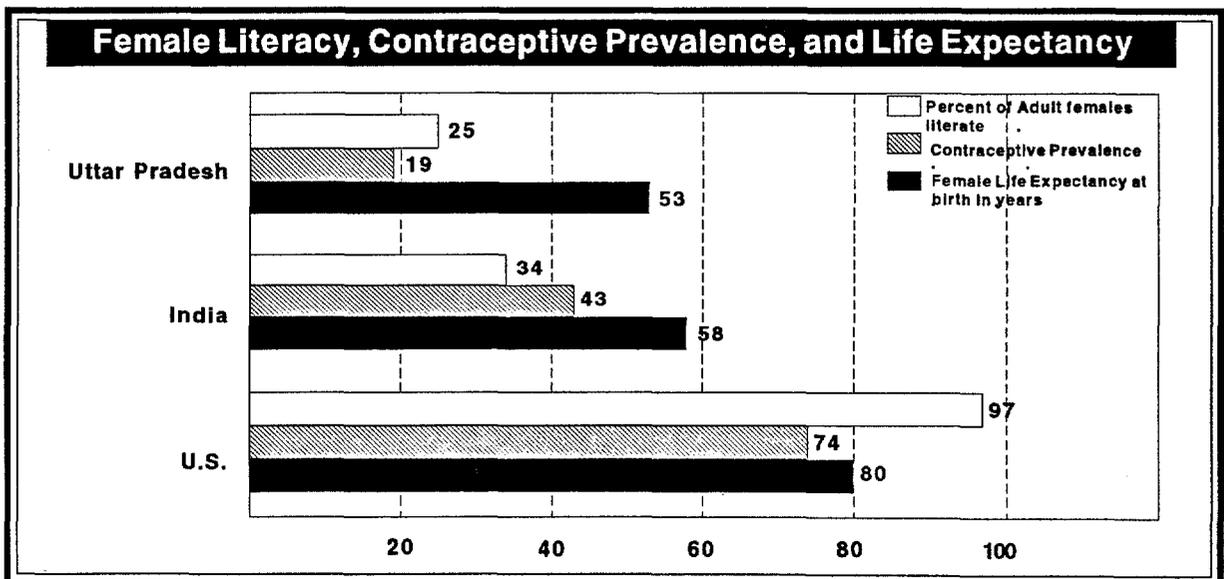


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Malnutrition and infectious and parasitic diseases kill a large percentage of these children. High birth rates outstrip the ability of India's public health system to deliver immunizations and other potentially lifesaving measures. The large number of women having too many children and receiving poor prenatal care also substantially contributes to the problem.

One important factor contributing to high fertility, and high infant and child mortality, is the low status accorded to Indian women. Female literacy in India averages 39 percent compared with almost 64 percent for males; and only 37 percent of all Indian girls attend primary school compared with 62 percent for boys. And most disturbing of all are the numerous reports of female infanticide, abortions of female fetuses, and discrimination against female children in feeding and health care.

The pernicious interplay between high fertility rates, high infant and child mortality levels, and low female literacy is particularly acute in the four Hindi-speaking states of northern India. For example in the state of Uttar Pradesh, which is home to more than 140 million people, women average five children, one in ten children die before their first birthday, and only one in every five women is literate.





PROGRAM STRATEGY

Notwithstanding the creation of a more open and competitive economic framework, rapid population growth will thwart India's economic expansion and inhibit the ability of a broad spectrum of Indian society to participate in and enjoy the fruits of market-led growth. Therefore, sustainable development in India requires increased concentration on efforts to stem population growth.

Stabilizing population growth in India will be achieved by empowering women to have greater control over their productive and reproductive lives; by introducing innovations in family planning services; and by upgrading child survival programs. A major feature of this program strategy is that we are explicitly recognizing the importance of, and programming resources to enhance, the status of Indian women. Given that fertility levels are highest in the northern Hindi-speaking belt, our attention and resources will increasingly focus on this region.

India's population is a global issue. With 16 percent of the world's population, what happens to India's population growth rate will influence whether the world's population will begin to stabilize or continue to grow. Given so much at stake, we have launched USAID's single largest family planning project in Uttar Pradesh, India's largest state. We are also planning to redirect USAID's largest regular Title II food aid program to more directly address conditions affecting the acceptance of family planning in northern India through programs that empower women, improve child survival, and otherwise support family planning.

INTRODUCING INNOVATIONS IN FAMILY PLANNING SERVICES

The Innovations in Family Planning Services Project will assist the state of Uttar Pradesh to significantly reduce the total fertility rate through a comprehensive improvement and expansion of family planning services. In order to achieve this

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purpose, we intend to effectively double the use of modern contraception over a ten-year period with special emphasis on providing high quality spacing methods. Achievement of this purpose will result in a sharply reduced level of fertility. Reducing fertility in Uttar Pradesh, and by extension the fertility of the other large northern states, is essential if India hopes to achieve its goal of lowering the national rate of population growth. Lower levels of fertility will mean fewer births than would otherwise occur each year, and a gradual slowing of the rate of population growth. The benefits associated with reduced population growth will be seen in improvements in the health status of women and children and the reduced burden on the public sector in providing health care, schooling, jobs, and housing. Savings from lower rates of population growth will enable the Government to invest more on a per capita basis in health, education, employment, and housing and thus improve the quality of the nation's human resources. Additionally, reduced population growth will mean reduced pressure on the environment.

PRIVATE HEALTH PRACTITIONERS TAKE THE LEAD

The Indian Medical Association (IMA), with a membership of over 85,000 physicians nationwide, is about to demonstrate the power of the private sector to provide vitally important family planning services. With USAID assistance, the IMA has begun to train its membership to deliver modern methods of birth spacing, emphasizing oral contraceptives. IMA's target is to have 50,000 members providing family planning services in the next few years to as many as 45 million married couples of reproductive age. After demonstrating the important role that private practitioners of western medicine can play in India's family planning program, IMA's attention will be turned to mobilizing India's traditional medical practitioners who number over one million. Combined, these practitioners serve many more people than government services can ever hope to reach, and can no longer be overlooked if India is to solve its population problem.



Our family planning initiative is striving to:

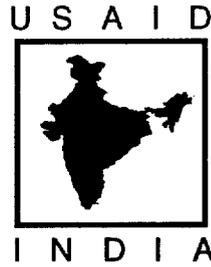
Increase access to family planning services by strengthening service delivery in the public sector and developing or expanding the capacity for service delivery in the non governmental sector. Access is also being expanded through hospitals, clinics, house-hold and community-based distribution, social marketing, employer-based programs, and commercial retail sales so that services will be available to a large proportion of clients living in the harder-to-reach rural, poor urban, and peri-urban areas.

Improve the quality of family planning services by creating a more client-oriented service system, expanding the choice of contraceptive methods, improving the technical competence of personnel, ensuring informed choice through effective counseling, improving management and follow up of client services, and improving contraceptive logistics.

Promote family planning by broadening support among leadership groups, increasing the public's understanding of the health and welfare benefits of family planning, creating a better image of the program, and providing information (or advertising in the case of the social marketing program) on the availability of services and methods. We will also increase the participation of women in the implementation of family planning.

7 Consistent with our entire program, the family planning project in Uttar Pradesh is being implemented through an independent, non-governmental organization to maximize participation and partnerships with a wide range of private groups.

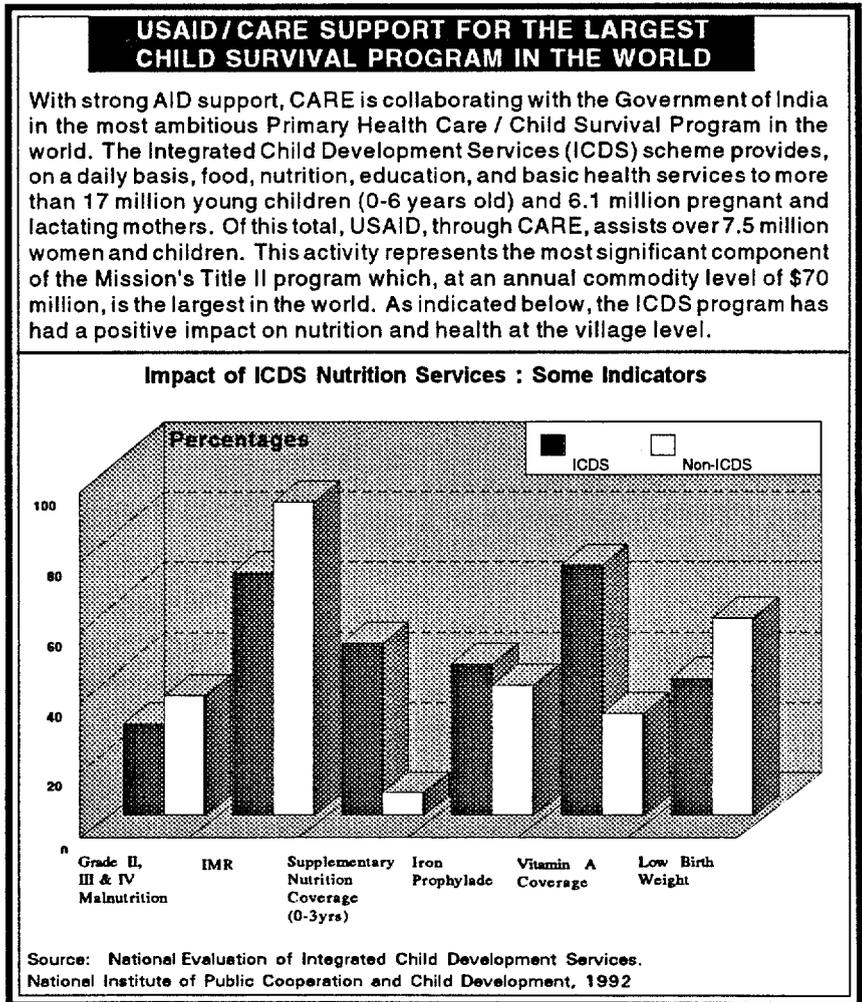
Efforts to increase the awareness and understanding of the critical importance of stabilizing India's population growth are also being intensified at the national level. Special programs of public diplomacy, policy dialogue, studies and workshops will be undertaken to rebuild support for this critical development issue facing India among key opinion leaders within government, the private sector, the media, and

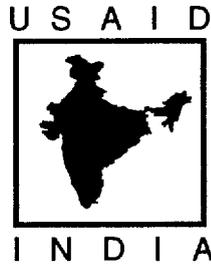


women's organizations. We will also explore ways in which the private business community can play a more supportive role in national family planning objectives.

UPGRADING CHILD SURVIVAL SERVICES

High infant and child mortality rates and associated malnutrition remain a serious problem for a large percentage of India's population, and adversely impact on decisions on family size. To address these problems with high-risk groups, USAID has been supporting regular PL 480 Title II feeding programs which are managed by CARE and Catholic Relief Services. CARE works within the context of India's Integrated Child Development Services (ICDS) program; the largest child survival program in the world, with its emphasis on reaching high-risk children and pregnant and lactating mothers with food supplements, nutrition education and primary health care. CARE presently assists the ICDS program in ten states and reaches over 7 million beneficiaries daily.





CARE, with USAID support, plans a major reorientation of its Title II program in the years ahead. CARE and USAID will begin to measure program impact in FY 1994 which will help determine how to strengthen India's child survival programs, and better utilize food aid resources. For example, we may conclude that we need to redouble efforts to reach children under the age of three as well as adolescent girls and first-time mothers. We would then work with CARE and the Government to design experimental interventions to better target food aid, such as by establishing village nurseries to capture younger children in the ICDS program.

Aside from working to improve the child survival effectiveness of our food aid, we are also exploring options with CARE to shift a greater percentage of Title II resources to northern India, where the demographic impact of a well-functioning child survival program can be greater. Presently, approximately 44 percent of CARE's food aid is delivered in states which have high fertility rates. We expect to increase this substantially over the next several years, with particular attention to Uttar Pradesh and the other northern Hindi-speaking states. We will also look for opportunities in which the ICDS program and our food aid resources can be used more directly to support family planning programs (such as through counseling on family planning methods); recognizing, however, that there are some inherent limitations in how far an already overburdened ICDS program can take on other health activities.

USAID is also supporting child survival objectives in India through partnerships with the Government and indigenous private voluntary organizations. Since so many children are born each year in India and immunizations are the most effective way to guard against the seven most serious childhood diseases, we are helping the Government establish a National Institute of Biologicals to ensure the quality of imported and locally-manufactured vaccines. Since Indian PVOs play a pioneering role in the provision of outreach maternal and child health services to underserved communities, we are strengthening the ability of such organizations to play an even more expanded and effective role in the future.



**EMPOWERING WOMEN TO HAVE GREATER CONTROL
OVER THEIR PRODUCTIVE AND REPRODUCTIVE LIVES**

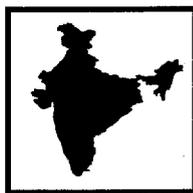
USAID and CARE have been involved in far-reaching discussions regarding the fundamental problems hindering sustainable development in India and the role that each of us can play within this context. Beginning with a one-week retreat last April and continuing through the formulation of new strategies for our respective organizations, we have both concluded that one root cause of many of India's social ills rest with the low status accorded Indian women.

Consequently, CARE intends to reorient its entire program in India so that its primary goal will be to increase women's control of their productive and reproductive lives. They plan to carry out programs that will: (a) Increase women's income and control of that income; (b) reduce the size and improve the health of families; (c) reduce malnutrition and disease among women and children, particularly girls; and (d) increase the formal education of girls. Efforts will be made, for example, to develop a constructive role for adolescent girls within the context of the ICDS program; use their Small Economic Activities Development program (which is financed from Title II monetization funds) to give greater economic empowerment to women; start their own family planning programs with non-food aid resources; and initiate a food aid program which encourages girls to stay in school longer.

USAID will look for ways to support CARE's innovative and bold new directions. Aside from encouraging changes in the ICDS and Small Economic Activities Development programs to enhance the role of women, we will explore possibilities of: (a) initiating new monetization programs, (b) providing Development Assistance resources to CARE for its family planning initiatives, and (c) starting a new Title II food aid program which targets on keeping girls in school. With respect to the last proposal, the state of Tamil Nadu in southern India has recently attained replacement level fertility. Mid-day meal programs supported by USAID and CARE in that state in the 1950s and 1960s are credited with keeping girls in school and thereby

*only 1975
in 1975
only 1975
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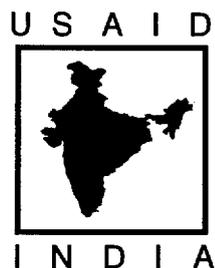
contributing to this demographic transition. We are carefully examining the lessons learned from Tamil Nadu for replication in northern India.

AIDS: A GLOBAL CONCERN

Since the first AIDS case was registered in Bombay in 1986, 310 cases have been reported to the Government of India from 18 states and union territories. Maharashtra and Tamil Nadu lead in the number of reported cases. Three-quarters have acquired the disease through contact with multiple heterosexual partners. The number of infected cases is but a small fraction of the actual AIDS morbidity. According to estimates based on HIV prevalence, the actual number of AIDS cases in India could be within the range of five to ten thousand. The World Health Organization projects that India will have between two

and three million HIV infected persons and 179,000 AIDS cases by 1996; overtaking Thailand as the Asian country with the most HIV infections by the year 2000.

USAID has responded to this looming crisis by launching an AIDS prevention and control program for Tamil Nadu, working through a leading Indian private voluntary organization to implement interventions known to have a significant impact on the spread of the disease: the use of condoms, the treatment of sexually transmitted diseases, and the reduction in the number of partners.

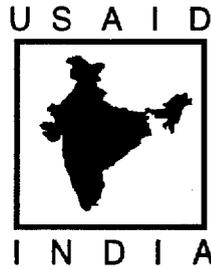


6. PROGRAM OBJECTIVE III: PROTECTING THE ENVIRONMENT

Development in India will not be sustainable unless the natural resource base is protected. India's polluting industrial and energy sectors, burgeoning population, and increasingly intensive agricultural production, create a vicious cycle of environmental degradation that seriously damages India's natural resources and threatens the global environment. Unless current trends are checked, the damage to the Indian and the world ecosystem could be irreparable.

Unchecked environmental degradation is already constraining economic growth. Indian firms are less internationally competitive because of the costs associated with pollution. Indian leather products have been rejected by the European Economic Community because the hides contain harmful chemical residues from the tanning process. Major industrial sites are threatened by large scale hazardous waste contamination. In certain areas, firms must treat and recycle the water they use in order to meet their processing requirements because the water pumped from the ground is so contaminated that it exceeds both production process parameters and permissible standards for effluent discharge after processing.

The health costs of environmental pollution are rising, and are particularly severe in the congested urban centers. By the end of the century, India will have 350 million city dwellers and forty cities with a population exceeding one million. The three largest cities in India are among the ten most polluted in the world in terms of particulate matter. Vehicles belch high levels of carbon monoxide, nitrogen oxides, hydrocarbons, lead, and sulfur dioxide. In Delhi alone, vehicular traffic has increased 75 percent in the last ten years, creating 400 tons of pollutants daily. More than one third of urban dwellers do not have access to safe drinking water, and more than three fourths do not have access to hygienic methods of excreta disposal. Poor occupational safety and health conditions reduce industrial productivity.



MIASMA APPROACHES APOCALYPSE

Delhi is a clear example of India's urban environmental woes. The concentration of suspended particulate matter is 600 g/m³ compared to the emission norm of 75 g/m³ established by WHO to prevent adverse health effects. Respiratory ailments in the city are 12 times the national average. Measurements of air quality violate the country's ambient air quality standards for SO₂ and NO_x in the winter months and for dust or suspended particulates throughout the year. Lead in gasoline is released by vehicles at a rate of 400 kilograms/day and causes irreversible mental retardation, especially to children who absorb it five times faster than adults. Delhi's water is also of generally poor quality with unacceptable levels of organic and inorganic elements because of poor sanitation services and outdated infrastructure. The Yamuna river, flowing through the heart of the city, is an open sewer.

Rapid population growth leading to agricultural intensification is causing long-term damage to the soils and water needed to sustain food production in India. Soil fertility and water quality for agricultural use have declined considerably due to fertilizer and pesticide runoff, erosion, and poor irrigation management. Forest encroachment for fuel, agriculture and livestock raising, and air and water pollution, are accelerating deforestation. Aside from resulting in soil erosion, rapid deforestation is also causing genetic erosion, and threatening many crops important to India.

Environmental damage spills well beyond India's borders and has regional and global implications. The key strategic issues at stake are global warming and biodiversity degradation.

India is the world's fifth largest (and second fastest growing) source of greenhouse gas emissions in the world. Carbon dioxide emissions (which account for 70 percent of total global warming increases) grew by 61 percent in India between 1981

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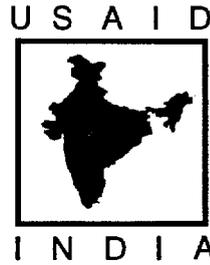
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GLOBAL IMPACT OF INDIA'S ENVIRONMENTAL PROBLEMS

- * India is the fifth largest contributor in the world to greenhouse gas emissions. Various growth estimates indicate that these emissions will triple from the 1987 level by 2010 with no change in current practices, policies and technologies. In the best case, carbon dioxide will double.
- * Chlorofluorocarbon (CFC) emissions, which cause ozone depletion, are growing rapidly principally as a result of growth in consumer spending leading to more refrigeration and air conditioning.
- * India is one of the foremost sources of the world's biodiversity but this genetic stock is threatened. India is the primary center of origin and domestication of at least 20 important crop species including rice, citrus, sugar cane, cotton and millet. In two recent cases, Indian genetic varieties of rice and citrus saved major crops in Southeast Asia and North America. Yet genetic erosion is threatening the very survival of many of India's crops.

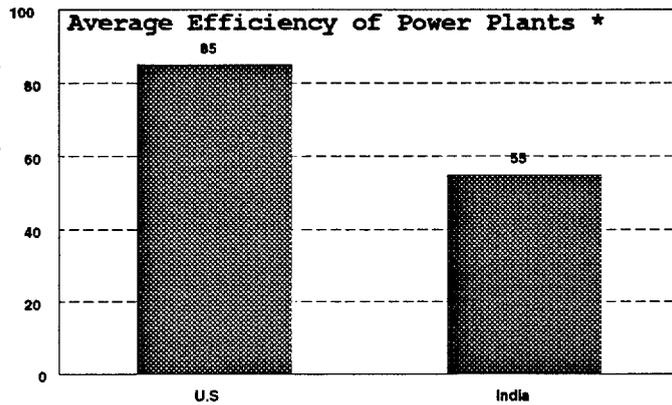
to 1988. Estimates indicate that greenhouse gas emissions will triple between 1988 and 2011. The power sector is the single greatest contributor to greenhouse gas emissions in India.

Inefficiencies in the generation, distribution, and consumption of commercial energy and the overwhelming dependence of commercial energy on non-renewable sources account for most of India's greenhouse gas emissions. In the power generation industry, 67 percent of all power plants are thermal, using fossil fuels to produce 70 percent of all the power consumed in India. Coal is the predominant source of fossil fuel, supplying two-thirds of India's commercial energy requirements. Unfortunately, Indian coal has a high ash content; which when combined with technical and



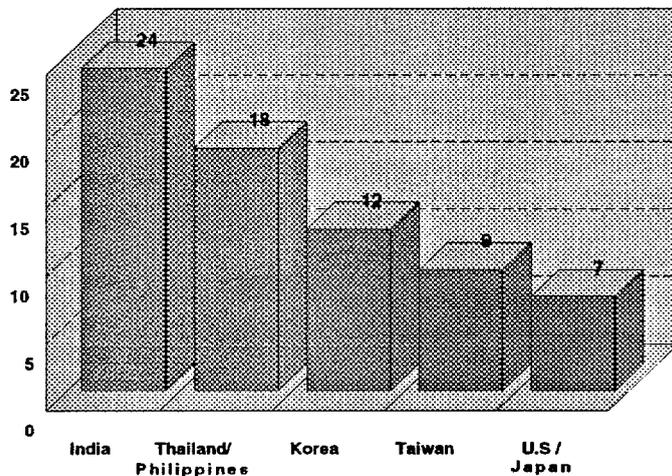
INDIA: A LONG WAY TO GO TO ENERGY EFFICIENCY

Power Generation



* Percentage of plant output to installed capacity

Transmission & Distribution Losses

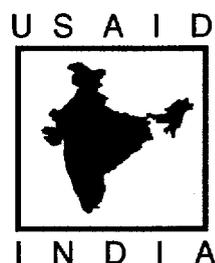


Average percentage for 1990-91

managerial inefficiencies in generation, results in 95 percent of all Indian thermal power plants operating below 60 percent of their installed capacity. Transmission and distribution losses of electrical power are other primary sources of inefficiency, leading to greater greenhouse gas emission, waste of non-renewable fuel resources, and loss of revenue.

India is one of the foremost sources of the world's biodiversity. It is the center of origin and domestication of at least 20 important crop species including rice, citrus, chickpea, cucumber, eggplant, sugar cane, yam, banana, pepper, mango, cotton and millet. Nearly

17,000 known species of higher plants are found in India, of which 160 species are important for agriculture and horticulture. Recently, the preservation of genetic material from India has resolved severe crises related to a virus which threatened the rice supply of southeast Asia and a mildew which almost eliminated an important melon variety in North America. Clearly the loss of this rich biodiversity due to the pressures of uncontrolled growth would be tragic for the entire world.



PROGRAM STRATEGY

We have decided to make environmental protection our third program objective, because of its importance to sustainable development in India, and to the wider global community. We are about to embark on a major environmental assessment of India's problems and the development of a strategy for USAID's assistance in this sector. We expect to complete it by February. In the meantime, we present here our initial thoughts on our environmental program objectives and strategy.

Our other two program objectives in India, accelerating economic growth and population stabilization, also will contribute to protecting India's natural resources. Obviously, slowing down the rate of population growth will reduce pressures on India's environment. And although it might at first appear counterintuitive, accelerating economic growth in India through economic liberalization should also contribute to a better stewardship of natural resources. As was the case in Eastern Europe and the former Soviet Union, state-controlled industrial development resulted in massive pollution. When market forces are at work and prices are no longer administratively controlled, the private sector pays greater attention to reducing the costs of production, and thereby minimizes energy use, raw materials, and wastes.

Protecting the environment will be achieved by improving India's air quality; enhancing efficiency in energy generation, management and use; and strengthening biodiversity preservation. Our strategy builds on an already robust series of projects aimed at environmental protection and efficiency in the energy sector, which, as described above, is a major factor in global warming. The strategy recognizes that India's environmental ills are massive, and therefore carefully targets interventions with concrete targets and timetables.

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IMPROVING AIR QUALITY

We will improve air quality in India by: (a) helping Indian firms adopt industrial pollution abatement technologies and services from the United States; (b) improving environmental policies and fostering technological innovations to reduce pollution in critical sectors; and (c) privatizing and financing urban environmental infrastructure expansion.

In response to India's worsening industrial pollution, the Government of India has issued a series of policies, laws and regulations to strengthen environmental standards for industrial operations. In compliance with these regulations and independent judicial actions, numerous firms ranging from large chemical manufacturers to small agro-processors are being threatened with closure (and some have been closed) due to violation of these standards. For many, compliance is greatly constrained by the limited availability of technologies in the local marketplace.

A MARKET MECHANISM FOR CLEANER AIR

Under USAID's Trade in Environmental Services and Technologies (TEST) Project, an Indian company recently entered into a joint venture with an American manufacturer of a variety of air pollution control equipment. This equipment has diverse applicability and wide acceptance in cement, steel, power and chemical industries and the estimated Indian market at this time is \$60 million. Facilities will be set up in India to respond to the demand for the design, supply, installation, initial operation and maintenance of different types of air pollution control equipment ranging from air filters and electrostatic precipitators to scrubbers. The equipment will decrease emissions of sulfur dioxide, nitrogen oxide, total suspended particulates, and other pollutants. By facilitating this joint venture relationship, USAID has established a self-sustaining market mechanism which will contribute to cleaner air in India, with benefits to the wider global community.

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To address this problem, we are creating sustainable solutions to industrial pollution through liberalization of policies affecting technology transfer; information dissemination to Indian industry from the largest to smallest - on the range of productivity and profit enhancing and environmentally-sound technologies and services that are available in countries such as the United States; and technological cooperation through business collaborations (joint ventures, purchases/ sales, or other mutually-beneficial relationships). We already have some outstanding examples of how commercial ventures create long-term sustainable linkages and have a real impact on air pollution abatement. By contributing to the successful launching of the still nascent environmental service industry, the strategy will provide the basis for strong growth long after our intervention is completed.

We also plan to develop a specific project to improve air quality in India through increased pollution prevention and control. The project will select those critical environmental problems which spill beyond India's borders and work in a close partnership with both the public and private sectors to design and execute interventions to address those problems. It will work at the policy, technology and operational levels to ensure success in pollution prevention in key sectors, such as transport. Among the environmental problem areas we might address are those associated with use of leaded gas in all forms of motorized transport.

To protect the environment, USAID is working with city planners, capital market policy makers, and business leaders to privatize and finance urban environmental infrastructure and services (such as solid waste disposal) and improve air quality. In demonstrations in two-three cities, we hope to prove that the capital markets can be tapped to help meet the environmental needs of congested urban India.

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ENHANCING ENERGY EFFICIENCY

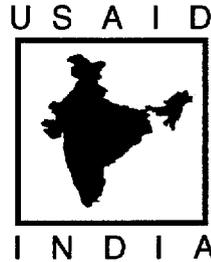
Given the close relationship between power and greenhouse gas emissions, enhancing energy efficiency may be the single most important action India could take to reduce global warming. Yet there are a host of policy, institutional and technological factors which interact to make changes in the power sector very difficult. Fortunately, we have programs in place which will help to enhance the production, transmission/distribution, and use of energy.

On the policy side, undoubtedly the decision to allow private participation in power

CLEAN POWER THROUGH CLEAN COAL

USAID is sponsoring an Indo-American research consortium of private firms and national laboratories to develop an advanced coal beneficiation demonstration plant to supply the needs of India's power sector. This demonstration project will wash more than 200 tons of coal per hour and supply the output to a nearby Indian power plant. The coal will have an ash content of 45 percent before washing and only 25 to 30 percent after processing. Data generated will prove the economic benefits of this environmentally-sound technological advance - washed coal will weigh less to transport, produce higher heat value, and produce significantly less flyash emissions. Private investments in power generation in India will be strongly enhanced by the provision of such cost-efficient and environmentally-friendly technologies.

generation in India will have the most salutary impact on clean power. Private developers will be given financial incentives to produce power with plant load factors much higher than the average plant load factor of the state electricity boards. Government decisions to withhold financing to state electricity boards until their technical and operational performance improves is a second policy reform in favor of clean power. USAID is supporting efforts to implement both of these policy reforms and will continue to do so in the years ahead.



On the technology side, we are accelerating the development and absorption of new and relevant energy technologies. All of the energy research undertaken will result in reduced emissions, greater efficiency in the generation and transmission of energy, or both.

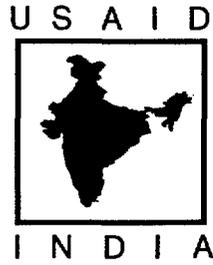
We also intend to develop a new project targeted exclusively on reducing greenhouse gas emissions in India. It will focus on making the energy sector more efficient and less polluting. Activities may include: (a) demand side management for the power sector; (b) support for clean coal technologies through research and its adoption in production systems; and (c) dissemination of technologies for renewable and non-renewable energy production and use.

STRENGTHENING BIODIVERSITY PRESERVATION

The preservation of India's extremely rich biological resources is necessary for the good of the global, regional, national and local communities. While pressures to destroy Indian biodiversity are great and some of them can be mitigated, population growth and concomitant pressures on land resources will mean that the preservation of genetic material is a priority.

Most centers of genetic diversity lie in Third World countries, surrounded by exploding populations searching for firewood, food, and land. The value of genetic diversity has been noted, of course, by those who invest in global agriculture as well as by plant geneticists. For that reason, there is now another source of diversity: the gene banks. The current system is in scandalous condition, insufficient government attention and money, little coordination between different repositories, grossly inadequate protection and maintenance of national collections, and a missing sense of urgency where such a precious resource is concerned - especially with respect to the many vegetables and grains that presently play a smaller role in world agricultural trade and thus at even greater risk.

*Al Gore in Earth in the Balance
Vice President of the United States of America*



We are supporting a program intended to preserve much of India's great bank of plant germ plasm, particularly for use in sustaining advances in agriculture. We are developing the physical, administrative and technical resources to manage a national system which sustains all aspects of exploration, collection, preservation and exchange of germ plasm and to enhance India's regional and global capabilities in this area. This program is constructing the world's largest genebank.



7. PROGRAM APPROACHES

The USAID program in India has evolved over time to changing US foreign aid priorities, Indo-US bilateral relations, and India's internal socio-economic needs and policies. By the early part of the 1990s, we concluded a decade of assistance in the agriculture, irrigation and forestry sectors. In 1992, we prepared a new program strategy in response to India's bold new free-market economic reforms and opportunities to influence the direction of family planning in India. This Strategic Framework has been formulated in response to new foreign aid priorities. Specifically, we are giving much greater attention to protecting India's environment and empowering women.

However, we have been careful not to discard the inherent strengths of our programs, based on years of experience in what works in India. For example, we continue to focus on results, not the mere provision of inputs. We have taken our successful experience with Performance-Based Disbursement systems in the irrigation portfolio and applied the principles to our new family planning program. We have also taken our unique joint-venture private sector partnerships and redirected them to development problems associated with the environment. Likewise, we are also using our close relations with the financial community to leverage resources to protect the environment. And finally, we are proposing to work with CARE, our PVO partner in India for the past forty years, to move in directions which more closely support a demographic transition in northern India.

Below is a discussion of program approaches which are particularly important to the new USAID: Program integration and focus, partnerships, participation, and measuring results. We then end this section with a discussion on USAID being relevant in India's unique development setting.

A. PROGRAM INTEGRATION AND FOCUS: Given the size of the Indian economy and population, it is imperative that our program objectives



and interventions be integrated and focused on key obstacles to sustained development. Socio-economic development in India requires accelerated, broad-based economic growth to increase incomes, create jobs, and reduce poverty. However, to be sustainable, India's population growth rate must be stabilized, and its environment must be protected.

We have selected three program interventions to accelerate broad-based economic growth: Strengthening financial markets, deregulating enterprise, and accessing technology and business skills. The first two interventions are policy-oriented and interrelated, and will create the liberalized economic policy framework needed for equitable growth to occur. Yet without access to modern technology and business skills for smaller firms, India's production base will collapse, and the reform process will falter.

Introducing family planning innovations, empowering women, and upgrading child survival programs are the three interventions selected to help stabilize India's population growth rate. All are fundamentally interrelated. By providing family planning choices to women, they gain control over their reproductive lives and also enhance the survival rates of their children. By improving the status of women and increasing the chances of their children surviving, we are creating conditions in which family planning messages will be better understood and accepted.

The environment will be protected by improving air quality, enhancing energy efficiency, and strengthening biodiversity. The first two program interventions are interrelated; given the importance of energy production to air quality in India, as well as to global warming trends. Improved air quality also helps to conserve India's rich germplasm heritage.

Program interventions associated with one program objective assist the achievement of other program objectives. The attached matrix explains how.

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MATRIX OF PROGRAM INTEGRATION

	<u>Accelerate Growth</u>	<u>Stabilize Population</u>	<u>Protect Environment</u>
I. <u>Accelerate Growth:</u>			
A. Financial Markets	x	x 1_/	x 2_/
B. Deregulate Industry	x	x 1_/	x 2_/
C. Access Business / Technology	x	x 1_/	x 2_/
II. <u>Stabilize Population:</u>			
A. Family Planning Services	x 3_/	x	x 4_/
B. Child Survival	x 3_/	x	x 4_/
C. Empower Women	x 3_/	x	x 4_/
III. <u>Protect Environment:</u>			
A. Air Quality			x
B. Energy Efficiency	x 5_/		x
C. Biodiversity	x 5_/		x

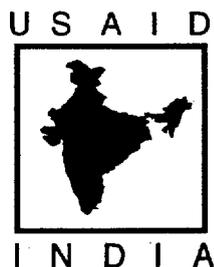
1_/ The strengthening of financial markets, deregulation of industry, and access to technology and business skills all lead to accelerated economic growth. In India, as elsewhere, higher standards of living tend to lead to smaller family size.

2_/ By creating debt instruments which will finance urban infrastructure and services for water, sewers, and solid waste disposal, we will be protecting the environment. Deregulating industry, by giving a greater role to market forces, will tend to conserve energy and raw materials inputs and minimize waste. Modern business skills and technology tend to be more efficient in the use of inputs and minimize pollution.

3_/ A rapid drop in fertility would start a virtuous circle in which household savings would rise; allowing greater investments in production and human resources development, thereby leading to accelerated economic growth. Child survival health programs and empowerment of women through education are both investments in human resources which lead to accelerated economic growth.

4_/ Improving family planning services and child survival programs and empowering women all help stabilize the population and thereby protect the environment.

5_/ Improved energy efficiency will lead to more reliable power which is directly related to accelerating industrial growth. Preserving biodiversity ensures germplasm necessary for long term agricultural growth.

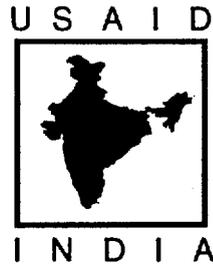


Two USAID projects in India do not closely fit our three program objectives but are important to continue in their own right. The first is the AIDS prevention and control program in Tamil Nadu which is addressing an important public health problem of direct and immediate concern to the larger global community.

The second is the humanitarian elements of the Catholic Relief Services Title II program which works through religious groups that minister to the poorest and most downtrodden people on earth. Approximately one-third of the food aid is of a clear humanitarian nature; going to, for example, Mother Teresa's Sisters of Charity, for urban hospices and orphanages. Another two-thirds goes for maternal-child care, school feeding, food-for-work, and other developmental purposes - largely in disadvantaged tribal areas of India. We plan to continue both the developmental and humanitarian aspects of the CRS program, which all Americans can be proud of.

B. PARTNERSHIPS. Our program in India has four broad categories of partners: The Government of India (at the national, state and local levels), the donor community, the private voluntary organizations (PVOs), and the private-for-profit sectors. The attached "Partnership Table" shows the financial contributions of these groups to each USAID project in India.

1. The Government of India. All USAID projects in India are approved by the Government before implementation proceeds. This implies agreement by the Department of Economic Affairs in the Ministry of Finance and the relevant technical ministry. After approval is obtained, there are a variety of implementation arrangements to draw upon. Some allow USAID to work with implementing partners directly, such as development finance institutions. Others allow collaboration with non-governmental organizations, but with a supervisory role assigned to the relevant technical ministry. As the "Partnership Table" indicates, approximately \$ 784 million



in host government contributions are made to our development projects in India.

2. The Donor Community. The donor community in India works within the framework of annual Consultative Group meetings, organized by both the World Bank and the Government of India. During these two-day sessions, which are normally held in Paris in early July, India's development problems and prospects are reviewed, donors express their views, and aid pledges are made.

This past year, at the behest of the United States and other concerned bilateral donors, the Consultative Group held a special session to discuss problems with aid utilization and the large pipeline of undisbursed foreign aid funds. The donor community has coalesced behind this issue and made progress with the Ministry of Finance to come up with practical solutions.

We work very closely with the donor community to leverage our modest resources in India. As the "Partnership Table" indicates, other donors are contributing more than \$1.4 billion to support several USAID projects. The Japanese are financing the construction costs associated with the creation of a National Institute of Biologicals which will ensure the quality of all vaccines and other biological products produced or imported into India. The World and Asian Development Banks are providing substantial sums for on-lending to state electricity boards for capital costs associated with technical assistance and training we will be providing through the Power Finance Corporation. The Asian Development Bank will be providing policy-based lending for capital markets reform, for which we will contribute technical assistance, training and studies.

Aside from strict cofinancing arrangements, we are also collaborating with other donors in areas of mutual interest. We work very closely with the World Food Program on food aid to India's Integrated Child Development



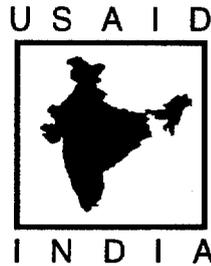
Services program. We are supporting the National Renewal Fund with PL 480 Title III local currency generations under a multi-donor package in which the World Bank is serving as the lead donor. We collaborate closely with both the World Bank and UNICEF on family planning and basic education programs for the State of Uttar Pradesh.

3. PVOs. We rely extensively on private voluntary organizations to administer our programs. CARE and Catholic Relief Services manage the very large PL 480 Title II program. Our partnership with them is extremely close and goes back many years. We jointly develop strategies, programs, budgets, monitoring plans, and evaluations to ensure the success of our common endeavors.

JOINT RESPONSE TO A CHANGING WORLD

CARE and USAID have been partners for over 40 years using food aid to address India's most important social problems. CARE assistance has evolved from refugee, famine and disaster relief to school feeding and now to supporting the world's largest child survival program over the last decade. Beginning with a CARE-USAID retreat in March, 1993, both organizations have been reconsidering the direction of their programs in India. Six months later, CARE/India hosted a regional conference to develop its strategy for the 1990s and beyond. As a result, the new goal of the CARE program will be to increase Indian women's control over their productive and reproductive lives. CARE and USAID believe that empowerment of women is key to sustainable development in India.

Our health portfolio relies heavily on the special strengths that indigenous PVOs have. The Innovations in Family Planning Services Project has established an independent Society with Indian PVO representatives on its



governing board to direct implementation. Many PVOs will be supported to improve access, quality and demand for family planning services in hard-to-reach areas of this populous state. We have also decided to implement our AIDS control program in Tamil Nadu through Voluntary Health Services, a local PVO. Likewise, under the PVO-Health I and II Projects, we are dealing exclusively with Indian PVOs to deliver primary health care services throughout India. Largely as a result of the success with this program, the Ministry of Health and Family Welfare has decided to allocate a full 20 percent of all its budget through indigenous PVOs.

Our collaboration with PVOs are not restricted to the health and food aid portfolios. We created a private voluntary organization, known as the Center for Technology Development, to serve as a linkage between national laboratories, universities and private companies to develop technology necessary for economic growth in the Bangalore region of India. We are supporting business associations as part of our efforts to liberalize the Indian economy and expect to work with environmental PVOs more as we expand our efforts to protect the Indian environment.

4. The Private-for Profit Sector. One of the unique features, and strengths, of the USAID program in India is its partnerships with the private sector. Beginning with the PACT program in the mid-1980s, we have encouraged joint ventures between Indian and American companies to address important development problems facing India. PACT helped to establish a culture of research and development in the private sector to improve the competitiveness of Indian products. The PACER Project followed and promoted joint collaborations not only among private companies but also partnerships with national laboratories and universities to develop appropriate technologies which increase energy efficiency in India and protect the environment. We are now employing these modalities to accelerate economic growth through agribusiness expansion (ACE) and

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to improve air and water quality by the adoption of industrial pollution abatement technologies (TEST).

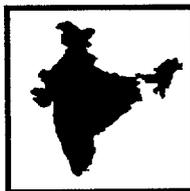
PRIVATE PARTNERSHIPS FOR ENERGY EFFICIENCY

USAID is supporting India's first Energy Service Company (ESCO) as a joint venture between a leading American firm in the field and an Indian engineering company. This joint venture will respond to the rapidly growing demand in India for technical assistance and finance to better conserve energy. The ESCO will identify opportunities for energy conservation and provide complete packages of design, engineering, installation and maintenance services for industrial, commercial, and institutional customers. It will also arrange financing for energy efficiency investments and put up its own funds in exchange for anticipated revenues from energy savings.

We are also creating partnerships with financial institutions to achieve development objectives in India. Housing finance companies are providing mortgages to low and medium-income households. Capital market financial institutions will soon be in the business of providing urban environmental infrastructure and services. An automated exchange is being launched to permit small companies to access the resources available on the capital markets.

Partnerships with the private sector in public health is also possible. We will be working with the private sector to promote the social marketing of contraceptives in the State of Uttar Pradesh. We will explore other means whereby the commercial sector can help satisfy the massive needs for family planning services throughout India. AIDS is another public health problem area where a more activist role for the private sector may be possible.

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PARTNERSHIP TABLE

(Figures in 000 of U.S. Dollars)

PROGRAM OBJECTIVE/ PROJECT	USAID CONTRI- BUTION	GOI CONTRI- BUTION	PRIVATE SECTOR	PVO SECTOR	OTHER DONORS	TOTAL PROJECT COST
I. Accelerated Economic Growth						
1. TASP	18,000		6,000			24,000
2. FIRE/HG	145,000	7,000	125,000		250,000	527,000
3. Housing Finance Expansion	359,700	1,500				361,200
4. PACT	21,200		30,000			51,200
5. CTD	10,000	200	7,200	10,000		27,500
6. ACE	20,000		10,000			30,000
7. IPPI	5,000	500			22,000	27,500
8. PL 480 Title III	48,000				400,000	448,000
II. Stabilizing Population						
9. IFPS	325,000	400,000			35,000	760,000
10. PVOH II	10,000	500		2,900		13,400
11. QCHT	13,300	23,900			50,500	87,700
12. PL 480 Title II - CARE & CRS: Non-Humanitarian	69,500			1,800		71,300
III. Protecting the Environment						
13. PGR	18,700	9,300				28,000
14. TEST	25,000		20,000			45,000
15. EMCAT	20,000	6,700			515,000	541,700
16. PACER	20,000		20,000			40,000
IV. Outliers						
17. APAC	10,000	7,000			91,000	108,000
18. PL 480 Title II - CRS: Humanitarian	5,500	327,000			46,000	378,500
TOTAL	1,143,900	783,600	218,200	14,700	1,409,500	3,570,000

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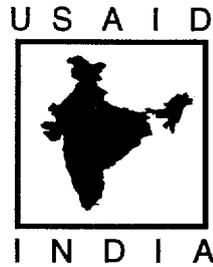


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C. PARTICIPATION. Citizens from northern India just exercised their franchise to vote for representatives to their local parliamentary assemblies. These special elections were the direct outgrowth of recent civil disturbances over disputed temple land which both Indian Muslims and Hindus claimed as sacred and which threatened communal harmony throughout the entire subcontinent. That one hundred million voters, representing all walks of society, voted peacefully is powerful testimony to India's long-standing democratic tradition. At the same time, the religious dispute reminds us that Indian social structure is exceedingly complex and steeped in a history which is measured in millennia, not centuries.

On the one hand, India represents the world's largest experiment in democracy in which voices are heard from all levels of society and from the entire spectrum of special interest groups. There are literally thousands of non-governmental organizations that are engaged in giving voice to their memberships. Many are actively involved in development. At the same time, India also represents both feudal and hierarchical traditions that remain strong. These traditions are reflected in a highly centralized bureaucracy; made more formidable during the long years of socialist rule when the government took over the "commanding heights" of the economy. This bureaucracy also took on a paternalistic pattern in dealing with important social issues, such as family welfare, public health and education.

Participatory development takes on a special challenge in such a setting because of the truly democratic nature of the Indian political system; contrasted with hierarchical, paternalistic administrative practices. The challenge is to reinforce the former and attempt to change the latter through successful example. USAID/India's strategy to promote participatory development, therefore, is to secure central government support and approval for all activities, but then rely on non governmental channels to ensure that the people affected by our programs are actively involved in



shaping them. We do this through five program implementation guidelines:

- We work with non-governmental organizations to the greatest degree possible. We are quite proud of the fact that more than four-fifths of USAID assistance to India supports non governmental organizations ranging from private-non-profit to the private-for-profit sectors.

- We have formed advisory councils for many of our projects which provide representatives from private voluntary organizations and business leaders “a seat at the table” to actively guide our programs and provide a perspective that would be lacking with just a bilateral government-to-government relationship.

- We draw on local expertise from academic institutions, think-tanks, research organizations and other professional groups to help design and implement our programs. Most of this assistance is in partnership with counterparts from the United States to provide new ideas, techniques and perspectives.

- We have formed alliances with important Indian special interest groups to build consensus on economic and social reforms and engage in a policy dialogue with the government to allow greater freedom in economic and social affairs.

- We are beginning to make a concentrated effort to better empower women to have greater control over their productive and reproductive lives as the surest means for achieving sustainable development in India over the long run.

These five implementation guidelines are applied as appropriate in each of the three program objectives described in this Strategic Framework.



Participation is a key ingredient in achieving our population objectives in India because family planning services, child survival programs, and the empowerment of women require strong community involvement to succeed. Some examples of our successes, and remaining challenges, follow:

The Innovations in Family Planning Services Project is built around the principle of participation in an effort to reverse the top-down, rigid, unresponsive approaches of the conventional government-dominated family planning programs. We have been successful in gaining acceptance for participation by leaders of the PVO community on the Board of Governors of the independent implementing Society and have been equally successful in gaining acceptance to support participation in individual project activities themselves. For example, *Mahila Mandals* (which are women's organizations) will be working closely with the Government's auxiliary nurse midwives to design and implement outreach family planning services for their members in thousands of villages throughout Uttar Pradesh. At the same time, the government bureaucracy continues to play an overly dominant role in many decisions which should be left to local communities. USAID will be constantly striving to reduce and diminish that role in the years ahead.

The Integrated Child Development Services Program was conceived as a community program. Where community involvement is working as intended, ICDS villages select volunteer female workers, who live in the communities they serve, to manage child care activities in which the Title II food we provide is an important element. Village women, adolescent girls, and community leaders help in conducting *anganwadi* activities (*anganwadi* literally means a village courtyard play center). The communities contribute the land, or home for the *anganwadi* center, firewood/fuel, and occasionally vegetables. Since apolitical community representation right from the preparatory stage needs strengthening, USAID is encouraging CARE and the Government of India to tap the full potential of community participation.

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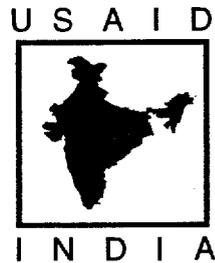
Towards this end, CARE will, in collaboration with the state governments, strive towards increasing the role of Indian PVOs in the implementation of the ICDS program. Since decentralization of this program is pivotal to its effectiveness in addressing local priorities and to long-term financial sustainability, we will pay particular attention to the issues associated with participation as we conduct periodic impact assessments.

CRS AND PARTICIPATORY DEVELOPMENT

Catholic Relief Services relies heavily on local participation for the success of its Title II food aid programs. As an example, CRS' Food-for-Work program was central to achieving economic self-reliance for a community of Vankars in the State of Gujarat. The Vankars are a scheduled cast and are educationally, socially and economically backward. They acquired 182 acres of saline land from Gujarat in the late seventies. The community contacted St. Xavier's College in Ahmdabad and, with its help, formed a cooperative to produce firewood and charcoal. However, before starting the plantation, dikes had to be built to keep the sea out.

CRS's Food-for-Work program

provided a resource to construct the dikes, build an access road, and plant trees. After selecting an appropriate tree which was highly saline resistant, Food-for-Work made it possible to enclose 135 acres of land with six foot protective dikes and nurture thousands of saplings for the plantation. In the early stages of the cooperative, cash was not available to pay for this work. Title II food provided the "risk capital" that was necessary to launch the cooperative. Following its success, several other cooperatives were formed with Food-for-Work assistance. All have now formed a federation which provides financial and economic support to other disadvantaged communities.

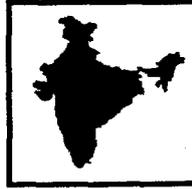


Participatory development is also a central tenant of our Private Voluntary Health and AIDS Prevention and Control Projects. In both cases, all assistance is channeled through private voluntary organizations to assist hard-to-reach and underserved communities throughout India. In the former case, we have established a system of solicitation for the best proposals from a wide assortment of voluntary organizations engaged in community-based public health services. In the latter case, we will be working through a respected voluntary health organization in Tamil Nadu, and in turn it will make subgrants to numerous smaller local PVOs.

As noted earlier, USAID is committing itself to taking a more active role in empowering women to have greater control over their productive and reproductive lives. CARE will be our primary partner in this new venture, but not our only one. We will look for ways in which gender issues can be used in our programs to accelerate broad-based economic growth and protect the environment. For example, we need to reach out to female entrepreneurs to a greater degree to ensure that they are fully aware of the numerous programs we have in place to access American technologies and modern business management practices. Women could also play a greater role in our efforts to protect the environment, for example in promoting greater conservation of energy.

Participatory development is a central theme of all our efforts to accelerate broad-based economic growth in India. It is both a means and an end to our assistance to liberalize the Indian economy. It is an end in the sense that the purpose of deregulating the economy is to give people greater control over their economic lives. This is an inclusive strategy and is not targeted only on the business elites, but businesses of all sizes.

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Participatory development is also a means in the sense that we have allied ourselves with various interest groups to develop a consensus on the need for economic reforms, to design and implement programs which result in the further deregulation of the economy, and to lobby the Government of India for change.

Two examples demonstrate how participatory development is important in our efforts to strengthen financial markets in India. Under the housing finance system expansion program, one of our goals is to reach lower income groups. Yet the credit worthiness of poor urban dwellers is a real issue. We will therefore seek to enlist community organizations to take responsibility for group-lending operations. Secondly we have built elements of participation into the Financial Institutions Reform and Expansion Project by creating an advisory council representing members of India's capital markets to help guide program execution; and by encouraging the formation of self-regulating organizations to assure that capital market institutions are accountable to end-users.

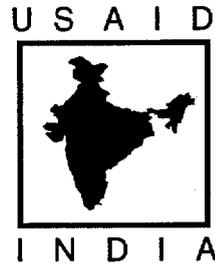
To support enterprise deregulation, we have tried to build a broader consensus on the need for economic liberalization as well as to cast our net widely for indigenous expertise to analyze the need for and options available for global integration. In one instance, we made a major grant to an apex business association which wanted to better educate its membership throughout India on the importance of economic reforms and to identify remaining obstacles faced by local business leaders. In another case, we are supporting analyses by local research organizations on remaining impediments to greater flows of trade and foreign investment into India. In the future we may want to reach out to other groups (such as labor unions) which have generally resisted the opening up of the Indian economy to see if there is a constructive role we can play to make them better appreciate the need for industrial deregulation.



We have used advisory councils extensively to help guide projects which seek to access technology and business skills to accelerate broad-based economic growth. For example, the PACT Advisory Council was a particularly active group which provided the project with sound advice on how to structure and implement what has been one of our most successful endeavors. We have formed a similar council for the Agricultural Commercialization and Enterprise Project to guide our efforts in agribusiness development. USAID is also supporting a local chamber of commerce in the State of Maharashtra to mobilize local leadership to support the ACE Project and identify policy barriers which hinder the tremendous potential for horticultural development in their state. And finally the entire Center for Technology Development Project is an exercise in participatory development to mobilize local groups in a defined geographical area to better utilize technology for regional growth. In the years ahead, we will make greater efforts to ensure that smaller-sized firms have equal access to the opportunities provided by these projects.

Protecting the environment in India relies heavily on active environmental private voluntary organizations to raise awareness in India about the dangers associated with depleting the natural resource base. As in other countries, this has resulted in actions taken by the government to set environmental standards and enforce compliance. USAID has then stepped in with technology and policy options to both improve air quality and enhance energy efficiency. In the future, consistent with efforts to play a greater role in India in environmental protection, USAID will seek to develop a closer relationship with environmental activists to better understand the dynamics associated with protecting India's environmental base.

As mentioned earlier, USAID is in the process of formulating an environmental strategy for the years ahead. We are actively soliciting the views of

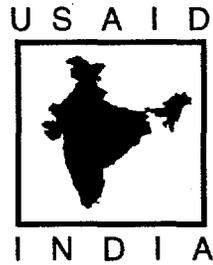


a wide range of environmental activists, research organizations, business leaders and public sector decision-makers on what they believe are the most important problems that USAID could tackle. We have also teamed up with Indian research organizations to better appreciate the local factors affecting the balance between economic growth and preservation of India's natural resource base.

Yet participatory development has already played an important role in furthering our environmental objectives. We have, for example, formed an advisory council to guide the TEST Project and included representatives from both the Indian and American non-profit and for-profit sectors on the council. We will also be forming alliances with important business associations in India to help build a consensus in the industrial community on the importance of reducing industrial pollution. Likewise such alliances will help further efforts to better conserve energy use in the industrial sector. In the development of the Financial Institutions Reform and Expansion Project, RHUDO organized a series of regional and national policy workshops on the role of cities in the management of India's urban environment. These workshops provide a classic example of how to build a national consensus in India and develop a solid basis for "ownership" as the FIRE Project moves ahead into implementation.

D. MEASURING RESULTS. Once this strategic framework is approved, and our expanded environmental strategy endorsed by Washington, we will begin the PRISM exercise. Scopes of work and team composition are presently under discussion. We would hope to have the PRISM exercise completed by February, 1994, for Washington review.

Aside from PRISM itself, it is important to note that the USAID program in India is very results-oriented. Over the years, we have pioneered the use of "Performance-Based Disbursement" as a mechanism to ensure that our



projects are achievement oriented. For example, over the decade of the 1980s, USAID financed small-scale irrigation systems throughout India. However, we only disbursed funds when the ultimate objectives of those systems were achieved: That is, water was flowing onto farmer fields, the water was being used for agricultural purposes, and the farmers were organized to operate and maintain these systems.

We are employing this disbursement system again in our important family planning project. We have concluded that USAID should only disburse project funds when important development outcomes have been accomplished. For example, the local private voluntary organization component of the project is fairly typical of how funds will flow. The first tranche of funds will be released after strategic plans, meeting predetermined criteria, have been developed. These criteria define what is required in the plan to launch high-quality family planning services utilizing a variety of PVOs. Subsequent releases of funds will be made after pilot efforts have been tried, and, then again, after large-scale replication of successful approaches. At each stage in the project, assessments will be made to ensure that all criteria have been satisfied before payments are made. Payments have a basis in costs and will increase as the program demonstrates its ability to have impact.

We also insist on accomplishing results when we sign contracts and grants with various parties. All of our contracts, grants and cooperative agreements are written according to performance-based principles and establish a results-oriented framework for carrying out and monitoring the contracted assistance.

Evaluations have an important role in our Mission too. We have used them successfully as a tool for taking stock of project accomplishments and failings. For example, the recently concluded mid-term evaluation of the Center for Technology Development Project found that private companies

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were not sufficiently represented on the various committees which oversee CTD activities. We therefore used this assessment to prevail on the CTD leadership to increase private representatives on its guiding bodies.

E. ON BEING RELEVANT.

USAID is a minor donor in a very large economy with massive poverty. More so than in other development settings, we must constantly ask ourselves whether we are relevant and do we have a development impact. Our record indicates that the answer is affirmative. The accompanying "window" provides one example of how USAID created a venture capital industry in India. An earlier discussion in this Strategic Framework also described how we established a private housing finance system in India. There are many more examples of solid accomplishments with spread effects.

USAID SPAWNS VENTURE CAPITAL INDUSTRY

When the PACT Program began in 1986, venture capital was unknown in India. As a result of PACT's success, there are now ten venture capital companies operating with over \$100 million in funds. Three-quarters of these funds help small and medium enterprises. And as a result of the experience gained from managing PACT, USAID's partner, the Industrial Credit and Investment Corporation of India (ICICI), helped the Government establish guidelines for the entire venture capital industry in India. Currently, the ten venture capitalists have formed an association which is negotiating refinements in these guidelines.

The principle of partnerships is particularly important if we are to remain relevant in India. As the "Partnership Table" demonstrates, for every dollar of USAID assistance provided to India, we have a multiplier of three in leverage from the Government of India, the donors, the PVO community, and the private commercial sector.

Being strategic is another important principle we follow so that we remain

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relevant in India. We carefully select narrow sectors where significant payoffs exist beyond the project. For example:

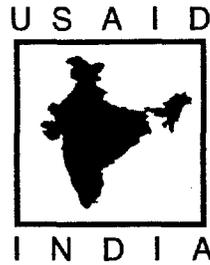
- We are contributing to global population control by focusing on northern India, where fertility rates are highest, and working in only one state to serve as a model and demonstration site.

- We are helping India address its power generation needs (which are massive) by creating conditions in which private investors will come forward. There are presently proposals worth over \$40 billion being considered, and our assistance under the Indian Private Power Initiative is a mere \$5 million.

- The pressures of “genetic erosion” are great in India. Yet with a modest investment of \$19 million, we are creating an institution which will preserve the rich germplasm heritage of all South Asia in perpetuity.

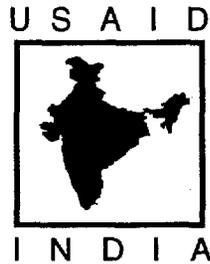
- The investment needs of India are massive for housing, industry, agriculture and services. Yet India’s relatively high household savings rate is not being captured to address these needs. We are, therefore, trying to strengthen India’s financial markets so that a modest level of USAID resources (primarily for technical assistance and training) will result in productive investments worth billions of dollars.

- The “cleanup” needs for India’s environment are considerable. Yet we are mobilizing resources from the private sector to invest in joint ventures to clean up India’s polluted air and water. We are also creating markets for urban environmental expansion through the mobilization of private capital within India.



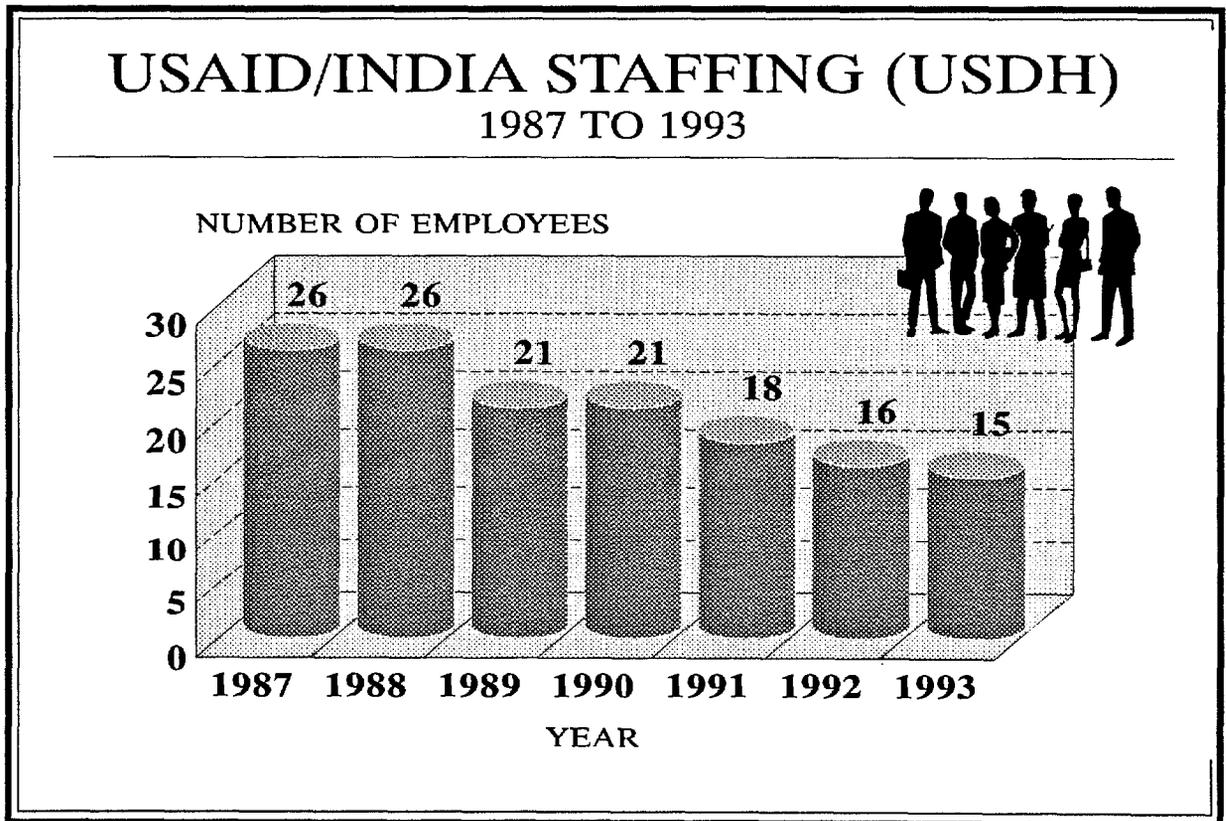
A last important principle on remaining relevant in India is to focus on a few key strategic objectives with a few important programs. The Asia Bureau presented us with its first "Focus and Concentration" Award two years ago for reducing our strategic objectives from five to three. In this effort, we terminated 10 projects in two sectors we had been supporting for over a decade. We now have 15 active projects in India, where we had 20 in 1987, and expect to further reduce the number to 12 within three years time and to 7 by the end of the decade. We have also sought to reduce the number of implementation units in our project portfolio. For example, the Water Resources Management and Training Project, which terminated last year, involved management oversight for 27 different in-country institutions. Our newer portfolio involves far fewer counterparts.

However, being relevant in India does not therefore imply that further concentrating the USAID program in just one sector makes sense. As described above, our program objectives are interrelated and are mutually reinforcing. We would lose credibility with the Government if we were to concentrate solely on population stabilization or environmental protection. In either case, our motives and interests would be suspect which would make the implementation of our program that much more difficult.



8. PROGRAM RESOURCES

A. Staffing. Throughout the years one thing has remained constant: The continuing need to do “more with less” and the need to “rightsize”. Over the past seven years, our US direct-hire staff has continued to decline: Staff working on the bilateral AID program in India was 26 in 1987 and is now 15 (exclusive of a RHUDO staff of two which covers all of South Asia). As the American staff has declined, we have come to rely much more on Foreign Service National employees. Unfortunately, rigidities in the US Government’s personnel systems prohibit us from better utilizing this cost-effective human resource pool.



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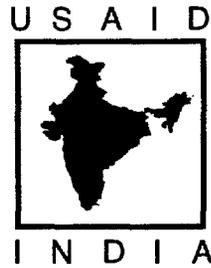
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B. Budget. *We face an immediate budget crisis on the Development Assistance account in India.* USAID/India has moved from a situation just two years ago when we were relatively “resource rich”, to one of immediate cash flow problems. Severe cuts in the budget (both new obligating authorities and reobligations) have effectively reduced USAID/India’s Non-Population assistance levels in FYs 1993 and 1994 to nearly half the levels available in FYs 1991 and 1992.

One cause of this budget shortfall has been our inability to recapture \$14 million in FY 1992 and 1993 deobligations which resulted from efforts to “focus and concentrate”. Although we plan to continue to concentrate resources so that there will be half the number of projects currently in our portfolio by the year 2000, the immediate funding crisis is slowing project implementation today. For example, the PACER Project cannot introduce clean coal washing into the power sector (which would have a direct and immediate impact on global warming) until we receive our FY 1994 budget allotments.

It will not be possible to finance the programs suggested in this Strategic Framework unless there is an increase in Development Assistance (Non-Population) funds. The attached Proposed Strategic Investment Plan, with accompanying graph, shows the levels of resources required. These funds would be used almost exclusively to finance environmental initiatives that would benefit both India and the larger global community. This increase in Development Assistance includes a significant commitment to the Global Environmental Facility (GEF). In many ways, this proposed increase is analogous to decisions made two years ago to increase population funds for India in recognition of its importance to global demographic trends.

Aside from additional environmental funds, we may need more food aid. The redirection of the CARE Title II program will require additional



resources in the years ahead to expand into northern India, redirect efforts to have a greater impact on the empowerment of women, and improve the regular Integrated Child Development Services Program. We estimate the size of this increase to be in the fifteen percent range over the next several years.

Over the past two years, we have had a very successful PL 480 Title III program. This was the first program food aid in India since the Title I programs ended in the 1970s. Our accomplishments are many: We introduced a free-market, open auction of edible oil into India; and generated local currencies which are supporting both economic liberalization and agribusiness development. While we are not proposing any additional Title III resources because good monsoons and favorable edible oil crops reduce the need for edible oil imports, conditions could change in the years to come which would result in (a) the need for food imports; and (b) an important economic policy reform agenda. If these two conditions occur, we would submit a proposal for another Title III program in India.

In summary, we will need Development Assistance levels of approximately \$ 52 million per year for the rest of the decade. Lower levels would inhibit our ability to take a more active position in protecting India's environment. We are also projecting a modest 15 percent increase in Title II resources to allow CARE to expand in important new areas. Finally while not making a formal request for a PL480 Title III program here, we would like to reserve the option of submitting a proposal should the need arise, and the program be available.

PROPOSED STRATEGIC INVESTMENT PLAN
(Millions of Dollars)

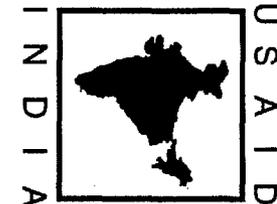
Program Objective/ Active Bilateral Projects	Current PACD	Proposed PACD Extension	Thru FY 93	Mortgage 09/30/93	OBLIGATIONS								TOTAL
					FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 2000		
ACCELERATED ECONOMIC GROWTH A/													
Technical Assistance & Support Project	9/30/96	9/30/99	14.80	3.20	2.05	2.15 A/	3.00	3.00	3.00	2.00	0.00	30.00	
Financial Institutions Reform & Expansion	9/30/98	-	2.00	18.00	2.00	4.00	5.00	6.00	1.00	0.00	0.00	20.00	
Housing Finance System Expansion Prog	9/30/96	-	2.10	2.20	1.00	1.20	0.00	0.00	0.00	0.00	0.00	4.30	
Prog. for the Advancement of Comm. Tech. Center for Technology Development	7/31/95	-	21.02	0.20	0.20	0.00	0.00	0.00	0.00	0.00	0.00	21.22	
	7/31/95	7/31/97	5.00	5.00	1.25	2.25 B/	1.50	0.00	0.00	0.00	0.00	10.00	
Agricultural Commercialization & Enterprise	9/30/98	-	7.20	12.80	1.00	3.00	3.00	4.00	1.80	0.00	0.00	20.00	
India Private Power Initiative	9/30/95	-	3.00	2.00	0.50	1.50	0.00	0.00	0.00	0.00	0.00	5.00	
Proposed New Start (In FY 1996)	9/30/02	-	0.00	0.00	0.00	0.00	2.00	2.00	3.00	6.00	5.00	18.00	
Proposed New Start (In FY 1998)	9/30/04	-	0.00	0.00	0.00	0.00	0.00	0.00	2.00	3.00	6.00	11.00	
Housing Guarantee Program	n/a	-	215.40	0.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	355.40	
PL 480 Title III	n/a	-	48.00	0.00	0.00	0.00	25.00	25.00	25.00	0.00	0.00	123.00	
Subtotal			318.52	43.40	28.00	34.10	59.50	60.00	55.80	31.00	31.00	617.92	
STABILIZING POPULATION													
Innovations in Family Planning Services	9/30/02	-	30.00	195.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	170.00	
Private Vol. Organizations for Health-II	8/31/97	-	10.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	10.00	
Quality Control of Health Services	9/30/98	9/30/99	5.00	6.30	0.00	0.00	0.00	3.00	4.20 B/	1.10	0.00	13.30	
PL 480 Title II (CAPE & CRS (Non-Humanitarian))	n/a	-	n/a	0.00	69.50	77.80	77.80	77.80	77.80	77.80	77.80	536.30 C/	
Subtotal			45.00	203.30	89.50	97.80	97.80	100.80	102.00	88.90	97.80	728.60	
PROTECTING THE ENVIRONMENT													
Prog. for Acceleration of Comm. Energy Res.	6/30/96	-	14.79	5.21	2.51	2.70	0.00	0.00	0.00	0.00	0.00	20.00	
Plant Genetic Resources	9/30/97	-	14.70	4.00	2.50	1.50	0.00	0.00	0.00	0.00	0.00	18.70	
Energy Mgt. Consultation & Training	3/31/97	-	7.16	12.84	1.30	4.10	6.00	1.44	0.00	0.00	0.00	20.00	
Trade In Env. Services & Technologies	9/30/97	9/30/99	6.20	18.80	1.40	2.30	4.00	4.00 B/	6.00	1.10	0.00	25.00	
Global Environment Fund (GEF)	9/30/99	-	0.00	0.00	4.00	4.00	4.00	4.00	4.00	0.00	0.00	20.00	
Environmental Protection Initiative	9/30/00	-	0.00	0.00	0.00	3.00	4.00	4.00	5.00	7.00	2.00	25.00	
Proposed New Start (In FY 1997)	9/30/03	-	0.00	0.00	0.00	0.00	0.00	2.00	3.00	6.00	6.00	17.00	
Proposed New Start (In FY 1999)	9/30/05	-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.00	5.00	8.00	
Subtotal			42.85	40.85	11.71	17.60	0.00	18.00	15.44	18.00	17.10	153.70	
PROJECTS NOT CONTRIBUTING TO THE ABOVE OBJECTIVES, BUT ARE IMPORTANT TO CONTINUE													
AIDS Prevention and Control	9/30/99	-	3.32	6.68	0.05	0.30	1.50	1.58	2.00	1.27	0.00	10.00	
PL 480 Title II (CRS Humanitarian)	n/a	-	n/a	0.00	5.50	5.50	5.50	5.50	5.50	5.50	5.50	38.50 C/	
Subtotal			3.32	6.68	5.55	5.80	7.00	7.06	7.50	6.77	5.50	48.50	
TOTAL PROJECTED DA			148.29	294.23	38.78	52.00	54.00	55.00	55.00	50.47	44.00	496.52	
- POP			(30.40)	(186.60)	(20.05)	(20.30)	(20.50)	(20.75)	(20.00)	(20.00)	(20.00)	(172.00)	
- NON-POP			(115.89)	(97.63)	(19.71)	(31.70)	(33.50)	(34.25)	(35.00)	(30.47)	(24.00)	(324.52)	
TOTAL PROJECTED NON-DA			263.40	0.00	95.00	103.30	128.30	128.30	128.30	103.30	103.30	1,053.20	

A/ Add-on of \$12.0 million proposed in FY 1995 with PACD extension to 9/30/1999.

B/ PACD extension only.

C/ Reflects total from FY 1994 through FY 2000.

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PROPOSED STRATEGIC INVESTMENT PLAN (DEVELOPMENT ASSISTANCE)

