Board Meeting of January 15, 1998
Statement by Juanita D. Amatong

India - Country Assistance Strategy and Haryana Power Sector Restructuring Project

We wish to express our strong support for both the CAS and the Haryana power project and want to praise Management and staff for the very high quality of this CAS.

2. We support the overall development strategy proposed in the CAS of strengthening public finances, further liberalizing the economy and increasing investment in infrastructure and in human resources, as well as the level and the sector distribution of the lending program.

3. The Government of India has made substantial progress in these areas since 1991, when the country started its deepest policy reforms since Independence. The fact that these reforms have been maintained despite four changes in government give us confidence that there is broad consensus to move ahead. By liberalizing the economy and reducing the economic role of government, the reforms are contributing to increase the overall efficiency of capital allocation and utilization, thus adding an important dimension to India's traditional development policy of maintaining high rates of savings and investment. The pay-off of the reforms have been impressive in terms of the very good macroeconomic performance of the last 6 years: strong GDP growth driven by private investment and exports, with rising national savings, stronger external position and with inflation kept under control. It is important, therefore, to keep the momentum and to address the remaining issues in the development agenda.

4. We concur with the CAS analysis that the most serious economic risk faced by India is its large public sector deficit, which could hinder the achievement of the targeted growth rate. It seems that the most efficient way to reduce this deficit is to phase out central and state governments subsidies to non-merit goods, which presently reach a high proportion of GDP. The proposed new strategy of increasing lending to reforming states with an aim of supporting fiscal, pricing and regulatory reforms maybe an important instrument towards achieving that goal. In large federal countries, public sector outcomes in terms of fiscal results, level and quality of public services are highly dependent on the performance of states. This seems to be particularly true in the case of India, where states are responsible for nearly half of public spending and for a third of the public sector deficit and have been slower to adjust than the
central government. It is important, therefore, that state lending move away from a narrower project or even sector focus towards a broader overall state policy focus, with particular attention being paid to sound fiscal institutions, a responsible fiscal behavior and local capacity building, even if that means moving away from poor but non-reforming states.

5. Another connected issue which, in our opinion, did not receive a commensurate attention in the CAS is the role of India's large public enterprise sector and the prospects for reform and privatization there. We would like to listen staff's views on the prospects of privatization in India and other means for increasing efficiency and productivity of state-owned enterprises.

6. Considering the sector distribution of the lending program, it seems that agriculture is a particularly important sector, and a difficult one, for the objectives both of accelerating growth and reducing poverty. It accounts for 28% of GDP and two-thirds of the labor force, while 80% of the poor reside in rural areas. Yet agriculture has been growing at a slower pace than GDP and is generating a per capita value added which is less than half the national average. Despite some liberalizing measures, it is still an excessively regulated sector, which relies heavily on subsidies that are fiscally difficult to sustain. Considering that nearly 16% of the lending program is going to agriculture, we would like to listen a more detailed staff's assessment on how the lending program could be used as an instrument to support needed policy and institutional reforms in this sector.

7. Regarding the level of lending, we strongly support the lending scenario which envisages an increase of IBRD program of around US$ 2.2 billion annually and the maintenance of IDA lending at US$ 855 million per year. We think that the existing macroeconomic conditions, the portfolio performance improvements, the still moderate concentration and the good creditworthiness indicators allow for such an increase of lending, while India's high level of poverty, indeed, call for it. We regret what has happened in the previous CAS period when, although macroeconomic indicators were better than expected, the Bank Group did not deliver as expected because of the collapse of IBRD lending due both to a small pipeline of projects and to slow progress of the policy dialogue in one specific sector.

8. Concerning the blend of lending, we do not favor the proposed asymmetric link between IBRD and IDA lending which would call for a reduction in IDA commitments if IBRD lending has to be reduced due to unsatisfactory macroeconomic or sector reform performance. While significant gains have been made in poverty reduction, with the share of poor in the population declining from 45% to 35% from the 1950s to the present date, the absolute number of poor have actually almost doubled to over 300 million people. Per capita income is only US$ 350 and social indicators still lag those of other populous Asian countries. As indicated in the CAS, India is the country with the largest number of poor people in the world, even greater than the total of Africa. The projected level of IDA assistance is a mere US$ 1 per capita a year, an already too low figure considering our proclaimed overarching objective of reducing poverty. Unsatisfactory sector reform can arise, for instance, due to the behavior of some state governments as it was the case in the previous CAS, whereas weaker macroeconomic performance may be induced by external factors, a plausible hypothesis in the present Asian economic scenario. We fail to understand why these events should penalize other social sectors. Besides, due to lack of concessional funding, we know that IDA allocations tend to be rigid, so that once a change in the IDA shares is made, it is difficult to be reversed. We would ask staff to
reconsider this asymmetric link and, if this is not accepted, would like to listen what is the rationale.

9. We support the plan to make substantial use of the new instrument of Adaptable Program Loans in lending to states and to the power sector. Hopefully, this new instrument should provide a small initial financial assistance and allow sufficient time needed to build consensus and create ownership for long term commitments, while signaling a firm Bank intention to extend additional financial support if those conditions materialize. We also support the plans to strengthen the project pipeline and to spread its coverage into the new sectors. This should help to avoid the situation experienced in the previous CAS when lack of progress in a specific sector led to a failure to deliver in the IBRD lending program.

10. We are pleased with the improvements in portfolio performance achieved in FY 1997, with the disbursement ratio rising above the Bank’s worldwide average, both the ratios of problem projects and projects at risk been halved and the average implementation period reduced, and hope that these improvements can be consolidated.

11. Concerning the IFC program, we support the proposed increase up to US$ 400 million annually and the sector concentration on infrastructure, financial sector, agribusiness and the export sector. We are pleased that IFC is strongly supporting privatization efforts, as we think there is much to be gained from efforts in this area. We would also like to encourage that IFC’s program in the agribusiness sector is used as an instrument to support reform in agriculture as mentioned earlier.

12. Finally on gender concerns. The Poverty Assessment Report pointed to the dismal social indicators for girls and women especially in health and education. We are pleased to see that strategic actions on primary education for girls, on maternal and child health services with the view to reducing population growth, access of women to rural finance and to employment opportunities are being addressed by the CAS. We would like to see improvement in the social indicators for women once the three-year timetable of the present CAS is evaluated.