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India: Country Assistance Strategy

This is a rich and interesting CAS, which can be complemented by other documents such as the Country Assistance Evaluation, which we recently reviewed in the CODE Sub-Committee, and for which a green sheet has been made available. Last year's Social and Structural Policy Review, the Executive Summary of which is reproduced as annex 2 to the CAS, also provided context. Another very interesting report was last year's grey cover on Scientific and Technical Manpower Development. All in all, these reports are evidence of the Bank Group's interest in better understanding and serving a major and longstanding client.

If this large and diverse economy and society presents challenges for the Bank Group, these are nothing compared to those faced by the Indian authorities at both the central and the provincial and local levels. I therefore welcome the process of consultation that went into the preparation of this document (and also of the CAE). I think from the Bank side the right decision has been made in terms of overall strategy, that is, to base the Bank Group's own approach on the government's own poverty reduction strategy. This is well set out in the Ninth Plan and its Mid-Term Appraisal, as elaborated in the first Chapter of the CAS. This sets the tone for a realistic and pragmatic approach regarding the Bank's own strategy. One recalls the feedback from the India-based advisors regarding the CAE, to the effect that "The Bank succeeded only in those areas where India had decided to go on its own, and that there are no known instances where the Bank's influence 'caused' rather than supported a policy shift." [CAE paragraph 7.11]

In such a context, the overview diagram given in Figure 1 on page 16 of the CAS is helpful in placing the detailed Country Program Matrix in perspective. Considering these overall aims, the self-activating and global triggers regulating the planned base case lending program (and its low-case fallback) seem generally appropriate and we can go along with them. India is certainly a country where the long-term time frame for working through reforms has to be kept in mind. In this connection, it would certainly be encouraging to see a reversal of the last five years of negative net flows by IBRD, as mentioned in paragraph 130, as this would show the strength of the Bank's commitment to this major client.

Having given this general endorsement to the basic strategy, I have a number of more

specific points, not necessary in any order of priority.

On the basic poverty reduction challenge, which is correctly identified as the Bank's overarching objective, the figure mentioned of 470 million people, many of them in rural areas, living on less than \$1 a day, is indeed daunting. The weight of this concentration in global poverty is well-drawn. However, it remains problematic that even in the basic issue of measuring poverty and its amelioration, there seem to be many statistical problems as mentioned in the document. Compounding these problems are the presence of large numbers of near-poor, who could easily fall into poverty in adverse circumstances, or, if they are already below the poverty line, see their poverty worsen. It is to be hoped that the recent strengthening of the statistical services mentioned in paragraph 73 will help clarify the picture, and help the Bank in its own monitoring of intermediate and final outcomes.

Now a comment on the coverage of the external environment. When CAS documents were initiated, there was insistence that there be full coverage of those factors in the external environment that could impact on development prospects. In the present document this coverage has more or less shrunk to the brief description in paragraph 19. While it is true, as paragraph 128 states, India's overall external position is strong, as the economy opens up more attention will be needed in future CAS documents to some of the external issues, especially those involving trade practices of export partners.

This brings me to a mention of the fiscal deficit. The document is right in pointing to the risk that the recent fiscal deterioration may go unchecked, and indeed that the main macroeconomic risk stems from the absence of a strong consensus to move ahead on expenditure-reducing reforms and measures to increase tax revenues. This Chair in its past interventions has always stressed the priority need to address fiscal issues and there is no need to repeat the details. The positive news is that there seems to be a broader consensus on the need for reform and for its direction; less positive is the slow pace in some of the states. Here a good communications strategy by the states may help to convince stakeholders that reforms are in their long-term interests. If it supports such campaigns, the Bank itself should, however, be cautious about not getting into areas of political controversy.

A few points in conclusion on the lending program. Mention is made in paragraph 52 that lending to the "focus" states is going to be about 40 percent of the total over the CAS period. Is there to be a ceiling, even an informal one, on this type of lending? As the document points out, there are many poor in non-focus states, and it will be important not to lose momentum on the proposed social sector projects in the poorest states. Education, as always, is a promising area for scaled-up activity. Given that the transport sector is expected to continue to rely largely on public sector investment, there remains scope for Bank investments, which can have a catalytic effect and demonstrate best practice (paragraph 83). Of course, over time one would hope for a greater involvement by IFC and MIGA in large infrastructure and other projects.

A special word is required on the need to accelerate rural growth, given that about 75 percent of the poor live in rural areas, and of these about 80 percent are dependent on

agriculture. At a minimum, the Bank's efforts in rural infrastructure and in encouraging agricultural deregulation can have a catalytic effect. The Bank Group's approach to micro finance described in paragraph 93 is also promising.

More broadly, the case is made in principle (paragraphs 64-66) for the proposed greater use of programmatic instruments. This will of course need careful assessment on a case-by-case basis. So will such indicators as the disbursement ratio and the status of problematic projects in the portfolio, where a proactive approach will continue to be needed.

As these selective points indicate, this is an ambitious and complex agenda, in spite of commendable efforts to be selective in the Bank's approach to assistance. But this will always be the case in a huge and diverse economy such as India's. We wish all concerned well in moving the reform agenda further ahead and especially in reducing poverty.