Statement by Girmai Abraham  
Date of Meeting: April 5, 2001

**India: Country Assistance Strategy**

We welcome the discussion of India's Country Assistance Strategy, and we commend the Staff for a very well-prepared document.

The Indian economy has been growing at a fairly rapid rate for the last two decades. It has also done well in a number of sectors, including the external sector. Just this week (March 31, 2001), the Government removed quantitative restrictions on imports of 715 commodities, thereby fulfilling some of its reform objectives. Although the lifting of import controls has, understandably, created apprehensions on the part of small manufacturers and farmers, the measure is an important step in converting India into a globally competitive economy, and the Government should be commended for its achievements and policy reforms.

However, India also faces major challenges, such as poverty, fiscal deficits, and infrastructural bottlenecks. Despite the impressive growth record of the last two decades, the magnitude of poverty, both in absolute and relative terms, remains large. We are pleased to note that the Government of India plans to reduce the poverty level to under 10% over a period of 15 years. The Bank Group’s support will be essential in helping the country reach that goal.

The relatively rapid economic growth of the 1990's has not led to the reduction of fiscal deficits, and clearly fiscal reform is needed to strengthen the enabling environment for development. Specific expenditures that are targeted for cuts are subsidies. While we think cuts and rationalization of expenditures should be made, we wonder if adequate protection mechanisms have been put in place for the poor.

Furthermore, the comprehensive reform program for states in the Mid-term Appraisal calls for bringing the State Electricity Boards and the State Road Transport Corporations under professional management, to be operated in a commercially viable manner. It also calls for tariff increases to recover cost. We think this is a sensible idea. Here again, we wonder if there are specific provisions that would soften the impact of the tariff increases and the cut in state subsidies on the poor.
With respect to tax reforms, there is a plan to broaden the tax base and increase compliance, but it is not clear how the tax base will be broadened. Are there widespread exclusions, exemptions, tax credits, and other tax preferences whose reduction or elimination could generate substantial tax revenues for the Government?

Given limited resources, selectivity is important, and in India’s case, the state focus for Bank support seems appropriate. However, our concern is that such an approach may aggravate regional imbalances. We, therefore, agree that the Bank should continue to support social sector projects in the poorest states that are not implementing reforms.

We support the lending scenarios and the self-activating triggers. However, it would help to identify what are called "other sectoral reforms". In addition, some of the global triggers are vague and could be clarified further.

We are pleased with IFC’s involvement in India’s economy and we hope MIGA will soon get involved.

We support the Bank Group’s overall strategy of supporting the Government of India’s poverty reduction strategy.