Board Meeting of Thursday, February 18, 1999  
Statement by Khalid H. Alyahya

India: Country Assistance Strategy—Progress Report and Andhra Pradesh Power Sector Restructuring Project

We welcome this opportunity to discuss a CAS Progress Report for one of our largest client countries. My remarks will be selective as we commented extensively on the full CAS a year ago, and many of the points made remain valid.

Let me start by agreeing with the report’s opening words that, from a global perspective, India’s 5% growth is impressive, at a time when many clients are facing stagnation or negative growth. Apart from the sheer size of the Indian domestic economy, some measure of protection against the adverse effects seen elsewhere was afforded by the presence of capital controls, very low short-term external debt and portfolio investment, as well as by a steady if mixed record of economic reform. Nonetheless, the projected slowdown in exports, in part as a result of increased Asian competition, is worrisome.

Also worrisome, when considered in the context of the objectives presented in the CAS just over a year ago, is the rather mixed performance that has been turned in, with progress in some areas being matched by less-than-successful out-turns in others, notably in structural policy reform. The assessment made in paragraph 40 of the Progress Report seems an appropriately balanced one. Of course, the large public sector deficit continues to be the most significant area of weakness, one that this Chair has frequently commented on over the years.

Looking at the proposed lending program for India strictly from a country economic performance aspect, the experience over the last year does seem to support the judgement of staff (paragraph 41) that the country is still in the base case scenario but heading in the low case direction. In this respect the precise out-turn of the expectations set out in paragraph 44 about lending outcomes will indeed rest on performance factors, including progress or lack of it in fiscal and policy reforms, and strong poverty reduction efforts, including those in the areas of education and health. The discussion on poverty reduction efforts contained in paragraphs 25–30 indicates the magnitude of the challenges, especially in India, a low income country with the world’s largest number of poor people, and with many more likely to fall into poverty if growth were to falter.
I turn now to some comments on the Andhra Pradesh Power Sector Restructuring Project. As with the Haryana project which accompanied last year’s CAS, and which we welcomed at the time, we find this an interesting application of the adaptable program loan (APL) concept. The amounts involved are large --$4.6 billion over a decade for the sector investment program being supported, of which a billion dollars from the IBRD alone in a series of up to five APLs. The loan before us for $210 million, is but the first in this series.

The program of reform is equally ambitious, with the goal of a turnaround in the present dismal performance of the state utilities through an injection of private sector practices. This is to be done through creditworthy and commercially-operated power utilities, starting on the distribution side. Of course the significant increase in private ownership and participation requires parallel improvements in effective and independent regulation of the sector.

The demand for commercial energy generally is growing in India, and it is essential for it to be met if development objectives are to be achieved. We do not see other than minimal roles for renewable energy sources, whether economically justified or not. This APL therefore seems to be in principle an effective allocation of IBRD resources, by helping modernize through transmission and distribution equipment procured through international and national competitive bidding.

The table on page 4 of the Project Appraisal Document indicates the ambitious nature of the targets. Private sector participation in distribution is to go from zero to a hundred percent over the ten-year horizon, and in generation from 6 percent to 35 percent. Return on equity is to turn-around from a negative 64 percent to a positive 16 percent. Per capita energy consumption is to double. Subsidies as a percent of revenue are to drop from 35 percent to zero. And the contribution of the power sector to the state budget is to turn around from negative $400 million to positive $200 million.

We tend to agree with staff that, given its complexity, the project will need intensive supervision, and of course one hopes that performance on the policy front will be sufficient to justify subsequent APLs.

This brings me to one question. We noted from page 18 of the Project Appraisal Document that, should the proposed commercial approach not succeed in raising the required amounts, and further divert budgetary resources to the power sector and away from developmental projects in this very poor state, “the Bank may in the future consider quick-disbursing assistance.” I would like staff to elaborate on this prospect, as it seems to me the holding out of such promises for a separate operation parallel to the series of APLs, might undermine the will to take very difficult policy decisions.

Finally, I wish the Indian authorities well with their overall efforts at reform and in meeting the immense developmental challenges that have to be overcome as this large economy enters the new millennium.