Statement by Philippe Peeters  
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**India: Country Assistance Strategy**

The CAS document is sufficiently candid on the assessment of the positive and negative sides of the macroeconomic situation in India. It also recognizes quite honestly some difficult chronic economic problems, which persist for a long period of time and to a great extent predetermine strategic lines of further collaboration of the country with the Bank. India remains one of the most protected economies in the world. Although tariffs were more than halved in the first half of the nineties, they have fallen very slowly since then and are still very high by international standards (30%). India's financial sector mobilizes substantial resources but invests a large part of them in government debt – about 40% of deposits in case of banks. Over the past few years, India's fiscal performance has deteriorated and the general government deficit is now pretty high - 9.1%. State level fiscal deficits have doubled as a percentage of GDP from their level three years ago. High budget deficit is pushing up interest rates and crowding out private sector demand. It also leads to higher inflation. In the light of the present global economic slowdown, all these tendencies make the economic situation in India pretty vulnerable to external shocks.

As it comes to the CAS analyses, one of the main reasons for high budget deficit is overstaffed and poorly governed public agencies for infrastructure and social service located in the states. Tackling these and related problems will require dealing with the civil service, judicial system, implementing anticorruption strategies, and also overcoming the practice of harassment of business by excessive inspection requirements. These problems are well diagnosed in the CAS and rightly put into the priority list for further Bank's involvement in the country. Given the importance of addressing the consistent fiscal problems in India, the Bank should continue with public expenditure reviews at the state and national level.

Past experience of the Bank's involvement in the country shows that the problem in India is not that the constraints to economic reform and poverty reduction are not well understood. The problem is rather that reforms are very difficult to implement at both central government and increasingly at the state level. The level of commitment to reform and to undertake difficult adjustment is distributed very unevenly among the states. In these conditions it is critically important to exercise selectivity and to focus the World Bank's assistance where it can have the greatest effect. In line with this selectivity approach, the Government and the staff maintain the focus mainly on those states that has chosen to embark on a comprehensive program of economic
reforms. This kind of strategy enables the Bank to implement at the states level a Comprehensive Development Framework approach that would not be possible at the country level. As progress depends on reform breakthroughs in individual states, the CAS emphasis on selectivity seems to be the right one. It also matches the government’s poverty strategy, which explicitly recognizes the importance of states-level reforms.

At the same time, in our opinion, one has to take into account that most of the poverty problems are concentrated in poorly performing states, many of which are “out of focus” states with poor records in governance and corruption. A great number of these states, located mostly in the North and East, have been lagging in reducing poverty since the late 70s. Both the Government of India and the Bank are yet to develop efficient approaches to address poverty issues in these states. The CAS recognizes the importance of realization of some of its programs at the national level. But, still, the role of the central government looks underestimated. Difficult problems of many lagging states can hardly be resolved, unless some substantial, although limited, public resources are concentrated in the center and channeled to the points where the poverty issues can not otherwise be resolved during a reasonable period of time.

We support the self-activating and global triggers, as well as the proposed lending scenarios. Given the current low allocation to India, IDA commitment under the base case scenario should be maintained as much as possible, if necessary by shifting allocations to well performing states from the central level and other states. While we agree that programmatic adjustment lending may be warranted in order to effectively improve the enabling environment for poverty reduction, we stress the need to link such a shift with effective expenditure tracking.

The Bank has also to realize that it has played only a marginal role in India over the last decade and accordingly it can have only a limited role in shaping the economic policies in such a big country as India. Notwithstanding this, there is a high level of shared understanding between the Government and the Bank in respect of both diagnosis and strategy. And it is only natural and logical that the CAS is built around the objectives of India's state five-year plan. We support this approach and welcome the efforts made by the government and the staff for building the basis for strategic consensus on most of the important aspects of the CAS.

We welcome, in particular, the innovative design suggested in the CAS for new water and sanitation projects targeted to maximization of the health benefits, as well as piloting cross-sectoral approaches to improve livelihoods of the poor through concentrating health, infrastructure and environmental interventions in specific areas. This can provide a potentially productive instrument for easing the burden of environmental and infrastructure degradation on the poor and create the conditions for resolving the problems of unclear allocation of property rights to clean air, water, etc. A recent Bank estimate of annual environmental degradation in India is about 6-8% of GDP. About 40% of these costs are related to the burden of disease due to unsafe water and poor sanitation. Given the importance of addressing environmental degradation problems for fighting poverty in India, we support the emphasis put by the CAS document on these aspects of the Bank's involvement in the country.

We would also like to emphasize the importance of proper attention to gender issues in
India's CAS. In many countries, women empowerment has been proven to dramatically alleviate many problems that India is currently facing. We, therefore, strongly insist on the necessity to mainstream gender issues in various aspects of the Bank intervention in areas such as education, health, and support to pro-poor growth.