



Report and Recommendation of the President to the Board of Directors

Project Number: 54182-001
April 2020

Proposed Countercyclical Support Facility Loans and Technical Assistance Grant India: COVID-19 Active Response and Expenditure Support Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 12 April 2020)

Currency unit	–	Indian rupee/s (₹)
₹1.00	=	\$0.0131
\$1.00	=	₹76.17

ABBREVIATIONS

ADB	–	Asian Development Bank
AFD	–	Agence Française de Développement
ASHA	–	accredited social health activist
bps	–	basis points
CARES	–	COVID-19 Active Response and Expenditure Support
COVID-19	–	Coronavirus disease 2019
CPRO	–	COVID-19 Pandemic Response Option
DEA	–	Department of Economic Affairs
DMC	–	developing member country
FRBM	–	Fiscal Responsibility and Budget Management
GDP	–	gross domestic product
GIZ	–	Deutsche Gesellschaft für Internationale Zusammenarbeit
IMF	–	International Monetary Fund
JICA	–	Japan International Cooperation Agency
LIBOR	–	London interbank offered rate
MOF	–	Ministry of Finance
MOHFW	–	Ministry of Health and Family Welfare
MSMEs	–	micro, small, and medium-sized enterprises
PEFA	–	Public Expenditure and Financial Accountability
PFM	–	public financial management
PMGKY	–	Pradhan Mantri Garib Kalyan Yojana (Prime Minister's Welfare Scheme for the Poor)
PPE	–	personal protective equipment
RBI	–	Reserve Bank of India
SAARC	–	South Asian Association for Regional Cooperation
TA	–	technical assistance
UNICEF	–	United Nations Children's Fund
US	–	United States
WHO	–	World Health Organization

NOTES

- (i) The fiscal year (FY) of the Government of India ends on 31 March. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2020 ends on 31 March 2020.
- (ii) In this report, "\$" refers to United States dollars.

Vice-President	Shixin Chen, Operations 1
Deputy Director General	Diwesh Sharan, Officer-in-Charge, South Asia Department (SARD)
Directors	Takeo Konishi, Public Management, Financial Sector, and Trade Division (SAPF), SARD Sungsup Ra, Human and Social Development Division (SAHS), SARD
Team leaders	Navendu Karan, Senior Public Management Economist, SAPF, SARD Gi Soon Song, Principal Social Sector Specialist, SAHS, SARD
Team members	Mikael Andersson, Financial Management Specialist, Portfolio, Results and Quality Control Unit, Office of the Director General (SAOD-PR), SARD Brando Angeles, Associate Environment Officer, Environment, Natural Resources, and Agriculture Division (SAER), SARD Angelique Dawn Badelles, Associate Safeguards Officer (Resettlement), Office of the Director General (SAOD), SARD Ricardo Carlos Barba, Principal Safeguards Specialist, SAOD-PR, SARD Charlotte Benson, Principal Disaster Risk Management Specialist, Climate Change and Disaster Risk Management Division, Sustainable Development and Climate Change Department (SDCC) Liz Biglang-Awa, Associate Results Management Officer, SAOD-PR, SARD Tulsi Bisht, Senior Social Development Specialist, Safeguards Division (SDSS), SDCC Arnaud Cauchois, Principal Water Resources Specialist, SAER, SARD Brian Chin, Social Sector Specialist, SAHS, SARD Marie Kristine Estrella, Associate Project Officer, Transport and Communications Division (SATC), SARD Adelita June Gacutan, Senior Operations Assistant, SAPF, SARD Manohari Gunawardhena, Financial Sector Specialist, SAPF, SARD Kanupriya Gupta, Senior Economics Officer, India Resident Mission, SARD Ma. Kristina Hidalgo, Senior Financial Sector Officer, SAPF, SARD Takuya Hoshino, Financial Sector Specialist, SAPF, SARD Bisma Husen, Principal Procurement Specialist, Procurement Division 1, Procurement, Portfolio, and Financial Management Department (PPFD) Shanti Jagannathan, Principal Education Specialist, Principal Education Specialist, Energy Sector Group, SDCC Maria Joao Kaizeler, Senior Financial Management Specialist, Public Financial Management Division, PPF Prabhjot Khan, Senior Social Development Officer (Gender and Development), India Resident Mission (INRM), SARD Sajid R. Z. Khan, Financial Management Specialist, SAOD-PR, SARD Sonalini Khetrpal, Social Sector Specialist, SAHS, SARD Balaji Kothandan, Operations Coordinator, INRM, SARD Pramod Kumar, Associate Project Officer (Procurement), INRM, SARD Cheska Angelie Llamas, Operations Assistant, SATC, SARD Girish Mahajan, Senior Environment Officer, INRM, SARD Pravash Kumar Mishra, Senior Safeguards Officer, INRM, SARD

Jackie Moreno, Senior Project Assistant, SAPF, SARD
Kaukab Naqvi, Senior Economist, Economic Analysis and Operational Support Division, Economic Research and Regional Cooperation Department
Ashish Narain, Principal Economist (Regional Cooperation), Regional Cooperation and Integration Thematic Group, Thematic Service Advisory Cluster, SDCC
Susan Olsen, Senior Investment Specialist, Financial Institution Division, Private Sector Operations Department
Patrick Osewe, Chief, Health Sector Thematic Group, Sector Advisory Service Cluster, SDCC
Mary Grace Ramos, Associate Operations Officer, SAOD-PR, SARD
Vankina Sri Rekha, Principal Counsel, Office of the General Counsel
David Robinett, Senior Public Management Specialist (State-Owned Enterprise Reforms), Governance Thematic Group (SDTC-GOV), Thematic Service Advisory Cluster, SDCC
Krishnendu Baran Sarkar, Senior Financial Management Officer, INRM, SARD
Viliami Sefesi, Principal Financial Control Specialist, Loan and Grant Disbursement Section, Loan Administration Division, Controller's Department
Lei Lei Song, Regional Economic Advisor, SAOD, SARD
Rajeev Sundaram, Senior Operations Assistant, INRM, SARD
Sonomi Tanaka, Chief, Gender Equity Thematic Group (SDTC-GEN), Thematic Service Advisory Cluster, SDCC
Deepak Taneja, Principal Treasury Specialist, Treasury Client Solutions Unit, Treasury Department
Francesco Tornieri, Principal Social Development Specialist, SAOD-PR, SARD
Adrien Veron-Okamoto, Senior Planning and Policy Specialist (Institutional Coordination), Special Initiatives Unit, Strategy, Policy, and Partnerships Department
Meredith Wyse, Senior Social Development Specialist (Elderly Care), Social Development Thematic Group, Thematic Service Advisory Cluster, SDCC
Karma Yangzom, Principal Environment Specialist, SDSS, SDCC
Bruno Carrasco, Chief, SDTC-GOV, Thematic Service Advisory Cluster, SDCC

Peer reviewer

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 54182-001	
Project Name	COVID-19 Active Response and Expenditure Support Program	Department/Division	SARD/SAPF
Country Borrower	India	Executing Agency	Department of Economic Affairs, Ministry of Finance
Country Economic Indicators Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=54182-001-CEI https://www.adb.org/Documents/LinkedDocs/?id=54182-001-PortAtaGlance		
2. Sector		ADB Financing (\$ million)	
✓ Public sector management	Social protection initiatives		1,000.00
Health	Disease control of communicable disease		300.00
	Health system development		200.00
		Total	1,500.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		Climate Change impact on the Project	Low
✓ Accelerating progress in gender equality			
✓ Strengthening governance and institutional capacity			
✓ Fostering regional cooperation and integration			
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.2, 1.3, 1.a		Effective gender mainstreaming (EGM)	✓
SDG 3.3, 3.8, 3.d			
SDG 5.4			
SDG 8.8			
SDG 11.5			
4. Risk Categorization:		Complex	
5. Safeguard Categorization		Environment: C Involuntary Resettlement: C Indigenous Peoples: C	
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		1,500.00	
Sovereign Countercyclical Support Facility Lending (Regular Loan): Ordinary capital resources		1,500.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		1,500.00	
Note: An attached technical assistance will be financed on a grant basis by the Technical Assistance Special Fund (TASF-OTHERS) in the amount of \$2,000,000.			
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on proposed loans to India for the COVID-19 Active Response and Expenditure Support Program (CARES Program), under the countercyclical support facility COVID-19 pandemic response option (CPRO).¹ The report also describes proposed technical assistance (TA) for Building Capacity for Improved Implementation of Government's COVID-19 Response and Pro-poor Economic Package, and if the Board approves the proposed loans, I, acting under the authority delegated to me by the Board, approve the TA.

2. **Coronavirus disease 2019 infection is increasing rapidly in India.** The first coronavirus disease 2019 (COVID-19) case in India was reported on 30 January 2020 in Kerala. The number remained low until mid-March but has increased rapidly since then. By 19 April 2020, India had reported 16,115 confirmed cases, 2,301 cured and discharged cases, and 519 deaths across India.² India faces serious shortage in medical staff and necessary facilities and equipment. Assuming the worst-case scenario of 2.2 million infected people, the existing intensive care unit capacity of 57,000 beds will need to be doubled and all of them will have to be equipped with ventilators.

3. **The large poor and vulnerable segment is facing high risk of infection and loss of income.** About 270 million people are living under the national poverty line and about 81 million people live in densely populated urban areas, with limited access to health services and hygiene, congested housing, and poor health-seeking behaviors.³ They face high risk of community transmission. At the same time, the quarantine and social distancing measures have left many without a source of income. This would lead to as large a population as 104 million who are above international poverty line (\$3.2/day) falling into poverty if consumption decreased by 10% due to COVID-19 restrictions (para. 11).

4. **India bracing for economic and fiscal shocks.** International Monetary Fund (IMF) has slashed the FY2021 economic growth forecast for India to 1.9%, down by around 3.9 percentage points over its January 2020 forecast.⁴ Depressed economic activity will disrupt the revenue targets of Government of India. On the other hand, the government's COVID-19 response plan and other measures entail much higher public spending. Fiscal deficit is therefore likely to increase significantly. The domestic borrowing plan is already significantly enhanced, which has raised pressure on bond yields. High domestic borrowing will not only crowd out private investment, which is critical to post-pandemic recovery, but also increase future interest payments on public debt. Timely and low-cost financial assistances in convertible currencies from development partners will help alleviate the pressure on domestic financial conditions and support the rupee as foreign capital flows out.

5. **The proposed CARES Program.** The government has identified COVID-19 containment, prevention and cure, and mitigating its adverse socio-economic consequences on the poor and vulnerable as the immediate priority. The CARES Program, under the CPRO of the Asian Development Bank (ADB), will provide critically needed support to help the government mitigate the severe health, social, and economic impacts caused by the COVID-19 pandemic. ADB's

¹ ADB. 2020. [Policy Paper: ADB's Comprehensive Response to the COVID-19 Pandemic](#). Manila.

² Government of India, Ministry of Health and Family Welfare (MOHFW). <https://www.mohfw.gov.in/> (accessed on 20 April 2020).

³ The World Bank. 2016. [India's Poverty Profile](#). (accessed on 18 April 2020).`

⁴ IMF. January 2020. World Economic Outlook. 2020. *Tentative Stabilization, Sluggish Recovery?* Washington D.C.; and IMF. April 2020. Policy Responses to COVID19. Washington.

support will allow the government to undertake public expenditures that are essential for supporting vulnerable populations and curtailing the spread of the disease. It is timely, relevant, and well-aligned with the government's phased approach.

6. India meets all of the access criteria of ADB's CPRO under the Countercyclical Support Facility, which include adverse impact of exogenous shock, countercyclical development expenditures, robust macroeconomic management, undertaking of key structural reforms, public debt levels maintained at sustainable levels, and coordination with IMF (Table 1).⁵ The CARES Program is also aligned with ADB's Strategy 2030, including operational priorities on addressing remaining poverty and reducing inequalities, accelerating progress in gender equality, strengthening governance and institutional capacity, and fostering regional cooperation and integration.⁶

Table 1: Compliance with Access Criteria for COVID-19 Pandemic Response Option

CPRO Access Criteria	ADB Staff Assessment
1. Adverse impact of exogenous shocks	IMF has slashed the FY2021 economic growth forecast to 1.9%, down by 3.9 percentage points from 5.8% in the January 2020 forecast. Recent ADB estimates show that the GDP growth could fall to 1.4% under longer containment with a projected 104 million people at risk to fall below \$3.2/day poverty. ⁷ Correspondingly, India's fiscal position is under stress. The gross financing requirement has significantly increased due to the crisis. The government's large domestic borrowing plan has already raised the yields on government bonds and is likely to crowd out the private sector. The financial sector stress will also be pronounced against the backdrop of recent episodes of stressed balance sheets across some banks and non-banking financial institutions and given the cash flow problems faced by liquidity constrained MSMEs.
2. Countercyclical development expenditures	<p>The government's COVID-19 response program includes (i) a \$2 billion health sector project to rapidly ramp up test-track-treatment capacity; and (ii) a \$23 billion pro-poor relief package under PMGKY which will provide (a) additional social protection measures targeting the poor, vulnerable population, and disadvantaged groups including women and (b) insurance coverage for all types of health workers engaged in the COVID-19 response. Significantly, 65% of this package is in the form of direct social assistance and protection to the poor and vulnerable, including women.</p> <p>In addition to this central government program, various state governments have also initiated countercyclical measures.</p>
3. Pre-shock record of generally sound macroeconomic management	The fundamentals of the economy were strong pre-shock. India was the world's fastest growing large economy during 2014–2018 supported by sound macroeconomic management and economic development policies that have contributed to substantial reduction in poverty. ⁸ Public debt-to-GDP ratio has declined over the past decade while the government is putting serious efforts on fiscal consolidation under the Fiscal Responsibility and Budget Management Act, 2003, as amended in 2018. The central government fiscal

⁵ Details on compliance with the access criteria are in Appendix 4.

⁶ ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

⁷ ADB. 2019. [Asian Development Outlook Supplement](#). Manila. December; ADB. 2020. [Asian Development Outlook 2020: What Drives Innovation in Asia?](#) Manila. April; and Asian Development Bank estimates. 28 March.

⁸ International Monetary Fund. 2019. [World Economic Outlook October 2018: Report for Selected Countries and Subjects](#). (Retrieved 18 April 2020).

CPRO Access Criteria	ADB Staff Assessment
	deficit averaged 3.6% during FY2016–FY2020, lower than 4.8% in FY2011–FY2015. The government has rolled out a series of structural reforms, including introduction of goods and services tax, and lowering of corporate taxes to boost investment and income tax reforms. India has adopted inflation targeting in February 2015, which led consumer price index-based inflation to fall from a high of 12.3% in FY2010 to 4.8% in FY2020, within the inflation targeting range of 2%-6%. ⁹ The pro-poor relief package is conducted within a sound budgetary framework.
4. Structural reforms	The government has acted swiftly to contain the spread of COVID-19 and mitigate economic, social, and health impacts. The government has set up 11 Empowered Groups to identify problem areas and ensure proper planning and coordination across ministries for time-bound implementation of COVID-19 programs. ¹⁰ Further, a COVID-19 Economic Response Task Force has been set up under the leadership of the Finance Minister to undertake fiscal and monetary measures in coordination with the RBI.
5. Debt sustainability	IMF Article IV consultations held in December 2019 assessed India's debt as likely sustainable due to a favorable growth-interest rate differential (footnote 9). The public debt to GDP ratio was 69.9% in FY2019 and 72.2% in FY2020. ¹¹ Various stress tests to the ADB baseline show that the risks to India's debt sustainability remain contained. The additional borrowing under the ADB's CARES Program, proposed MSME finance project loan, and infrastructure finance project loan (\$2 billion combined), the World Bank's COVID-19 assistance (\$2 billion combined), and \$500 million each from AIIB and NDB will increase the public debt to GDP ratio by about 0.2 percentage points from the ADB baseline (77.2%) in the first two years, peaking in FY2022, and gradually converge to the baseline to be 0.1 percentage points higher by FY2025 as amortization increases.
6. Coordination with International Monetary Fund	ADB has closely coordinated with IMF on the macroeconomic situation and COVID-19 impact. IMF's assessment has been received.

ADB = Asian Development Bank, AIIB = Asian Infrastructure Investment Bank, COVID-19 = coronavirus disease 2019, CPRO = COVID-19 Pandemic Response Option, FY = fiscal year, GDP = gross domestic product, IMF = International Monetary Fund, MSME = micro-, small-, and medium-sized enterprise, NDB = New Development Bank, PMGKY = Pradhan Mantri Garib Kalyan Yojana (Prime Minister's Welfare Scheme for the Poor), RBI = Reserve Bank of India.

Source: Asian Development Bank.

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

1. COVID-19 Crisis and Its Impact

7. **Unprecedented global crisis.** The World Health Organization (WHO) declared COVID-19 a public health emergency of international concern on 30 January 2020, and thereafter declared a pandemic on 11 March 2020.¹² Since the first few cases were detected in December

⁹ IMF. December 2019. [India Article IV Consultation. IMF Country Report No.19/385](#).

¹⁰ Hindustan Times. 2020. [Govt forms empowered groups, task force to deal with Covid-19 outbreak](#) (accessed on 1 April 2020).

¹¹ Debt Sustainability Assessment (accessible from the list of linked documents in Appendix 2).

¹² WHO. [Rolling Updates on Coronavirus Disease \(COVID-19\)](#) (accessed on 29 March 2020).

2019 in Wuhan, Hubei Province, the People's Republic of China, the number of cases outside of the People's Republic of China has grown exponentially from beginning of March 2020. The COVID-19 infection has spread to 213 countries, areas, or territories, reaching 2,074,529 confirmed cases and 139,378 deaths within three months.¹³

8. **Rapid increase of COVID-19 in India.** While the number of confirmed cases is increasing rapidly, India is still at the stage of clusters of cases where several occur in close proximity in terms of both time and geography.¹⁴ Delhi, Gujarat, Madhya Pradesh, Maharashtra, Rajasthan, and Tamil Nadu have more than 1,000 confirmed cases each while 20 states or union territories have less than 50 cases. Like most countries around the world, India has been trying to contain COVID-19 as much as possible to protect lives and avoid health system collapse by implementing social distancing, community quarantine, and testing and tracking. From the perspective of social determinants of health, a huge number of poor people living in urban slums are vulnerable to COVID-19 in India (para. 3). India has more than 140 million inter- and intra-state migrant workers who have been particularly affected. A great number of vulnerable people are at high risk of large community transmission.

9. **Health system.** While the government is committed to universal health coverage and has implemented key health sector interventions such as the National Health Mission for the poor and vulnerable, public health expenditure in India remains at about 1% of gross domestic product (GDP). India continues to face persistent risk with communicable diseases accounting for 27.5% of all deaths.¹⁵ It also has a serious shortage of medical staff and necessary facilities and equipment, with 0.8 physician and 0.7 hospital bed per 1,000 people.¹⁶ It is estimated that a maximum 57,000 beds in intensive care units are available, less than half of which (25,000) have ventilators.¹⁷ Assuming the worst-case scenario of 2.2 million infected people,¹⁸ India would need 110,000 intensive care units equipped with ventilators. The protection of health workers is equally important in the fight against COVID-19. Personal protective equipment (PPE) and ventilators alone would cost about \$898 million according to the government's estimation of requirements.¹⁹

10. **Economic impact of the lockdown.** Given the extremely high risks of the pandemic, particularly for the lower income segment of the population, the Prime Minister on 24 March 2020 announced a 21-day nationwide lockdown, which was later extended until 3 May 2020.²⁰ While the lockdown was necessary to curtail widespread transmission and to simultaneously address existing health sector weaknesses, it has severely depressed economic activity. Some forecasters have already projected an outright recession in FY2021.²¹ IMF has slashed the

¹³ WHO. [Coronavirus Disease \(COVID-19\) Outbreak Situation](#) (accessed on 17 April 2020).

¹⁴ WHO. [Coronavirus Disease 2019 \(COVID-19\) Situation Report – 89](#) (accessed on 18 April 2020).

¹⁵ Journal of Family Medicine and Primary Care. 2019. Mohan, et. al. [Communicable or noncommunicable diseases? Building strong primary health care systems to address double burden of disease in India.](#) (accessed on 16 April 2020).

¹⁶ [The World Bank Databank](#) (accessed on 17 April 2020).

¹⁷ P. Singh, S. Ravi, and S. Chakraborty. 2020. [COVID-19: Is India's Health Infrastructure Equipped to Handle an Epidemic?](#) Brookings Institution (Brookings India Center). 24 March.

¹⁸ COV-IND-19 Study Group. 2020. [Predictions and Role of Interventions for COVID-19 Outbreak in India.](#) Ann Arbor, Michigan (accessed 13 April 2020).

¹⁹ The Empowered Group projects a requirement of 27 million N95 masks, 15 million PPE kits, and 50,000 ventilators by June 2020. *Medical Buyer*. 2020. [Government Estimates: In Next 2 Months, Need 27 Million N95 Masks, 50,000 Ventilators.](#) 8 April.

²⁰ Government of India, Press Information Bureau. 2020. [Government of India Issues Orders Prescribing Lockdown for Containment of COVID-19 Epidemic in the Country.](#) Press release. 24 March.

²¹ Business Standard. 2020. [Coronavirus impact: Nomura lowers 2020 GDP growth forecast to -0.5%.](#) New Delhi.

FY2021 economic growth forecast for India to 1.9% (para. 4). ADB estimates that the GDP growth could fall to 1.4% under longer containment and larger demand shocks—a sharp decline from the April 2020 forecast of 4.0% and the December 2019 forecast of 6.5% (footnote 7). Although all sectors are affected, hotels, restaurants and other personal services; light and heavy manufacturing, utilities and construction; and transport services are expected to show negative growth (Table 2).²² India has only experienced negative GDP growth twice earlier - in the 1950s and 1960s when famine struck.

Table 2: Economic Impact of COVID-19 in India—Estimated Annual Growth Rates in FY2021 (%)

	Before COVID-19	ADO 2020 Forecast	After COVID-19 (update)	
	December 2019 Forecast		Shorter Containment, Lower Demand Shocks	Longer Containment, Larger Demand Shocks
Overall GDP	6.5	4.0	4.6	1.4
Agriculture, mining and quarrying	5.3	2.9	3.4	0.5
Business, trade, personal, and public services	8.5	5.8	6.6	3.5
Light and heavy manufacturing, utilities, and construction	3.0	1.0	1.2	(2.0)
Hotel and restaurants and other personal services	5.4	2.0	2.5	(1.2)
Transport services	4.8	2.0	2.4	(1.0)

() = negative, ADO = Asian Development Outlook, COVID-19 = coronavirus disease 2019, GDP = gross domestic product.

Sources: ADB. 2019. [Asian Development Outlook Supplement: December 2019](#). Manila; ADB. 2020. [Asian Development Outlook 2020: What Drives Innovation in Asia?](#) April. Manila; and Asian Development Bank estimates.

11. **Disproportionate impact on the poor and vulnerable, including women.** The national estimates show that 21.2% of the population lived below the national poverty line in FY2012.²³ Recent estimates in 2018 shows that about 40.2% of the population or 544 million poor are living below international poverty line of \$3.2/day and are vulnerable to sudden and prolonged income shocks that may drive them back into extreme poverty.²⁴ Depending upon the length of the crisis and the severity of economic and social impacts, poverty simulations show that the number of \$3.2/day poor could increase by up to 104 million compared with the scenario without COVID-19. Women would be more impacted by the pandemic as they have a higher probability of exposure to COVID-19, being the primary caregivers to the family and taking up high proportion of frontline health workers (para. 43).

12. **Unemployment in the formal and informal sectors.** About 68.4% of the workers are engaged in non-agricultural informal sector, and 54.8% of informal workers are women.²⁵ With businesses disrupted, these are the first to lose their jobs which could easily push households

²² The personal services under "Business, Trade, Personal, and Public Services" pertain mostly to health care and social work activities while other personal services under "Hotel and restaurants and other personal services" relate to wellness and other services (e.g. haircut, laundry).

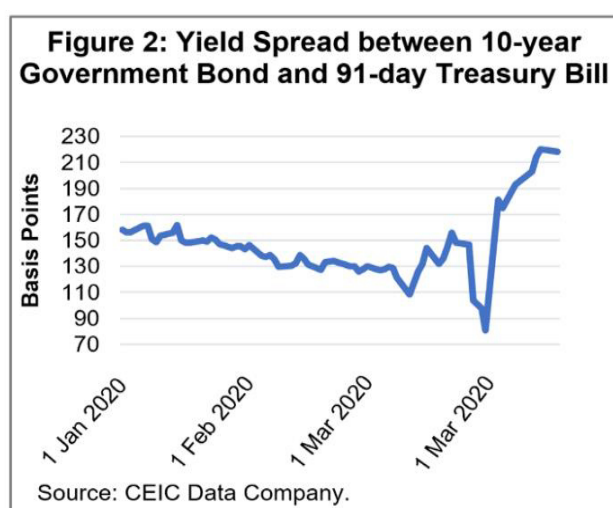
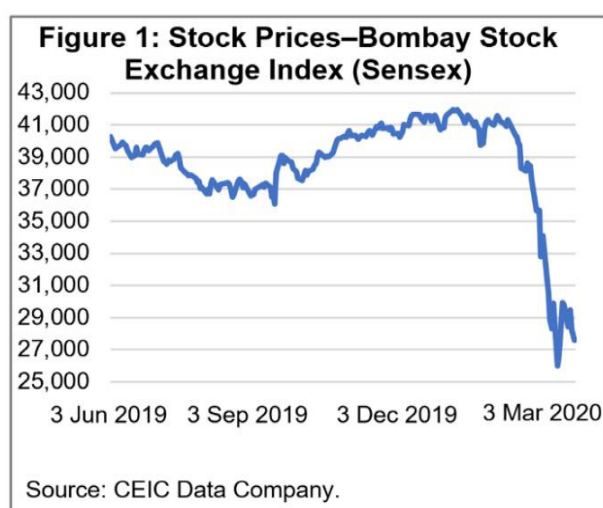
²³ Estimates are based on the national poverty line. The latest poverty data are for FY2011. ADB. 2017. [Country Partnership Strategy: India, 2018–2022—Accelerating Inclusive Economic Transformation](#). Manila.

²⁴ Asian Development Bank estimates.

²⁵ Government of India, Ministry of Statistics and Programme Implementation. 2019. [Periodic Labour Force Survey \(PLFS\) \(July 2017–June 2018\)](#). New Delhi.

below the poverty line. Among the regular wage or salaried employees in the non-agriculture sector, about 71.1% do not have a written job contract and 54.2% are not eligible for paid leave. Nearly half of the employed workers are self-employed, 22.8% earn a regular wage or salary and the remaining 24.9% are casual workers. A prolonged widespread lockdown and disruption to economic activities make these people particularly vulnerable to the loss of jobs and livelihoods.

13. **Elevated financial and corporate sector stress.** Since the pandemic's international and domestic spread, India's domestic financial conditions have tightened significantly with both stock prices and Indian rupee falling sharply. The Bombay Stock Exchange's main index (BSE SENSEX) has declined by 23.0% from 28 February to 31 March 2020, erasing more than ₹33.4 trillion (\$445 billion) in market capitalization (Figure 1).²⁶ Data from the National Securities Depository Limited show that foreign institutional investors pulled out more than ₹1.2 trillion (\$16 billion) in March alone.²⁷ The Indian rupee has depreciated by 5.9% from early January. Since early March, yields on 10-year government bonds have risen by about 40 basis points (bps), despite a reduction of 75 bps in the Repo Rate by the Reserve Bank of India (RBI), the central bank). As a result, the yield curve of government securities has steepened with the yield spread widening by about 100 bps, indicating much tighter liquidity conditions (Figure 2). The rapid onset of the crisis makes it too early to accurately gauge increases in nonperforming loans against a backdrop of recent episodes of stressed balance sheets across some banks and nonbanking financial companies. Based on a review of the aggregate loan portfolio composition of the entire banking system, the banking sector reported lending concentrations in industry (31.3% of total loans), transport, tourism and hospitality (2.1%), wholesale and retail trade (6%), and commercial real estate activities (2.6%) as at the end of February 2020.²⁸ These exposures total ₹37.5 trillion (\$500 billion) and represent 42% of total loans and about twice the systems' consolidated



capital—a significant exposure. The corporate segment is also exposed to substantial risk. Fitch Ratings in late March downgraded the operating environment for the banking sector by a notch with a negative outlook, citing the pandemic is likely to aggravate difficulties for Indian banks.²⁹

²⁶ Centre for Monitoring Indian Economy Pvt. Ltd. <https://www.cmie.com/>

²⁷ Fortnightly Sector-wise FPI/ FII Investment Data, The National Depository Services Limited. <https://www.fpi.nsdl.co.in/> (Accessed on 18 April 2020).

²⁸ Reserve Bank of India. Database on the India Economy (Accessed on 18 April 2020). [Database on the India Economy](#) (Accessed on 18 April 2020).

²⁹ The Economic Times, 26 March 2020, "[Coronavirus impact to bring more worries for Indian banks: Fitch](#)".

14. **Significant fiscal pressure.** Before the pandemic struck, the central government had committed to a moderate path of fiscal consolidation in its FY2021 budget, lowering the fiscal deficit from 3.8% of GDP in FY2020 to 3.5% of GDP in FY2021, and gradually to 3.1% in FY2023. The gross tax to GDP ratio was projected to be stable at about 10.8% in FY2021, and 10.7% during FY2022 and FY2023. The government's gross tax revenue was targeted to grow by 12.0% in FY2021.³⁰ Disruptions to economic activities will undermine this effort. In addition, disinvestment targets may not be achieved in the difficult market environment. On the other hand, the government's COVID-19 response plan and other measures entail increased public spending on healthcare, social protection, and economic support. Fiscal stimulus may also be required during FY2021 to support economic revival, further increasing the fiscal pressure.

15. **Phased approach.** The government has taken pre-emptive, proactive and multisector measures to fight COVID-19 and mitigate its economic, social, and health impacts. It has adopted a sequential approach to prioritize the containment, prevention and cure of COVID-19, while mitigating its adverse socioeconomic consequences on the poor and vulnerable. It will follow this up with other measures for economic revival as the lockdown is selectively lifted. The plan for gradual relaxation from lockdown includes minimum enforcement guidelines for opening up agricultural activities, manufacturing, logistics, and ecommerce.

16. **Declaration of COVID-19 as “notified disaster”.** On 14 March 2020, invoking powers under the Epidemic Diseases Act, 1897, the disease was declared a notified disaster as the initial administrative step to enhance preparedness for and containment of the virus—including screening at the points of entry, contact tracing, and follow-up of confirmed cases.³¹ Simultaneously, state governments started taking response measures. The National Centre for Disease Control activated the Strategic Health Operations Centre to provide command and control functions and opened a helpline to answer public queries. On 24 March 2020, the Ministry of Home Affairs issued an order under the Disaster Management Act, 2005, directing all central and state level to take effective measures for ensuring social distancing. The government constituted 11 Empowered Groups of officers to identify problem areas and ensure proper planning and time-bound implementation of the COVID-19 response. These intersectoral groups have been active in resolving issues with critical supplies such as PPE by engaging with manufacturers and suppliers. India has been spearheading a joint South Asian Association for Regional Cooperation (SAARC) COVID-19 response strategy, under which India has pledged \$10 million to a SAARC emergency fund. The plan also calls for India to work with its neighbors to implement joint surveillance measures.

17. **The Reserve Bank of India's quick response.** In early March when financial markets became volatile due to the pandemic, RBI injected liquidity of ₹2.8 trillion (\$37 billion, 1.4% of GDP) through various instruments. On 27 March 2020, the RBI announced liquidity measures to the tune of ₹3.7 trillion (1.8% of GDP) across three measures in response to the pandemic: long-term repo operations, a cash reserve ratio cut of 100 bps, and an increase in the marginal standing facility to 3% of the statutory liquidity ratio. It cut its policy rate by 75 basis points to 4.4%, the lowest ever. All lending institutions will allow a 3-month moratorium on term loans and defer interest payments on working capital (footnote 4). In March 2020, when Indian financial markets joined a global sell-off in response to the COVID-19 pandemic, the RBI undertook open market operations and United States (US) dollar–rupee swaps to ensure adequate Indian rupee and US

³⁰ Government of India. 2020. [Union Budget 2020–2021](#). Delhi.

³¹ [The Epidemic Diseases Act, 1897](#) gives power to central and state governments to take any action to prevent the outbreak of an epidemic.

dollar liquidity. It has committed to using all instruments—conventional and unconventional—to fight the pandemic. On 17 April 2020, the RBI again announced a number of measures such as reduction in the reverse repo rate by 25 bps to 3.75%, refinancing facilities for All India Financial Institutions,³² and targeted long-term repo operations for investments in nonbanking financial companies.

18. **Public health response measures.** The central technical agencies under the Ministry of Health and Family Welfare (MOHFW), with the support of the World Health Organization (WHO) and other development partners, have issued guidelines on surveillance, testing, case tracking, quarantine, case management, health personnel, use of PPE, and management of dead bodies.³³ The testing regime has been updated thrice and more testing laboratories are becoming accredited (including private sector laboratories) incorporating the latest WHO advisory. The government procured 1 million testing kits, and testing capacity rapidly increased to 18,000 by 6 April 2020, through a network of 136 government and 56 private laboratories.³⁴ The virus test will be augmented by a rapid antibody-based blood test for COVID-19 as a strategy for areas reporting cluster infection and in large migration gatherings and evacuees centers.³⁵ The states are implementing the public health response to the pandemic under the National Health Mission, which has well established implementation arrangements. Critical trainings for health workers are being conducted. The government aims to add 100,000 isolation wards. About 20,000 train coaches were converted to isolation wards and several stadiums are being converted to large scale isolation facilities in preparation for a case surge. More than 600 hospitals have been designated as dedicated COVID-19 care centers. The MOHFW has already disbursed ₹411 million to states and union territories for emergency response.³⁶ Risk communications, such as mass texting advisories, have been carried out in conjunction with telecom providers to reach as wide a population as possible.

2. The Government's COVID-19 Response Program

19. Among the wide range of the government measures to address the pandemic impact, the CARES Program will focus on addressing the immediate needs of vulnerable groups for 3 months while stepping up the health sector response. The scope of the government's COVID-19 response program is summarized below, and detailed breakdown is in the linked documents.³⁷

20. **A \$2 billion COVID-19 containment plan.** The Prime Minister announced the COVID-19 Response and Health Systems Preparedness Project on 24 March. It includes a ₹150 billion (\$2 billion, or about 0.1% of GDP) package to (i) carry out emergency responses through the provision of PPE, enhanced surveillance, improved health facilities, training of health workers, testing and tracking for the containment of COVID-19; (ii) strengthen the national and state health systems to support prevention and preparedness; (iii) strengthen pandemic research; and (iv) enhance risk

³² All India Financial Institutions include National Bank for Agriculture and Development, Small Industries Development Bank of India, and the National Housing Bank.

³³ The technical agencies include National Centre for Disease Control, the Indian Council of Medical Research, and the All India Institute of Medical Science.

³⁴ The government is using Reverse Transcription-Polymerase Chain Reaction for infection detection as advised by WHO.

³⁵ [Indian Council for Medical Research](#). (accessed on 14 April 2020).

³⁶ Ministry of Health and Family Welfare, Government of India. 2020. [Government sanctions ₹15000 crores for India COVID-19 Emergency Response and Health System Preparedness Package](#). Delhi.

³⁷ Pro-poor initiatives: Economic Response to COVID-19 by Government of India; and Key Health Sector Actions for COVID-19 Response and Health Systems Preparedness (accessible from the list of linked documents in Appendix 2).

communication and community engagement.³⁸ This project is designed to provide necessary support in response to the emerging situation by reallocating the project budget flexibly, considering the WHO advisories and other emerging evidences. Under the project, the MOHFW is providing essential supplies such as PPE, significantly increasing the testing capacity through a network of public and private laboratories and the introduction of antibody-based blood tests to speed up the detection of cluster infection; introducing mobile application, Arogya Setu, using Bluetooth for effective infection path tracking; supporting districts to increase isolation wards at district hospitals and medical colleges; enhancing risk communication and community engagement using information technology as well as frontline health workers.

21. In addition to the urgent activities undertaken (para. 18), several actions have been completed to ensure effective implementation of the project (footnote 37). Key actions include: (i) the Containment Plan for Large Outbreaks of COVID-19; (ii) Micro Plan for Containing Local Transmission of COVID-19; (iii) guidance for states on social distancing issued by MOHFW; (iv) guidelines for healthcare providers for safe and effective response to COVID-19; (v) guidelines or advisories for states on migrant worker quarantines, psychosocial support, and grievance redressal while responding to COVID-19; and (vi) a dedicated page for COVID-19 related categories on the government' e-Marketplace for faster procurement of COVID-19 related items.

22. **A \$23 billion pro-poor economic relief package.** The Finance Minister announced the Prime Minister's Welfare Scheme for the Poor (PMGKY) on 26 March 2020, which includes a ₹1.7 trillion (\$23 billion or about 0.8% of GDP) package to provide immediate social security benefits to the poor, vulnerable and disadvantaged groups including women affected due to the lockdown. It consists of (i) providing free health insurance for all levels of health workers and providing funds for health-related expenditures (estimated at \$3.3 billion); (ii) measures to provide social assistance for compensating economic loss to vulnerable populations, including cash transfers to farmers, women, senior citizens, and people with disabilities, and free food and gas distribution for the poor (estimated at \$15.0 billion);³⁹ and (iii) social security measures for affected workers in both the formal and informal sectors, including the government's contribution to the employers' share of contributions to the Employees' Provident Fund for 3 months benefiting small businesses, and allowing employees to withdraw up to 75% of their Employees' Provident Fund balance or 3-month salary whichever is less (estimated at \$4.8 billion).

3. Macroeconomic Management and Debt Sustainability

23. **Sound macroeconomic management.** India's macroeconomic framework is broadly strong with robust performance before the shock. India' annual GDP growth averaged 7.0% over FY2010–FY2019. It was the world's fastest growing large economy during 2014-2018 supported by sound macroeconomic management and economic development policies that have contributed to substantial reduction in poverty. Significant reforms have been undertaken for improved accountability and transparency, public service delivery, social and financial inclusion, 100% rural electrification, ambitious infrastructure development, and improving business environment. India's place in the World Bank's ease of doing business ranking has improved from

³⁸ The World Bank will support this project with \$1 billion under its [COVID-19 Strategic Preparedness and Response Project](#) approved in April 2020.

³⁹ The pro-poor program will provide additional benefits to existing beneficiaries which are registered under each sub-program. These are categorized as the economically weakest section of the population and are most affected. The program will provide additional amount on top of the existing benefits. The attached TA will support the government in identifying COVID-19 induced new beneficiaries which comprises of economically vulnerable section of the population.

130 in 2016 to 63 in 2019. Savings and investment rates have been strong, and inflation has been declining. Consumer price index-based inflation decreased from 12% in FY2010 to 4.7% in FY2020 and was within the RBI's target range of 2% to 6% during FY2015-FY2020.⁴⁰ India's medium-term fiscal framework, the Fiscal Responsibility and Budget Management Act (FRBM), has been in place since 2003 and was amended in 2018 to set the central government target of a fiscal deficit of 3.0% of GDP by FY2020 and a debt to-GDP ratio of 40% by FY2024.⁴¹ Apart from some weaknesses in the financial sector from impaired balance sheets and recent weakening of the Indian rupee, the macroeconomic outlook before the pandemic shock was positive.

24. **Debt sustainability.** IMF Article IV consultations held in December 2019 assessed India's debt as likely sustainable due a favorable growth-interest rate differential. The public debt to GDP ratio was 72.2% in FY2020. ADB's own assessment indicates that the public debt-to-GDP ratio will remain elevated at 77.2% in FY2021 and 77.4% in FY2022 but will fall gradually to 73.5% by FY2025. The debt path under the ADB baseline is about 8 percentage points above the IMF projections from the Article IV report, because of not only the adverse impact of COVID-19 on growth and the general government primary balance but also the revisions to national account data released in January 2020. Various stress tests to the ADB baseline show that the risks to India's debt sustainability remain contained. The additional borrowing under the ADB's CARES Program, proposed MSME finance project loan, and infrastructure finance project loan (\$2 billion combined), the World Bank's COVID-19 assistance (\$2 billion combined), and \$500 million each from the Asian Infrastructure Investment Bank (AIIB) and New Development Bank (NDB) will increase the public debt to GDP ratio by about 0.2 percentage points from the ADB baseline in the first two years, peaking at 77.5% in FY2022, and gradually converge to the baseline to be 0.1 percentage points higher by FY2025 as amortization increases.

25. **Coordination with the International Monetary Fund and other development partners.** ADB has closely coordinated with IMF to obtain its assessment of the macroeconomic situation and COVID-19 impact on the Indian economy, which has been received on 16 April 2020. ADB is in close contact with other development financing agencies, both bilateral and multilateral, to coordinate and collaborate on respective pandemic crisis responses. ADB has consulted with the World Bank to align the attached TA with its under-process \$1 billion PMGKY support program. ADB has also consulted with the Asian Infrastructure Investment Bank, Agence Française de Développement (AFD), German development cooperation through KfW, and Japan International Cooperation Agency (JICA) for complementing efforts (para. 35) The United States Center for Disease Control provided grant assistance for COVID-19 response. Gesellschaft für Internationale Zusammenarbeit (GIZ) is supporting training of health care workers and providing PPE for vulnerable workers such as street cleaners. ADB has been collaborating with UNICEF in supplying emergency equipment and coordinating with WHO on technical aspects of the CARES Program and TA implementation.⁴²

B. Proposed Program and ADB's Value Addition

26. The CARES Program will provide budget support to the government to counter and mitigate the adverse socioeconomic impacts of the COVID-19 pandemic by improving the resilience of its health systems against infectious diseases, implementing its pro-poor relief

⁴⁰ While benign in the first half of FY2020, inflation spiked above the target in December 2019 and early 2020, because of a surge in vegetables prices, particularly onions as a late monsoon hit the harvest.

⁴¹ Parliament of India. 2003. [The fiscal Responsibility and Budget Management Act, 2003](#).

⁴² Development Coordination (accessible from the list of linked documents in Appendix 2).

measures under the PMGKY, and building capacity in program monitoring and evaluation. The impact will be adverse social and economic impact by the COVID-19 pandemic reduced. The outcome will be access to immediate healthcare for all and economic relief for vulnerable groups during COVID-19 pandemic enhanced. The program will provide a fiscal stimulus and protect the government's spending and poverty alleviation programs and objectives, and help the country continue with its longer-term development objectives. The outputs are: (i) COVID-19 response and health system measures implemented; (ii) measures to provide social assistance for compensating the economic loss to vulnerable groups enhanced; and (iii) social security measures enhanced for affected workers in both the formal and informal sectors, such as construction workers. The design and monitoring framework is in Appendix 1.

27. **ADB's value addition.** ADB has been actively involved in policy dialogue on the economic impact of and response to COVID-19 by joining meetings chaired by Department of Economic Affairs (DEA) and providing recommendations that enhanced the government response actions and leading to the specific request for ADB's Countercyclical Support Facility and other programs being prepared. As an immediate support to India, ADB has provided \$500,000 grant for thermal scanners from its regional TA and supported successful e-learning modules for COVID-19 trainings for health workers.^{43,44}

28. During the policy dialogue and through consultations with relevant agencies and think-tanks, ADB has also identified areas to further strengthen the outreach and effectiveness of existing programs under the health sector response and PMGKY (footnote 37). These will be explored for further support under the attached TA during implementation (para. 38). More specifically for the PMGKY, the TA will support the government in developing the operational framework and strengthening the efficiency of the targeting, delivery and monitoring and evaluation of the health sector interventions and select schemes under the PMGKY. The TA will also aim at building and/or strengthening monitoring and evaluation systems for the PMGKY at the central level and technology platforms and/or digital systems for select sub-schemes, for efficient targeting of the existing beneficiaries and COVID-19 induced new beneficiaries. ADB monitoring will include enhanced focus of the program on poor and vulnerable population including women, by ensuring that program results are disaggregated by gender equality and social inclusion indicators as agreed by the government. The TA will provide valuable insights and structured inputs to the program implementation, identify areas for improvement, and facilitate further policy dialogues with the government, helping other development partners who are providing financing to PMGKY. Another ongoing ADB TA will support MOHFW in COVID-19 response and ensure lessons learned from COVID-19 response are incorporated in the upcoming health sector interventions.⁴⁵ An existing regional TA will also support measures against COVID-19 in South Asian countries including India.⁴⁶ The regional TA on COVID-19 will support high level policy dialogues and possible operations focusing on preparedness of health systems against COVID-19 and emerging infectious diseases in Asia and the Pacific, including India (footnote 43).

⁴³ ADB. 2020. [Technical Assistance Report: Regional Support to Address the Outbreak of Coronavirus Disease 2019 and Potential Outbreaks of Other Communicable Diseases](#). Manila.

⁴⁴ The 15 e-modules were developed with the support from [TA 9835-IND: Establishing Online Capacity Building Infrastructure at the Department of Personnel and Training](#), and they are available through the Integrated Government Online Training platform. Since the launch on 7 April 2020, more than 21,000 people have completed the e-learning with tests.

⁴⁵ ADB. 2015. [Technical Assistance Report: Supporting National Urban Health Mission](#) (TA 8899-IND). Manila

⁴⁶ ADB. 2016. [Technical Assistance Report: Regional Project Development Support for South Asia Subregional Economic Cooperation Operation Plan, 2016–2025](#) (TA 9231-REG). Manila.

29. In parallel to the CARES Program, and to support a quick economic recovery from the pandemic, ADB is preparing a \$300 million project for improving access to finance for micro-, small-, and medium-sized enterprises (MSMEs), and a \$200 million infrastructure finance project. In the health sector, ADB is developing a results-based lending program of \$200 million for comprehensive primary health care in urban areas (2020 pipeline). ADB is also providing TA for the Pradhan Mantri Jan Arogya Yojana (PMJAY) a pro-poor public health insurance scheme. ADB is undertaking assessments in selected states to explore a comprehensive health system strengthening program.⁴⁷ ADB is also developing an ADB Health Sector Strategy for increased engagement in India to support the achievement of universal health coverage. The proposed interventions will include measures to strengthen health systems' resilience against health emergencies and pandemics.

30. ADB's Private Sector Operations Department has engaged actively in the COVID-19 response through (i) investments in trade finance, supply chain, microfinance, health care, and other industries; (ii) dialogues with industry representatives and associations (including partners of ADB industrial corridor programs) on recovery requirements; and (iii) collaboration as "OneADB" in formulating MSME and health care programs through sovereign and nonsovereign windows.

31. ADB has partnered with India on public financial management (PFM) reforms, both at the national and subnational levels.⁴⁸ Besides creating fiscal space, an important area of ADB support has been operational efficiency improvement, with the adoption of information technology-based platforms such as the integrated financial management system. ADB has also provided policy advisory and knowledge support to the government, including recently completed studies for the FRBM Review Committee (2017) and the Fifteenth Finance Commission (2019).⁴⁹

32. In the medium-term, ADB will support the government to (i) strengthen public health emergency contingency planning, (ii) improve surveillance through strengthening the Integrated Disease Surveillance Program platform,⁵⁰ (iii) strengthen institutions in infectious disease control, (iv) strengthen comprehensive primary health care, (v) improve the operational robustness of health insurance for the poor and vulnerable population, and (vi) strengthen comprehensive health care system in selected states.⁵¹ ADB will also support the government to formulate and implement an overall macroeconomic framework, in coordination with other development partners including the World Bank, to (i) stimulate the economy after the COVID-19 pandemic is contained, (ii) build capacity for monitoring and evaluation of government programs, and (iii) improve economic resilience against future shocks by promoting structural adjustments including improving fiscal governance and public service delivery in state governments. These are in line with and support the government's overarching goal to become a \$5 trillion economy by FY2025.

C. Impacts of the Program

⁴⁷ This support will start with Maharashtra and possibly extend to other states in the future.

⁴⁸ Recent ADB support for PFM reforms in India includes programs in [Punjab](#) and [West Bengal](#) targeting fiscal space creation for development expenditure with measures for revenue augmentation and expenditure rationalization.

⁴⁹ The study for the FRBM Review Committee examined the international experience with rule-based fiscal management and suggested recommendations for addressing the limitations. The study for the Fifteenth Finance Commission drew lessons from Asian countries to recommend improvements to the unconditional transfer scheme and examined the role of performance transfers to incentivize improved service delivery in health and education.

⁵⁰ The national health platform will be a key element of any regional health information sharing platform as proposed in the SAARC joint response plan. Regional aspects will be supported by [TA 9231-REG: Regional Project Development Support for South Asia Subregional Economic Cooperation Operational Plan, 2016–2025](#).

⁵¹ ADB's past and proposed health sector operations in India (accessible from the list of linked documents in Appendix 2).

33. The ADB CARES Program will contribute directly to the immediate priorities in government's response to the pandemic—the need to improve access to health facilities and care, and protect the weakest economic section of the population and disadvantaged groups. It will contribute to the government's efforts in containing COVID-19 and treating infected people, for free, thus protecting the lives of the poor and vulnerable and preventing them from falling deeper into poverty because of medical expenses. The program also targets providing social assistance and protection over 3 months to more than 800 million people, including families below the poverty line, farmers, health care workers, women, women's self-help groups, widows, senior citizens, people with disabilities, low wage earners, and construction workers. Beneficiaries will be reached through established channels under the PMGKY scheme. Food, gas, and cash for the affected and vulnerable beneficiaries will help them endure the shocks induced by the lockdown. Support in these areas will help a quicker economic recovery when the lockdown is eased. Any further fiscal stimulus will be sub-optimal if these urgent concerns are not addressed. The numbers of beneficiaries are detailed in the government's COVID-19 Response Program (footnote 37).

D. Development Financing Needs and Budget Support

34. As growth falters because of the impact of COVID-19, the government's fiscal position will worsen in FY2021 from the budgeted 3.5% of GDP. The financing requirement of the central government is expected to reach \$133.1 billion, with the financing gap caused by COVID-19 estimated at \$25.9 billion.⁵² Like other countries, India may extend the lockdown to flatten the curve. This will create tremendous pressure on the government's fiscal space to mitigate socioeconomic fallout. The financing requirement is expected to increase drastically from April to September 2020, while government revenues will decline (para. 14). The longer the lockdown, the more difficult the recovery process. Therefore, the current financing requirement is deemed conservative.

35. The central government aims to borrow ₹4.88 trillion (\$65 billion) over the first 6 months of FY2021 (April to September) through dated domestic securities—nearly 63% of its pre-COVID-19 annual borrowing plan.⁵³ Since early March, yields on 10-year government bonds have risen while the yield spread between 10-year government bonds and 3-month treasury bills has widened, indicating much tighter liquidity conditions (para. 13). Additional government borrowing will put further pressure on long-term interest rates. This will not only crowd out private investment, which is critical to post-pandemic recovery, but also increase future interest payments on public debt, which is more than 70% of GDP. Timely and low-cost financial assistance in convertible currencies from development partners will help alleviate the pressure on domestic financial conditions and support the Indian rupee, as foreign capital flows out. In recognition of these challenges and the need for an immediate response to COVID-19 with a strong monitoring framework, the World Bank has sanctioned \$1.0 billion while additional financing for around \$4.0 billion is under consideration by the World Bank, Asian Infrastructure Investment Bank, New Development Bank, and including (i) ADB CARES Program, and (ii) ADB's additional support MSMEs' and infrastructure financing (Table 3). The government is considering additional financing from JICA, AFD, and KfW to ease pressure on the domestic markets.

Table 3: Urgent Financing Needs and Support for Fiscal Year 2021 (\$ Billion)

Financing Requirement and Source	FY2021 (before COVID-19)	FY2021 (adjusted for COVID-19)

⁵² Asian Development Bank estimates.

⁵³ NDTV Profit. 2020. [Government to borrow more aggressively in April-September than expected](#). 31 March.

Gross Financing Requirement	107.2	133.1
Gross additional financing requirement		25.9
Of which		
Gross foreign financing (currently under consideration but likely to increase)		5.0
World Bank ^a		2.0
ADB COVID-19 Response ^b		
<i>CARES Program</i>		1.5
<i>Enhancing MSME Finance Project</i>		0.3
<i>Enhancing Infrastructure Finance Project</i>		0.2
AIIB		0.5
NDB		0.5

ADB = Asian Development Bank; AIIB = Asian Infrastructure Investment Bank; FY = fiscal year; MSMEs = micro-, small- and medium-sized enterprises, NDB=New Development Bank.

^a Includes \$1 billion approved for the COVID-19 Response and Health Systems Preparedness Project.

^b The proposed results-based lending for Comprehensive Primary Health Care in Urban Areas (\$200 million) is not included in the additional financing requirement because it was already in the regular pipeline.

Source: Asian Development Bank estimates based on consultations with the government and development partners.

36. The government has requested two loans comprising (i) \$500 million loan; and (ii) \$1 billion loan, both from ADB's ordinary capital resources, to help finance the anticipated deficit from the pandemic response and countercyclical support expenditure needs. The first loan will have a 10-year term, including a grace period of 3 years and second loan will have a 5-year term, including a grace period of 3 years; both with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions as set forth in the draft loan agreement. For the first loan of \$500 million, the average loan maturity using annuity method based on 30% discount factor, is 7.82 years, and there is no maturity premium payable to ADB. For the second loan of \$1 billion, the average loan maturity using annuity method based on 30% discount factor, is 4.34 years, and there is no maturity premium payable to ADB.

E. Implementation Arrangements

37. The DEA, under the Ministry of Finance, will be the executing agency for the CARES Program. The implementing agencies include (i) Ministry of Consumer Affairs, Food and Public Distribution; (ii) Ministry of Agriculture and Farmer's Welfare; (iii) Ministry of Rural Development; (iv) Ministry of Petroleum and Natural Gas; (v) Ministry of Labour and Employment; (vi) MOHFW; (vii) Department of Financial Services; (viii) Department of Expenditure; and other line ministries and agencies as may become necessary to be included. The empowered interministerial group established under the Disaster Management Act, 2005 on economic and welfare measures, chaired by Secretary, DEA and including MOHFW, will oversee the CARES Program implementation, under the guidance of the COVID-19 Economic Response Task Force headed by the Finance Minister. Director (ADB), DEA will act as the program director. The DEA will submit to ADB monthly reports for the first 3 months and quarterly reports thereafter on expenditures made from the central government budget to support the countercyclical measures.⁵⁴ The DEA will also provide quarterly progress reports on the health intervention indicators, with the inputs from MOHFW and other relevant agencies. The program implementation period is April 2020 to June 2021. The full amount of \$1.5 billion will be disbursed upon the loan effectiveness. The proceeds of the CARES Program loan will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time) and detailed agreements between ADB and the Borrower.

⁵⁴ List of Ineligible Items (accessible from the list of linked documents in Appendix 2).

III. ATTACHED TECHNICAL ASSISTANCE

38. To support the effective implementation of the government's COVID-19 Response Program, ADB will provide grant-based transaction TA.⁵⁵ The TA will support the government in monitoring and evaluation, and in building the capacity of selected implementing agencies. Since the government's pro-poor package is very large with a wide range of schemes implemented by multiple implementing agencies, ADB's focus will be on specific schemes that are considered most effective in reaching out to the poor and vulnerable to leverage the limited ADB resources. The DEA will be the executing agency for the TA. The implementing agencies will be MOHFW (for output 4) and the Department of Financial Services, MOF and relevant agencies involved with PMGKY pro-poor programs implementation (for the rest of the outputs). The TA is estimated to cost \$2 million, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-Others). The government will provide counterpart support in the form of counterpart staff, office, administrative and logistics support and other in-kind contributions. The TA will be implemented from April 2020 to April 2022. The TA outputs are (i) capacity and tools for the PMGKY pro-poor programs' efficient targeting and implementation developed; (ii) the capacity and systems of selected PMGKY implementing agencies in program monitoring and evaluation increased; (iii) reforms for strengthening economic resilience identified, including follow-on macroeconomic measures; and (iv) the health system's capacity for COVID-19 response strengthened.

IV. DUE DILIGENCE

39. **Governance.** The PFM system in India has (i) a well-organized and systematic approach to budget formulation; (ii) a high level of fiscal transparency; (iii) comprehensive recording and management of cash balances, debt, and guarantees by the government; and (iv) timely external audits by the Comptroller and Auditor General of India.⁵⁶ However, the 2010 Public Expenditure and Financial Accountability (PEFA) report as well as other assessments carried out for recent ADB operations noted that strengthening is still required in some areas such as: (i) effectiveness of internal controls for non-salary expenditures, (ii) effectiveness of internal audit; and (iii) scope, nature and follow-up of and legislative scrutiny of external audit reports.⁵⁷ Despite the mostly robust country PFM systems and practices, ADB's country partnership strategy for India, 2018–2022, states that the project implementing entities' capacity to handle multidisciplinary tasks on interdepartmental coordination and governance, in terms of compliance and enforcement in project operations, are matters of potential concern.⁵⁸

40. To strengthen the PFM systems, the government has undertaken several reforms recently, including (i) rolling out a comprehensive PFM system for digitally monitoring fund flows to states and executing agencies; (ii) implementing direct benefit transfers and digitization of government accounts; (iii) implementing an expenditure management system; (iv) creating a Public Debt Management Cell, to delink debt and cash management from monetary policy management; and

⁵⁵ Attached Technical Assistance Report (accessible from the list of linked documents in Appendix 2).

⁵⁶ According to the most recent available PEFA assessment conducted in 2010, India has relatively strong PFM systems in place. The overall score for India (2.75) with a medium fiduciary risk, was relatively high in an international context, given that the worldwide average PEFA overall score for 57 countries was 2.33 and the average for lower-middle-income economies was 2.41 in 2019.

⁵⁷ ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Results-Based Loan and Administration of Technical Assistance Grant to India for the Supporting Kerala's Additional Skill Acquisition Program in Post-Basic Education. Financial Management Assessment*. Manila. [Financial Management Assessment](#). Manila.

⁵⁸ ADB. 2017. [Country Partnership Strategy: India, 2018–2022—Accelerating Inclusive Economic Transformation](#). Manila.

(v) removing the distinction between plan and non-plan expenditure. A wide range of measures have been undertaken for improving transparency. These include (i) Right to Information Act 2005, (ii) use of Jan Dhan–Aadhaar–Mobile trinity strategy, wherein Jan Dhan bank accounts, Aadhaar cards (biometric identification cards), and mobile numbers have been linked to provide direct benefit transfers to beneficiaries; (iii) digitization of a wide range of public services; (iv) strengthening systems for allocating scarce resources through competitive auctions; (v) adoption of e-procurement system; and (vi) mandating the use of the government e-marketplace. The Prevention of Corruption Act 1988 (amended in 2013), the Benami Transactions (Prohibitions) Act, 1988 (amended in 2016), and the Lokpal and Lokayuktas Act 2013 (amended in 2016), have been amended for more effective corruption control.

41. Given the constraints in internal controls in line ministries and state governments on expenditure management, lack of effective internal audit units, and limited capacity to conduct emergency procurement in certain states and/or union territories, the program pre-mitigation fiduciary risks are considered *moderate*. As mitigating measures, (i) a strong daily monitoring system has been established under the PMGKY, (ii) the finance minister-led task force will undertake overall monitoring, and (iii) financial assistance will go through budgetary channels. Other development partners supporting the PMGKY will also provide monitoring and evaluation oversight. Moreover, the *Jan Dhan* bank accounts opened for the poor and unbanked, and linked with biometric identification, will be used under the program for direct benefit transfer to beneficiary bank accounts. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government.

42. **Poverty and social.** Although India's poverty rate declined significantly, from 45.3% in FY1994 to 21.9% in FY2012, poverty remains a concern (para. 11). In addition to the high vulnerability of the poor to public health risks such as COVID-19, the pandemic is likely to have far-reaching impacts on labor market outcomes and working poverty in India (para. 12). India has many workers in the informal sector, and inter- and intra-state migrant workers. Most do not have access to pensions, sick leave, paid leave, or any kind of insurance. Many do not have bank accounts and rely on daily cash wages to meet their needs. Current lockdown measures in India, which are at the high end of the University of Oxford's COVID-19 Government Response Stringency Index, have impacted these workers significantly—leaving large numbers with no viable means of income and forcing many to return to rural areas.⁵⁹ The program will reach out to more than 800 million people for meeting essential needs, and minimize the adverse effects of the COVID-19 crisis on the poor, especially those working in the informal economy, more than half of whom are women.

43. **Gender.** The program is categorized *effective gender mainstreaming*. Pandemics are known to worsen all inequalities. Despite progress in some areas since 2012, gender inequalities remain pervasive in India in terms of access to health, lower labor force participation, and time poverty because of dependency on traditional biomass fuel for cooking.⁶⁰ Female health workers constitute almost half of the qualified health workforce, accounting for 88.9% of nurses and midwives.⁶¹ The government has also deployed accredited social health activists (ASHAs) for community surveillance and monitoring of COVID-19. ASHAs are women from the community who are trained to work as an interface between the community and the public health system.

⁵⁹ University of Oxford. [Coronavirus Government Response Tracker](#).

⁶⁰ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

⁶¹ Government of India, Ministry of Statistics and Programme Implementation. 2014. [Employment and Unemployment Situation in India: National Sample Survey, 68th Round, July 2011–June 2012](#). New Delhi.

The government's pro-poor relief package has several benefits for poor and vulnerable women, such as (i) cash transfers for poor women *Jan-Dhan* account holders, (ii) free gas cylinders for cooking for poor women beneficiaries under the *Ujjawala* scheme; (iii) increased wages for women beneficiaries of the Mahatma Gandhi National Rural Employment Generation Scheme (100 days guaranteed wage employment for all)—estimated at 54% of the total beneficiaries;⁶² (iv) women beneficiaries of the Pradhan Mantri Kisan Samman Nidhi Yojana (support for small and marginal farmers) will benefit from cash transfers; (v) ASHAs will benefit from insurance cover for health workers; and (vi) women construction workers will benefit from the Welfare Fund for Building and Other Constructions Workers operationalized by State governments.⁶³

44. **Safeguards.** Following an assessment of outputs, the CARES Program is not expected to have adverse environmental or social safeguards impacts and will not trigger ADB's safeguards policies. It is *category C* for environment, involuntary resettlement, and indigenous peoples. No category A or B activities are envisaged. Investment activities prohibited under ADB's Safeguard Policy Statement (2009) will be excluded.

45. **Risks and mitigating measures.** Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.⁶⁴

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Exponential rise in COVID-19 cases or prolonged COVID-19 pandemic renders the proposed fiscal stimulus less effective	ADB engages continually with the government and other development partners to devise an effective and appropriate response, including additional support.
Women may be more affected by the pandemic as they have a higher probability of exposure to COVID-19, being the primary caregivers to the family, and face higher risk from gender-based violence caused by stresses from lost wages, restrictions, and quarantine.	ADB coordinates with the government and other development partners to identify complementarities with their COVID-19 related livelihood programs and the attached TA builds the capacity of implementing agencies in gender-based monitoring.
Continued economic slowdown and social distancing measures affect business continuity and lead to further loss of income and employment	RBI's monetary easing and temporal banking regulatory arrangements (such as moratorium) support the business continuity of affected enterprises. ADB's proposed MSME Program will help rebuild and develop an ecosystem for strengthening MSME development and promoting the formalization of microenterprises to create more quality jobs. ADB engages continually with the government and other development partners to devise an effective and appropriate response, including additional support.
Lack of central government's direct control over state governments under the federal structure leads to slower delivery of benefits than envisaged, and there are delays in information flow to the MOF	The PMO coordinates between the central and state governments. The finance minister-led COVID-19 Economic Response Task Force will oversee the program implementation, and ADB's TA will support the capacity development of the relevant implementing agencies
The frequency and severity of infectious diseases in a highly interconnected global economy increases	The government continues strengthening health systems preparedness beyond the current COVID-19 crisis and ADB's proposed health operations support the efforts.

⁶² Ministry of Finance, Government of India. 2018. [Economic Survey, 2017–2018](#). New Delhi.

⁶³ Most programs supported by the Countercyclical Support Facility have specific gender targets and monitoring systems, as reflected in the design and monitoring framework (Appendix 1). For indicators 1.6 and 3.1, agencies' efforts in collecting sex-disaggregated will be assessed at the beginning of the project.

⁶⁴ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Risks	Mitigation Measures
Capacity of the market and supply chains is strained to meet the demand considering the need for similar items across the globe and the lead time.	Government explores domestic manufacturers, support from international organizations for procurement services, and flexible terms and conditions to ensure adequate supply; facilitates priority import process; and uses the Government e-Marketplace to expand access to new suppliers and monitor supply market conditions

ADB = Asian Development Bank, COVID-19 = coronavirus disease 2019, MOF= Ministry of Finance, MSMEs = micro, small, and medium-sized enterprises; PMO = Prime Minister’s Office; RBI = Reserve Bank of India, TA = technical assistance.

Source: Asian Development Bank.

V. ASSURANCES

46. The government has assured ADB that implementation of the CARES Program shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender equality, procurement, consulting services, financial management, and disbursement as described in detail in the loan agreements.

VI. RECOMMENDATION

47. I am satisfied that the proposed loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve:

- (i) the loan of \$500,000,000 to India for the COVID-19 Active Response and Expenditure Support Program, from ADB’s ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB’s London interbank offered rate (LIBOR)-based lending facility for a term of 10 years, including a grace period of 3 years; and such other terms and conditions as are substantially set forth in the draft loan agreement presented to the Board; and
- (ii) the loan of \$1,000,000,000 to India for the COVID-19 Active Response and Expenditure Support Program, from ADB’s ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB’s London interbank offered rate (LIBOR)-based lending facility for a term of 5 years, including a grace period of 3 years; and such other terms and conditions as are substantially set forth in the draft loan agreement presented to the Board.

Masatsugu Asakawa
President

21 April 2020

DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objectives			
Adverse social and economic impact by the COVID-19 pandemic reduced. ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Effect of the Reform Access to immediate healthcare for all and economic relief for vulnerable groups during COVID-19 pandemic enhanced. ^b	By June 2021 a. At least 850,000 COVID-19 tests carried out ^c (2020 baseline: 101,068 as of 6 April) b. At least 200 million individuals (of whom 50% are women) cumulatively benefited from at least one program under the Prime Minister's Welfare Scheme for the Poor (PMGKY) ^d (March 2020 baseline: NA)	a. ICMR report b. Compliance report from MOF	Prolonged COVID-19 pandemic renders the proposed fiscal stimulus less effective
Reform Areas 1. COVID-19 response and health system measures implemented	By June 2021 1.1. Guidance issued by MOHFW to states to prepare emerging infectious disease contingency plan with indicative budget (March 2020 baseline: none) 1.2. At least 2 million health personnel including accredited social health activists (ASHAs) fighting COVID-19 in government hospitals and health care centers covered under insurance (of whom at least 60% are women) (March 2020 baseline: none) 1.3. COVID-19 testing capacity increased to 18,000 samples per day (2020 baseline: 9,000 as of 6 April) 1.4. At least 80% of district hospital doctors and nurses trained following MOHFW guidelines consistent with WHO standards of clinical treatment for COVID-19 (of whom 60% are women) (December 2019 baseline: none) 1.5. At least 30% districts with COVID-19 isolation capacity in	1.1 MOHFW report 1.2. MOHFW report 1.3. ICMR report 1.4–1.5 MOHFW report	Exponential rise in COVID-19 cases in India severely affects the government's capacity to address the crisis

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>2. Measures to provide social assistance for compensating economic loss to vulnerable groups enhanced</p>	<p>at least one hospital including medical colleges (December 2020 baseline: none)</p> <p>1.6. At least 50% of states using a national health information reporting platform for surveillance that unifies multiple pre-existing data sources (March 2020 baseline: 12 States)</p> <p>2.1. At least 50 million poor women received monetary benefit of ₹500 (\$7) for 3 months in their accounts, which were opened under the Financing Inclusion Program (PM Jan Dhan Yojana), under the Prime Minister's Welfare Scheme for the Poor (PMGKY) (March 2020 baseline: none)</p> <p>2.2. At least 80% of households registered under PDS which have women, SC and/or ST and other vulnerable groups received free entitlement of wheat, rice or pulses under Public Food Scheme (PM Garib Kalyan Ann Yojana) (March 2020 baseline: none)</p> <p>2.3. At least 20 million poor senior citizens, widows and people with disabilities who are beneficiaries under the National Social Assistance Program provided with grant support of ₹1,000 (\$14) (March 2020 baseline: none)</p> <p>2.4. At least 60 million farmers received advance disbursement of ₹2,000 (\$28) under Small and Marginalized Farmers Scheme (PM Kisan Yojana) (March 2020 baseline: not applicable)</p> <p>2.5. At least 60 million poor women are provided with free cooking gas cylinders under the LPG</p>	<p>1.6 Integrated Disease Surveillance Program portal</p> <p>2.1–2.6. Data from MOF, Compliance reports</p>	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
3. Social security measures enhanced for affected workers in both organized and informal sectors	<p>connections to BPL households (PM Ujjwala Yojana) (March 2020 baseline: none)</p> <p>2.6. Rural women daily waged workers represent at least 50% of beneficiaries of higher wages under the Mahatma Gandhi National Rural Employment Guarantee Scheme (March 2020 baseline: higher wages not applicable)</p> <p>3.1. At least ₹30 billion released to EPFO as payment for employers' share of 3 months' provident fund contributions of EPFO subscribers. (March 2020 baseline: none)</p>	3.1. Data from MOF, Compliance reports	

Budget Support

ADB: \$1.5 billion (loans)

ADB: \$2.0 million (TA grant)

ADB = Asian Development Bank, ASHA = accredited social health activist; BPL = below poverty line, COVID-19 = coronavirus disease 2019; EPFO = Employees' Provident Fund Organisation, GDP = gross domestic product; ICMR = Indian Council of Medical Research; LPG = liquefied petroleum gas, MOF = Ministry of Finance, MOHFW = Ministry of Health and Family Welfare; NA = not applicable; PDS = public distribution system; PMGKY = Pradhan Mantri Garib Kalyan Yojana (Prime Minister's Welfare Scheme for the Poor); TA = technical assistance; WHO = World Health Organization.

Notes:

1. Achievement and monitoring of indicators will be supported by the attached TA.
2. Contribution of the program to ADB corporate results framework to be determined.
- ^a ADB. April 2020. ADB's Comprehensive Response to the COVID-19 Pandemic. Manila.
- ^b Due to uncertainties on how the outbreak will unfold, its economic effects, evolving government response and because new data collection and reporting systems to monitor the crisis are being developed, indicators and targets are limited to those presented in the DMF. Additional indicators to measure the effects may be identified at a later stage and used to report on the program's effectiveness as comprehensively as possible in the completion report.
- ^c One individual can be tested more than once.
- ^d Among programs other than PM Garib Kalyan Ann Yojana.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=54182-001-3>

1. Loan Agreement
2. Development Coordination
3. Country Economic Indicators
4. International Monetary Fund Assessment Letter
5. Summary Poverty Reduction and Social Strategy
6. Risk Assessment and Risk Management Plan
7. List of Ineligible Items
8. Attached Technical Assistance Report
9. Debt Sustainability Assessment

Supplementary Documents

10. Summary of Key Health Sector Actions for COVID-19 Response and Health System Preparedness
11. ADB's Past and Proposed Health Sector Operations in India
12. Pro-poor Initiatives: Economic Response to COVID-19 by the Government of India

DEVELOPMENT POLICY LETTER

अतनु चक्रवर्ती, आई ए एस
सचिव
Atanu Chakraborty, I.A.S.
Secretary



भारत सरकार
वित्त मंत्रालय
आर्थिक कार्य विभाग
Government of India
Ministry of Finance
Department of Economic Affairs

D.O. No. 7/2/2020-ADB.I (Part)
14th April 2020

To

MR. MASATSUGU ASAKAWA,
President,
Asian Development Bank,
Manila, Philippines

Subject: Counter-cyclical Support Facility Program

Dear Mr. Asakawa,

I thank the Asian Development Bank (ADB) for considering financial assistance to India to effectively respond to the coronavirus pandemic (COVID-19). As you are aware, India has been one of the fastest growing economies in the world over the past years, supported by sound macroeconomic management, and dynamic economic development policies that have contributed to substantial reduction in poverty. We also initiated significant economic reforms to strengthen the financial sector, introduced a comprehensive Goods and Services Tax, liberalized ease of doing business, ensured access of basic services to the entire population, strengthened public governance, addressed infrastructure bottlenecks and taken a lead globally to tackle the climate change and implementation of the Sustainable Development Goals agenda.

2. The COVID-19 and its associated public health risk and severe economic downturn now deepening across the world threatens to rewind the remarkable progress made by the country. The economic slowdown will particularly affect the security and livelihood of the poor and the vulnerable people. Under the leadership of Honorable Prime Minister Narendra Modi, India is taking decisive steps to alleviate the impact, including the launching of ₹15,000 crore COVID-19 containment plan and the formation of an Economic Task Force that has already taken several critical steps in cooperation with the Reserve Bank of India to provide temporary relief to the financial sector, corporates and small businesses, and unveiled a ₹170,000 crore Pradhan Mantri Garib Kalyan Yojana (PMGKY) for immediate social protection support for the affected poor, vulnerable, women, and disadvantaged groups.

-2-

3. All the COVID-19 programs call for immediate implementation. The Government of India has also swiftly put in place institutional arrangements following the National Disaster Management Act and is now taking all measures for implementing the schemes with focus on highest efficiency, swiftness, and governance. The status, impact, and actions being taken by India are shown in the enclosed Note.

4. We request the participation of the ADB in supporting these far-reaching emergency response programs. We also welcome ADB's technical assistance to provide expert knowledge support to further strengthen the effectiveness of the program implementation.

With Regards,

Yours sincerely,


(Atanu Chakraborty)

Encl: As above

ATTACHED NOTE

CORONAVIRUS DISEASE (COVID-19) – STATUS, IMPACTS, AND ACTIONS

A. Background – Pre-COVID-19 Economic Context

Sound Macroeconomic Management

India's macroeconomic management leading up to the COVID-19 crisis has been strong and creditable. Growth has been robust in the past few decades, averaging at about 6.5% during 2010-2019, and this has led to a sharp reduction in poverty and improvement in living standards. Building on these achievements, India envisions to transform itself to a \$5 trillion economy by 2024. To attain this target the current government has undertaken significant economic reforms that focuses on fiscal prudence, inflation targeting, sound monetary policy, financial stability, liberalization of ease of doing business for both foreign and domestic investors as well as introduction of far-reaching social programs that ensure universal access to basic services.

The government prioritized fiscal prudence and promises to continue the path of fiscal consolidation. Inflation has been falling from 12% in 2010 to 4.7% in FY2020 and was within the central bank's target range between 2% to 6% in the past five years. The government has undertaken a major reform in indirect taxation by introducing Goods and Services Tax in mid-2017, which is meant to reduce the compliance burden on taxpayers, encourage expansion of tax base, and improve tax-payer service. Central government debt was 50.3% of GDP in FY2020, reflecting the commitment of successive administrations to prudent macro-fiscal management. IMF Article IV consultations held in December 2019 assessed India's debt as likely sustainable due a favorable growth-interest rate differential.

India's external sector has remained stable with a narrowing of current account deficit, steady accumulation of foreign exchange reserves, strong growth in foreign direct investment and portfolio inflows.

Economic Reforms and Social Programs Promote Inclusive Growth

The government's economic reforms program focuses on a revival of investment momentum, building a strong domestic financial sector, attracting strong inflows of foreign investment, addressing constraints to infrastructure growth, strengthening the rural economy, and promoting domestic manufacturing by strengthening MSME and encouraging start-ups. India now ranks 63rd among 190 countries in the Ease of Doing Business rankings, jumping up from a ranking of 130 in 2016. The introduction of Insolvency and Bankruptcy Code in 2016, easing of regulations to start a business and dismantling and liberalization of other regulations have helped to make India an attractive investment destination.

These economic reforms have been backed by major social sector schemes that aim to provide universal access to basic services and financial inclusion for the poor, vulnerable and disadvantaged sections of the population. The Pradhan Mantri Jan-Dhan Yojana (PMJDY) under the National Mission for Financial Inclusion envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance and pension. Till date 381 million beneficiaries banked so far \$15.96 billion in beneficiary accounts. Pradhan Mantri Ujjawala Yojana (PMUY) has distributed 80 million LPG connections to women of bellow poverty line families. The government's Ayushman Bharat

Pradhan Mantri Jan Arogya Yojana (AB PM-JAY) provides free health coverage at the secondary and tertiary level to about 500 million people (bottom 40% poor and vulnerable population). Schemes to provide financial support to small and marginal farmers have also been designed by the government.

Robust Public Sector Management

The Government has progressively strengthened the public financial management (PFM) system at the national level, with (i) a well-organized and systematic approach to budget formulation; (ii) high level of fiscal transparency; (iii) comprehensive recording and management of cash balances, debt, and guarantees by the Government; and (iv) timely external audit by the Comptroller and Auditor General of India. Several reforms were undertaken recently, including (i) adoption of outcome budgets by ministries/ departments in line with the ceilings specified in the medium-term expenditure framework (MTEF) statements tabled in the Parliament; (ii) rolling out a comprehensive public financial management system (PFMS) for digitally monitoring fund flows to states and executing agencies; (iii) implementation of direct benefit transfers (DBTs) and digitization of government accounts; (iv) use of JAM trinity (Jan Dhan-Aadhaar-Mobile) strategy, wherein Jan Dhan bank accounts, Aadhaar cards (unique biometric identification cards) and mobile numbers have been linked to reduce leakage, and provide DBTs to beneficiaries; (v) digitization of a wide range of public services; (vi) strengthening systems for allocating scarce resources through competitive auctions; (vii) setting up of the Central Public Procurement Portal to provide single point access to information on procurement across the central government; (viii) adoption of e-procurement system; and (ix) mandating the use of Government E-Marketplace (GeM).

B. COVID-19 Outbreak, Impacts and Threats

The COVID-19 outbreak, however, has changed the course of the economy, and threatens to unwind the remarkable progress made by the country. The economic slowdown will particularly affect the security and livelihood of the poor and vulnerable section of the society.

The COVID-19 pandemic that began in December 2019 has spread throughout the world to [203] countries, infected more than [1.7 million] people worldwide and claimed more than [102,000] lives within 3 months [as of 9 April 2020]. The virus is still on the upward sloping portion of the epi curve, so the eventual global death toll continues to rise. India has shown the same pattern. Since the first 100 confirmed cases in mid-March, the number has reached [7,598] with death toll amounting to [246] across 29 States and Union Territories.

India remains prone to risks from communicable diseases, which account for 28% of all deaths. With a relatively large segment of India's population still living below the poverty line and the close proximity of individuals living in pockets of densely populated urban centers, the risk of rapid spreading of infections increases the vulnerability of the population. The issue gets compounded because despite significant improvements in health system, India faces serious shortage in medical staff and necessary facilities and equipment as proportion to the population. To slow down the spread and create window of opportunity for build-up the response systems, India has been implementing a 21-day country-wide lockdown effective on 25 March 2019. All passenger airlines and the national rail services are suspended. An extension may be considered towards the end of the period. We are racing against time to augment our health system by strengthening surveillance, testing and tracking, and case management capacity.

The pandemic and its counter measures to contain that have caused a severe disruption in economic activities and impacting India's growth in the short term. The disruption has disproportionately affected the poor and vulnerable population including women, formal and informal sector workers, farmers, rural and urban poor, and other vulnerable groups. Immediate relief support to these segments during the enhanced community quarantine period is critical.

Beyond the immediate, negative impact on the poor and vulnerable, the impact on broader economy will be also significant. The first round of direct impact has been felt by travel and tourism industry, companies relying on on-time manufacturing using imported raw materials and intermediate goods, retail & wholesale activities, restaurant and hotels businesses, mining and quarrying, construction, and agriculture and allied activities among others. The second round of impact will be felt through income shock to individuals who lost jobs or are furloughed, and cash flow shock to businesses that lose orders due to supplies disruption and depressed consumption and investment demand. A combination of demand, supply and health shocks at the same time is unusual and unprecedented, compounded by the prospect of global economic recession.

C. National Emergency Response

To address the challenges of the health sector and to alleviate the impact on the economy, the Government has initiated decisive programs directed towards building health system capacity in dealing with the pandemic and providing social sector benefits, including direct cash transfers and food provision for the poor and vulnerable. Temporary relief measures for the financial sector, businesses, and small industries were also launched. The Reserve Bank of India has taken several regulatory measures, including reduction of policy rates and injection of liquidity to support the financial sector. A summary of the government's immediate COVID-19 Response Program for the health sector and social protection is annexed. Brief descriptions are as given below.

Health System Response. The government has stepped up to expand the healthcare facilities. An amount of Rs150 billion (\$2 billion) to build health infrastructure such as isolation wards and beds, ventilators and to train medical professionals to fight the virus. Procurement of medical supplies such as medicine, ventilators, test kits and personal protection equipment for medical staffs has been expedited to support a well-functioning of public healthcare facilities in coping with the COVID-19 outbreak. This is in addition to the state level expenditures supported by State Disaster Fund and state health expenditures. The government will provide life insurance for all health workers, including medical personnel, frontline community health workers, and auxiliary staff who are engaged in the fight against COVID-19. Online training of medical staff and training for frontline health workers working on surveillance have been rolled-out. In addition to free testing and treatment in public health facilities, Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (health insurance scheme for the poor and vulnerable) will cover COVID-19 testing and treatment for over 500 million eligible population in private labs and health care providers for free. The implementation of our healthcare response to COVID-19 will follow well-established PFM system of the National Health Mission.

The Pradhan Mantri Garib Kalyan Yojana (Prime Minister's Welfare Scheme for the Poor). The fiscal response to the epidemic is being steered by the COVID-19 Economic Task Force chaired by Finance Minister. On 26 March 2020, the ministry announced a Rs 1.75 trillion (\$23 billion) pro-poor economic relief package under the PMGKY to provide social security to the poor, vulnerable and disadvantaged groups impacted due to the lockdown. It includes cash transfer to farmers under the PM-KISAN Yojana, cash transfers to women *Jan-Dhan* account holders, increased rural wages under the employment guarantee scheme, free food and gas distribution

for the poor, collateral free loans for women self-help groups, relief for building and construction workers as well as supplementing and augmenting facilities of medical testing, screening and other required interventions. The benefits under the scheme flow to the beneficiaries through the robust PFM systems as highlighted above. A strong monitoring and evaluation framework has already been in place through a management information system that allows daily progress monitoring and reporting across all schemes.

D. Conclusion

All the programs set out to cope with COVID-19 crisis have already been launched and require most immediate implementation. The Government has already declared COVID-19 a 'notified disaster' on 14 March, and has also swiftly put in place institutional arrangements following the National Disaster Management Act and is now taking all measures for implementing the schemes with focuses on highest efficiency, swiftness, and good governance.

The Government appreciates \$1.5 billion assistance from the Asian Development Bank (ADB) for the COVID-19 Active Response and Expenditure Support Program to partly finance the national emergency response outlined above, which is already under implementation with high readiness to receive funds. The program implementation follows high governance standards based on the established strong MIS reporting system. The government remains fully committed to its development agenda of the above Program.

In addition, the Government appreciates a technical assistance of \$2 million be provided for further strengthening the systems and capacities of the implementing agencies in effective implementation, monitoring and evaluation, and providing support to design measures to improve India's resilience.

Annexure 1: Government's COVID-19 Response Program

Scheme	Response Areas	Targeted Beneficiaries	Allocation	
			Rs. Billion	\$ Million
COVID-19 Response and Health Systems Preparedness Project	To provide emergency health response such as such as providing isolation wards and beds, ventilators and training medical professionals to fight the virus.		150	2,000
Pradhan Mantri Khanij Kshetra Kalyan Yojana (District Mineral Foundation Fund)	Funds utilized for supplementing and augmenting facilities of medical testing, screening and other requirements		250	3,311
Insurance Cover for Health Workers	\$67,000 medical insurance cover for all levels of health workers (cleaners, ward-boys/girls, nurses, community outreach workers, Accredited Social Health Activist workers, paramedics, technicians, doctors and specialists and other health workers)	2.2 million staff	0.5	7
Pradhan Mantri Kisan Samman Nidhi Yojana	Farmers: The first instalment of \$26 for FY2021 front-loaded and paid in April 2020	80 million farmers	160	2,119
Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	Wage rate increase: Daily wage increased from \$2.4 to \$2.7	82 million active job card holders	56	742
Pradhan Mantri Garib Kalyan Anna Yojana- Grains	Food Security- Grains: Free of cost food grains provided to beneficiaries at double their entitlement for 3 months	800 million people	400	5,298
Pradhan Mantri Garib Kalyan Anna Yojana- Pulses	Food Security- Pulses 1 kg pulses supplied to beneficiaries free of cost for three months	194 million people	50	662
National Social Assistance Program	Social Security (Elderly): \$13.3 for senior citizens and differently-abled people for 3 months	29.8 million people	30	397
Pradhan Mantri Jan Dhan Yojana	Social Security (Women): \$7 deposited every month in women beneficiary account for 3 months	204 million women	310	4,106
Pradhan Mantri Ujjwala Yojana	Social Assistance (women): Gas cylinders will be provided free of cost for 3 months	80.2 million BPL families	130	1,722
Self Help Groups-collateral free loans	Collateral free loans Increase in the limit on collateral free lending from \$13,000 to \$26,000	70 million households		0
Employees' Provident Fund (Organized Sector Workers)	Withdrawal from EPF: Individuals allowed non-refundable advance of 75% of the amount or three months of the wages, whichever is lower, from their accounts	48 million workers		0
Employees' Provident Fund	Organized Sector- EPF: Government proposes to pay 24% of monthly	7.8 million employees	50	662

Scheme	Response Areas	Targeted Beneficiaries	Allocation	
			Rs. Billion	\$ Million
(Organized Sector Workers	wages into the provident fund accounts for next three months of wage-earners earning below INR 15,000 per month in businesses having less than 100 workers.	and 400,000 establishments		
Building and Other Construction Workers Welfare Fund	Building and Construction Workers Fund Utilize this fund to provide assistance and support workers to protect them against economic disruptions	35 million workers	310	4,106
Total			1,897	25,132

ASSESSMENT OF COMPLIANCE WITH THE COUNTERCYCLICAL SUPPORT FACILITY ACCESS CRITERIA

COVID-19 Pandemic Response Option Access Criteria	ADB Staff Assessment
1. Adverse impact of exogenous shocks	<p>While the International Monetary Fund (IMF) has slashed the fiscal year (FY)2021 economic growth forecast for India to 1.9%— down by more than 3.9 percentage points over its January 2020 forecast, recent ADB estimates show that the gross domestic product (GDP) growth could fall to 1.4% under longer containment with a projected 104 million at risk to fall below \$3.2/day poverty.¹ Gross financing requirement has significantly increased due to the crisis. Government's large domestic borrowing is likely to crowd out the private sector and raise interest costs. The financial sector stress will also be pronounced against the backdrop of recent episodes of stressed balance sheets across some banks and non-banking financial institutions and given the cash flow problems faced by liquidity constrained micro-, small-, and medium-sized enterprises (MSMEs).</p>
2. Countercyclical development expenditures	<p>The government's coronavirus disease 2019 (COVID-19) response program includes (i) a \$23 billion pro-poor relief package under the Prime Minister's Welfare Scheme for the Poor (PMGKY) that includes social protection measures targeting the poor, vulnerable population and disadvantaged groups including women. Significantly, 65% of this package is in the form of direct social assistance and protection to the poor, and vulnerable, including women; and (ii) a \$2 billion health sector expenditure program has also been launched.</p> <p>In addition to this, various state governments have also initiated countercyclical measures.</p>
3. Pre-shock record of generally sound macroeconomic management	<p>The fundamentals of the economy have remained strong. India was among the fastest growing economies of the world with an average annual GDP growth rate of 7.0% during FY2010–FY2019. Public debt to GDP ratio has declined over the past decade while the government is putting serious efforts on fiscal deficit targeting under the Fiscal Responsibility and Budget Management Act 2003 (amended in 2018). The government has rolled out a series of structural reforms, including introduction of goods and services tax, and lowering of corporate taxes to boost investment. Although issues related to stressed banking sector balance sheets remain, prompt action by the central bank has lowered macro-financial risks from the banking sector. Government has consolidated public sector banks and injected substantial capital for their strengthening. Consumer price index (CPI)-based inflation has been within the target range of 4% to 6% during FY2015–FY2020. Foreign exchange reserves are enough to finance about 12 months of imports. India's external position is largely consistent with fundamentals and desirable policy setting.² The pro-poor relief package is conducted within a sound budgetary framework. The other reforms undertaken are as follows:</p> <ol style="list-style-type: none"> 1. Accountability and Transparency <ol style="list-style-type: none"> a. Right to Information Act, 2005 b. Performance monitoring and evaluation system to monitor the performance of all government schemes c. E-procurement reforms 2. Doing Business <ol style="list-style-type: none"> a. Progressive regulatory reforms to improve ease of doing business (India's ease of doing business ranking has improved from 130 in 2016 to 63 in 2019)

¹ ADB. 2019. [Asian Development Outlook Supplement](#). Manila. December; ADB. 2020. [Asian Development Outlook 2020: What Drives Innovation in Asia?](#) Manila. April.

² IMF. December 2019. [India Article IV Consultation. IMF Country Report No.19/385](#).

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	<ul style="list-style-type: none"> b. Direct procurement from registered MSMEs through the government's e-marketplace (GEM) c. Introduction and implementation of goods and services tax d. Relaxation of foreign direct investments (FDI) norms making India one of the top FDI destinations
	<ul style="list-style-type: none"> 3. Financial Sector <ul style="list-style-type: none"> a. Introduction of Insolvency and Bankruptcy Code b. Recapitalizing and merging public sector banks, and broadening deposit insurance coverage
	<ul style="list-style-type: none"> 4. Social inclusiveness <ul style="list-style-type: none"> a. Around 380 million bank accounts opened for the poor and unbanked (Jan Dan Yojana) b. Universal health coverage (Prime Minister's Ayushman Scheme) c. Cooking gas connections for the poor (PM Ujjwala Yojana)
	<ul style="list-style-type: none"> 5. Launch of ambitious infrastructure development plans, and 100% rural electrification under power for all.
4. Structural reforms	The government has acted swiftly to contain the spread of COVID-19 and mitigate economic, social, and health impact. The government has set up 11 Empowered Groups to identify problem areas and ensure proper planning and coordination across ministries for time-bound implementation of COVID-19 programs. ³ Further, a COVID-19 Economic Response Task Force has been set up under the leadership of the Finance Minister to undertake fiscal and monetary measures in coordination with the Reserve Bank of India.
5. Debt sustainability	IMF Article IV consultations held in December 2019 assessed India's debt as likely sustainable due to a favorable growth-interest rate differential. ADB's own assessment indicates that the public debt to GDP ratio will increase from 72.2% in FY2020 to 77.2% in FY2021, and further to 77.4% in FY2022 but will fall gradually to 73.5% by FY2025. The debt path under the ADB baseline is about 8 percentage points above the IMF projections from the Article IV report, because of not only the adverse impact of COVID-19 on growth and the general government primary balance but also the revisions to national account data released in January 2020. Various stress tests to the ADB baseline show that the risks to India's debt sustainability remain contained. The additional borrowing under the ADB's CARES Program, MSME finance project loan, and infrastructure finance project loan (\$2 billion), the World Bank's COVID-19 assistance (\$2 billion combined), and \$500 million each from the Asian Infrastructure Investment Bank and New Development Bank will increase the public debt to GDP ratio by about 0.2 percentage points from the ADB baseline in the first two years, peaking at 77.5% in FY2022, and gradually converge to the baseline to be 0.1 percentage points higher by FY2025 as amortization increases.
6. Coordination with International Monetary Fund.	ADB has closely coordinated with IMF on the macroeconomic situation and COVID-19 impact. IMF's assessment has been received

ADB = Asian Development Bank, AIIB = Asian Infrastructure Investment Bank, COVID-19 = coronavirus disease 2019, CPRO = COVID-19 Pandemic Response Option, FY = fiscal year, GDP = gross domestic product, IMF = International Monetary Fund, MSME = micro-, small-, and medium-sized enterprise, NDB = New Development Bank, PMGKY = Pradhan Mantri Garib Kalyan Yojana (Prime Minister's Welfare Scheme for the Poor), RBI = Reserve Bank of India

Source: Asian Development Bank.

³ Hindustan Times. 2020. [Govt forms empowered groups, task force to deal with Covid-19 outbreak](#) (accessed on 4 April 2020).