Statement by Jan Piercy  
Date of Meeting: April 5, 2001

**India CAS**

**Overview**

First, we thank staff for all their time and information shared with us prior to this Board discussion. This CAS presents a thorough and candid assessment of the numerous challenges facing India and appears to be appropriately informed by the GoI’s own poverty reduction strategy. We commend the broad range of consultations that informed this CAS and the posting of the preliminary documents on the Bank’s website. This public dialogue on critical development issues is a positive outcome and strengthens efforts to enhance the transparency of Bank operations. That said, we very much support the UK point that lessons from the PRSP process are relevant for India and we support efforts to strengthen poverty strategy formulation at the national and state levels in India. We also share the Nordic view that we wish there had been more opportunity to influence the CAS before it was released to the Board.

**Macroeconomic Management**

We welcome India’s liberalization over the last decade, including the very recent steps to lift the remaining quantitative restrictions to comply with the WTO standards. However, numerous obstacles remain to reaching the sustainable economic growth needed to reduce poverty: weak tax collection and rising expenditures; poorly targeted subsidies and government protection; weak public sector banks and directed lending policies; and poor public sector management. We are wary of India’s ability to achieve the ambitious growth goal of 9% without a rejuvenated round of second-generation reforms including greater trade liberalization, labor market flexibility and privatization.

**Fiscal Situation**

We are particularly concerned about India’s chronic and worsening fiscal situation, which further constrains the government’s policy choices. We strongly urge the Bank to engage in candid dialogue with the GoI regarding public expenditure management - both size and composition - at both the national and state levels. We note the CAE assessment that the Bank’s Economic and Social Work (ESW) on public sector management has been "inconsequential at the center" but had "a stronger impact at the state level." We hope this does not translate into a neglect of public
sector management and dialogue with the central government, which fundamentally sets the overall reform environment and determines overall spending priorities to promote sustainable growth and poverty reduction.

We encourage the Bank to work with the GoI to support the kind of fiscal reforms recommended by the recent Bank-Fund Report on Observance of Standards and Codes (ROSC): increased fiscal discipline by both state and central governments; greater transparency of financial data through prompt data dissemination; medium term targets for the expenditure framework; and eliminating corruption in tax collection through enhanced enforcement.

**Diagnostics**

We continue to stress the importance of due diligence diagnostics, particularly as the Bank’s lending shifts to a state-focused approach. We welcome plans for a central government PER in FY02 - long overdue given that the last PER for India was performed in 1993 but never published, and thus, had little impact. We expect the findings to be comprehensive on all expenditures, well documented and widely disseminated. This is essential in a country such as India where questions remain about the allocation of subsidies and the level of military expenditures that may divert resources from much high priority development needs.

We also welcome recent progress on the national-level procurement assessment as well as plans for state-level procurement evaluations. These are especially important given the reference in the CAE to project effectiveness being impeded by procurement delays.

**Lending Program**

We concur with the Bank’s strategy to focus lending to individual states that have demonstrated a commitment to undertake critical reforms. The Bank’s shift to subnational lending must be founded on thorough diagnostics of the expenditure management and safeguard capabilities at the state level to ensure that these "reformer" states can adequately absorb and utilize Bank resources. Could the Bank clarify the status of public expenditure analysis in the Bank’s current focus states?

That said, we urge the Bank to remain engaged with the central government and not shift completely to a state-focused approach. Nor can the Bank completely neglect non-reforming states, particularly when the poorest of the poor are located in some of these non-reforming states (e.g., Bihar). The Bank should continue to engage in policy dialogue, and provide technical assistance and other non-lending services to these states.

While we instinctively agree on the appeal of lending to reforming states, how does the Bank plan to monitor and evaluate the effectiveness of this strategy in India? It is important to us that the Bank ground its subnational lending in a performance-based structure. Does the Bank have any systematic, transparent way of comparing performance across states, similar to the CPIA?

We continue to have reservations about the proposed shift to quick-disbursing single-tranche
operations. While we welcome the clarity that prior actions provide, this does not necessarily translate into single-tranche disbursements. We have shared our views on criteria for programmatic lending in separate fora and will apply them to our consideration of India loans.

**Triggers:** As we and other chairs have noted, we believe that the triggers need much greater specificity, as does the Bank’s scope for interpretation of those triggers. We expect performance benchmarks to be well defined and that Management will hold the GoI and this lending program accountable to those performance benchmarks.

**Gender:** Although the gender gap in India has narrowed, significant disparities remain. We appreciate the Bank’s efforts to alleviate gender disparities through both adjustment loans and projects, but we think that more needs to be done on monitoring and evaluation. We welcome the inclusion of M&E in some of the more recent DPIP projects and health systems projects, and in the comprehensive state-level adjustment programs. We expect the Bank as well to incorporate gender considerations into all its programs.

**Health:** We welcome plans to focus on maternal/child health, nutrition, and communicable diseases as well as capacity building efforts at the states’ level. Mainstreaming environmental concerns into the Bank’s health initiatives is also welcome. India is at a critical juncture in prevention and education initiatives to stem a catastrophic HIV/AIDS epidemic. While we welcome the Bank’s initial efforts in this area, we think a more integrated approach is needed. Can staff provide greater specifics on the Bank’s plans regarding HIV/AIDS under this CAS?

**Education/Labor:** We welcome efforts to improve the quality of education and the plans to expand upon the District Primary Education. This initiative is also important to address India’s ongoing problem of child labor. We urge the Bank, in its policy dialogue with the Indian authorities, to stress the importance of ratifying the ILO conventions on child labor as well as advancing education projects that facilitate schooling for young children rather than employment.

**IFC:** We welcome IFC engagement in India. However, some past investments have been of marginal additionality. We expect IFC to support ventures that would not otherwise have access to investment funds, as well as investments that foster a more open environment for trade and investment.

**Donor Coordination:** The CAS reflects good coordination and partnership with other donors in India. This coordination is reflected in "scaling up" of Bank projects in education, water supply, and the power sector. We would also like to commend the Bank’s recent coordination with other donors in its response to the Gujarat earthquake.