The Indian authorities deserve to be commended highly for adhering to their reform program that was launched after the 1991 macroeconomic crisis and which has yielded impressive results, evidenced by high growth rates, as well as unprecedented high private investment (including private foreign direct investment) and savings. Their objectives of sustaining these high growth rates and substantially reducing poverty levels are tempered by the realities on the ground, which include the internal and external weaknesses that have been identified and which will need to be addressed if the ambitious objectives are to be realized. We believe that the CAS under consideration by the Board will assist the Indian authorities to achieve these objectives and we support it fully. We only have a few comments.

First, the Bank-India relationship is indeed a long and enduring one, but one which at times has not been smooth by the CAS's own admission. The relationship has improved over time, and we believe that it could improve even more if, in the spirit of the Strategic Compact, the Bank could conduct its business by consultation, rather than being "too prescriptive" (para 24), by taking into account the political realities, which may mean disagreement on the timing of interventions, and delays in decision-making because of the need to build political consensus. We therefore welcome the position being taken by the Bank to change its approach in the manner in which it has conducted its business in the past, as noted in paras. 39 and 40 of the CAS. This posture will be particularly apt when the Bank discusses with the authorities the approaches to addressing the relevant issues associated with the four principal areas of weakness noted in paras. 6-12, namely: the public sector deficit, the financial system, trade and regulatory reform, and public enterprises. Given the current financial crisis in East Asia and its likely effects on India, the need to address these issues becomes extremely urgent and the Bank will need to exercise judgement regarding the timing and tenor of discussion with the Indian authorities. Hence, we believe that further devolution of
responsibilities to the field (para 70), as well as the use of new instruments such as the APLs should facilitate a speedier and more appropriate response by the Bank Group in addressing these important issues.

Second, on the question of selectivity, we agree with the CAS that in a large economy such as India's, Bank interventions should be undertaken selectively and should be limited to those areas where these interventions would have maximum impact. However, while we endorse the position that Bank assistance should be directed at those states that are fully committed to reforms, and particularly to those that have a good implementation record, the CAS is firm about ceasing operations in those states that are pursuing "policies opposite to the reform trends in the country ....." (para 32). We would hope that some form of dialogue would be maintained with these states, perhaps in coordination with the centre, even if this will only lead to a number of studies in those sectors where the Bank believes it could make a contribution at a future date.

Third, India has performed well in its efforts to reduce poverty during the last five decades, with the poverty incidence dropping from 45 percent in 1950 to 35 percent in 1993-94. We note in Box 1 (A Vision of India in 2010) that if the country successfully sustains its current strategy of accelerated growth with equity over the next decade, the incidence of poverty is projected to reduce further to about 15 percent. The Bank's strategy in assisting the government to achieve this objective is to us quite appropriate, as indicated in paras 44-48. In particular, we believe that a project such as the District Poverty Initiative Project currently under preparation is an innovative and appropriate vehicle for addressing poverty issues at the grassroots level, and one which can be replicated not only in India, but in other countries. The CAS however does not indicate whether or not the CGAP has made any input into the preparation of this particular project, or indeed played any role in the Bank's poverty-reduction strategy in India. We would appreciate staff comment on this issue.

Fourth, we welcome the fact that this is a joint Bank Group CAS. In particular, we believe that the expansion of IFC activities in the areas indicated in para 66 should provide some confidence to other external private investors wishing to do business in India. Given its support of Government's privatization efforts, and its exploration of opportunities to invest in companies to be privatized, we would have hoped that the expansion in the Corporation's program would have been a little higher than that indicated in the CAS.

Fifth, the risks identified in the CAS are considerable and could derail both the Government's and the Bank's efforts. However, we believe, as does the CAS, that managing those risks successfully would assist the Bank in making a meaningful contribution to enhancing India's development prospects.
Finally, we wish to commend staff for having undertaken a wide consultation process in developing this CAS, and for being pragmatic enough to change the Bank's posture in the way it intends to deliver its programs in future. Once again we have no reservations in extending our full support to this CAS and wish the Indian authorities great success in implementing their reform program.