

***The Last Mile:
Completing the Development Agenda***

***USAID India
Country Strategic Plan
FY 2003 – 2007
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TABLE OF CONTENTS

Section One

The Challenge	1
Priority Needs	3
USAID's Past Investments	5
Assumptions	6
The New Strategy	7
The Long Term Vision	17
Financial Resources and Implementation Arrangements	18
Conclusion	18

Section Two

The Strategic Framework	19
Introduction to Section Two	20
Link to Agency Strategic Goals	20
Link to US Mission Program Goals	20
The Strategic Objectives	21
Strategic Objective 1: Increased Transparency and Efficiency in the Allocation and Mobilization of Resources in Selected States	22
Problem	22
Constraints	22
Rationale	26
Comparative Advantage	26
Assumptions	27
Target Groups	27
Geographic Focus	27
Impact Measurement	28
Intermediate Results	28
Relationship to Other Strategic Objectives	32
Donor Coordination	32
Strategic Objective 2: Improved Health and Reduced Fertility in Targeted Areas of India	34
Problem	34
Constraints	36
Rationale	38
Comparative Advantage	39
Assumptions	39
Target Groups	40
Geographic Focus	40
Impact Measurement	41
Intermediate Results	41
Relationship to Other Strategic Objectives	44

Donor Coordination	45
Strategic Objective 3: Reduced Vulnerability to Disasters in High Risk Areas	46
Problem	46
Constraints	46
Rationale	47
Comparative Advantage	47
Assumptions	48
Target Groups	48
Geographic Focus	48
Impact Measurement	49
Intermediate Results	49
Relationship to Other Strategic Objectives	52
Donor Coordination	52
Strategic Objective 4: Improved Access to Clean Energy and Water in Selected States	54
Problem	54
Constraints	55
Rationale	56
Comparative Advantage	56
Assumptions	56
Target Groups	57
Geographic Focus	57
Impact Measurement	58
Intermediate Results	58
Relationship to Other Strategic Objectives	60
Donor Coordination	61
Strategic Objective 5: Enhanced Opportunities for Vulnerable People	62
Problem	62
Constraints	65
Rationale	66
Comparative Advantage	67
Assumptions	67
Target Groups	68
Geographic Focus	68
Impact Measurement	68
Intermediate Results	69
Relationship to Other Strategic Objectives	71
Donor Coordination	72

GLOSSARY OF ACRONYMS

ADB	Asian Development Bank
AIDS	Acquired Immune Deficiency Syndrome
ANE	Asia and Near East
AP	Andhra Pradesh
APAC	AIDS Prevention and Control Project
AWCs	Anganwadi Centers
CAA	Children Affected by AIDS
CDC	Centers for Disease Control
CenPEEP	Center for Power Efficiency and Environmental Protection
CIDA	Canadian International Development Agency
CPR	Contraceptive Prevalence Rate
CREDA	Center for Rural Education and Development Action
CRS	Catholic Relief Services
CS	Child Survival
CSW	Commercial Sex Workers
DA	Development Assistance
DAP	District Action Plan
DCA	Development Credit Authority
DFID	Department for International Development
DEVTA	Deworming and Enhanced Vitamin A
DOD	Department of Defense
DOL	Department of Labor
DOTS	Directly Observed Therapy Short Course
DSM	Demand Side Management
EA	Environmental Assessment
EG	Economic Growth
ESCO	Energy Service Company
ESF	Economic Support Fund
EU	European Union
FFP	Food for Peace
FIRE	Financial Institutions Reform and Expansion Project
FSN	Foreign Service National
FWWB	Friends of Women's World Banking
FY	Fiscal Year
GCC	Global Climate Change
GERI	Gujarat Earthquake Relief Initiative
GHG	Greenhouse Gas
GDA	Global Development Alliance
GOI	Government of India
GOUP	Government of Uttar Pradesh
HIV	Human Immunodeficiency Virus
HUDCO	Housing and Urban Development Corporation
ICDS	Integrated Child Development Services
ICRW	International Center for Research on Women
IEE	Initial Environmental Examination
IEC	Information, Education and Communication
IFA	Iron-Folic Acid

IFPS	Innovations in Family Planning Services Project
ILO	International Labor Organization
INCLEN	India Clinical Epidemiology Network
INHP	Integrated Nutrition and Health Program
IPECL	International Program on the Elimination of Child Labor
IR	Intermediate Result
IRDA	Insurance Regulatory Development Authority
ISO	International Standards Organization
IUD	Intra Uterine Device
IZET	India Zero Emission Transportation Project
LOP	Life-of-Project
MCH	Maternal and Child Health
MDRTB	Multi Drug Resistance Tuberculosis
MIS	Management Information System
MFI	Microfinance Institution
MP	Madhya Pradesh
MPP	Mission Performance Plan
MW	Megawatt
NACO	National Agency for AIDS Control
NFHS	National Family Health Survey
NGOs	Non-Governmental Organizations
NIUA	National Institute of Urban Affairs
OCPs	Oral Contraceptive Pills
OFDA	Office of Foreign Disaster Assistance
ORS	Oral Rehydration Solution
OYB	Operating Year Budget
PACT/CRH	Program for the Advancement of Commercial Technology/Child and Reproductive Health
PATH	Program for Appropriate Technology in Health
PVO	Private Voluntary Organization
RCH	Reproductive Child Health
SCERT	State Council for Educational Research and Training
SEBI	Securities and Exchange Board of India
SEC	Securities and Exchange Commission
SIFPSA	State Innovations in Family Planning Services Agency
SMCS	Safe Motherhood and Child Survival
SO	Strategic Objective
STD	Sexually Transmitted Diseases
STI	Sexually Transmitted Infection
TA	Technical Assistance
TB	Tuberculosis
TBAs	Trained Birth Attendants
TBD	To Be Determined
TEST	Trade in Environmental Services and Technologies Project
TFR	Total Fertility Rate
THR	Take Home Rations
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund

UNAIDS	United Nations AIDS
UNDP	United Nations Development Program
UNIFEM	United Nations Development Fund for Women
USAEP	United States-Asia Environmental Partnership
USDOE	United States Department of Energy
UP	Uttar Pradesh
US	United States
USAID	United States Agency for International Development
USG	United States Government
VAW	Violence against Women
WB	World Bank
WHO	World Health Organization

**USAID India
Country Strategic Plan
FY 2003-2007**

The Last Mile: Completing the Development Agenda

At the dawn of a new century, India and the United States are transforming their relationship. The many bonds between these two vibrant democracies, now allies in the war against terrorism, are growing stronger and deeper. In the 21st century, India is poised for greatness as it realizes an epic accomplishment: the eradication of endemic poverty.

Since independence, and particularly in the last decade, India has dramatically reduced its levels of poverty. While there are still many threats to further gains, with the right policies, peace and continued perseverance, India's development agenda can be completed by the middle of this century or earlier. Moreover, a strong, stable and economically advancing India can be a linchpin for peace and prosperity in the region.

This strategy outlines how USAID can partner with the people of India to address priority requirements, accelerate progress, and move cooperation between the United States and India onto a new plane.

This paper details a robust five-year investment portfolio in the areas of economic growth, health, energy and the environment, humanitarian assistance, and equity. It complies with the US Agency for International Development's guidance and the parameters provided by Washington. A longer term 15-year vision is also articulated in this document. Over the period of the five-year strategy, estimated funding levels of between \$930 million to \$1.160 billion are envisioned. If those resource levels are realized and the resources are well managed, the results will be a positive marker on India's path to eradicating poverty.

The Challenge

India, with one sixth of the world's population and one third of the world's poor, plays a pivotal role in the pursuit of global prosperity. Success in reducing the number of Indians living in poverty will bring hope for expanding global prosperity. By 2015, India aims to reduce the number of its people currently living in poverty by half. This target can be achieved.

In June of 1991, India began a process of opening and liberalizing its closed and inward focused economy. The new economy that has emerged is releasing the shackles of a half-century of central planning. The result has been a doubling of economic growth rates. Average annual pre-liberalization rates were 3-4% (1950-1990). Post-liberalization rates

have hit 6-7% but now are faltering. Real wages have risen by roughly 2.5% and the percentage of households classified as destitute has fallen from 23% to 16%. Today, approximately 30% of the population lives in poverty, compared to the roughly 40% in the 1980s and more than 50% at independence. The absolute numbers that these percentages represent tell the human side of this story: In the last decade, more people have lifted themselves out of poverty than at any other time in India's history. One hundred million people condemned to poverty in the 1980s now live better lives.

India's new growth rates have contributed to positive overall trends in social statistics. Literacy rates have increased from 52% in 1991 to over 65% in 2001. Population growth rates have decreased by about 0.5%. The average number of children per family has dropped from 5.4 in 1970 to 2.9 in 1998. Child mortality and malnutrition rates have decreased. India is self-sufficient in food grain production and actually produces excess capacity. These impressive changes have resulted in improved living standards for some, but not all, Indians.

Dramatic negative social indicators remain. India has more poor people than the United States has citizens. More than 300 million people live in abject poverty—more than all the poor in Africa and Latin America combined—resulting in India being the country with the world's largest concentration of desperately poor people. These aggregates mask serious regional disparities, with most of India's poorest people living in the north.

India's population is now more than a billion and will overtake China as the world's most populous country by 2050. If current population growth rates are not reduced, India will reach two billion people by 2070. India has almost four million HIV positive people, and by 2030 the number could exceed 30 million. More than half of the country's children are malnourished. Thirty percent of the world's births occur in India and result in 20% of the world's maternal deaths and 20% of the world's child deaths. Fewer than half of Indian women are literate. Forty-two of every 1,000 girl children, compared to 29 boy children, die before reaching the age of five. More than two million Indian children die every year from preventable or curable diseases.

Policy distortions are a major contributing factor to many of these poor indicators. For example, distorted energy subsidies result in annual losses of more than \$5 billion—an amount equal to half of what all Indian states spend annually on all levels of education and double what they spend on health. Public sector expenditures average less than 1% of Gross Domestic Product (GDP) on health and less than 4% on education, and state fiscal policies make it impossible to raise the necessary financing to devote more than these minimal resources to critical social sectors.

The economic reforms instituted in 1991 have undoubtedly been instrumental in changing the face of India and its poverty. However, the pace of reform has slowed. A second generation of reforms is necessary to put growth on a higher trajectory. Experts agree that the country has the potential to grow at up to 10% per year, a rate that would allow another 100 million people to lift themselves out of poverty within a generation. A recent McKinsey and Company study of the Indian economy identified major barriers to faster economic growth and concluded that if India were to immediately dismantle all existing barriers to higher productivity, resulting increases would boost the GDP growth rate up to 6-10% per year. This growth would release additional investment capital worth

roughly 6% of GDP, which would, in turn, create 75 million new jobs outside the agriculture sector in both the formal and informal sectors.

However, the second set of reforms is politically much more difficult to agree upon and implement than the first. Important reform measures that need to be addressed include easing government control in most sectors, reducing energy and agricultural subsidies, and reversing the growing gap between state revenues and expenditures. In the last five years, all of India's elected governments have recognized the need for more reform. While a consensus for additional reforms has emerged, it has not been translated into substantive action because implementing the reforms has the potential to negatively affect millions of Indians in the short term. Consequently, reforms are politically difficult to support in the absence of an existing high rate of growth that could help mitigate their impacts. Thus, the government faces a dilemma: It needs to deepen the reform process to stimulate higher growth, yet it needs higher growth to cushion the effects of reform.

Priority Needs

During 2001, USAID India conducted a series of analytic studies and consultations with partners to examine areas of development success and to learn more about remaining challenges. As a result, USAID has identified several areas of critical need and some possible opportunities for successful interventions.

Financing for Development: Public and private resources are needed to finance development. Currently, ballooning fiscal deficits inhibit states from financing the social investments necessary to ensure that people are well educated and healthy enough to be active participants in the new economy. The deficits discourage private sector investment. Public programs for marketing food and other commodities are expensive but fail to meet the needs of many of the poor. Cumulative subsidies (about 14.4% of GDP) and public enterprise losses are in desperate need of reduction. Expenditures should be redirected toward operations and maintenance and investment in infrastructure. To improve revenue collections and equity, the tax base needs broadening and tax administration requires improvement. Once system efficiency is improved, the freed-up resources should be invested in health and education.

Educated and Healthy People: Without well-educated, healthy citizens, no country can expect to reach its full potential. India's status in both education and health care is in need of dramatic improvement. The proportion of GDP spent on education has declined from 3.65% in 1991 to 3.48% at the end of the decade. Public health care expenditures are 0.8% of GDP—a number that places India in the bottom 10% of all countries in terms of spending on health care. Improving delivery of education and health services for better efficiency and access by the poor requires increasing public investment for primary education and health care.

Effective Governance: Strong and effective governmental institutions are vital to sustained development. Currently, the administration of many government activities at various levels of Indian society often results in economic costs that exceed benefits. The reform of various government systems is essential. For example, variable enforcement of laws, regulations, and contracts; and delayed administration of justice, are serious

problems. The performance of the civil service is undermined by overstaffing, low salaries, and inadequate performance appraisals. Strengthening financial accountability and public sector reforms require a focus on quality and efficiency for service delivery, and an orientation toward a market economy.

A Robust Agriculture Sector: Agriculture, which still employs over 60% of the work force, contributes only 20% of GDP. The sector remains over-regulated, with an array of incentives that distort production and marketing. Public resources are used inefficiently, mostly for salaries and the financing of subsidies for water, electricity, fertilizer, and food. These subsidies realize neither intended welfare benefits, nor economic efficiency objectives. Half of subsidized food does not reach the poorest segment of society. Basic reforms are needed to eliminate market distortions and better integrate India into world markets, while increasing investment in agricultural technology and rural infrastructure, and protecting the poor.

Urban Services: Approximately 30% of India's population live in cities. In the next 20 years, this figure will grow to 42%, resulting in a projected urban population of over 500 million. With this tremendous growth, and the accompanying rapid increase in slum populations—which multiplied five-fold between 1982 and 2001—poverty will become increasingly concentrated in urban areas. Sustainable urban environmental systems for water, sewerage, and solid waste must be developed and managed to ensure that the poor have access to these services.

Clean, Reliable Energy and Water: Sustainable growth depends on both reliable energy and water supplies. Energy policies that threaten the availability of water are counter-productive to growth. Distribution losses in Indian power companies average more than 30% of production, a number that dramatically exceeds international standards. These losses are the result of inefficient policies and management, both of which must be changed. Rural consumers are charged so little for water that they are encouraged to pump excessive amounts. Subsidies for both electricity and water encourage this practice. To reduce the wasteful over-watering, subsidies for electricity and water need to be drastically reduced.

Full and Equitable Participation by All: To be sustainable, economic growth must include marginalized elements of the population. This includes women, children, members of lower castes, minority religious groups, and tribal people. India's national gender strategy aims to empower women socially and economically by changing attitudes toward girls; providing education, training, and employment; and supporting services and emphasizing women's rights and laws. However, implementation of the laws, as well as current social practices, vary widely throughout the country. India's social policies aim at greater levels of social mobility for members of lower castes and tribal people, but the policies require more vigorous and uniform application. Without specific interventions aimed at this sector of the population, women, girls, lower caste people, religious minorities, and tribals will not fully benefit from economic development.

USAID's Past Investments

USAID has been an active participant in India's development process for more than half a century. The new assistance strategy builds on those foundations as it focuses on the last remaining critical needs for India's economic and social development.

US economic assistance to India began in 1951 with food aid. The 1960s saw massive US resource transfers that helped India create the physical and human infrastructure necessary for development. Tremendous achievements were realized in health, education, infrastructure development, and poverty alleviation. By the mid-1980s, the focus of US assistance shifted to science and technology, health and family planning, agricultural research, social forestry, irrigation, and water resources management.

With the advent of economic reforms in 1991, USAID activities encouraged market liberalization and addressed the global issues of population growth, environmental degradation, HIV/AIDS, and other infectious diseases.

During the 1990s, India raised its annual economic growth rate, resulting in significant reductions in poverty levels. USAID was a strategic partner in that process. The USAID program helped:

- **Strengthen India's Financial Markets:** USAID helped establish the first securities depository, which significantly reduced transaction costs and securities fraud, and increased investor confidence.
- **Demonstrate New Approaches to Environmental Protection:** USAID encouraged policy changes and introduced new technologies that improved air quality, enhanced energy efficiency, and preserved biodiversity.
- **Introduce Family Planning Innovations:** USAID introduced family planning innovations that serve over 12 million women in Uttar Pradesh, a state whose population is equivalent to the sixth largest country in the world.
- **Change Behavior among Those at High-Risk for Contracting HIV/AIDS:** USAID's AIDS prevention and control activity in Tamil Nadu increased the use of sexual protection by sex workers and truck drivers.
- **Integrate Health Care with Food Aid and Promote Empowerment of Women:** Reaching over 100,000 villages in India, USAID's Title II food aid resources were used to improve the health and well being of 8 million mothers and children on a daily basis.

Progress achieved during the last decade created the development platform upon which India finds itself today—a platform that has created the necessary but not yet sufficient conditions to dramatically reduce poverty.

Assumptions

The US and India, the two largest democracies in the world, share the values upon which democracy is based and a commitment to dramatically transforming their relationship. The basic assumption of the new strategy is that this relationship will continue to advance and mature. The strategy also assumes that India will intensify its economic and social policy reforms to decrease poverty and increase social equity.

Political Climate: Politically, government is likely to continue to be run by coalitions at the center. More and more power will shift to state and local authorities due to coalition politics. The performance of state governments on reforms will vary considerably and be led increasingly by political parties that are regional or, when national, highly autonomous. These factors will hinder the ability of the central government to implement economic reforms and resolve conflict situations. On the other hand, because of India's federal system, individual states will be in a position to test different development strategies that can serve as useful examples to other states. Prudent management of international relations is likely to ensure continued peace, barring a possible reprise of conflict with Pakistan.

Economic Reform: Absent a crisis or more decisive leadership, dramatic, quick economic reform in the near term is unlikely. Growing food stocks may trigger a crisis in the agricultural sector, the sector least touched by reforms. India will slowly become more integrated into the global economy. No major political party is likely to reverse reforms made to date. At the state level there may be opportunities to demonstrate new approaches. However, varying qualities of governance are expected to widen inter-state disparities.

Fiscal Deficits: Fiscal policies constrain India's economic growth and human development. Collected revenues fall far short of budgetary needs; are often allocated for wasteful, expensive subsidies; and go disproportionately to support recurrent costs. Some states could succeed in tackling this issue. However, to the extent that they do not, continued high deficits will be a serious brake on social and infrastructure investments, and could ultimately trigger a major economic crisis.

Food Security: The monsoon will fail once or twice during the strategy period and other natural disasters (floods, drought, earthquakes, and cyclones) will occur. While India currently has significant grain stocks, policy failures and the lack of an effective distribution system will perpetuate household level food shortages.

Marginalized Groups, Including Women and Children: The status of women and other marginalized groups (child laborers, lower caste citizens, and tribals) will continue to be a cause for concern, especially in the north. Fortunately, the country's leadership is committed to solving these persistent problems.

Health Trends: The HIV/AIDS epidemic and other public health concerns, e.g., tuberculosis and population growth, will persist. Stabilizing the population in northern India remains a priority goal for world demographics. Inadequate access to education for girls and the quality and availability of health services are a powerful barrier to reaching this objective.

Urbanization: One-third of India's one billion people live in urban areas; within a generation, almost one-half will. This trend will continue and urban issues will require increasing attention.

Energy/Water Demand: The growing energy and water crises will continue. Current use patterns are economically and environmentally unsustainable. Inappropriate pricing, inefficient public sector management, and inadequate technology will continue to contribute to waste, theft, and adverse health impacts.

Donors: Foundations and multilateral and bilateral donors provide assistance to India. USAID will continue to collaborate closely with these donors on development investments.

Continued Funding Constraints: Historically, Congressional earmarks have resulted in approximately 85% of USAID funding for India being programmed in the following six funding categories, listed in descending order of their percentage of total resources: food aid, reproductive health, HIV/AIDS, other infectious diseases, child survival, and environment. These requirements are likely to continue.

The New Strategy

The liberalization of the Indian economy has been the single most important event in reducing poverty in India's history as an independent nation. The positive momentum of the past ten years must be continued and strengthened. USAID will assist in identifying and implementing additional reforms necessary to continue these positive economic and social changes and will help India provide social safety nets for those who may be negatively affected by reforms.

The USAID program during the new strategy period will focus on five areas:

- Economic Growth—targeting increased transparency and efficiency in the mobilization and allocation of resources;
- Health—targeting improved overall health with a greater integration of food assistance, and reduced fertility;
- Disaster Preparedness and Response—targeting reduced vulnerability to disasters for marginalized people;
- Energy and Water—targeting improved access to clean energy and water and the reduction of public subsidies through improved cost recovery and promoting more efficient technology and management; and
- Increased Equity and Social Justice for Vulnerable People—targeting improved access to elementary education, justice and other social and economic services for vulnerable groups, especially women and children.

Economic Growth

India can sustain annual economic growth rates as high as 10%, which could lift significant numbers of people out of poverty. Impediments to such growth include:

1. Underdeveloped financial markets;
2. Distorted agricultural policies;
3. A pattern of weak fiscal discipline in state and local governments; and
4. Wariness about economic reforms.

1. Financial Markets

A higher economic growth path that reduces poverty faster needs large capital outlays for physical and social infrastructure. To mobilize private capital, a strong financial system is essential in order to attract foreign investors and encourage Indian savings for investment. In a country of more than a billion people, the current size of the investor population is only a quarter of that in the US. USAID will help invigorate India's capital markets to mobilize resources for development investment.

The new strategy will:

- Strengthen financial market regulation, surveillance, and enforcement;
- Improve disclosure and dissemination standards for financial market information;
- Promote investor education and improve investor confidence; and
- Encourage private sector financing for infrastructure, particularly in urban areas.

Broadening the country's financial marketplace is key for a new wave of economic reforms. Opening up markets to institutional customers, such as insurers and pension funds, secures longer term fund sources. The corporate clout of these clients can raise the quality of financial services in firms where they invest. India's insurance industry was a public sector monopoly until recently. Its transition to a privatized industry is now underway. Existing pension and retirement systems cover only about 11% of the working population, and investment portfolios tend to be low yielding.

The new strategy will:

- Assist in the transition from public sector monopolies to private sector participation in insurance and pension funds;
- Enhance regulatory efforts to develop a sound insurance market and encourage consumer confidence in the newly privatized industry; and
- Consult with the Government of India as it establishes an administrative framework for diverse pension schemes.

There is a huge unmet demand for financial services among the poor. About 60 million poor households do not have access to credit, savings or insurance services. Increasing financial services to the poor could have broad, direct economic growth implications for the disadvantaged. It could also have ripple effects throughout the economy if spending power is increased for these multitudes.

The new strategy will:

- Improve access to micro-credit and financial services for the poor by contributing to policy, regulatory, and networking efforts that enable existing and new enterprises to flourish.

2. Agriculture

Agriculture is the country's biggest contributor to income and employment, but it has been virtually untouched by modern economic reforms. It employs 75% of the rural workforce and provides 70% of rural earnings. After strong annual growth for twenty years, its share of GDP has fallen since the first wave of economic reforms in the early 1990s. Growth issues have shifted from crop yields to counterproductive public subsidies and product diversity, marketing, and distribution. Although agriculture had been carrying the economy, without policy change it could become a drag on higher levels of growth.

The new strategy will:

- Restart US assistance to the agriculture sector, shifting from past production-oriented interventions of the Green Revolution, to policy analysis and advocacy on marketing and distribution;
- Establish and convene national forums and dialogues on promoting and sustaining Indian agriculture in a global economy; and
- Encourage the use of cutting edge technologies.

3. Fiscal Management

High annual fiscal deficits at the national and state levels in the 1980s were the root cause of the 1991 economic crisis. The driving force behind the shortfalls was a persistent gap between public revenue and spending. Rising costs for salaries, increased subsidies for agriculture and power, and higher fees for servicing public debt combined to create the deficits. Growing decentralization in 1992 made urban local governments responsible for providing public services and gave them the right to handle their own public finances. Delegating the authority relieved pressures from state budgets but further tied the economic health of the country to fiscal and public works managers in cities and towns.

Currently, a pattern of fiscal indiscipline and uninformed decision-making is affecting the quality of public expenditures and the ability of state and municipal governments to attract private investment for public works. Lack of good information is severely limiting broad discourse on spending priorities and accountability for public actions. Major structural weaknesses in public institutions have, at times, resulted in financial crises and near insolvency. In such scenarios, the public sector budgets for health, education, sanitation, drinking water, irrigation, roads, and other social services become victims of other pressing needs. This often cuts services to those who need and use them most: the poor.

The new strategy will:

- Support specialized fiscal analysis units in selected states to build competence, provide the ways and means for forecasting and analysis, and demonstrate models of effective fiscal management;
- Improve the tracking and reporting of public expenditures in selected state government treasuries;
- Promote dialogue at national, state, and local levels to share successful methods and practices in fiscal management;
- Improve the function of local governments by promoting financial discipline, and improving management information systems and tools for informed decision-making;
- Develop markets for long term debt; and
- Facilitate an open and timely process of fiscal decentralization from state to local governments.

4. Economic Reforms

Building momentum and garnering support for new economic reforms may be the greatest challenge in this area of the strategy. Indians are wary of a private sector that, in their view, pursues profits over broader welfare. Few domestic reformers have expressed a conviction that private sector investment and profitability are critical to expanded prosperity.

The new strategy will:

- Stimulate public dialogue about the long term benefits of reform by helping gather, analyze, and disseminate financial trends and forecast potential outcomes of changes;
- Assist existing government reform efforts aimed at encouraging productive interaction and information sharing between public administrators and civil society on economic policies and topics;
- Explore uses of information technology to link the public to progress in social and public services that demonstrate the benefits of economic change; and
- Advocate for and advise state and municipal governments on increasing social sector investments in education and health by using savings realized from fiscal deficit reductions.

Health

Sustainable poverty reduction and economic growth are linked to investments in social services such as health care. Access to quality care and preventive health education gives the poor a greater ability to influence their socio-economic destinies. A basic premise for pursuing economic growth is to free up public resources for social investments in areas such as health.

USAID has identified priority intervention areas that will promote a healthy, productive society:

1. Slow the growth of India's rapidly increasing population and protect the lives of mothers and children;
2. Stem global-level disease threats, particularly HIV/AIDS; and
3. Integrate health services and nutrition to improve child survival.

1. Reproductive Health

India's population of more than one billion is growing at 1.9% per year. Experts project that the population will reach 2 billion by 2070 if allowed to continue on its current course, a phenomenon that would severely stress the country's natural resources, infrastructure, and chances for sustainable economic growth. The maternal mortality rate is high: one out of every 75 women dies in childbirth, and the gender ratio of the population is 949 females per 1,000 males.

The new strategy will:

- Expand USAID efforts in north India, where more than 200 million people live, to improve family planning and reproductive health services. The goals are to increase the use of contraceptives and birth spacing, ensure that trained health providers attend births, and provide prenatal vitamins to expectant mothers; and
- Increase the marketing of contraceptives and expand the role of the private and NGO sectors in this process.

2. Infectious Diseases

The country's disease burden is one of the highest in the world. It has major implications for national and global public health and the resources needed to prevent and battle diseases. Residents of urban slums are in worse health than the poorest in rural areas. With nearly 4 million HIV positive people, infection rates are on the cusp of exponential growth. A third of the world's tuberculosis cases are in India, and although polio immunization has been widespread, the virus still persists.

The new strategy will:

- Continue to help limit the transmission of HIV/AIDS among high-risk groups, such as truckers, sex workers and their clients in Tamil Nadu and Maharashtra, and expand prevention activities to other states;
- Integrate HIV/AIDS prevention activities in urban areas into other health services and food aid;
- Continue to support India's efforts to eradicate polio and expand activities to treat tuberculosis in selected states; and
- Use family planning service sites as venues for immunizing infants and young children.

3. Child Survival

Child survival rates are low, especially among the disadvantaged. One out of every 11 children dies before age five; half of India's youngest citizens are undernourished, making them more vulnerable to severe illness. Measles, pneumonia, diarrhea, and tetanus are preventable and curable illnesses, but they remain the primary killers of children in India. Child death rates are higher for girls. There has been demonstrated success in improving child survival rates. With increased resources for health and a more prosperous society, there can be more victories.

The new strategy will:

- Continue to feed daily 8 million of India's poorest people, particularly mothers and young children, preventing the severity of some illnesses with better nutrition;
- Integrate food aid with basic health and education services such as providing immunizations and promoting breast-feeding and neonatal health; and
- Expand health and nutrition assistance into urban areas, beyond the village settings where it primarily has been based.

Disaster Preparedness and Response

India is prone to natural disasters, which often disproportionately affect the poor and marginalized segments of society. Disaster preparedness will help protect India's most vulnerable: those who do not have the resources to replace belongings or pay for basic needs following disasters.

Intense population pressures and urban sprawl have forced people to live on marginal lands or in cities where they are at greater risk to natural disasters. Recurring earthquakes, cyclones, floods, and droughts threaten millions of lives and cause large financial, infrastructure, crop, and productivity losses. The Orissa cyclone in 1999 and the Gujarat earthquake in January 2001 together killed 27,000 people and left more than 8 million homeless.

The experience of the Orissa and Gujarat disasters has demonstrated that there is a good basis for cooperation between international partners and Indian entities. Interest is high in system-wide disaster preparedness. All concerned want to safeguard the people and institutions of the world's largest democracy. The approximately 2 million Americans of Indian origin have a special interest in this issue.

The new strategy will:

- Assist in disaster prevention and response planning and management at the center, state, and community levels;
- Provide opportunities for American public and private disaster experts to meet and exchange ideas with Indian community leaders and organizations;
- Ensure that food and life-saving assistance for the needy are provided during natural disasters; and

- Facilitate the reconstruction of affected disaster areas in ways that minimize future human and infrastructure losses, as well as ways that ensure equitable responses that benefit the poor and other vulnerable groups.

Energy and Water

Sustainable growth depends on reliable energy supplies and a well-managed natural resource base. One of the biggest threats to long term prosperity is a lack of water. Progress has been made in cleaner energy development, more efficient energy use, and pollution reduction. However, low cost-recovery for electric power, poor water pricing, state subsidies to the power-hungry agriculture sector, and inefficient practices and equipment have resulted in an unreliable power system, crisis-level water shortages, and huge state fiscal deficits.

Current financial losses in the power sector total billions of dollars annually. State utility bailouts come from state governments that can ill afford them. These subsidies siphon off funds that could be used for health and education. The mostly public infrastructure and financing of power must be reformed to promote dependable and self-supporting services. India recognizes the need to address these problems and reform has begun in some states.

Good power service is linked to effective water use in cities and agriculture. Over-pumping by farmers, who drill for water without limits when inexpensive electricity is available, is causing a groundwater shortage. In the cities, consumer demand for water cannot be met, health problems are erupting as a consequence of aging infrastructure, and fees for services do not cover costs. The power cost of water delivery to customers is as high as 70% of the total operating expenses of already cash-strapped water utilities.

USAID will focus its environmental assistance on power distribution reform and the link between efficient energy and water use.

The new strategy will:

- Improve cost-recovery for electric power by assisting with better metering, billing, and collection for services;
- Demonstrate and encourage wider use of efficient and lower-polluting power distribution technologies;
- Foster private and cooperative approaches to providing services to village customers;
- Assist farmers, communities, and utilities with water conservation methods;
- Facilitate state policy reforms that enhance the quality of municipal water services and generate local resources to sustain improvements; and
- Introduce innovative and energy efficient approaches for the planning and management of urban water and sanitation systems.

Opportunities for Vulnerable People

India's poor, particularly its women and children, struggle for basic needs and are more vulnerable to abuse, violence, disease, and death. Another wave of economic reforms

could further stress marginalized people until the benefits of higher productivity and stronger social institutions reach them. Lower-priced foods, better health services, clean and adequate water supplies, and chances for personal growth through education and new enterprises can change the lives of the poor significantly. Women and girls, who are traditionally deprived of equal status with males, could be denied a prosperous future without help.

Targeted assistance can alleviate some of the negative effects of economic reforms for India's 300 million poor. The reforms may have negative consequences in the short term for vulnerable groups, so it is doubly important to ensure that mechanisms exist to protect the poor during the reform process. Helping authorities implement existing laws and equality provisions of the constitution, and boosting participation in government decision-making, will strengthen India's democratic institutions.

1. Education

Universal basic education, key to India's educational reform movement, gained momentum in the 1990s with increased in-country political support and international community involvement. The number of primary schools has increased, girls' enrollment has risen and overall dropout rates have been reduced. Still, fewer than half of India's women are literate compared to nearly 70% of men. Estimates of the number of out-of-school children range from 59 million to 110 million. India's education challenges are widespread and diverse and include teacher training, revised curriculums, better facilities, and more textbooks.

The new strategy will:

- Boost enrollment and retention of out-of-school children, especially girls, in primary schools;
- Improve quality in alternative schools that "bridge" out-of-school children (such as dropouts and child laborers) back to mainstream education; and
- Encourage public and private interest in using information technology to improve teacher quality and student learning in different settings.

2. Administration of Justice

One of India's most recognizable strengths is its independent and well-regarded judiciary. However, the legal system is hampered by critical problems that often affect the poor most. Backlogs total as high as 28 million cases. Case processing times are exceedingly long, effectively denying justice to those who need the system's protection. Too many citizens charged with minor crimes spend lengthy periods in jail awaiting trial. Legal literacy is low, and there are few mechanisms for legal aid.

The new strategy will:

- Increase legal awareness among the poor, and awareness of the availability of legal aid, particularly among women and other vulnerable groups;
- Facilitate well-informed political and public dialogue about rights and protections to stimulate advocacy on behalf of the disenfranchised; and

- Improve access to justice by supporting stronger community-level legal systems, training for justice sector personnel, and court management improvements.

3. Equity

Discrimination against women and girl children is still entrenched in India. Violence against many women and girl children is widespread, and many females are kept from educational, health, and workplace opportunities that would raise their standard of living. Women are under-represented in elective office and government. Self-employment, under-employment and low wages characterize women's work. Micro-credit programs continue to target women and other vulnerable groups, but few effective programs exist to demonstrate how to develop enterprises. Without other economic choices, victims of trafficking and prostitution are often forced back into the sex trade. All-women law enforcement units and family courts identified to handle domestic abuse and violent crime cannot keep up with workloads and effectively protect their clients. Women's associations and advocacy groups are working to address these issues but need substantial support.

The new strategy will:

- Help India combat trafficking of women and children;
- Support and disseminate cutting edge research on emerging issues affecting the status and role of women and children, e.g., child abuse, inheritance laws, labor practices, economic costs of violence, and family safety; and
- Develop and introduce innovative social and financial services for high-risk groups, e.g., HIV/AIDS affected persons, child laborers, and victims of violence.

Cross-Cutting Themes in the New Strategy

In addition to the above five areas of concentration, the strategy will emphasize five themes that cut across the portfolio. The cross-cutting themes are: governance, gender, urban issues, partnerships, and cutting edge technologies.

1. Governance

India's ability to sustain the momentum for economic reform and to lift increasing numbers of its population from grinding poverty will depend on effective governance. The strategy will consider more effective governance, where appropriate, as a tool for ensuring the intended achievements of various strategic objectives. For example, governance interventions will be used in the economic growth strategic objective to ensure that there is a sustained level of public awareness about the issues surrounding economic reforms and an increased level of participation in state economic decision-making. In the area of disaster mitigation, interventions will include work on promoting stronger public awareness and demand for better building code enforcement and, as needed, support for draft legislation and administrative directives.

2. Gender

India has the largest concentration of poor women and girl children in the world. Poor women and girl children bear the brunt of the most severe and widespread socio-economic problems constraining India's development. During the new strategy period, attention to the needs of poor women and girl children will be strengthened.

The strategy will actively seek creative ways to make gender issues an integral part of the program. This will be facilitated by the development of a discrete gender strategy, incorporating appropriate sectoral targets, and the inclusion of a new strategic objective that targets opportunities for India's vulnerable people, of which poor women and girl children represent the largest proportion.

3. Urban Issues

As India urbanizes, the development challenges of its cities increase. Urban issues will be a theme throughout the portfolio. The ability of cities to attract investments for public infrastructure is a key part of the economic growth program. Cities and their environs will be targets for disaster prevention activities and an essential part of rehabilitation efforts. Urban sites will be a venue for HIV/AIDS prevention, integrated health services, and food aid. Improving health and the quality of people's lives by upgrading municipal water and sanitation services will be one of the focuses of the environmental program. Urban residents will be targeted for activities that promote education for poor girls and out-of-school children, and legal reforms that foster rights.

4. Partnerships

USAID India has a long history of cooperation with local and international groups in the design and implementation of programs. During the new strategy period, USAID will continue efforts to strengthen local institutions and promote partnerships among Indian and US institutions in support of India's sustainable development. Some of these partnerships will be implemented through traditional implementation arrangements, while others will be implemented through a Partnership Fund (described below).

5. Cutting Edge Technologies

The successful application of cutting edge technologies, including but not limited to information technology, can provide fresh, new approaches to solving development problems. Systems that provide disaster-affected communities with information on government and private sector resources available to assist them recover from disasters are just one example. Incorporation of cutting edge technologies into USAID's program as a cross-cutting theme will ensure that it remains alert to opportunities to identify and promote appropriate technologies in achieving its objectives.

Geographic Focus of the New Strategy

In response to increasing levels of devolution of authority and responsibility from the national to the state level, much of the focus of the new strategy will be at the state level. USAID will, as appropriate, target and coordinate assistance at the national level, especially for relevant macro-policy interventions at the sector or cross-sectoral level.

Geographic focus by state will vary by sector, though USAID will encourage synergy among all elements of the strategy. The criteria governing the final selection of specific states include:

- Level of socio-economic development, with emphasis on states and districts with the greatest unmet needs;
- Perceived demand for the proposed assistance;
- Local partners in government, the private sector, and civil society;
- Reform progress in targeted sectors;
- Ability to collaborate with, avoid possible duplication of, and leverage other international donor resources;
- Demonstration potential;
- Susceptibility to natural disasters;
- Natural resource base, especially water; and
- Level of urbanization or concentrations of rural areas.

Based on these preliminary criteria, the greatest opportunities for synergy in the program will likely be in the states of Uttar Pradesh, Jharkand, Rajasthan, Andhra Pradesh, Karnataka, and Uttaranchal (see Annex 6 for a graphic representation of focus areas). Exploring the benefits of program synergy does not signal a concentration of USAID's investments but underscores the need to seek creative ways to maximize both impact and demonstration effect. If possible, state level social investments will be paired with fiscal reform target states. This will enable USAID India to closely monitor strategic assumptions on expected reform benefits such as increased and improved social spending.

The Long Term Vision

Although the strategy is intended as a five-year exercise covering the period 2003-2007, it also lays out a longer term vision in consonance with international targets for poverty reduction. The next two strategic periods, covering 2008-2012 and 2013-2017, are intended to be the time frame during which the US and India complete their bilateral development agenda.

The long term vision of this strategy is to help ensure that India and the US complete that agenda during the coming 15 years and that an enduring entity is established to address remaining developmental concerns. During this strategy period, a Partnership Fund will be established to test concepts and operating principles that highlight the growing linkage between entities in the US and India.

The Partnership Fund will probably be an entity in India with participation and financing from USAID, the private sector, and the non-governmental sector. The Partnership Fund will seek new and creative methods of delivering development assistance and will be a testing ground for a larger and more permanent Legacy Foundation.

Toward the end of the new strategy period, preparation for the establishment of a permanent Legacy Foundation will begin. Such a foundation might be endowed by

transforming current GOI debt repayments to the US into principal contributions that could be matched in part by the US Government or other contributors. This would require US Congressional action, as well as broad US executive branch concurrence.

The establishment and testing of the Legacy Fund will be the centerpiece of the next strategy, during which the Legacy Fund will position itself to take on the responsibility of administering any remaining unfinished development agenda items during the last five years of the 15-year vision.

Financial Resources and Implementation Arrangements

The financial resources necessary to implement the new strategy will be derived from three funding sources available to USAID: Development Assistance, Economic Support Funds, and Title II of the Agricultural Trade and Assistance Act of 1954 (PL 480). The new strategy has been designed to accommodate a high and low funding scenario. Depending on the availability of funding, the new strategy will be able to program total amounts from these three accounts ranging from \$180 million to \$222 million per year (approximately 50% of this total will be from PL 480 resources) for the base year of 2003. The budgets for the years 2004-2007 will be inflated at approximately 2.5% per year.

Activities during the strategy will be implemented through a mix of implementation arrangements ranging from traditional bilateral agreements, in which the GOI and USAID jointly administer the activities, to more experimental approaches such as the Partnership Fund. As new mechanisms are tested, USAID envisions that an increasing number of activities will fall outside traditional arrangements, reflecting both the transformation in India's status and in the relationship between the US and India. During the strategy period, USAID expects that the Title II program will begin the process of preparing for graduation.

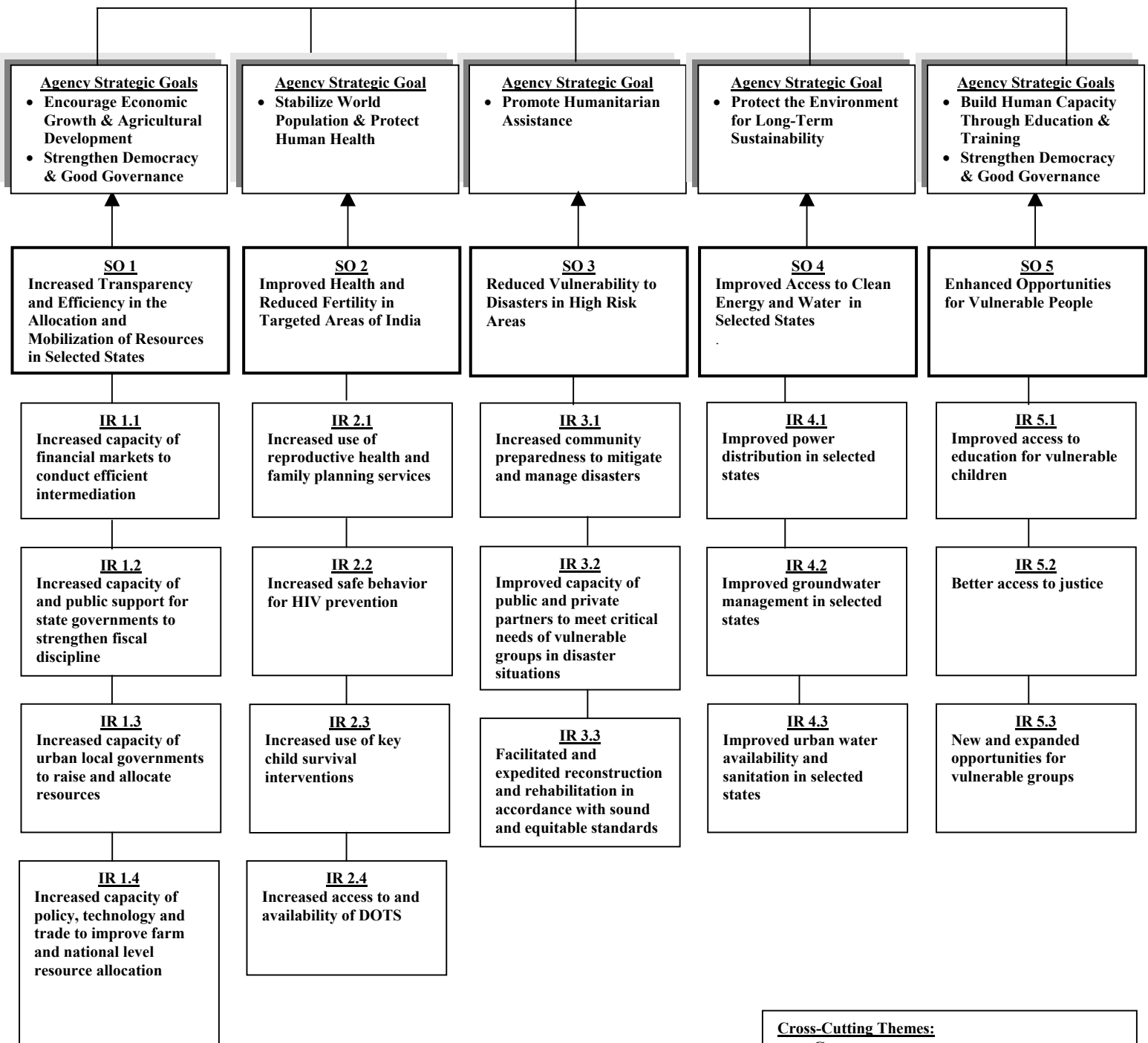
The proposed strategy does not currently envision support for the state of Kashmir. Should conditions favor such assistance, adjustments would need to be made to the strategy.

Conclusion

This concludes a summary of the major elements of the proposed strategy. Greater detail on each proposed strategic objective is found in the following sections, along with several annexes and other data required by Agency guidance.

Accomplishing the activities outlined in this strategy will be an immense challenge for USAID and its partners. The scale of India's unfinished development agenda, and the importance to India and the world of completing that agenda sooner rather than later, cannot be overstated. The US has stood with India in addressing these issues for over five decades. Remarkable accomplishments have been realized. The finish line is in sight. With the adoption of this strategy, the US will be able to run the final lap of this tandem race as India reaches for the golden future, which is its due.

USAID India Goal
Partnering with India to Complete
the Development Agenda



- Cross-Cutting Themes:**
- Governance
 - Gender
 - Urban Issues
 - Partnerships
 - Cutting Edge Technologies

Introduction to Section Two

Link to Agency Strategic Goals

The strategy fully supports all six of the Agency's strategic goals. The first goal, Encourage Economic Growth and Agricultural Development, is specifically targeted by Strategic Objective 1. The strategic objective (SO) is designed to encourage broad-based economic growth and agricultural development through expansion of a second set of economic reforms, which would assist in ensuring the inclusion of at least half of India's remaining poor in the economic process that has lifted so many out of poverty in the last decade.

The second goal, Strengthen Democracy and Good Governance, is a specific objective of both SO 1 and SO 5, as well as a cross-cutting theme. The strategy identifies governance as a key element in ensuring that any economic and social gains won through strategic interventions are enduring.

USAID's third goal, Build Human Capacity through Education and Training, is one of the objectives of SO 5. The SO will target out-of-school children of marginalized groups and girl children for bridging education that will prepare them for re-entry into mainstream educational systems.

The Agency's fourth goal, Stabilize World Population and Protect Human Health, is the specific focus of SO 2. The SO is aimed at reducing population growth and providing reproductive health interventions, as well as interventions in infectious diseases in the states of Uttar Pradesh and Uttaranchal, the combined populations of which approach 170 million people. HIV/AIDS and other opportunistic infections are targeted in the states of Maharashtra and Tamil Nadu, the states with the highest HIV/AIDS prevalence rates in India.

The fifth Agency goal, Protect the Environment for Long-Term Sustainability, is the focus of SO 4. This SO targets sustainability and environmental concerns by identifying and proposing solutions for the looming water and energy crisis in India.

The sixth Agency goal, Promote Humanitarian Assistance, is the focus of SO 3. This SO is aimed at reducing vulnerability to disasters in high risk areas of India. Activities will include assisting the GOI with disaster preparation, responding to emergencies should they occur, and promoting rehabilitation in a manner that mitigates future losses in disasters.

Link to US Mission Program Goals

The strategy strongly supports the Mission Performance Plan (MPP) and underscores both its economic and social advancement goals. USAID will contribute to achieving the US Mission's overall objectives in nine goal areas:

- Open markets—by reforming financial markets and the power sector, liberalizing the economy and expanding dialogue on commercial and energy issues;

- US exports—by facilitating a productive business climate and adequate infrastructure for US enterprises and services;
- Regional stability—by encouraging the sharing of water and energy resources between India and her neighbors;
- Economic development—by promoting broad-based, equitable growth in India’s economy;
- Democracy—by fostering human rights and access to justice. By using information technology and other tools to facilitate more transparent and accountable institutional practices. And, by raising the status of women and girls through education and economic opportunities, anti-trafficking, and raising awareness about domestic violence;
- Population—by slowing the growth of a burgeoning population through family planning and reproductive health services;
- Environment—by promoting energy efficiency and conserving the natural resources essential for sustainable growth;
- Health—by stemming the spread and impact of global public health threats such as HIV/AIDS, tuberculosis and polio; and
- Humanitarian assistance—by preventing and minimizing the effects of man-made or natural disasters, and providing life-saving assistance in emergencies.

The Strategic Objectives

The strategy is composed of a development goal, five strategic objectives and their associated intermediate results. Three SOs build on previous strategic involvement in the sectors of economic growth, energy and water, and health, while two—disaster relief and opportunities for vulnerable people—represent not completely new areas but ones in which USAID has less of a history than the others. Each strategic objective contains intermediate results that are intended to be the medium-term steps in achieving the ultimate objective. A graphic representation of the strategic framework appears at the beginning of this section.

Strategic Objective 1: Increased Transparency and Efficiency in the Allocation and Mobilization of Resources in Selected States

Problem

While India today is a large and vibrant \$440 billion plus economy—one of the twelve largest in the world—it still has the world’s largest concentration of people in poverty—more than 300 million. This figure equals the combined number of impoverished in all of Africa and Latin America.

To reduce poverty, economic growth must accelerate. International experience clearly indicates the positive relationship between growth and poverty reduction, and between sound economic policy and poverty reduction. According to India’s Tenth Five-Year Plan, in order to reduce the absolute number of those living in poverty, the country must achieve and sustain real economic growth rates of 7 to 8%.¹ Although First Generation Reforms of the past decade enabled India to achieve average annual growth rates of 6.5%, these earlier growth rates have not been sustained and have actually decelerated (4.0% in 2000-2001).

A set of Second Generation Reforms is necessary to achieve sustainable higher rates of growth that can substantially reduce the absolute number of people living in poverty. This requires not only massive additional capital investments in physical and social infrastructure, and increases in domestic and foreign investment, but also better allocation and management of existing resources to achieve sustained economic growth and more equitable development.

Constraints

Current critical constraints to economic growth in India are linked to under investment in the social and physical infrastructure that supports increased productivity. The alarmingly large fiscal deficits of central and state governments severely constrain investments in infrastructure and the productive sectors. The strategy will therefore address poor management of public resources; rapidly growing fiscal deficits; inefficiency in the allocation of financial resources; inadequate physical and social infrastructure to serve a rapidly growing population; and an agricultural sector that remains the single largest contributor to income and employment but that suffers from extremely low productivity.

Financial Sector

India’s First Generation Reforms made significant progress toward achieving a more transparent and efficient financial system. Major changes occurred in the capital markets.² These earlier capital market reforms focused on improvements in the efficiency

¹ India’s Finance Minister Sinha asserted in his Union Budget speech on 2/29/00 the need to create a “growth path of 7-8% per year in order to banish the scourge of poverty...”

² The Securities and Exchange Board of India (SEBI), established in 1992, has created a comprehensive regulatory framework; systemic risks in the market have been reduced; and stock exchanges are better governed.

of market infrastructure, the effectiveness of regulatory oversight and transparency in the operations of market intermediaries. In order to further enhance the operational transparency of the market intermediaries, the surveillance, enforcement and disclosure practices regulated by the government need to be improved; investor education, corporate governance, and dispute resolution mechanisms need to be strengthened; and the government needs to support insurance and pension reforms.

India's insurance sector, until recently a public sector monopoly, is plagued by low market penetration, inefficient mobilization and allocation of resources, and inadequate supervision. The situation is no different in the pension sector. Insurance companies and pension organizations together mobilize only 4% of annual GDP (\$15 billion), over 90% of which is used in either low yielding government securities or bonds of poorly performing public sector companies.³ The insurance and pension markets, respectively, cover around 18% of the insurable population and 11% of the working population. As a result of such low coverage, the infrastructure sector, which has the greatest need for long-term funds, continues to be starved of much needed investments.

Access to timely and efficient financial services (credit, savings, as well as insurance and pensions) is critical for India's 60 million poor households if they are to take advantage of the economic opportunity created by reforms.⁴ Creation of an enabling policy and regulatory environment that promotes the growth of sustainable microfinance institutions is key to achieving broad-based economic growth and development in India.

Public Fiscal Management

The importance of reducing the fiscal deficit under the Second Generation Reforms cannot be overstated and is strongly emphasized in the 2000-2001 Indian national budget. High annual fiscal deficits in the 1980s were a root cause of the 1991 economic crisis. Yet the central and state governments have still been unable to reduce the gap between their revenues and expenditures. Heavy borrowing to finance the rapidly growing deficits increases real interest rates, crowds out the private sector's ability to raise resources and reduces investment in infrastructure and the social sectors, such as health and education. This not only slows economic growth but also severely constrains the ability of the poor and unemployed to escape poverty.

Over time, the quality and outreach of public services has deteriorated due to fiscal stress. This has harmed the poor more than any other segment of society. The segments of the population that can afford it switch to private sector service provision, leaving the poor as the primary users of public service systems. As the middle class switches from public schools and health facilities to private facilities, for example, the quality of the publicly provided health and education services continue to deteriorate, further affecting the poor. Severe investment deficiencies in urban infrastructure have resulted in shortages in potable water, declining quality in sewerage, drainage, wastewater management, waste disposal, transport, and housing. This has led to the spread of

³ RBI Report on Currency and Finance 1999-2000. The financial assets of these organizations constitute about 15% of India's GDP compared with 50% of GDP for Chile and Malaysia, and about 100% for US, UK and other rich countries (Handbook of Statistics on Indian Economy and Annual Reports of GIC, LIC and EPFO).

⁴ According to one estimate, 60 million poor households do not have any access to efficient financial services (credit, savings and insurance).

unsanitary and largely unserved slums. Inadequate investment in social and physical infrastructure not only affects quality of life, but also prevents the poor from gaining the ability to influence their own economic and social destinies.

One of the prime causes of poor fiscal decision-making within government (especially within state government finance, treasury, and planning departments) is insufficient capacity to analyze and track the fiscal implications of policy, regulatory and procedural decisions. While government and donor-driven programs have focused primarily on sectoral reforms, few have addressed the need to strengthen technical competencies and upgrade critical management and information systems (MIS) of these departments that influence and monitor resource mobilization and allocation. Without improving fiscal management and discipline within these departments, sectoral reforms cannot be made sustainable, and the overall impact of continued donor aid will not be maximized.

Municipal Services

The 74th Constitutional Amendment Act of 1992 delegated the primary responsibility for urban management to local governments. Cities and towns now form critical parts of states' fiscal structures and are responsible for the delivery of primary health care, education, and urban infrastructure services. However, implementation of the act has been slow. Urban local governments have inherited responsibility without the corresponding tax and expenditure authorities to carry out those responsibilities. A consensus among national, state and local governments, and external donors has emerged on the direction of needed reforms to improve the functioning of local governments. The core issue in these reforms is establishing financial viability and discipline to make cities more creditworthy and public works projects more "bankable." The total investment needed to meet urban infrastructure requirements has been estimated at \$600-\$850 million per year. Existing public sector funding sources only meet a fraction of these requirements—approximately \$100 million per year. It is the urban poor who suffer most from the lack of resources for better infrastructure services and the poor management of existing resources. India's capital market is the best potential source of investment resources to close the financing gap.

Agricultural Sector

The productivity gains from Green Revolution technologies have essentially ended, yet Indian agricultural policy remains dominated by incentives instituted three decades ago to encourage farmers to adopt high-yielding rice and wheat varieties. The increasing subsidy costs of inputs (i.e., fertilizer, irrigation, and power) constitute a serious misallocation of public resources at the national and state levels, further aggravating the fiscal deficit. Concurrently, a costly food subsidy, which originally assured the minimum price for rice and wheat, is now used to purchase 80% of the marketable supply of rice and wheat, discouraging private food grain marketing and distorting on-farm production and resource allocation decisions. Rather than diversifying into other crops, farmers continue growing food grain for which there is no market other than the government food parastatal. Food grain stocks may soon reach 80 million tons, more than four times India's emergency needs.

In spite of paralyzing fiscal deficits, most elected officials are extremely wary of reducing agricultural subsidies for fear of offending their rural constituencies. Both elected

officials and their constituents may be more amenable to change if they can sense the possibility of alternative, better futures.

Economic Governance

The effort to implement Second Generation Reforms, and increase the transparency and efficiency of resource mobilization and allocation in India, will require considerable changes in attitudes. The level of understanding and discourse by the broader public on policies and regulations related to economic governance must be enhanced. Ensuring that those groups who stand to benefit from reform not only understand their interests but also are able to participate in the governance process is an essential part of the economic reform effort. A better informed public debate on economic reform and stronger constituencies supporting economic governance reforms must be created.

This highlights the need to create opportunities for key civil society groups to analyze, discuss, and debate the implications of policy, regulatory, and institutional reforms—especially in areas where the economic reform process has been slow. As economic liberalization progresses across sectors, it is important to give voice, through the creation of such opportunities, to groups that may be adversely affected by reforms initially. Improved economic governance can empower these groups to help ensure and sustain a more equitable sharing of the benefits of reform. This will require efforts aimed at supporting reformers at the state level; strengthening corporate governance and disclosure practices; enhancing the competence of municipal leadership to improve the overall policy, legal, and institutional environment for domestic and foreign investors; and developing strong local institutions and deepening popular participation in support of improved service delivery.

Technology Use

The communications revolution has been instrumental in promoting more open policies for international trade and capital flows, and can be a powerful tool to help integrate India more fully into the global economy. Information and communications technologies (ICT) can be used to deliver multiple social, economic and public services (health, education, agriculture, commerce, public information, and governance) in the absence of widespread service delivery networks.⁵ To date, little emphasis has been placed on ICT as a tool for India's domestic development. Of the small number of initiatives that do exist, few have demonstrated commercial viability and sustainability. Given India's resource scarcity, the introduction and demonstration of commercially viable models becomes critical.

The extent to which India can use technology, especially ICT, to accelerate development and bring the benefits of the knowledge-based economy to the poor will depend on the policies promoted and the infrastructure established. The government has made major progress toward introducing a pro-competitive framework in recent years to attract investors, but several serious questions remain about its policy program.⁶ Further, the

⁵ For example, ICT has the potential to facilitate delivery of efficient and cost-effective financial services to the poor. ICT holds the key to achieving efficiency, transparency and stability, and expand the outreach of the capital markets, insurance and pension systems. It is also a critical input for efficient, transparent and effective Treasury operations.

⁶ The following are recognized as outstanding policy/regulatory issues in need of attention: licensing policy for communications service providers; the concept of network development; inter-connection policy for

recently passed Convergence Bill of 2001 repealed five existing laws and merged telecom, IT, media and broadcasting.⁷ Unless the capacity of the regulator for this sector is appropriately enhanced, more damage than good may be done. The 1930s US Federal Communications Commission (FCC) model could offer guidance in this area.

Rationale

USAID India's Economic Growth Strategic Objective is consonant with the Agency's Economic Growth, Agriculture, and Trade pillar and consistent with the GOI's Tenth Five-Year Plan. It is based on the hypothesis that accelerated, broad-based economic growth is essential to reduce poverty and that large additional capital investments are required, especially in physical infrastructure (power, roads, ports, and water supply) and social services (health and education). Agricultural sector reform becomes critical in this effort since it comprises 26% of GDP, yet continues to suffer from extremely low productivity of resources. The needed capital investments can be generated by mobilizing net additional resources and improving the allocation of existing resources, which in turn, requires: an improved policy and regulatory environment and market practices that influence public and private sector financial and investment decisions; increased technical competence of state and local governments to better analyze the fiscal implications of policy, regulatory and procedural decisions; and better management information systems and application of cutting edge technology that reduce the transaction costs of doing business.

Comparative Advantage

Multilateral aid organizations have limited grant funds to finance the kind of capacity building indicated in the above discussion, especially at the state and local government levels. Multilateral assistance takes the form of large loan packages for broad budgetary support while the states initiate reform. USAID, on the other hand, has considerable comparative advantage to respond to India's needs in the above-referenced areas. Specifically, USAID:

- Can respond to India's interest in accessing grant and other loan funds to initiate systemic changes;
- Has a wide range of international expertise and experience in financial sector institutional capacity building, urban management and finance, and economic policy analysis and institution building;
- Has recognized experience in agricultural policy analysis and access to an outstanding system of agricultural science and expertise in biotechnology and agribusiness. This experience includes a history of successful collaboration with India to launch the Green Revolution;
- Has done considerable work on state and local fiscal issues around the world;⁸

communications services; tariff (pricing) and universal service policies; and principles for developing ICT services for rural and under-served populations.

⁷ The main objectives of the Bill are to: 1) facilitate the development of national infrastructure for an information backed society and to enable access thereto; 2) provide a choice of services to people with a view to promoting plurality of news, ideas and information; 3) establish the regulatory framework for carriage and content of communication in the scenario of convergence of telecommunication, broadcasting, multimedia and related technologies and services; and 4) establish the powers, procedures and functions of a single regulatory and licensing authority and of the appellate tribunal.

⁸ Indonesia, Philippines, Honduras, Guatemala, Eastern Europe and more recently in Russia.

- Can draw upon US organizations, such as the Securities and Exchange Commission (SEC) and the FCC, to address institutional and regulatory reforms that increase investor confidence and promote citizen empowerment;
- Has been a leader in setting the agenda and supporting urban sector reforms in India, and has the unique opportunity to build upon this successful experience;
- Has the respect of many key Indian policy-makers and scientists who have been trained in the US and understand the benefits of interacting with US scientists, analysts, and business people; and
- Remains the undisputed leader in cutting-edge technologies (USAID has rich experience in ICT development under the Leland and Internet for Economic Development Initiatives).

Assumptions

Achievement of the SO is based on the following key assumptions. They will be carefully monitored for their continued validity and relevance during program implementation:

- Sufficient political stability to enable the GOI to continue to pursue economic reforms, at the center and state levels, in the areas of financial markets, fiscal management reform, and the agriculture sector; and
- Civil society and strong vested interest groups, when provided with sufficient opportunity and appropriate platforms, will actively engage in, and not derail, the reform process.

Target Groups

The SO targets the following broad sets of beneficiary groups, key representatives of which were consulted in developing this strategy:

- Investors, both domestic and foreign;
- Poor households not currently part of the mainstream financial services market;
- Poor communities in urban and rural areas;
- Selected state government finance and planning departments; and
- Selected state level treasury operators.

Geographic Focus

There is a growing consensus that impact and results from donor interventions will be greater at the state level. Therefore, IR 1.2 and 1.3 interventions will be focused on selected states, while IR 1.1 activities will remain focused at the national-level, as will a large part of IR 1.4 (especially related to agricultural policy). IR 2-related activities will be focused on Karnataka, a relatively reform minded state, Uttar Pradesh (UP), a relatively slow reforming state, and Jharkhand, a newly formed state (recently created from part of the state of Bihar). Rajasthan is a potential fourth candidate.

In selecting states for intervention under this SO, the following criteria were used:

- The perceived demand for the proposed assistance;

- Opportunities for synergies between the activities proposed under the economic growth strategy and other SOs (especially with the energy portfolio, which is one of the largest recipients of subsidies, and the health portfolio);
- The ability to partner with and leverage other donor resources, especially investment resources (World Bank, Asia Development Bank, etc.); and
- The need to select states at different stages of development in order to maximize the demonstration effect.

Impact Measurement

The success of the Economic Growth SO will be measured by the following illustrative indicators, which will be finalized following approval of the strategy:

- Increased resources mobilized through market mechanisms;
- Increased investment by state governments in social infrastructure; and
- Increased investment by private sector in infrastructure services.

Intermediate Results

IR 1.1 Increased Capacity of Financial Markets to Conduct Efficient Intermediation

Decades of virtual control and ownership of the country's financial system by the Government of India has compromised the efficiency and transparency of the country's financial markets. This has resulted in: low productivity of investment, manifested by continually low returns on investments; stagnation in the share of household savings in the form of financial assets; and low penetration of financial services. The government has taken several significant steps in the recent past to reduce its presence in the financial markets. Simultaneously, it has created independent regulatory agencies to support orderly development of the various segments of the markets. Promoting regulatory competence, strong institutions, and sound market practices are critical to building greater investor and consumer confidence and increased mobilization of household savings in the form of financial assets. Sustainable microfinance institutions will also help deepen the financial intermediation process.

USAID activities will: improve the efficiency, integrity and outreach of both the equity and debt markets; develop a vibrant, efficient and sound contractual savings (insurance and pension) sector; and develop an enabling regulatory and institutional framework for the growth of sustainable microfinance.

Illustrative Activities

- Strengthening systems and market practices related to securities market surveillance and enforcement;
- Strengthening the competence of the insurance regulator and market support institutions to create a safe and financially sound insurance market;
- Establishing and promoting pension system reform and developing sound employee benefit programs through training and objective research; and

- Supporting the development of prudent regulatory and reporting standards and performance benchmarks for microfinance institutions.

Illustrative Indicators

- Increased investments in capital market (tradable) securities (both equity and bonds); and
- Increased use of generally-accepted financial and management standards by microfinance institutions.

IR 1.2 Increased Capacity of and Public Support for State Governments to Strengthen Fiscal Discipline

Major structural weaknesses in state public finances are negatively influencing the allocation and mobilization of resources at the state level. In 1999-2000, India's consolidated deficit stood at 10% of GDP, with the states responsible for 50% of this deficit. Much of the current fiscal crisis facing the states is largely the result of state-level policy choices, rather than events outside of their control.⁹ States finance their deficits by increasingly heavy borrowings on capital markets. They are borrowing to finance such unproductive investments as wages and salaries, civil service pensions, and interest on past debts. They contain their deficits by reducing their capital expenditures for investments in social and physical infrastructure. Increased market borrowings for deficit financing has raised real interest rates, constraining the private sector's ability to raise funds for investment. Reduced state and private sector investment in infrastructure, especially in the health and education sectors, particularly affects the poor, the unemployed, and the illiterate who are heavily dependent upon public services and programs.

USAID activities will: promote fiscal discipline through increased technical competence of relevant state government departments and civil society organizations; create knowledge networks to share best practices and raise awareness; and introduce better management information systems to improve the quality and analysis of fiscal and other economic data.

Illustrative Activities

- Establishing fiscal analysis units (in all target states) within finance departments and enhancing their technical competence for better policy analysis, performance budgeting, and monitoring and adjustment of the mid-term fiscal frameworks. This activity would link the state level fiscal analysis units via an e-network and meetings to share experiences;
- Strengthening state government treasury operations in selected states and linking them via e-network and at the national level to discuss common issues and share best practices;

⁹ For example, the states adopted the generous salary increases recommended by the Fifth Pay Commission. This resulted in the rapid growth of wage and pension liabilities, exacerbating the fiscal problems now facing the states. Likewise, the declining rate of cost recovery by public and parastatal organizations reflects poor policy choices. Policy decisions of this type appear to have been made for the sake of immediate political gain, without recognizing the medium-term fiscal implications of these decisions.

- Assisting in improving the management information systems of state-level planning and statistics departments and other relevant departments (e.g. health and education) to improve data collection, analysis, and information dissemination and coordination; and
- Training for state legislators, members of local government, the media, and NGOs to strengthen their understanding of the budget, economic policy decisions, and trade-offs and reporting thereof.

Illustrative Indicators

- Decreased percentage of days during the previous Indian fiscal year that treasuries in selected state governments are in overdraft; and
- Policy analysis cells established in key state government departments.

IR 1.3 Increased Capacity of Urban Local Governments to Raise and Allocate Resources

Fiscal decentralization from state to local governments is critical for the financial viability of both. The financial viability of cities is critical to investor confidence in business ventures targeting cities, and to the managed growth of state urbanization. By transferring authority to local governments, state governments will reduce pressures on their budgets, and eventually be able to reduce their subsidies for municipal services. Severe investment deficiencies in urban infrastructure plague most Indian cities. Public sector sources currently meet only about 12% of the estimated investment requirements. With rapidly increasing urbanization, local governments must make greater efforts to generate revenues, and create more opportunities for private sector investment and participation to meet ever-growing demands for basic urban services.

Activities will promote urban fiscal reform to sustain a predictable flow of resources from local, state, and private sources to fund urban infrastructure on a long term basis.

Illustrative Activities

- Promoting municipal economic development policies that maximize land and infrastructure resources, and generate increased revenues from existing and new businesses;
- Creating state level infrastructure funds and pooled financing mechanisms for development and financing of urban infrastructure;
- Strengthening municipal financial management, accounting, and asset and property management systems; and
- Assisting in the creation and operation of city manager associations to share and transfer, within and between states, urban management experience and best practices among local government officials.

Illustrative Indicators

- Amount of resources raised by urban local governments in selected states through market-based mechanisms; and

- Number of urban local governments adopting improved accrual based and double entry accounting practices.

IR 1.4 Increased Capacity of Policy, Technology and Trade to Improve Farm and National Level Resource Allocation

Understanding the high opportunity cost of agricultural subsidies, GOI officials recognize the need for a new revolution in Indian agriculture. The revolution would be initiated by a wave of decontrol and deregulation to create a new investment climate, which mobilizes and reallocates resources within the sector. Over the short term this will include the removal of restrictive practices that have limited private sector purchase, storage, processing and transport of agricultural products including food grain. This will have to be complemented by improvements in targeted food grain distribution programs, which will allow India to draw down its extraordinary food grain stocks in ways that benefit its most vulnerable households. Over the longer term, sustaining the new investment climate must encompass changes in agricultural policy and technology. This will improve productivity, and promote competitiveness and integration with the global economy.

Illustrative Activities

- Revitalizing food and agricultural policy to reduce sectoral subsidies, improve household food security, encourage crop diversification, promote private investment in agricultural product processing, and create new sources of growth and employment;
- Promoting collaborative ventures that generate, adapt and diffuse cutting edge technologies in agriculture, telecom and other key development sectors;
- Supporting independent business groups, consumer advocacy and pro-reform NGOs, professional associations and think tanks to conduct research and analysis and participate in public debate on economic reforms; and
- Utilizing roundtables, public hearings, and town hall type meetings to identify reform and investment priorities for state, district and local governments.

Illustrative Indicators

- Decreases in selected agricultural subsidies;
- Increased private sector share in food grain marketing;
- Lower cost food grain available through commercial channels;
- Increased food grain consumption among low-income households;
- Increase in crop diversification;
- Increased value added and employment in food and agricultural processing; and
- Increased citizen knowledge about state and local budgets, government budget trade-offs and key government reform issues in selected states and local governments.

Relationship to Other Strategic Objectives

This SO has strong links to the other strategic objectives in that it addresses fundamental state-level fiscal and financial management in selected states where other SO activities also target state government activities. It is unlikely that interventions in the other sectors will be sustainable unless national and state governments create a policy and regulatory environment that strengthens investor confidence, opens up the economy, and encourages competition.

Activities under this SO to increase mobilization of financial resources through the capital markets will increase resources for private business formation and expansion, and investment in infrastructure. This will lead to growth in employment and income, and reductions in infrastructure service gaps. Better urban infrastructure services, especially in poor slum communities, combined with improved health practices, will improve the health status of the urban poor. Improvements in policies governing microfinance will help to increase economic opportunities for vulnerable groups and low income women. Improved state fiscal management will help state governments shift public spending away from costly subsidies and services that could be better provided by the private sector, to high priority social services such as education and health. This will help create more opportunities for vulnerable populations and improve the health status of the poor. In the longer term, this will also provide more solid socio-economic and financial footing for the country to better withstand the ravages of disasters. The SO will specifically coordinate with the Health and Energy-Water SOs to target reform minded states in an effort to have maximum impact on improving reallocation of resources currently used for power, agricultural and health sector subsidies.

Donor Coordination

During the development of this SO, USAID coordinated closely with other donors that are currently or may become engaged in targeted areas of assistance. This coordination will continue during strategy implementation to avoid duplication and maximize synergy. Specifically, USAID is coordinating with the following donors:

- The World Bank (WB) is assessing the integrity of India's capital markets, the Asian Development Bank (ADB) is completing a study of India's bond market for presentation to government and stakeholders, and both ADB and the WB are interested in supporting pension reform;
- In the area of microfinance, the British Department for International Development (DFID), German Technical Agency and Swiss Development Cooperation agency are providing onward lending and capacity building within specific state-owned institutions active in microfinance;
- ADB and WB are providing budgetary support loans to selected states (Uttar Pradesh, Karnataka, Gujarat, Kerala, Andhra Pradesh, Madhya Pradesh) to assist in fiscal restructuring and management reforms. DFID is providing technical assistance in three selected states (Andhra Pradesh, Orissa, Madhya Pradesh), but lacks the resources to expand to other states;
- WB announced an urban sector investment strategy, particularly targeting private-sector participation in infrastructure. WB and USAID are cooperating to promote

- urban development in Tamil Nadu, and enabling states and cities to use municipal bonds and support municipal accounting reforms; and
- USAID's assistance in information and communication technology will focus on policy and regulatory assistance, demonstration of commercial viability, and creating networks at the state and local government levels to share experiences and best practices, areas in which other donors are not focused.

Strategic Objective 2: Improved Health and Reduced Fertility in Targeted Areas of India

Problem

Healthy people are vital to economic and social development. Although the country has made significant progress in improving the health of its population, the statistics on India's fertility rates, HIV and infectious disease burden and child survival point to the need for continued investments to expand programs, identify new models for intervention, and develop approaches to ensure sustainability. Failure to address the unmet need for family planning and reproductive health, increasing HIV transmission, and a significant burden of child mortality could plunge India into a downward spiral of political instability, decreased economic growth, environmental degradation, and an unmanageable burden of disease.

Population Growth and Reproductive Health

On May 11, 2000, India's one-billionth citizen was born. More than 70,000 children are born daily, representing 17 million more Indians annually. Nearly a third of the population has yet to reach puberty. With a growth rate of 1.9% per year, India will surpass China in the next 50 years as the world's most populous country, and by 2070 the population could exceed 2 billion. Furthermore, India's enormous population of young people will require reproductive health services over the next 10-15 years. Large numbers of couples want to space or limit births but they are not using any method of contraception. Nationwide, approximately 16% of couples or about 30 million couples have an unmet need for contraception. High fertility is one important factor affecting the reproductive health of women. One out of every 75 women of reproductive age dies from childbirth-related causes. Other reproductive health indicators also reflect poor health status. Only 15% of mothers receive complete antenatal care, and only 58% receive any iron/folate tablets or syrup. Only 34% of deliveries take place in facilities, and, at best, 42% are assisted by a health professional.

India's voluntary family planning program (the world's oldest) has achieved important results over the last 30 years. Knowledge of reproductive health has increased dramatically; nationally, contraceptive use by women of reproductive age increased in the past six years alone from 41% in 1992-93 to 48% in 1998-99; and the average number of children per family has dropped by over 40% (from 5.2 to 2.9) from 1972 to 1998-99. The target for 2010 is 2.1 children per family, with a growth rate of 1.2% per year.

There are important differences between north and south India. Several southern states (e.g., Kerala and Tamil Nadu) have almost stabilized their population growth and the others are making good progress. In the northern states (particularly Uttar Pradesh, Bihar and Rajasthan), population growth rates hover around 2.3%, as compared to the national average of 1.9%. Unmet need for family planning is high in these northern states and about 25% of it is in Uttar Pradesh (UP). Other reproductive health indicators are uniformly worse in the northern states than the national averages.

HIV and Other Infectious Diseases

HIV and other infectious diseases, such as polio and tuberculosis, present significant public health challenges for India.¹⁰ Nationwide 0.7% of adults in India are infected with HIV; however, this represents nearly four million infected people, a number second only to South Africa. These statistics mask the substantial variation in HIV prevalence among states, many of which have populations that are larger than most nations in the world. For example, the states of Maharashtra and Tamil Nadu have a combined population of 159 million and have registered HIV rates ranging from 1% to over 3% among pregnant women. Moreover, HIV is beginning to reach rural areas in high prevalence states.

Major bastions of polio exist in the UP and Bihar, and although eradication efforts have been successful, vigilance must be maintained to eliminate the virus. Eradicating polio remains a national and global priority.

India accounts for an estimated one third of the global burden of tuberculosis (TB). It is the leading disease in India, killing more than 1,000 people a day. Every year, tuberculosis results in 300,000 children leaving school, 100,000 women being rejected from their families, and economic costs to society of approximately \$3 billion. These staggering figures will get worse with the spread of HIV and multi-drug resistant tuberculosis, unless urgent action is taken now. India is taking action; the Revised National Tuberculosis Control Program (RNTCP) is expanding rapidly. In 2001, 25% coverage was targeted nationwide, with effective treatment for over 250,000 TB patients. However, only one out of six people have access to treatment.

Child Survival

The burden of child mortality and morbidity in India is tremendous.¹¹ Over 20% of child mortality worldwide occurs in India. More than two million children die annually from preventable and curable infectious diseases and other causes. With infant mortality at 70 per 1,000 live births, and under-five mortality at 101 per 1,000 live births, India ranks 49th in under-five mortality, similar to Ghana, Swaziland and Nepal. Over 70% of child mortality occurs during infancy. Neonatal and peri-natal mortality (death within the first month of life) is responsible for about 60% of infant mortality.¹²

Under nutrition is associated with over 50% of childhood deaths, and directly affects the severity of diseases such as measles, and diarrhea. Although severe malnutrition has dropped significantly over the past 30 years, today 59% of rural and 48% of urban households do not consume the recommended number of calories, and, in rural areas, the daily per capita calorie intake has decreased in most states since the 1970s. The impacts are reflected in child health statistics, high anemia levels, and high levels of

¹⁰ Measles, pneumonia, diarrhea and tetanus are also prominent infectious diseases, but as primarily killers of children, are addressed in child survival efforts.

¹¹ It is estimated that over 240,000 and 140,000 children die from measles and tetanus, respectively, in India annually. About 1.2 million die from either diarrhea or respiratory disease.

¹² Major causes of neonatal mortality include asphyxia, birth trauma, hypothermia, acute respiratory infection, and diarrhea. In some northern states, neonatal tetanus remains an important killer in specific blocks where routine immunizations are low. For example, in 2000, although tetanus (TT) coverage increased from ~37% in 1992-93 to ~51% in 1998-99 Uttar Pradesh, 49% of infants remain unimmunized and at potential risk. According to the National Family Health Survey -2, full immunization coverage for UP is estimated at 22%.

maternal undernutrition. The causes of undernutrition include delayed initiation of breast-feeding, early termination of exclusive breast-feeding, low vitamin A intake, and inappropriate complementary feeding practices.

Continued improvements in child survival have been demonstrated over the past 15 years, as evidenced by a decline in under-five mortality rates. Similar to the statistics on fertility and reproductive health, clear differences in child mortality exist by state, gender, economic status and location, with the highest rates and greatest need in the northern states. The discrepancy of vital statistics between the north and south presents a public health imperative to state and federal decision-makers, as child survival is an issue of national concern and pride.

In sum, overcoming obstacles to better health is vital to completing India's development agenda. Although progress has been significant for all major health areas, substantial gaps remain and constitute an unfinished agenda for the country's health sector. Disparities among states, and the health status of growing numbers of urban poor need to be effectively addressed.¹³ By 2015, 50% of India's population is likely to live in urban areas, up from 30% today, and fully 50% may live below the poverty line.

Constraints

The capacity of the public sector to meet the health care needs described above remains severely limited. While much progress has been made, substantial changes are required to ensure access to adequate information and services, and the sustainability of improved services and systems, particularly in the northern states of India.

Currently, only 4.5% of GDP is spent on health (equivalent to the middle 20% of countries worldwide); public sector health expenditures are 0.9% of GDP (only 3.9% of total government spending—equivalent to the bottom 10% of countries worldwide).¹⁴ Less than 10% of Indians have access to any health insurance. Salaries consume a large percentage of public sector recurrent costs, even though severe staff shortages exist at national and state levels. The number of basic service providers has not kept pace with population growth, yielding a 30-50% shortage in coverage, mostly for rural populations. Hospitals receive over half of public sector resources. Obtaining and maintaining equipment is difficult. Distribution systems for equipment and drugs are poor, and stockouts of basic medicines and supplies occur frequently. The demand for resources by other sectors, notably for subsidies in the power sector, limits opportunities for improved health care financing.

Stagnant, inefficient public sector spending impedes services and results in huge and increasing out-of-pocket spending for private sector health care. As the economic growth strategic objective works to increase financial stability, the health SO will help government target the savings into social services. The public sector health system is “pro-rich” in that the richest 20% of the population benefits from over 33% of the public

¹³ Child mortality rates in urban areas continue to be lower than in rural areas. However, over the last ten years, more rapid declines have occurred in rural areas. This finding reflects an increased proportion of urban poor, especially indigent migrant workers and slum dwellers, in India.

¹⁴ This puts India in the category of countries emerging from recent conflicts, such as the Republic of Georgia, Cambodia and Myanmar.

sector funding for curative services. For Indians below the poverty line, the public sector remains the critical source for preventive and basic health services, even though services are generally poor and accessibility is limited (i.e., the public sector provides 93% of immunizations, 74% of antenatal care, and 69% of institutional deliveries). However, about 80% of outpatient care is provided by the private sector.¹⁵ As in most developing countries, richer households purchase more curative care from the private sector than do poorer households.

Poor management of public services at all levels is reflected in a range of deficiencies. Public sector resources are not effectively targeted to serve the poor. Outreach to the most vulnerable elements of the population is very limited, and the quality of services, in general, is poor. Health information for clients and providers needs to be updated and more broadly disseminated. Human and fiscal resources are often ill-applied and inadequate, and thus, impede service delivery.

Additional constraints exist in the delivery of services. For family planning, the choice of methods is often limited and sterilization remains the method of choice. Other approaches, including delaying the age of marriage and first pregnancies, and encouraging longer birth intervals, present major social and programmatic challenges. Religious and medical barriers exist in some areas, as do cultural issues associated with the preference for boys and denial of opportunities for girls and women.

Although federal authorities are concerned about the HIV/AIDS epidemic, the level of effective commitment (e.g., fiscal and institutional) to prevention at the state level varies. Few NGOs have the capacity to carry out effective, sizeable interventions. Scaling up prevention efforts will require mechanisms for capacity building at all levels, in both the private and public sectors, and in urban and rural areas. The stigma associated with HIV infection must be reduced in all segments of society. HIV surveillance needs strengthening and voluntary testing and consultation need to be expanded. TB therapy represents an important operational and financial challenge given poor patient compliance, drug management, and the cost of the drugs.

Although the private sector is a major source of services (particularly curative), the public sector has limited scope for engaging the private sector (NGO and commercial sector) and ensuring an adequate quality of care. As a result, the private sector is considerably under-exploited and under-supervised in the promotion and provision of preventive health services, including family planning, child health and other public health interventions.

Neither the public nor the private sector alone can address all of the health problems and unmet need in India. Both sectors have their strengths and comparative advantages as well as limitations. To meet short and longer term health needs, the public sector must more effectively exploit all opportunities to engage the private sector (i.e., NGO and private industry). New paradigms for public-private partnerships and service delivery must be developed and embraced, at the state level, to ensure equity, accountability, quality and affordability of health services.

¹⁵ These fiscal and system statistics were obtained from the World Bank report: "India—Raising the Sights: Better Health Systems for India's Poor," May 2001.

Rationale

USAID India's Health Strategic Objective is consonant with the Agency's Global Health pillar and consistent with GOI policy. It builds on USAID experience during the current strategy period (1994-2002); emphasizes areas of comparative advantage; and, given resource constraints, targets key geographic and program areas to meet the greatest need. The SO expands the previous program objective into a four-pronged approach that targets reproductive health, HIV prevention, child survival and tuberculosis control. This direction has been confirmed through in-house and external discussions with counterparts in government and the donor community.

Achievement of this SO will help meet USAID's longer-term goal (10-15 years) of building replicable and sustainable strategies (i.e., service delivery models that can be effectively scaled up and sustained through local resources) for meeting priority health needs. The longer term vision has informed the selection of sites and expansion, as well as inclusion of systems strengthening activities aimed to ensure eventual maintenance and sustainability for the longer term.

As India faces the mounting challenges of the 21st century, the improved delivery of reproductive, maternal and child health, and preventive HIV and TB services are of paramount importance to the Government of India. In its National Population Policy of 2000 and its new draft National Health Policy, the GOI sets ambitious goals and objectives for key health indicators and identifies a wide range of interventions. This SO and its strategic approach are fully consistent with these policies and with the programming being carried out by the GOI and the respective state governments with which USAID proposes to work.

To help meet these challenges, this SO builds upon the service delivery platforms (systems, infrastructure, organizational arrangements and skills) developed and tested during the current strategy period, and targets geographic and programmatic expansion as described under "Geographic Focus."

Given the constraints of the public sector, under all of the IRs, the SO will explore and exploit as many opportunities as feasible with the private sector, NGOs and commercial industries to develop models for replication in targeted geographic areas. These models will rely on linkages and partnerships with public sector providers, facilities and managers. Therefore, the SO must, at the same time, strengthen the public sector in ways that will help it serve as an effective partner and regulator. USAID's resources, role and experience limit its ability to leverage major policy changes in the health sector. However, under this SO, USAID will continue to collaborate closely with the World Bank and other influential donors to advocate for key policy changes. USAID will use its experience in India and its comparative advantage worldwide to address some critical, systemic problems.

The SO will support systems strengthening in the public sector to:

- Improve the capacity of states to make informed decisions;
- Support the development of improved logistic and commodity management;
- Address human resource needs, such as training and allocation;

- Strengthen quality assurance;
- Institute state and district planning for child and reproductive health;
- Help develop state policies for population, health, and specific interventions, such as immunizations; and
- Where appropriate, assist states and the national level with accounts analyses that can lead to fiscal reform and improved efficiency.

The SO will also work with the public and private sectors to:

- Promote stronger and sustainable private-public sector partnerships;
- Develop demonstration models for private sector franchising;
- Develop and improve models of private sector service delivery through commercial providers and industrial and other commercial infrastructure;
- Develop and improve models for local NGO service delivery and sustainability; and
- Pilot implementation of strategies for health care financing through introduction of accounts analyses, user fees, corporate partnerships (franchising), insurance schemes and other health financing options.

The SO also proposes to promote scientific cooperation between Indian and US research and training institutions in the public and private sector. Potential areas of cooperation include HIV vaccine development, drug efficacy trials, vaccine efficacy trials, and operations research on various health interventions. To be developed in consultation with USAID Washington and the Embassy's Science Office, these multi-faceted partnerships can support achievement of SO objectives, nurture Indo-US cooperation over the short and long term, and improve local capacity to solve health sector problems in India.

Comparative Advantage

USAID's comparative advantage is its broad array of experience in both public and private sector health care interventions. In the priority technical areas, this comparative advantage has been used to determine the selection of interventions. These interventions will continue to be guided by best practices and experience worldwide; needs in the specific geographic areas and among the target groups; and potential for impact and replicability.

Assumptions

Achievement of the SO is based on the following key assumptions. They will be monitored for their continued validity and relevance during program implementation, and will be updated, as appropriate.

- Political will at the state and national level will intensify for achieving progress in the health sector;
- State governments will embrace the private sector as a complementary entity to deliver basic preventive and curative services; and flexible engagement of the private sector will be encouraged;
- India's draft National Health Policy budget priorities will be realized, doubling public sector health expenditures by 2010;

- National and state authorities in the Ministries of Finance, Economic Development and Health/Family Welfare will embrace the Draft National Health Policy regarding improved health sector financing and pro-poor policies;
- Accountability for human and fiscal resources will improve significantly;
- The GOI will support more flexibility in using bilateral and unilateral resources for direct grants and contracts, thus decreasing the obligation-to-expenditure ratio and pipelines in the sector; and
- The USAID Title II program will continue at similar levels during the strategy period.

Target Groups

This SO targets the following broad sets of beneficiary groups, some key representatives of which were consulted in developing this strategy.

For the reproductive and child health activities:

- Women of reproductive age and their children less than five years old;
- Young and adolescent girls;
- Male family members;
- Care providers; and
- State, district, and block administrators.

For HIV prevention and control efforts:

- High-risk groups (such as sex workers and their clients, including truckers and other men);
- Sexually transmitted infection (STI) clients;
- Women of reproductive age;
- Youth in general;
- Girls involved in trafficking;
- Men who have sex with men;
- Injectable drug users (perhaps); and
- Urban and rural family members for HIV information and preventive services.

For TB control:

- Members of the general population in Uttaranchal (and perhaps Tamil Nadu and Maharashtra) who are diagnosed with TB.

For systems strengthening and public-private partnership activities:

- Managers and leaders in the public and private sectors at all levels.

Geographic Focus

India's large size and diversity, USAID's limited resources, and the availability of other donor resources in selected health sub-sectors and geographic areas, have influenced the selection of the SO's geographic expansion plans. USAID will focus on those states and districts having the greatest unmet needs for reproductive and child health services and the largest concentrations of high-risk groups for HIV/AIDS. These states have relatively less donor activity and support, and state leaders and officials are keenly interested in collaboration with USAID. Geographic focus will vary according to each intervention by:

- Building on reproductive and child health efforts in Uttar Pradesh (UP) and expanding family planning and reproductive and child health coverage to all 70 districts, reaching 166 million people;
- Expanding reproductive and child health efforts in Uttaranchal, and one additional state, potentially servicing an additional 36 million people;¹⁶
- Continuing to focus HIV prevention and control activities on the high prevalence states of Tamil Nadu and Maharashtra, with expansion to Pondicherry, selected areas of UP, Uttaranchal, Jharkhand (with emphasis initially on those districts along truck routes and where other high risk groups are located), and perhaps in the northeastern states;¹⁷
- Integrating child survival, reproductive health and HIV/AIDS prevention by phases into the Title II program administered by CARE in six states—UP, Jharkhand, Chhattisgarh, Rajasthan, Madhya Pradesh, Delhi;¹⁸
- Targeting children affected by AIDS activities in select cities and peri-urban areas (rather than a specific state focus);
- Focusing TB control in Uttaranchal, and possibly Maharashtra, and potentially expanding efforts in Tamil Nadu. Uttaranchal was selected as a concentration area because of its manageable geographic size and population of 8.5 million; and
- Testing the implementation of an integrated package of reproductive health, child survival and HIV prevention services through engagement with the municipalities, private sector and community organizations in two to three urban slum areas.

Impact Measurement

The success of the Health SO will be measured by the following illustrative indicators, which will be finalized upon approval of the strategy:

- Reduced Total Fertility Rate (TFR)/higher parity births;
- Stabilized HIV prevalence (<3.0%);
- Reduced under-five mortality;
- Increased nutrition status of children under three years; and
- Increased number of TB cases conforming to the DOTS

Intermediate Results

IR 2.1 Increased Use of Reproductive Health and Family Planning Services

USAID will continue to work with the GOI to reorient and revitalize the country's family planning and reproductive health services, targeting the states of UP, Uttaranchal and one other state as sites for demonstrating program innovations. Key interventions will include: promotion of birth spacing and effective use of contraceptives; counseling and

¹⁶ USAID's involvement in Uttaranchal and Jharkhand has been tentatively agreed to during discussions with various government counterparts. However, formal agreement on USAID's expansion to these states will be reached during strategy implementation.

¹⁷ No efforts in the Northeast are planned at the time of this strategy, but options remain open. Future efforts in the Northeast must take into consideration security issues that presently impede action.

¹⁸ Add-on activities for Title II efforts will be supported with CSH funds.

provision of family planning and other reproductive health services and methods; and, expansion of outreach and access to services.

Illustrative Activities

In the public sector:

- Develop health and population policies in expansion states;
- Improve the logistics and delivery systems for contraceptives, essential drugs (and other health commodities);
- Strengthen training institutions to address current and projected shortfalls in public sector health providers;
- Expand information on, capacity for, and availability of all contraceptive methods including voluntary surgical contraception as well as spacing methods; and
- Improve data for decision-making and electronic communication.

Expand family planning and reproductive health options through:

- Integration of STD/HIV prevention services into reproductive health services, including information on and availability of dual protection;
- Expansion of tetanus immunizations and IFA supplementation for women;
- Assessing means to expand availability of trained providers for attending births; and
- Expansion of availability of injectables, voluntary surgical contraception, improved natural family planning and LAM, and other methods.

In the commercial sector:

- Expand marketing of contraceptives, including injectables and other reproductive health products, such as IFA tablets and safe delivery kits; and
- Expand availability of Inter Uterine Devices (IUDs), injectables, and other contraceptives through private commercial sector providers.

In the NGO sector:

- Expand NGO delivery of Reproductive Child Health interventions at the community level.

Illustrative Indicators

- Increased contraceptive prevalence rate (CPR) in UP, Uttaranchal and one additional state; and
- Increased proportion of births attended by a trained provider, in UP, Uttaranchal and one additional state.

IR 2.2 Increased Safe Behavior for HIV Prevention

The Indian HIV epidemic is at an epidemiological crossroads. The window is open to contain the epidemic at relatively low infection rates through increased practice of safe behaviors, particularly in the most affected states of the country. USAID will continue to work with NGOs, private sector businesses, and the national and state governments to implement HIV prevention and control programs in targeted states. The strategy will also

support national activities aimed at increasing knowledge of prevention and delivering effective STI treatment. Targeted interventions for high-risk groups will be pivotal elements of the strategy, but USAID will also pursue efforts to limit the spread to peri-urban and rural areas.

Illustrative Activities

Change behavior through:

- Targeted intervention programs in Maharashtra, Tamil Nadu and Pondicherry to improve safe behaviors in high risk populations such as truckers, sex workers and their clients; and
- A major program designed to increase safe behavior in India's ports and their environs.

Expand knowledge of prevention through:

- Pilot efforts to increase HIV prevention knowledge in low risk rural populations, particularly among women.

Conduct applied research on:

- Provision of services to men having sex with men (MSM), voluntary counseling and testing (VCT), mother to child transmission (MTCT), and the social aspects of stigmatization and behavior.

Activities to address special needs:

- Promotion of an HIV business coalition to address HIV prevention and control in the workplace and its environs;
- Children affected by AIDS (CAA) activities; and
- Improved HIV surveillance through laboratory strengthening and training.

Illustrative Indicators

- Increased condom use at last sexual encounter among high risk groups in Tamil Nadu and Maharashtra; and
- Increased percentage of high-risk group populations in Tamil Nadu and Maharashtra who seek care for STIs from qualified providers.

IR 2.3 Increased Use of Key Child Survival Interventions

Key child survival interventions include immunizations, breast-feeding, safe births, vitamin A distribution, supplementary feeding, and improved care-seeking behavior by mothers. Given the needs for improved neonatal care, emphasis will be given to addressing service delivery requirements for newborn and postnatal services. The application of these interventions will be pursued through USAID's existing Title II and IFPS programs, which, respectively, command an outreach to 110,000 and 45,000 villages.¹⁹ Results from these programs are encouraging and significant potential exists for further child survival impact in a 5-10 year timeframe. Additional efforts will be

¹⁹ If an average village size is estimated to include 1,000 inhabitants, outreach by these platforms will total about 155 million people and about 2 million children.

pursued in targeted urban environments where poor, migrant, slum-dwelling populations present high rates of mortality and morbidity.

Illustrative Activities

- Expansion of the role of the *anganwadi* (village community center) worker to deliver basic preventive, curative, neonatal and referral care, beyond nutritional supplements;
- Improvements in complementary feeding for infants and children and IFA intake for women;
- Promotion of interagency coordinating committees at the state and district level for immunizations and general health; and
- Mobilization of *panchayati raj* institutions (community governing bodies) through grass roots interventions to organize and oversee service delivery and accountability.

Illustrative Indicators

- Increased routine Expanded Program on Immunization (EPI) coverage; and
- Increased exclusive breast-feeding.

IR 2.4 Increased Access to and Availability of DOTS

USAID plans to expand its current support for model TB delivery and research in Tamil Nadu and move into Uttaranchal and possibly Maharashtra. In Uttaranchal, USAID support can improve treatment statewide because the population of 8.5 million in 13 districts is manageable in size and geographic area. USAID TB efforts focus on improving public and private sector delivery, and monitoring the effectiveness of diagnosis and treatment.

Illustrative Activities

- Logistics and management support for TB drugs and diagnostic commodities;
- Support to develop a state plan for TB control; and
- Laboratory strengthening to monitor resistance to TB drugs.

Illustrative Indicators

- Number of providers delivering DOTS; and
- Percentage of population with access to treatment.

Relationship to Other Strategic Objectives

There are strong linkages between the health strategic objective and all other objectives in the strategy. Opportunities to work with the Economic Growth team on state accounts analysis, private sector engagement and fiscal policy relative to health will be identified and used during the strategy period. Rural linkages with the Energy-Water SO will be explored through the water-energy nexus relative to social mobilization and *panchayati raj* institution engagement for health. Coordination will continue with the US Embassy's

Science, Public Affairs, Political Affairs, and Economic Affairs Sections; as well as the Center for Disease Control (CDC) HIV/Infectious Disease Section and other US agencies.

Donor Coordination

During the development of this SO, USAID coordinated closely with other donors that are currently or may become engaged in targeted areas of assistance. This coordination will continue during strategy implementation to avoid duplication and maximize synergy. USAID is an influential partner in a number of government and donor committees. These include:

- National AIDS Coordinating Committee;
- UNAIDS Theme Group;
- National Polio Interagency Coordinating Committee;
- National Global Alliance for Vaccines and Immunizations Steering Committee;
- Donor Working Group on Health;
- Rotary National Coordinating Group for Polio Eradication; and
- WHO Taskforce for Integrated Disease Surveillance.

USAID works closely with specific donors on a number of issues:

- The World Bank on surveillance and logistics management and advocating key policy changes;
- UNICEF on routine immunizations and vitamin A delivery in UP;
- WHO on surveillance and immunizations;
- CDC on HIV research and treatment of opportunistic infections;
- Rotary International on polio and expanded immunizations;
- Packard Foundation on reproductive health service delivery; and
- British Department for International Development (DFID) on polio eradication and HIV prevention.

Strategic Objective 3: Reduced Vulnerability to Disasters in High Risk Areas

Problem

India is a country highly vulnerable to natural disasters. Enormous population pressures and urbanization have forced people to live on marginal lands or in cities where they are at greater risk to disasters and the damage they can cause. Whether a flood, a regional drought or a devastating earthquake, millions of Indians are effected each time a disaster occurs. In addition to large-scale displacement and the loss of life, these events result in the loss of property and agricultural crops worth millions of dollars annually. As examples, the Orissa super cyclone in 1999 killed thousands and destroyed more than one million hectares of crops. The Gujarat earthquake in 2001 claimed thousands of lives, left millions of people homeless and ruined public infrastructure worth hundreds of millions of dollars. These catastrophes typically result in the substantial loss of hard won development gains.

In India, as in the United States, the primary responsibility for responding to disasters lies at the state level. The GOI does not yet have a national emergency plan for disaster management, although it can be and is called upon to assist when necessary. Many Indian states have limited resources and lack their own disaster management plans. Because of these factors, India's disaster response record has been mixed. Case studies of recent disasters list some shortcomings such as:

- Delayed response of government officers;
- Absence of early warning systems;
- Lack of resources to undertake measures like mass evacuation;
- Inadequate coordination among various government departments;
- Non-existent and non-familiarization with standard operating procedures to be followed in providing relief;
- Failure to keep essential stores like sand bags, medicines, and life saving equipment in ready stock; and
- Inadequate coordination with the Army and other service organizations, as well as donors depending on the scale of the disasters.

Constraints

While there is awareness in India that better disaster response mechanisms are necessary, the overall trend has indicated that numerous challenges remain to be overcome. Although India's national capacities to respond to disasters of small or moderate size with relatively little or no international assistance are generally adequate, the overall trends suggest that current GOI response mechanisms are less than optimal for responding to large-scale disasters and that foreign assistance is often required. Deaths and economic losses have increased. The reasons for this are varied including increasing population pressures in urban areas; an increase in poor people occupying marginal lands, e.g., river bottoms, which are susceptible to disasters; poor or ignored zoning laws and policies; lack of proper risk management (insurance); and other factors.

The level of preparedness of the center as well as the states in India is extremely uneven and in general requires considerable strengthening. While the states and local communities need better response and mitigation mechanisms, they are dependent on the center for assistance. Fortunately, the GOI and a number of states have a growing appreciation of the need for effective disaster management strategies. Historically India has preferred to manage disasters on its own. However, the magnitudes of the two recent disasters in Orissa and Gujarat have increased the GOI's interest in working with international partners like USAID to facilitate the delivery of aid, strengthen systems to reduce recovery costs and mitigate the effects of future disasters. Interest is high in the GOI for addressing major weaknesses such as: poor planning and coordination; lack of relevant technology for forecasting; inadequate human capacity and skills for response; inadequate attention to good zoning and building; and ineffective warning systems.

Rationale

USAID's Disaster Mitigation Strategic Objective is consonant with the Agency's Humanitarian Assistance goal and consistent with the GOI's recognized need for international relief assistance and disaster preparedness.²⁰ Disasters can be a direct threat to economic, social, and political stability. By reducing vulnerability to disasters, this SO will help safeguard the development gains of past USAID investments and, more broadly, those of the GOI, communities, and other donors.

USAID has a window of opportunity to help create a more integrated and responsive disaster management system in India. Following extensive discussions with the GOI and other agencies, USAID will provide assistance in three mutually reinforcing areas: disaster preparedness, response and rehabilitation.

This strategy emphasizes preparing for and responding to natural disasters (earthquakes, floods, cyclones, and droughts), since they occur most frequently, cause the most devastation, and represent areas of comparative advantage for USAID and its USG partners. Yet the tragedy of "September 11" underscores the need for disaster preparedness to include man-made disasters as well. Given India's geo-political position, the SO potentially could address man-made disasters or other complex emergencies.

Comparative Advantage

Interventions planned under this strategic component are supported by ongoing activities that capitalize upon USAID's comparative advantage in disaster management. This comparative advantage includes the availability of existing USG disaster response and mitigation activities in India. Title II resources continue to be available for immediate use in case of a new emergency, and partner NGOs are already active around the country. There are also resources available from the Office of Foreign Disaster Assistance (OFDA) to respond to immediate emergency needs after a formal disaster declaration has been made. Additional OFDA resources are also available within the broader South Asia region. Along with staff currently resident in the region and available to assist USAID if

²⁰ In 1999, the Prime Minister's office established a High Powered Committee (HPC) to review the state of disaster preparedness and propose measures for system-wide strengthening. The HPC's vision for tackling these issues includes the creation of a new ministry to deal with disasters.

and as needed, this strategy will expand and activate relevant regional programs for increased benefit to India.

Assumptions

Achievement of the SO is based on the following key assumptions. They will be monitored for their continued validity and relevance during program implementation, and will be updated, as appropriate.

- India will continue to be vulnerable to natural disasters of potentially very serious magnitudes, and its disaster requirements are likely to extend beyond the scope of "natural" to more complex (e.g., man-made) emergencies in the future;
- The GOI will be required to play an increasing and more pivotal role in coordinating international disaster aid;
- The US public, especially Indian Americans, will want rapid and effective USG relief responses to India's disasters;
- The responsibility for government response to disasters in India will continue to devolve from the national level to the states;
- The Indian private banking and insurance sectors can be sensitized to the special needs of vulnerable groups affected by disasters; and
- USAID will have access to continued Title II food assistance, adequate program budgets, and technical and material resources of its sister USG departments, agencies and units (e.g., the US Forest Service {USFS}, the National Oceanic and Atmospheric Administration {NOAA}, the US Department of Agriculture {USDA}, the Office of Foreign Disaster Assistance {OFDA}, the Federal Emergency Management Agency {FEMA}, and the Department of Defense {DOD}) to mount and coordinate an effective USG disaster assistance program in India.

Target Groups

This SO targets the following broad sets of beneficiary groups, key representatives of which were consulted in developing this strategy:

- At-risk populations, e.g., women, children, scheduled castes and tribes, in high-risk, disaster-prone communities;
- Service providers, e.g., first responders;
- Public and private partners, e.g., banks, insurers, NGOs, businesses; and
- GOI, public policy makers, military, police, and disaster management officials.

Geographic Focus

The geographic focus of the strategy will be determined in close cooperation with the GOI as its disaster management approach evolves. Based on consultations within USAID, with the GOI and with external partner institutions, disaster issues will be addressed at the national, state and local levels of government, as well as at the community level. Targeted states and communities will be selected based on a set of criteria that will be agreed upon with the GOI and other key partner institutions.

Illustrative criteria include:

- The frequency and kinds of disasters that occur;
- State and local receptivity to assistance;
- USG expertise and interests; and
- Opportunities for synergies with other USAID SOs and other donor programs.

Impact Measurement

The success of the Disaster Mitigation SO will be measured by the following illustrative indicators, which will be finalized following approval of the strategy:

- The number of households and communities that participate in USAID-sponsored mitigation activities that address and seek to reduce the loss of life, property and assets;
- The number of more responsive and coordinated disaster-management systems at the national level and in targeted states that have been tested and activated;
- The number of private and public partner agencies that have field-tested mitigation and response activities; and
- The number of communities and institutions that have adopted measures that ease post-disaster rehabilitation and that allow those most affected to more easily return home and resume normal activities.

With support from the Bureau for Humanitarian Response/Food for Peace (BHR/FFP) and OFDA, USAID will continue to provide emergency disaster assistance to help meet critical humanitarian needs. With other USG partners, such as DOD and State, the NOAA, USFS, FEMA, and USGS, USAID will also address requirements across the disaster response spectrum, ranging from pre-disaster activities to rehabilitation. To underscore a more strategic approach to creating a more responsive disaster management system, USAID will collaborate with the GOI at the national and selected state and local levels of government to examine the circumstances that cause the loss of lives and livelihoods, and to initiate targeted activities that mitigate against such losses.

Intermediate Results

Three broadly accepted and mutually reinforcing stages of disaster response are all necessary and relevant components of the SO: mitigation, including preparedness and long term risk reduction measures; response, or immediate relief; and rehabilitation. Activities related to each are inherent in the following three intermediate results.

IR 3.1 Increased Community Preparedness to Mitigate and Manage Disasters

Mitigation activities lead to long term risk reduction, reduced loss of life and property, and more effective—and less expensive—response and rehabilitation.

Illustrative Activities

- Community-level disaster planning;
- Drought mitigation;

- Public awareness and information campaigns;
- First responder training;
- Hospital preparedness;
- Exposure to "best practices" opportunities (in-country, regional, and international);
- Building code enforcement;
- Weather and flood forecasting; and
- Early warning systems.

Illustrative Indicators

Possible measures of progress for this IR are the number of:

- Communities that prepare disaster plans that define what to do and where to go when a disaster strikes;
- Communities undertaking drought or flood mitigation activities;
- Individuals participating in public awareness and information campaigns or exposed to best practices opportunities;
- Individuals or groups who participate in first responder training;
- Hospitals that complete preparedness training;
- Emergency Operation Centers (EOCs) created with USAID assistance; and
- New and enabling legislation, administrative directives or programs enacted by the GOI at the national, state or local levels.

Community-level disaster planning and drought mitigation efforts will likely be implemented by international and NGO partners and state-level authorities. USAID expects that public awareness and information campaigns will be designed and launched in collaboration with these partners, with specialized media channels in India, and with support from USG partners like the DOD. Current OFDA-funded activities in India already include some first responder and hospital preparedness training programs that will be expanded under the SO. Finally, with NOAA and USGS assistance, improved, more accurate national weather forecasting and early warning systems that provide timely information to disaster-prone communities will be an important measure of progress.

IR 3.2 Improved Capacity of Public and Private Partners to Meet Critical Needs of Vulnerable Groups in Disaster Situations

While this SO will enable India to better cope with disasters, India will likely still require US and international assistance in response to specific emergencies. Many of these emergency needs will be addressed through relief assistance activities that target the most vulnerable, including women and children.

USAID will assist the GOI as it develops a comprehensive and integrated disaster management system. There has been considerable interest recently within the GOI in US emergency response systems, in particular, the EOC at FEMA, search and rescue operations support, and the incident command system. With OFDA assistance, training programs will be conducted to help establish similar systems within India at the central level and in selected state and local areas. Under this IR, pre-positioning of critical relief supplies, partner training and capacity building activities will ensure faster, more efficient

responses to disasters. Improving the strategic use of relief resources from all USG sources to link relief to rehabilitation is a key aim.

Illustrative Activities

USAID activities to improve the capacity of the GOI and relevant partners to respond, include:

- Incident command system training;
- Search and rescue operations;
- Stockpiling of relief supplies;
- Partner training/capacity building; and
- Coordination of international relief resources.

Illustrative Indicators

Progress will be measured by:

- People trained at the national and at selected state and local levels;
- Critical supplies (e.g., water-treatment plants and inflatable boats) pre-positioned;
- Timeliness and effectiveness of delivery of needed assistance to the affected populations; and
- Disaster resources better linked to rehabilitation and development.

IR 3.3 Facilitated and Expedited Reconstruction and Rehabilitation in Accordance with Sound and Equitable Standards

It is critical to reestablish normalcy and livelihoods in affected communities as soon as possible following a disaster. It is equally important to reestablish security and restore the functioning of basic institutions to meet critical needs and basic rights. Depending on resource availability and specific rehabilitation requirements, USAID will provide support to help rebuild social and physical infrastructure. This IR will support efforts to examine policies that affect the rehabilitation phase (e.g., those governing banking and insurance), and engage the GOI in increasing responsiveness to and equity for the needs of those most affected.

Illustrative Activities

- Retro-fitting of public buildings, e.g., schools, to be more earthquake resistant;
- Support for materials stockpiling for reconstruction inputs;
- Microfinance support for affected small-scale enterprises or the informal sector;
- Training programs for engineers and masons on how to build more disaster-resistant structures; and
- Information system support to promote transparency and equity in GOI and private sector disaster response.

Illustrative Indicators

Progress will be measured by the number of:

- New or rebuilt structures that meet acceptable disaster-resistance standards;
- Individuals who participate in training programs;
- Improved information systems and policies created and established;
- Loans provided for livelihood restoration;
- Housing loans provided that have a mitigation focus; and
- Vulnerable households that have access to government or private reconstruction programs.

Relationship to Other Strategic Objectives

Drought mitigation work will positively impact the environment and agriculture sectors. First responder and hospital preparedness training will directly affect the health sector by helping to reduce morbidity and mortality. Effective emergency assistance that considers food, water and other basic requirements of more vulnerable disaster victims will complement USAID's health and nutrition programs. Community-level preparedness work targeting women as prime participants will also help to reinforce the USAID gender-related interventions across the portfolio by taking into consideration women's special needs during periods of displacement. Improved disaster preparedness will positively impact governance at the national, state and local levels through more effective local participation and leadership. These activities will promote and result in increased local empowerment, mobilize resources and help sustain activities. They will also likely generate increasing interest in disaster preparedness across civil society and improved governance via an increasing demand for greater accountability and transparency across the entire system.

Donor Coordination

USAID works closely with donors to provide humanitarian assistance in emergency situations. Coordination has facilitated better distribution of funds to NGO implementing agencies. There are a number of bilateral and international agencies involved in disaster-related activities in India, and there has been increased interest in the sector since the Gujarat earthquake. USAID is coordinating its efforts with the following donors and activities.

- British Department for International Development (DFID) will likely target capacity building activities, working with the United Nations and the Indian Red Cross;
- Disaster management has become a key part of the World Bank's poverty reduction agenda. While not involved in relief efforts, the World Bank has provided assistance in pre-disaster and post-disaster activities;
- The Asian Development Bank (ADB) committed \$500 million for reconstruction after the Gujarat earthquake, of which \$200 million was for housing. The ADB is also providing technical assistance through the Asian Disaster Preparedness Center (ADPC) to the states of Uttar Pradesh and Uttaranchal;

- With grant support from USAID, the United Nations Development Program has been a lead coordinator of relief efforts in Gujarat to ensure more equitable distribution of aid and reconstruction support. It is interested in continuing to coordinate relief efforts of various donors, NGOs and other UN agencies; and
- The Japanese International Cooperation Agency, and the governments of the Netherlands, Germany, and Denmark have provided assistance to India in recent disasters.

Strategic Objective 4: Improved Access to Clean Energy and Water in Selected States

Problem

Over the past decade, India's economy has emerged from a half century of strong national control to a more liberal approach that encourages domestic and international private investments and reduces the role of government in the supply of clean energy and water. While the situation for water and energy is serious enough when each resource is viewed independently, vicious cycles exist between the two that greatly exacerbate inefficient behaviors. This cycle has been dubbed the water-energy nexus. In spite of the decade-long effort to implement economic reforms in these sectors, this key part of India's development agenda remains unfinished.

Financial viability in the Indian power sector is important to India's overall economic health. Yet significant power shortages still plague the economy due to a lack of cost-recovery by utilities, and the subsequent inability of utilities to provide reliable, high quality power. The result is widespread bankruptcy of both the utilities and the state governments that are forced to bail them out, significantly contributing to increasing levels of state fiscal deficits. Reform of electric power distribution is required to get cash flowing again through the system and stem both technical and commercial losses, including theft.

The agricultural sector is responsible for the greatest losses of power distribution companies, as well as for state governments, largely due to heavily subsidized irrigation pumping. Such pumping demands a major portion of electricity supply (estimated at 30+% of total electricity use),²¹ while providing the smallest fraction of total revenue from electricity generation and distribution. Poor water pricing and management policies worsen this wastage of both power and water resources. The World Bank estimates that current losses in the Indian power sector amount to approximately \$5 billion per year and are growing rapidly.²² Financial losses on this scale, borne by state governments in the form of subsidies, preclude critical investments in other sectors, such as health and education.

Problems regarding water supply are also reaching crisis proportions. Unregulated groundwater pumping is not only draining utility resources, but also depleting water tables across the subcontinent. In many regions, groundwater levels have fallen as much as 1-3 meters per year, to levels 70 meters or more below those of 30 years ago.²³ Nearly 12% of India's aquifers are severely overdrawn. By 2015, the per capita water availability in India is projected to be less than 1,000 cubic meters (m³), in contrast to about 1,600 m³ today and in the US where it is 30,000 m³.²⁴ The resulting lowered water tables require

²¹ The all-India average is 30.54%. The demand for electricity for irrigation water pumping in the reforming states varies between 25-40%. Source: Central Electricity Authority Statistics, Government of India.

²² All figures relating to financial losses are from the Planning Commission's 2001 *Annual Report on the Working of the State Electricity Boards (SEB)*, and *report of the Expert Group on Settlement of SEB dues* (Montek Singh Ahluwalia Committee, May 2001).

²³ The World Bank – Groundwater Regulation and Management.

²⁴ Central Intelligence Agency Website. Today in India the per capita water availability is 1600 cubic meters/capita/year (Source: Tata Energy Research Institute).

farmers to use increasingly larger pumps and additional energy to pump ever-deeper water supplies, putting more strain on already insufficient power supplies and contributing to higher levels of greenhouse gas (GHG) pollution. Recent studies estimate a 4-12% increase in GHG emissions per meter drop in water tables, India-wide. Thus, over-exploitation of water resources also becomes a significant contributor to India's growing carbon emissions.²⁵

Although the consumption of both power and water is higher in the agricultural sector, India's rapidly expanding urban centers are facing serious water management problems. In addition to inadequate supplies of source water, leaking distribution systems, aging infrastructure, and serious deficiencies in wastewater collection and treatment, tariffs do not recover the utilities' economic and financial costs. In many urban water systems, the cost of energy to pump and deliver water to customers is 60-70% of the total operations and maintenance expenditure of already cash-strapped water utilities.²⁶ Levels of system losses through "unaccounted-for water" or "non-revenue water" are often as high as 50% in Indian cities and represent large financial and environmental losses to cities and their economies. Sanitation and wastewater treatment are also significant energy users and are likely to become even more so as service is extended to a greater number of consumers. Deficiencies in sanitation combined with water shortages and chronic depressurization of the drinking water pipelines seriously compromise the potability of every municipal drinking water system. This is especially alarming in a country where water-borne diseases already take an enormous toll and are a leading cause of death among children.

Women and girls may also suffer disproportionately due to their larger role in providing for household energy and water needs. For example, as water becomes scarce, women and girls spend more time hauling water. As water quality declines, women and girls spend more time caring for sick family members affected by poor sanitary conditions, which in turn contributes to reduced school attendance among girls and an overall reduction in the productive potential in the family.

Constraints

Though India recognizes the importance of addressing these problems, successful implementation of electric power sector reforms, changes in agricultural subsidies, and financial viability of utility systems have yet to be realized. There has been variable commitment to reform and a lack of political will at the national and state level.

Over the past 10 years, the World Bank (WB) and the Asian Development Bank (ADB) have designed and financed comprehensive reform programs for public power sector entities in certain states.²⁷ These reforms address the need to unbundle and privatize vertically integrated state utilities, create functional regulatory bodies, and establish rational tariff structures. Yet the state governments responsible for implementing these reforms are encountering an array of problems in execution.

²⁵ USAID study on GHG Emissions Pertaining to Ground water Pumping in India, April 2001.

²⁶ Cost of energy to pump water in urban water systems: Source: USAID studies in the urban municipalities of Pune, Indore, Kolhapur, Hyderabad and Calcutta.

²⁷ The states are Andhra Pradesh, Rajasthan, Haryana, Gujarat, Orissa, Karnataka, Madhya Pradesh and Uttar Pradesh.

Rationale

USAID India's Environment Strategic Objective is consonant with the Agency's Economic Growth, Agriculture, and Trade pillar and consistent with the GOI's Tenth Five-Year Plan. The premise of the SO is that success in improving the viability of the energy sector can be greatly enhanced by addressing water issues together with distribution reforms, and by improving India's access to clean energy technologies. By reducing losses and improving cost-recovery, service delivery, and ultimately the fiscal health of the state and municipal governments, will improve. This in turn will free up resources for investments in the much-neglected social sectors (health and education). Environmental benefits will also be realized, both in terms of improved water resource management and reduced greenhouse gas emissions from the use of cleaner, more efficient technologies in the power sector.

Electricity distribution reform activities will be given the highest priority since they will provide the largest potential payback in overall system efficiency, improved resource management, and reduced pollution. The proposed strategy will continue important work in end-use energy efficiency, access to clean technology and support for independent power sector regulation. These are essential ingredients in the power sector reform process. A new element of the program will address India's water crisis through the important nexus with the power sector reform process, and new partnerships between electric utilities, water resource management agencies, local user groups, and NGOs.

Comparative Advantage

For much of the past decade USAID India has been working on energy sector regulatory reform and restructuring, clean technology commercialization, greenhouse gas mitigation, and improved urban water and sanitation services. Worldwide, USAID has supported energy sector reform efforts in more than 15 countries in Eastern Europe and several of the former Soviet republics, in Latin America and elsewhere in Asia. USAID also has a strong global Water Team and has implemented successful water management activities throughout the developing world. USAID has successfully leveraged multilateral bank resources. It has also engaged the US Environmental Protection Agency, the US Department of Energy, the US private sector and academia as partners in successful energy and environment activities throughout India.

Assumptions

Achievement of the SO is based on the following key assumptions. They will be monitored for their continued validity and relevance during program implementation, and will be updated, as appropriate.

- Political will for power sector reform continues to grow;
- Urban local governments continue to seek innovative solutions to environmental management;
- Consumer and elected officials' awareness of the benefits of reform and willingness to pay for improved service increases; and

- Electric utilities are willing to forge partnerships with NGOs and local groups, and address water issues as part of their demand-side management strategies.

Target Groups

A key difference between the current and the proposed strategy is an explicit focus on consumer-level impact. The strategic objective will result in clear benefits to people in both rural and urban areas from more efficient use of, and reduced pollution from, energy supplies, and better management of scarce water resources. This SO targets the following broad sets of beneficiary groups, key representatives of which were consulted in developing this strategy:

- Farm families in pilot sites who will benefit from improved quality and reliability of energy and water supplies;
- Urban dwellers who will benefit from improved water and wastewater infrastructure development, and from improved quality and reliability of power supplies;
- State electric utilities that will benefit from improved cost-recovery as a result of successful implementation of distribution reforms;
- Electricity consumers who will be assured of good value for service through strong electricity regulatory bodies functioning in a transparent manner, increasingly independent of undue government influence; and
- State governments, NGOs, and the poor, who will eventually benefit from increased state fiscal resources made available for social sector improvements.

Indirectly, the macroeconomic and health benefits of improved water and energy efficiency and reduced local and global air pollution will accrue to local communities, states, and the country as a whole.

Geographic Focus

The careful selection of appropriate sites for this strategy will be important to demonstrate and document its viability and allow for future replication and scaling up. The following criteria will be used by USAID and partners to prioritize targeted states, utilities, and communities.

- Presence of vulnerable populations, particularly the poor;
- Demonstrated advances in power sector reform at the state level;
- Clear and documented support requested by power utilities;
- Active state and national government support such as the Accelerated Power Development Program;
- Ongoing projects of other donors and strong opportunities for leveraging resources;
- Potential for synergies with other USAID activities;
- Presence of or potential for a local NGO working with agriculture, water, and energy issues;
- Local support and demand or need for water and energy conservation;
- Presence of water users associations;
- Proximity and involvement of State Ground Water Board;
- Location in a high groundwater pumping area;
- Declining water tables;

- Presence of or potential for rural power cooperative;
- Inclusion of significant urban areas to provide maximum impact and links to water-energy urban activities; and
- Reform initiatives undertaken at state government and local levels for improving water and sanitation services.

Based on these criteria and preliminary consultations with counterparts, the SO will likely target the states of Andhra Pradesh, Uttar Pradesh (Greater Noida), Karnataka, Rajasthan, and possibly Gujarat. The final selection will be made during activity designs.

Impact Measurement

The success of the Environment SO will be measured by the following illustrative indicators, which will be finalized following approval of the strategy:

- Increased number of hours of continual power supply (a measure of reliability) within target areas;
- Decreased rate of water table decline within target areas;
- Increased per unit productivity of agricultural water within target areas; and
- Increased use of clean energy technologies in the Indian power sector.

Intermediate Results

IR 4.1 Improved Power Distribution in Selected States

Only through financial viability can utilities enhance access to high quality and reliable power supplies to both urban and rural consumers. USAID and its partners will improve infrastructure, increase use of clean technology, support training and technical assistance on commercial best practices, and enhance awareness and knowledge of the reform process in order to accelerate acceptance of and participation in reforms by a wide array of stakeholders.

Change will occur at three levels over time. Initially, utility companies will be upgraded both in technology and capacity building so that they are able to provide more reliable and better quality power. This will translate into benefits for consumers who receive that power. Finally, as consumers begin to pay for enhanced services, and utilities improve their financial performance, states will benefit through less subsidization of the sector.

Illustrative Activities

- Technical assistance, training, and investments in model metering, billing, and collection systems;
- Investments in infrastructure upgrades, such as transformers, more efficient pump sets, and high tension power lines as part of a demonstration distribution model;
- Technology verification for and investment in clean, distributed generation technologies as part of a demonstration distribution model;
- Matchmaking and technical assistance to private utilities, village electricity committees, franchises, and NGOs to manage the “last mile” (connections to final consumers) distribution system and improve consumer relations; and

- Documentation and dissemination of lessons learned from pilot demonstration projects.

Illustrative Indicators

- Increased implementation of metering, billing, and collection within selected utilities;
- Increased cash flow in selected utilities; and
- Increased use of clean distributed generation technologies as an integral part of an efficient power distribution system.

IR 4.2 Improved Groundwater Management in Selected States

Groundwater management improvements, as represented by changes in technologies, policies, and behaviors in the agricultural sector, will be critical to improving the prospects for success of power sector reform in India. As activities are replicated and scaled up, less money will be needed by states to subsidize the agriculture power sector.

Interventions will take place at various levels. Farm families will be encouraged to increase on-farm water use efficiency through education, extension, and the development of proper incentives. Women will be encouraged to participate in and form community-based water and energy user associations. Utility partnerships and increased awareness of the water-energy nexus at the state and national level will be fostered.

Illustrative Activities

- Facilitating dialogue on and increasing awareness of the water-energy nexus at the national, state and local levels;
- Introducing water conservation techniques such as drip irrigation, land leveling, increasing soil organic matter, use of water-conserving crops and cropping patterns, and rainwater harvesting;
- Fostering partnerships between electric utilities, NGOs with water resource management and community development expertise, and village-level electricity and water user groups; and
- Promoting use of more efficient water pumps.

Illustrative Indicators

- Increased adoption of water conserving technologies; and
- Increased water-pumping efficiency for irrigation.

IR 4.3 Improved Urban Water Availability and Sanitation in Selected States

Improved management of urban water and sanitation systems will reduce water losses, energy consumption, and pollution and contamination, while increasing energy cost-recovery and financial viability of utilities.

Illustrative Activities

- Assisting state government departments of urban development and water supply to improve the policy and regulatory environment governing urban water supply and sanitation. Improved policies will result in incentives for more efficient, better quality service and the supplemental budgetary resources to urban local governments to plan and design financially and environmentally sustainable urban water and sanitation services;
- Providing technical assistance and training to city officials and managers will strengthen their capacity to design, develop, and implement projects to improve and augment urban water and sanitation services; and
- Providing technical assistance and training to the managers of urban water and sanitation services will also improve the operation and maintenance of existing service networks, including improving energy efficiency in municipal water pumping, storage, and distribution.

Illustrative Indicators

- Increased energy efficiency for municipal water supply and sewerage systems;
- Increased wastewater treatment efficiency for municipal utilities;
- Reduced “unaccounted-for water” losses by municipal water departments; and
- Increased access to water and sanitation services.

Relationship to Other Strategic Objectives

There are strong linkages between the energy-water strategic objective and activities in the strategy dealing with economic growth and governance. For example, much of the state fiscal deficit can be attributed to subsidies for the power sector. As utilities become more financially viable, the drain of state coffers will lessen, and these funds can be applied to much neglected social sectors such as education and health. Better governance is at the heart of power sector reform and integrated water resources management alike. Activities within the urban sector will also directly target improved governance by working with city managers and urban local governments.

There is also a direct link between this strategic objective and USAID's South Asia Regional Initiative in Energy (SARI/Energy). Through sub-regional economic trade promotion, SARI/Energy attempts to partially substitute Indian's high-ash coal used to fire thermal power plants, with cleaner fuels, such as natural gas from Bangladesh or hydropower from Nepal. If successful, increased regional energy trade will benefit India's economic growth and result in reduced greenhouse gas emissions. Lessons learned in power sector reform and water management in India can be shared regionally through SARI/Energy activities.

There are relationships to the health objective and USAID activities in disaster preparedness. For example, a more efficient power sector will have a positive impact on air quality and, therefore, on reducing respiratory illnesses due to air pollution. Enhanced urban services in water supply and wastewater treatment will have a positive impact on reducing water-borne diseases. Enhanced water management techniques in

the rural areas will make a positive contribution to a community's preparedness to mitigate against and recover from drought or flood.

Donor Coordination

During the development of this SO, USAID coordinated closely with other donors that are currently or may become engaged in targeted areas of assistance. This coordination will continue during strategy implementation to avoid duplication and maximize the benefits of synergy.

- On power sector reform, USAID has worked closely with the WB, ADB and the British Department for International Development (DFID) over much of the past decade;
- USAID has leveraged \$22 million in WB funding for energy efficiency in Rajasthan and plans to leverage a \$110 million Global Environment Facility pump set replacement program;
- USAID will influence the direction of a \$5 million WB/Activities Implemented Jointly distribution reform program in Andhra Pradesh, and a \$30 million WB loan to the Indian Renewable Energy Development Authority for energy service company and energy efficient equipment financing;
- USAID is well placed to leverage a proposed \$175 million Global Environment Facility-financed Climate Change Partnership and a \$2.5 billion donor lending program with IBRD, IFC, ADB, GOI, UNDP, and Indian banks;
- USAID's Regional Urban Development Office (RUDO) cosponsors and co-funds technical assistance and training events with the United Nation's Urban Management Program and the WB's Water and Sanitation Program for South Asia;
- RUDO, DFID and WB are members of the "Change Management Forum" for urban water and sanitation managed by the Administrative Staff College of India;
- RUDO is part of the multi-donor Cities Alliance, which supports urban slum improvement projects and preparation of city development strategies; and
- WB and ADB requested USAID assistance for urban programs in Gujarat, Tamil Nadu, and Madhya Pradesh.

This ongoing collaboration and ability to leverage resources from other donors will be a very significant aspect of the new strategy.

Strategic Objective 5: Enhanced Opportunities for Vulnerable People

Problem

For India to realize its full potential, equal participation of vulnerable populations²⁸ in society must be advanced, giving the poorest and most marginalized greater access to and control²⁹ over the resources and benefits of development. For this to happen, significant changes in systems at the societal and household levels are necessary. Though laws are in place to protect marginalized groups in India, implementation of laws varies widely across the country. While the country is rich with government and NGO programs promoting women's empowerment and protecting victims of rights abuses, the scale and scope of many efforts remain limited. Key among the many constraints to improving the status of vulnerable people are: inadequate access to basic (elementary) education; lack of access to the judicial system; and unmet social and economic opportunities to improve livelihoods.

Access to Basic Education

Policy reforms in the mid-1980s led to increased access, enrollment, retention and quality of elementary education. About 94% of the country's rural population now live within one kilometer of an elementary school. Literacy increased from 52% in 1991 to 65% in 2001. The relative share of girls' enrollment to total enrollment at primary level increased from 28% in 1950 to 43.6% in 2000.

Despite these achievements, India's primary education sector faces considerable challenges before it will realize the "universal education" goals of enrolling all children in school by 2003 and increasing the literacy rate to 75% by 2007.³⁰ Underscoring these challenges, India's Tenth Five-Year Plan concludes, "Our performance in the field of education is one of the most disappointing aspects of our developmental strategy."

About half of the states and territories, as well as urban areas, were untouched by the educational reform process, resulting in a tremendous diversity in performance.³¹ Performance gaps also exist across and within states; between groups of children, with educational outcomes differing considerably between girls and boys; between the poor and the better-off; and between children of scheduled castes and scheduled tribes and other children.

²⁸ Vulnerable populations are broadly defined to include urban and rural poor living on less than \$1 per day or with low income flows that are unstable, including women who are not compensated at male wage levels (widowed, deserted or abused women); individuals with occupations that are associated with lower castes (e.g., sweepers); child laborers; disabled poor; trafficking victims; illiterates; and street children.

²⁹ Access and control are determined by a range of factors, e.g., caste, class, community and location. Gender equalities cut across all these divisions, thereby further limiting access and control for women and girls.

³⁰ Indicated target of the Tenth Five-Year Plan per the Government of India Approach Paper, p. 3.

³¹ Ninety-seven percent of all children of school-going age reside in the 15 major states of India, 75% of children currently out of school come from the six most disadvantaged states of the country: Andhra Pradesh, Bihar, Madhya Pradesh, Rajasthan, Uttar Pradesh, and West Bengal. Alternatively, Kerala and Tamil Nadu have steady enrollment and retention and by improving efficiency, could reach the "Education for All" goals.

The challenges of the basic education sector are broad and deep. They include finding ways and means to address:

- The impacts of rapid urbanization;
- High drop-out rates as children are needed to earn income for family support;³²
- Large numbers of rural villages without reasonable access to schools;
- Stubbornly high rates of child illiteracy (56% of females and 31% of males age 6 and above³³) that threaten to continue the legacy of high rates of rural adult illiteracy;
- Inadequate school infrastructure;
- High rates of teacher absenteeism;
- Low competence, motivation, and performance among teachers;
- Outdated textbooks, syllabi, and curricula; and
- Weak or non-existent community linkages.

Access to Justice

Despite extensive constitutional and statutory safeguards, large sections of the Indian polity remain disadvantaged in their quest for equitable treatment under the civil and criminal judicial systems. Human rights abuses are often generated by intense social tensions that disproportionately touch women, unscheduled castes, the poor, religious minorities, and other disadvantaged groups. For example, despite the strong women's movement and revision of rape laws, most perpetrators of rape still go unpunished. Bonded labor is also illegal, but it continues to persist.

The Indian judiciary is independent, generally renders good decisions, and actively protects rights. In the face of executive and legislative branch failure, NGOs increasingly and successfully use the technique of public interest litigation to defend rights. The judicial system, however, is hampered in its efforts to ensure rights and provide an adequate forum in which citizens can resolve their disputes with each other or with government.

The challenges to better access to justice are numerous:

- Police are stretched too thinly in many states and police abuse is widespread, partly a legacy of an inability to conduct proper investigations;
- Legal literacy is low and access to advice is insufficient;
- Justice system personnel are either not as aware of some aspects of the law as they need to be or hold attitudes that hinder the rights of some citizens. For example, to understand crimes such as violence against women, trafficking, and rape, and how the law might be used to combat them, judges, prosecutors, state-funded legal aid providers and police need training and sensitization;
- Reliable databases are lacking to aid prosecution;
- An inability to provide protection while investigations are underway is prevalent; and

³² Only about half the children who enroll in Class 1 reach Class 5, and less than a third reach Class 8, resulting in a rising tide of out-of-school children in the most disadvantaged states. The GOI estimates that out of approximately 200 million children in the age group 6-14 years, only 120 million are in schools. The population not in attendance is comprised mostly of Scheduled Castes/Scheduled Tribes girls, working children, disabled children in difficult circumstances, religious minorities, and the urban deprived.

³³ Approach Paper to the Tenth Five-Year Plan, Government of India.

- Case backlogs are huge and processing times are so long (particularly at the lower court level) that justice is effectively denied.

The poor suffer disproportionately in the legal system. Because they cannot post bail, many poor serve more time in jail waiting for their trials on petty charges than they would have served had they been found guilty. In Delhi's Tihar jail, for example, only 2,000 of the 11,000 inmates are convicted criminals; the remaining 9,000 are all awaiting processing.

Frequently, the use of courts by marginalized groups is constrained by traditions that result in members of lower castes not challenging members of higher castes; or by legal illiteracy that assumes the lack of rights and options for redress. Experimental "women's courts" and "people's courts," often administered by retired judges, may provide an alternative to strengthen the access of the poor to justice, but it is unknown yet how well these mechanisms work and who uses them. In addition to the poor, small businesses in both the formal and informal sectors also lack a mechanism for the settlement of business disputes.

Access to Social and Economic Opportunities

Discrimination against women remains entrenched in India. Deep-rooted cultural beliefs and traditional practices deprive women of education, health care and nutrition. Violence against women is widespread, and includes infanticide, child abuse, rapes, and pyre burning of widows on their husbands' funeral pyres. The specter of the "missing women of India" (for every 1,000 men there are only 927 women) is a serious indictment of the neglect of the basic rights of women, ranging from the very top to the very bottom echelons of Indian society. Women are seriously underrepresented in all levels of government and elective office. Self-employment, under-employment, and low wages largely characterize women's work. Their significant contributions to family subsistence and earnings, especially in poor households, are unrecognized and poorly reflected in official statistics. Household responsibilities, lack of education, and cultural norms severely restrict women's working hours and mobility, and this tends to focus women workers in technologically unsophisticated sectors.

Compared to men, Indian women generally have significantly less access to and control over productive assets, employment and training opportunities, basic social services, and information and decision-making at home and in their community. Despite the fact that the GOI and donors have in place numerous programs aimed at promoting opportunities for vulnerable people, these programs have largely focused on health, literacy, and credit services. While generally valuable, they are far from sufficient to change the disempowering discrimination against Indian women. For example, India has made little progress in improving women's rights to land. While micro-credit programs continue to target poor women and other vulnerable groups, these programs do not go far enough to encourage and show women how to increase their income by developing enterprises. Finally, little investment has been made in developing effective ways to reach special target groups—such as rescued trafficking victims and families affected by HIV/AIDS—with economic opportunities for regaining their dignity or safeguarding and increasing their assets.

Few effective schemes exist to respond to the growing numbers of adolescents with low education levels who are facing difficulties supporting themselves. For these children, opportunities to acquire literacy skills or training that can help them earn livelihoods and gain access to credit will be important to assuring their ability to move out of poverty and into more productive segments of society.

Constraints

The Government of India recognizes that "large numbers of our population continue to live in abject poverty and there are alarming gaps in our social attainments even after five decades of planning."³⁴ It further calls for a more aggressive balancing of the push to accelerate economic growth with an emphasis on "enhancement of human well being," emphasizing "...access to basic social services especially education, health, availability of drinking water and basic sanitation..." and including, "...the expansion of economic and social opportunities for all individuals and groups, reduction in disparities, and greater participation in decision making."

India recognizes the importance of broadening its efforts reach those states, parts of states or municipalities previously untouched by educational reforms. Additional strategies to address the hardest to reach children are needed, yet state and local governments do not have the expertise and, especially in poorer states, the resources to establish the frameworks and build the infrastructure needed for both basic and alternative educational models. Some states have experimented with residential camps, transitional courses, support schemes for families unable to afford the costs of educating children, and private sector partnerships to introduce technology, such as computers, to train students and teachers, as well as to support the development of better education management information systems. But these efforts are limited and need to be further scaled-up to bring out-of-school children back to schools and provide them with meaningful education and skills. Further efforts also are needed to ensure that the quality of education is enhanced, not only in the formal structures, but as well in short term alternative education systems (e.g., bridge schools) that are being established to reintegrate drop-outs and child laborers.

Studies in low-literacy districts in eight states found that the gender gap in elementary-level achievement was exacerbated by the absence of female teachers, the absence of single-sex schools, the location of schools more than two kilometers from home, inadequate teaching and learning materials, and lack of separate toilets for girls.³⁵ Parental attitudes discriminate against girls' education. Indian families often prefer to invest in the education of a son, since the returns to this investment will remain with the family, while the returns to investment in a daughter's education will typically flow to her husband's family. Also affecting household decisions on schooling is the opportunity cost of children's time; surveys indicate girls spend 15-30% more time working than boys.

A broad and active network of civil society organizations is working to improve women's access to economic opportunities and pushing for a national debate on rights issues. However, their attempts to influence policy or advocate for responsive programs are often

³⁴ Approach Paper to the Tenth Five-Year Plan (2002-2007), Government of India.

³⁵ Nayar, Usha. 1994a. "DPEP Gender Studies – India", National Council of Educational Research and Training, New Delhi.

stymied by the lack of access to reliable supportive data and information, such as gender-disaggregated poverty statistics and broadly accepted indicators of the gender impacts of economic liberalization. Increasingly, these civil society organizations serve as implementing agencies for government or donor-funded programs that target poor women, children and other vulnerable groups. However, the limited absorptive capacity of these groups constrains their ability to broadly replicate successful interventions, while also continuing their critical advocacy roles.

Without broad, supportive economic structures and social mobility programs, women will have difficulty escaping the poverty trap. Victims of trafficking and prostitution can easily be forced back into the sex trade for economic reasons. As reported crimes against women increase, women's organizations have been effective in campaigning for more aggressive actions by the all-women police stations (AWPS) and family courts. However, the AWPS are unable to keep up with increasing caseloads. As a result, the press reports that victims are frequently advised to return to abusive situations because other options are not available.

Unless significant investments are made to address these constraints, India's reform agenda and efforts to integrate more fully into the global economy, threaten to further increase the vulnerability of women, children, members of lower castes, minority religious groups, and tribal people.

Rationale

USAID India's Vulnerable People Strategic Objective is consonant with the Agency's Democracy, Conflict, and Humanitarian Assistance pillar and consistent with India's constitution that guarantees equality across gender, caste and religion, and promotes a rights-based, democratic framework. Notwithstanding this impressive framework, large elements of the population are regularly denied their rights. Social acceptability of this discrimination and abuse, combined with weak or non-enforcement of the democratic framework, limits opportunities for vulnerable populations, especially women and children.

Creating and increasing access for the poor and marginalized to education and the country's judicial systems are critical to breaking the vicious cycle of abuse, discrimination and poverty, and realizing economic development. Education is key to enabling the future workforce of men and women to embrace technological changes that can boost their productivity and earnings, and provide escape routes from poverty. Education is also critically important in furthering democratic values such as tolerance and equality.

Better access to the country's judicial systems by the disadvantaged is equally critical to achieving more equitable development. Building constituencies, institutions and processes that allow greater citizen participation in and protection under the justice system can be a powerful complement to increased educational opportunity.

It is clear from the GOI's own analyses, and from recently conducted USAID gender, education, and democracy and governance assessments, that substantial, sustained government and donor commitments are required to achieve progress on India's

empowerment and equity issues.³⁶ It is equally clear that the GOI and civil society organizations perceive the value of having international donors, such as USAID, as stakeholders in promoting these essential human rights values.

Comparative Advantage

USAID has considerable experience in working with social equity activities in India and worldwide. USAID India has had more than five years of experience in implementing special, modest initiatives that explore approaches to remedying the gender equity imbalance and promoting child rights. These include domestic violence research and advocacy; microfinance support for women; and girls and child labor elimination activities. More recently, as participants under the South Asia Regional Initiative on Equity (SARI/Equity) regional anti-trafficking program, USAID has initiated support to a limited number of community-based prevention efforts targeting these core issues. USAID India also has valuable experience in planning urban services and has extensive networks with municipal officials, communities, and urban settlements.

In technical areas that are outside of USAID India's experience base, such as justice, it will draw on USAID Washington support arrangements and Indian technical expertise to help refine strategies, conduct additional analyses, and design implementation support programs.

Assumptions

Achievement of the SO is based on the following key assumptions. They will be monitored for their continued validity and relevance during program implementation, and will be updated, as appropriate. These assumptions address issues that are well beyond the direct influence of this SO, such as advocacy to increase political will, engagement of women politicians, and international donor support, but they will be critical to scaling-up successful interventions.

- Increased advocacy within India and the US public, including among non-resident Indian (NRI) Americans, for addressing the needs of the most vulnerable, will strengthen the political will for action, particularly at the state level;
- The justice system will be willing to collaborate with other donors in making improvements;
- International donors will sustain their investments in the GOI's national elementary school reform agenda, anti-trafficking efforts, and programs that promote opportunities for deprived women, children and vulnerable groups; and
- SO 1 and SO 4 will lead to economic reforms needed to free up government funding for investment in a pro-poor agenda.

³⁶ In spite of many programs initiated in states, the external funding for primary education programs has remained relatively small in proportion to the over-all expenditure of the national and state government on education, although in absolute amount the funding has increased from Rs 40 million in the early 90s to approximately Rs 8,000 million in 1999-2000.

Target Groups

This SO targets the following broad sets of beneficiary groups, key representatives of which were consulted in developing this strategy:

Education activities will target:

- Out-of-school children in rural and urban areas, with a special focus on girls;
- School administrators and policy makers in the education sector; and
- Teachers and teacher training facilities and local communities.

Access to justice activities will target:

- Judges, lawyers, prosecutors, and potentially the police;
- *Panchayat* leaders and community organizations; and
- Law schools.

Activities supporting new and expanded measures to promote social and economic equity will target:

- The poor;
- Victims of trafficking, domestic violence and other abuses; and
- Community groups and partner organizations.

Geographic Focus

Beyond its broad support to other SO teams in advocating for the integration of gender concerns into their programs, the specific activities of this SO will link with other USAID programs in health, microfinance, state fiscal reform, and humanitarian assistance. In particular, the SO team will coordinate with other SO teams in targeting states with a desire to reform and with relatively low social and economic indicators, such as absolute numbers of poor and marginalized, low literacy rates, and highly inequitable distribution of resources and services to the poor.

Preliminary target states are Karnataka, Jharkhand, Gujarat, Rajasthan, Chhattisgarh and Uttar Pradesh.

Impact Measurement

The success of the Vulnerable People SO will be measured by the following illustrative indicators, which will be finalized following approval of the strategy:

- An increase in the number of primary school years completed (for the bottom quintile if possible);
- An increase in primary school exam pass rates;
- Decreased tolerance among citizens and public sector institutions of domestic violence;
- Increased sense among victims of domestic abuse that they can get help;
- Increased assets or income for vulnerable populations;
- Increased pro-poor expenditures by selected states (overlap with SO 1);

- Increased sense among the poor that they can access the legal system (formal and informal mechanisms) and get justice;
- Faster case processing time in the courts; and
- Improved safety nets in place for key vulnerable groups (e.g., street children, trafficked women and the poor).

Intermediate Results

IR 5.1 Improved Access to Education for Vulnerable Children

Activities will promote better access to education for out-of-school youth, strengthen retention capacities of schools, and foster creative decentralized approaches to education. USAID will emphasize investments that can build the base of local and international support for alternative school systems so that more out-of-school children can be reached. Options for linking alternative systems into the national elementary system will be explored and supported. Depending on the level of resources available, USAID will explore opportunities to support the GOI framework for universal education, with a focus on one or perhaps two states.

Illustrative Activities

- Develop and test bridge courses and preparatory education for “never enrolled” older children (8-12) and children needing second and third chance opportunities to return to mainstream education;
- Launch community mobilization and sensitization initiatives for Village Education Committees, Parent-Teacher Associations, and Mother-Teacher Associations;
- Expand the formal school system's capacity to absorb and retain out-of-school children;
- Improve basic infrastructure in schools to retain girls;
- Promote use of interactive media (TV/radio) for teachers' education and in-service support, with a particular focus on gender concerns in rural communities and multi-grade schools;
- Strengthen Education Management Information Systems (EMIS) by providing hardware and software; and
- Support technical exchanges on EMIS and Geographic Information Systems, data-based planning and budgeting systems, projection and modeling tools to improve planning for education systems, including primary to secondary linkages.

Illustrative Indicators

- Increased enrollment of children in bridge courses;
- Decreased drop-out rates of girls from alternative and formal schools (possible class level focus);
- Increased number of classrooms and girl-friendly facilities, e.g., toilets;
- Increased percentage of children finishing elementary school and entering secondary school, by gender; and
- Increased number of effective private (including alternative) and public school interfaces, e.g., curriculum development and teacher training.

IR 5.2 Better Access to Justice

Activities will focus attention on the justice needs of the bottom quintile of the population, while assisting these people to gain: an understanding of their rights; access to stronger coalitions capable of advocating for the protection of their rights; and access to more responsive and effective mechanisms of delivering justice. The focus will be primarily on a narrow band of social and economic rights that, when abused, constrain the participation of the poor, women, children, businesses in the informal sector and other disadvantaged groups in the development process. If possible, however, USAID will look more broadly at the functioning of the criminal justice system and will seek to add GOI-sponsored reform efforts.

USAID will help develop broad-based coalitions that can effectively monitor and lobby government for needed reforms. These loose but powerful and broadly representative coalitions, comprised of civil society, bureaucratic, and political actors, will use research, public opinion polls, and other tools to critically analyze rights issues based on what is actually happening in the country. Ideally, these coalitions will foster national, regional, and state policy discussions with affected groups on key issues, in the press or other public fora. The aim is to forge a consensus on selected issues and advocate for enforcement and adoption of new initiatives, procedures, and legislation that will advance social justice and opportunity. USAID will also strengthen key public and private sector institutions that can increase legal literacy, provide advice and resolve complaints.

Illustrative Activities

- Expand legal literacy training for community-based and other intermediary support organizations that work with vulnerable groups;
- Assess and build (lower) court capacity to address case backlogs, including process reengineering and computerized case management;
- Assist the GOI in revising the criminal procedures code and in implementing a new code;
- Support research on efficiency and strengthening alternatives (people-based) and “fast track” systems for delivery of justice;
- Upgrade knowledge and skills of judges, prosecutors, police, and advocates in new, key areas, e.g., anti-trafficking and child prostitution laws, child labor regulations, and the recently produced ethics code;
- Conduct research and analysis to document enforcement of key existing laws aimed at protecting women and children; and
- Disseminate information and promote advocacy to support enforcement or other changes needed to strengthen rights protection.

Illustrative Indicators

- Increased civil society (including media) understanding of rights abuses, e.g., violence against women and land inheritance;
- Increased number of civil society organizations promoting legal literacy for vulnerable groups;
- Improved and expanded alternative dispute resolution (ADR) systems in place to serve the vulnerable, as judged by numbers of users in key categories;

- Increased awareness of key rights among target groups;
- Numbers of users of legal aid programs;
- Increased public awareness of key problems such as domestic violence and bonded labor;
- Justice system personnel more knowledgeable and sympathetic on key issues;
- Courts computerized and case tracking systems in place;
- Improved criminal procedures code drafted, passed, and implemented; and
- Better integrated responses to domestic violence and trafficking from the public and private sectors (health professionals, police, courts and legal professionals, NGOs, *panchayats*, the media, and think tanks).

IR 5.3 New and Expanded Opportunities for Vulnerable Groups

This is a “learning IR,” with less of an implementation blueprint. Instead, it is deliberately structured to provide USAID with the requisite flexibility to: promote cutting-edge opportunities, respond quickly to new and critical issues, and stimulate innovative programming for social and economic empowerment. Interventions will strengthen government and private efforts to address equity issues at the community and national levels. As a phase 1 (18-24 months) priority, USAID will focus on the needs of higher-risk groups, e.g., trafficked women and children, poor families affected by HIV/AIDS, victims of domestic violence, landless women, poor women without access to credit, and adolescents with minimal levels of education. Subsequent interventions will depend upon the initial results, which will be carefully assessed. Accordingly, performance measures under this IR will evolve in a flexible, process-related manner.

Illustrative Activities

- Girl’s adolescent livelihood programs in high-risk trafficking and domestic violence zones;
- Cutting-edge research on issues, such as the quantification of women’s unpaid work, the impact of macroeconomic policy reforms and trade liberalization on gender, and the economic costs of violence;
- Innovative microfinance interventions for trafficked or destitute women and victims of HIV/AIDS; and
- Design and introduction of social and financial services for high risk groups, e.g., business development services, to complement existing investments.

Illustrative Indicators

- Increased number of microfinance schemes for high risk groups;
- Increased number of effective support services for high-risk groups and the victims of trafficking and domestic violence; and
- Research conducted and findings nationally disseminated on emerging issues.

Relationship to Other Strategic Objectives

This strategic objective will provide a strong demonstration of the US Government's concern for the poor and other vulnerable groups of India. This SO is strongly linked to the economic growth SO, whose emphasis on microfinance regulation and policy reform

could provide a platform for increased success of this SO. A potential link exists between women's livelihood options nurtured under this SO and humanitarian assistance responses that target women and other vulnerable groups (e.g., the landless poor) affected by disasters. Support services for victims of trafficking, domestic violence, and adolescent youth with low educational levels will likely reinforce USAID's HIV/AIDS and reproductive health activities.

Donor Coordination

During the development of this SO, USAID coordinated closely with other donors that are currently or may become engaged in targeted areas of assistance. This coordination will continue during strategy implementation to avoid duplication and maximize the benefits of synergy.

- In the social and economic equity sector, USAID has worked with United Nations Development Program (UNDP), UNICEF, UNIFEM, and British Department for International Development (DFID) over much of the past decade, and is an active member of the India Intra-Agency Women in Development Working Group;
- In the education sector, USAID will coordinate closely with the World Bank; Lok Jumbish, an NGO funded by CIDA; UNICEF; Janshala, a community-based primary education project begun by UNICEF, UNDP, UNESCO, UNFPA, and ILO; and the District Primary Education Program, supported by the World Bank, EC, DFID, and the Government of Netherlands;
- In the area of access to justice, USAID will likely coordinate closely with DFID and the World Bank. DFID is helping set up a Center for Good Governance in Andhra Pradesh (AP) and will likely support social justice-related initiatives in one to two states. The World Bank is considering supporting court reform in Uttar Pradesh and AP; and
- DFID, CIDA, UNICEF, UNIFEM, UNDP, and ADB have a common interest in the issues of trafficking and domestic violence, HIV/AIDS, land tenure and inheritance, and gender equality in the workplace.