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Board Meeting of February 18, 1999
Statement by Andrei Bugrov

INDIA: Country Assistance Strategy - Progress Report
and
Andhra Pradesh Power Sector Restructuring Project

I welcome the opportunity to review progress on the World Bank Group’s assistance strategy for India. The report before us provides a comprehensive update on political, economic, and policy developments. It frankly discusses the issues of CAS implementation and introduces the necessary adjustments in the strategy. We appreciate Management and Staff efforts in preparing this document and endorse its major conclusions.

India’s nuclear tests in May 1998 and the subsequent postponement of several IBRD, IDA and IFC operations complicated considerably the implementation of the assistance strategy. Although FY98 CAS for India is still valid and relevant, it will not remain such without lifting the restrictions on its vital components which do not meet the so-called Basic Human Needs criterion. We believe that it is critically important to preserve the totality of the Bank’s assistance program which involves an appropriate combination of different projects and their timing and sequencing. Therefore we would support the release of the postponed projects for Board consideration as soon as possible.

The report argues that India should be regarded as having moved to the border between the base case and low case, still remaining in the former but heading toward the latter. In general I concur with this judgment. It is based on a careful analysis of the borrower’s recent mixed performance with regard to the three general triggers of the CAS which relate to the fiscal balance, current account deficit, and structural policy reform. Therefore on balance the proposed lending program for FY99 seems to be appropriate.

At the same time we hope that the return of the Bank to normal business with India will be coupled with the Government’s renewed reform efforts and significant improvements in its fiscal and policy performance. This, in turn, would allow the World Bank Group to render a full-fledged support to India facing a broad range of economic, social, institutional, and human development challenges.

Let me now turn to the central theme of the current CAS, namely its focus on reforming states. I agree that in a country like India,
the success in one region can have a powerful demonstration effect elsewhere. We are pleased to note that the impressive reforms in Andhra Pradesh, supported with a large IBRD/IDA financing, have already generated such effect in Orissa, Rajasthan, and Uttar Pradesh. An intensive dialogue on policy-based lending has been induced between the Bank and these states. Similar collaboration is developing between the Asian Development Bank and Gujarat and Madhya Pradesh.

I strongly believe that a necessary condition for successful program to support state-level reforms is an agreement with and participation of the central government. The paper touches upon these issues only in an indirect way. I would appreciate some specific comments by the Staff on the central government’s attitude to and involvement in the actual process of building close partnerships between the Bank and reforming states.

In closing, let me say that we appreciate the important progress made by the State Government of Andhra Pradesh on its power sector reform program and support the Power Sector Restructuring Project which is presented today together with the CAS Progress Report.