Statement by Lewis Holden
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**India: Country Assistance Strategy**

Considerable reforms introduced by Indian governments over the past decade, particularly in the early 1990s, have helped to strengthen economic performance. Although a renewed wave of reform will be important to provide further opportunities to reduce poverty, India has done well to substantially reduce the overall proportion of people living in poverty in the past decade. Yet with between one quarter and one third of the total number of the world's poor - exact estimates vary - further progress in India will obviously be critical to halving the number of people living in poverty globally by 2015.

**Lending Volume**

Reflecting the complexity of the development challenge, India is already the largest single borrower, and certainly the largest single recipient of concessional financing, from the Bank. Planned annual lending levels of up to $3 bn per annum (of which up to $850m would be concessional IDA financing) will maintain this position.

But there is a strong case for lending, and especially concessional lending, to be scaled up as a pipeline of well designed activities is developed. This is due both to India's relatively good policy performance and the extent of poverty. IDA lending to India amounts to less than $1 per person. This compares to an average per capita allocation across all IDA borrowers of $7.60 and an allocation of $10 per capita for countries with performance rankings similar to India's.

As the World Bank's own research has noted, there are strong potential gains that can be achieved from shifting marginal resources to some of the larger, relatively under-funded, countries which are undertaking reform. While a global strategy to meet the international development goals can not ignore the fact that progress is required in all regions, nor can we afford to overlook the huge number of poor in India.

In assessing the appropriate "base case" for India, we run up against the broader problem that large blend borrowers are excluded from the IDA performance-based allocation process (the large blends were specifically excluded, for instance, in *Linking IDA Support to Country Performance* IDA/SecM2001-67). This is despite the fact that the blend borrowers are home to almost half the world's poor and make up about one quarter of all IDA lending. The capacity of blend borrowers
to access commercial and IBRD financing obviously needs to be taken into account when determining IDA allocations. But we need to give further consideration to how the blends can be incorporated more coherently into an overall performance-based allocation framework.

I think we should also avoid the term "middle-income countries" - even as convenient shorthand - for the blend borrowers. This has the potential to be very misleading: with an average income per capita of $450, for instance, India is well below the IDA threshold (over 20 IDA borrowers including, for instance, Haiti and Cote d'Ivoire have higher per capita incomes).

Program Design

Current programs, which focus on strengthening the enabling environment for private sector led growth and pro-poor interventions are appropriate - although further work remains to implement activities more successfully. The recognition that a strengthened focus is required on gender issues and rural development is appropriate in the circumstances. Focusing assistance on states with strong reform records, while requiring some balance with selective assistance at the central level, is an innovative approach that deserves support given India's strong federal system. These issues were addressed comprehensively in the CODE sub-committee's recent discussion of the India CAE.

I would be concerned, however, if India's IDA allocation fell significantly below the planned $850 million (the CAS notes that "self-activating triggers" could result in the program falling to $400 million per annum). A further reduction on India's already low IDA allocation, especially given relatively strong performance to date, would significantly constrain efforts to address poverty. I accept that it is important to link funding to performance. But the scope to provide assistance flexibly to those states with strong reform programs should be used to ensure that, if one state or agency is not performing well, IDA support can be redirected rather than lost to India altogether.