Statement by Balmiki Prasad Singh  
Date of Meeting: April 5, 2001

India - Country Assistance Strategy

At the outset, I would like to convey Government of India’s appreciation of the prompt response of the Bank in dealing with the devastating impact of the earthquake in Gujarat. The Country Team worked in close collaboration with the State Government and the Government of India in preparing the project. The Board’s approval of the first phase of the earthquake assistance will help the local authorities in the relief and rehabilitation operations now underway. We are also highly appreciative of the Bank in funding the earthquake reconstruction substantially from IDA.

The Government of India endorses the underlying objective of the present CAS to focus the Bank’s financing with a view to achieving the international development goals. The Government of India is committed to poverty reduction and has from the very outset adopted a comprehensive development approach to handling this.

The present CAS has made a very welcome departure from the earlier CASs in that it is better aligned with the planning process and strategy of Government of India in meeting its development goals. The Government of India is in basic agreement with the strategic principles of selectivity, partnership and programmatic approach. Similarly, we see broad agreement with the CAS’s priorities of targeting Bank’s financing of pro-poor interventions in promoting health and education for all as well as rural development.

Having said this, there are a few broad reservations that the Government of India would like to express. These would be gone into detail when we take up the issues point by point. Principally these relate to the inappropriateness of concentrating Bank’s activities in 2-3 States while neglecting pressing human development needs of the poorer States. Secondly, we see programs on improving governance effectiveness and those promoting private sector led growth in the context of development effectiveness of the Bank’s overall programs and not as an overarching objective on its own. Thirdly, the concept of global triggers is also not acceptable as it does not seem intrinsically related to the objectives of the programs and projects proposed to be pursued.

Government of India notes that a number of projects indicated to be taken up over the 3 years period of the Country Assistance Strategy have not yet been proposed to the World Bank.
Therefore it is to be noted that they do not bear Government’s endorsement as yet. Government would like to state that projects/programs would be proposed to the Bank taking into consideration the overall national and State development framework, particularly the Five Year and Annual Plans, and the overarching objective of equity and balanced regional development.

**Part I: India’s Poverty Reduction Strategy**

We are largely in agreement with the Bank’s understanding of Government of India’s poverty reduction strategy. The recent census and quinquennial survey by National Sample Survey Organisation have revealed significant improvement in literacy levels and reduction in poverty. Our Tenth Plan would be prepared against this background. We hope the Bank would be able to review its CAS in the light of Tenth Plan document.

**Part II: The Bank Group’s Strategy and Program**

**Overview of Bank Group Strategy**

While we are in agreement with the three core strategic principles of CAS for India i.e. selectivity, partnership and a programmatic approach, we are of the view that these strategic principles cannot be applied by the Bank on their own. The application of these principles would need to be in active consultation and agreement with Government of India as the partnership of the Bank is with the Government of India. Overstressing of partnership by the Bank with a few States can lead to undesirable consequences. Government of India is happy that the version of CAS before the Board has taken into consideration some of our concerns in this regard. However, GOI would like to reiterate that the partnership of the Bank is with the Government of India. Partnerships at sub-national levels would need to be with the approval, full participation of, and to the extent determined by the Government of India.

**Selectivity**

It is understandable from the Bank’s viewpoint that the Bank can perhaps deliver better results if its resources are invested in a few States. This concern has manifested itself in the form of the concept of Focus State. However, the Government of India cannot subscribe to a lopsided distribution of resources and technical expertise and knowledge which come with the Bank Projects. Accordingly, while the Government would encourage increased Bank’s lending and non-lending programs in ‘fast reforming states’, it would not agree to a situation where bulk of the lending and non-lending services of the Bank gets concentrated in two or three states only to the exclusion, on one ground or the other, of other states.

The statement that the ‘state focus approach is being pursued by the Bank under the guidance of the Government of India’ is not factually correct. We reiterate that the concept of ‘partner state’ at the state level is not an approved policy of Government of India. The Government in accordance with the recommendations of the Eleventh Finance Commission has adopted a major fiscal reform initiative for States in India. The Government of India would expect the Bank to be active in both kinds of States- the fast reforming States to supplement the
efforts of Government of India and in the slow-reforming States to work with the Government of India in its efforts to create an environment conducive to faster and wider reforms while, at the same time, taking care of their pressing human development needs.

As some states deserve to be provided higher funding on account of their being in the overall reform mode, similarly states which are pursuing good reforming agenda in specific sectors need to be assisted in those sectors.

The projected ratio of lending program for projects implemented by Ministries or the enterprises/entities of the Government of India at 20% is too low. We would recommend these to be of the order of 40%.

Partnership and Outreach

In continuation of what has been said already, the Government of India is concerned that a majority of Bank funding is getting concentrated in too few states. At present, over 50% of Bank lending are flowing to three states. The Bank’s efforts to take other external funding agencies, along with themselves, to select few states would further aggravate the problem. We do not think this ‘exclusive’ approach is in the interests of the country. It needs to be added that the bulk of India’s poor reside in the so called ‘slow/non reforming’ States. We would, therefore, like to limit the Bank commitments to reforming states to around 40% of annual commitments and that too by enlarging the number of states covered under this category to 6-7. We would also be in favor of approximately 20% of the Bank’s lending Government of India to those states which have not so far taken up comprehensive reforms but whose human development needs like investments in health and education sector are of the highest order. We believe this kind of presence would be in line with the efforts of the Government of India to address the human development needs and also create an environment for reforms in these states.

Thus broadly Government of India would like 40% lending to be in the Central Sector, 40% in 6-7 states which are chosen for assistance under the new reforms facility created in pursuance of the recommendations of the Eleventh Finance Commission and the balance 20% to the slow reforming poorer states of India for meeting their human development needs and creating appropriate climate for deeper reforms.

Programmatic Approach

We endorse the programmatic approach including the use of adaptable programme loans instrument, accepting at the same time the need for investment lending in specific sectors.

Improving Government Effectiveness

While the Government of India is committed to promote good governance at all levels, we see the Bank’s role as a facilitating one, particularly where a programme support loan for a state alone would not be successful in addressing the fiscal imbalance, specifically where overstaffing or non-core investments in civil service and PSUs are responsible for the same.
We endorse the need for development of medium term fiscal frameworks while addressing fiscal imbalance and sustainability issues as part of programme loans.

**Promoting Private Sector Led Growth**

We are in agreement with the assessment of the Bank that most investments in India’s transport system will have to come from within the public sector. The Bank’s lending for upgrading the National and State highways in India has been one of the best performing sectors of the India portfolio. The National Highway Authority of India is well underway on the ambitious National Highway Development Program (NHDP), which seeks to upgrade heavily trafficked portions of the National Highways to international standards, using a blend of commercial and semi-commercial financing as well as by levying user charges. The NHDP will require upwards of US $ 25 billion over a period of about 5 years. We appreciate the Bank’s support for the NHDP so far. A large number of Indian states are also upgrading their highways and embarking on radical institutional change within the roads sector. The CAS talks of two highway projects per year. The highways sector in India would require at least US $ 1 billion per year of Bank financing with a mix of at least one National Highway project and two state highway projects.

We are also broadly in support of the Bank Group’s strategy in the power sector. Considering the urgent financial needs of the sector, we would expect the Bank to broaden and deepen its exposure to the power sector in more states.

We support the Bank’s intervention for enhanced private sector participation in the urban water and sanitation sectors. However, our expectations need to be realistic.

We have welcomed Bank’s assistance for meeting the challenge thrown up by the Gujarat Earthquake. We would also welcome the support of the Bank in developing a comprehensive national disaster management capability.

The proposed role for Bank in accelerating rural growth, competitiveness in industry and services, and financial sector needs to be elaborated.

**Supporting Critical Pro-poor Interventions**

We appreciate the extent and scope of Bank’s assistance in elementary education sector. The Government of India is committed to universalizing elementary education throughout the country. To achieve this, we have launched the Sarva Shiksha Abhiyan. We look forward to the Bank and other development partners playing a supporting role in operationalizing this objective. This support would need to fit into the overall strategy of the Government of India and the State Governments for this sector.

We appreciate the interest of the World Bank in other social sectors, particularly, health & rural safety net in rural development sub-sectors.
Part C- The Bank Group Program

We have taken note of improvements in the portfolio and agree with the assessment that these need to be sustained and further improved. The Government of India has also taken steps to improve implementation and tighten monitoring.

The Government of India is convinced that the Base Case Scenario for lending proposed at US$ 3 billion (about $ 2.2 billion IBRD and $ 800 million IDA) is inadequate. It has been our stand that the total annual program should be increased to US$ 4 billion ($ 2.5-2.8 billion of IBRD and $ 1.2-1.5 billion of IDA).

Whilst we have no problem in accepting the concept of triggers, we certainly do not see any rationale in linking lending to global triggers like improvement in fiscal balance of Government of India (as indicated by consolidated public sector debt below 83% of GDP), absence of serious external deterioration (as indicated by net international reserves below 50% of the money base), over all reforms in trade sector (elimination of QRs and reduction in average tariffs), banking (reduction of government’s stake in the stock of public sector banks), deregulation of the economy (gradual exemption of the small-scale reservation limit in export oriented activities and deregulation of agriculture), and privatisation of public enterprises. These issues fall within the realm of domestic policy and we do not see the appropriateness of the World Bank monitoring these triggers. In fact these have never been discussed by the Government of India with the Bank.

We are not in agreement with the perception of some donors - we are sure the Bank does not share their perception as well - of restricting India’s share to US$ 820 million under IDA. IDA-13 replenishment negotiations are underway. We would like the Bank to argue our case for a possible funding support of the order of US$ 1.5 billion to 2.00 billion per annum based on our performance, our needs and on the principles of equity (per capita allocation etc.)

We do not agree to link IDA support to reduction in IBRD financing. The blend of 50:50 should not act as limit to avail IDA resources. Therefore, in the unlikely event of India not availing IBRD funding in a proportion higher than the IDA limit, there should not be any limitation on the use of IDA resources.

We endorse the use of Adjustment Lending. We would be willing to see adjustment lending go up to a level of 1 billion to 1.2 billion. However, under IDA, adjustment lending would be restricted to a maximum of 1/3 of IDA allocation.

Investment lending can be in the ratio of 33% for infrastructure and private sector development, 25% for human development, 25% for rural development and the rest for economic reforms and financial sectors.

The non-lending services programme of the Bank needs to be more carefully and extensively discussed with Government of India. We intend to put in place a formal system so
that these fit in with the development priorities of the Government and better coordination with
the line Ministries, instead of being undertaken ad-hoc by the Bank.

**IFC Portfolio and Program**

We appreciate the recent progress in IFC’s portfolio and would like to discuss with IFC’s
management all that is needed to be done for increasing IFC’s annual financing including
guarantees to around US$ 1 billion.

**MIGA Program**

MIGA program has not taken off in India nor has any Indian Corporate used MIGA’s
guarantee so far. Nothing substantial has been mentioned in the CAS either. We have recently
requested MIGA to provide an update on Usefulness of MIGA’s programme in India. We would
await their response

**Operational Decentralization**

We have taken note of the decentralization and would endorse the Bank Group strategy to
decentralize its’ operations to its’ India office as much as possible.

**Proposed IBRD/IDA program listed in Annex B3**

A look at the projects proposed reveals that quite a few of them are concentrated in three
states and many of them have so far not been posed by the Government of India to the World
Bank. Therefore, support of Government of India for these projects should not be presumed. We
would advise the Bank on case to case basis when the concerned Ministry/State proposes the
same to us in accordance with our approved development plans, the need for balanced regional
development and the interests of equity.

**Conclusion:**

In conclusion, we welcome this intensive exercise which reflects a greater awareness of
the development priorities and strategies of the Government of India and of the State
Governments. The Bank is an important development partner of India and it shall remain so. Our
basic concerns about the proposed exclusiveness of approach should be understood with our
concern for ensuring balanced and equitable growth that would be pro-poor in the real sense of
the term. Despite the tremendous achievements of the past five decades, particularly, the
accelerated growth over the last 10 years or so, India still faces considerable development
challenges. We would expect our development partners, including the World Bank to tailor their
approaches to fit in to nationally evolved and adopted development plans. We are convinced that
we would be more than able to meet the International Development Goals and see ourselves
emerging as a middle-income country in the foreseeable feature.