

Executive Summary

This Country Strategy (CAS) sets out how the World Bank Group proposes to build a growing partnership with the Government of India (GoI) during FY05-08 - a critical period in the pledge to help our clients meet the global Millennium Development Goals (MDGs), including halving poverty, by 2015. With over one-quarter of the world's poor (some 260-290 million people) in India, our efforts to assist India with best practice knowledge and financing for development are central to the World Bank Group's mission to help reduce global poverty. ***The overarching challenge of this new strategy will be how we can maximize and leverage the diverse resources of the Bank Group¹ to dramatically scale up our impact, help to improve the quality of life for some of the world's poorest citizens and help India move closer to achieving the MDGs.***

In order to achieve this enhanced impact, three **Strategic Principles** will underpin the Bank Group's work: (i) *focusing on outcomes*, to ensure that all of the work of the Bank Group is explicitly geared towards supporting India's achievement of its development goals; (ii) *applying selectivity*, to target limited resources to activities where assistance is welcomed and where contributions can also be the most effective; and (iii) expanding the Bank Group role as a *politically realistic knowledge provider and generator*.

In applying these Strategic Principles, the Bank is seeking a substantial increase in its volume of lending to India. Given the enormous needs, the expansion will primarily be in (i) *infrastructure* (roads, transport, power, water supply and sanitation, irrigation and urban development - to underpin both accelerated

growth and improved service delivery); (ii) *human development* (education, health, social protection - priorities to support specific MDGs); and (iii) *rural livelihoods* (with an emphasis on community-driven approaches).

Scaling up will require a strengthened program at the Center, including more national level lending as well as lending to the states compared to recent years. An important shift envisioned for FY05-08 is the use of new approaches, including co-financing with other development partners under common arrangements, for national programs in the areas most critical to meeting the MDGs. Using such means, including 'sector-wide approaches' or SWAs where appropriate, the Bank will seek to step up its national level engagement and work closely with partners that can join the Bank in providing substantial assistance.

Some important shifts are also being implemented in the approach to India's states. Since 1997, the CAS has included a focus on states undertaking comprehensive reforms, in order to support the leaders of change and serve as a catalyst to the state-level reform process. With the widening gulf between faster and slower growing states in India, leading to a concentration of poverty and poor social indicators in just a few states, some shifts in this approach are warranted. Though the strategy will retain an essentially reform and performance-based approach to the states, it will also change in ways that are intended to go as far as possible in opening up new opportunities for engagement with these largest and poorest states:

¹ In this report, the "Bank Group" refers to IBRD, IDA, IFC and MIGA; and the "Bank" refers to IBRD/IDA.

- ◆ First, in consultation with Gol and other partners, the Bank will seek to ensure that all of the largest and poorest states of India that so wish are engaged in a dialogue on cross-cutting reforms (fiscal management, governance, service delivery, the power sector and the investment climate).
- ◆ Secondly, the Bank will work proactively to try to build a productive development relationship with four states where poverty is increasingly concentrated in India and where public institutions are considered to be at their weakest - Bihar, Jharkhand, Orissa and UP. This support could go beyond the basic dialogue on cross-cutting reforms noted above.
- ◆ Thirdly, state-level adjustment lending operations aimed at supporting achievement of the MDGs, are also expected to remain an important part of the Bank program. In addition to supporting state government efforts to reduce fiscal deficits, reform the power sector, strengthen governance and implement a range of actions to improve the investment climate - this lending would support cross-cutting actions to improve service delivery.
- ◆ Fourthly, there is no longer an upfront decision to concentrate substantial state-level investment lending on 'focus states' that are also receiving adjustment lending in support of cross-cutting reforms. Instead, investment lending will be channeled more broadly to states that are able to comply with new 'guidelines for engagement' for the relevant sector. These guidelines attempt to clearly set out the sector-specific conditions that experience has shown to be necessary for project success. As described further in the CAS, in implementing these guidelines the Bank will also seek, when possible, to provide its investment lending to the states that

have the greatest number of poor citizens, or weakest indicators, in order to maximize its impact.

The overall impact of these changes is likely to be a progressive shift in the share of lending that goes to the poorest states, though dependent on the extent to which basic conditions for these projects can be met by those states.

Despite these shifts in the way that the Bank partners with both the Center and the states, the Bank Group's **Program Priorities** will retain considerable continuity with the FY02-04 CAS. The emphasis on: *Improving Government Effectiveness; Investing in People and Empowering Communities; and Promoting Private-Sector Led Growth* remains relevant to India's own priorities and development goals. The stepped up program will provide increased opportunity for collaboration across the Bank Group to promote innovative public-private partnerships for infrastructure development. The Private Sector Development Strategy attached to this paper provides detail on how this collaboration can be further developed.

Within the Program Priorities, IFC will continue to provide equity and loan financing and guarantees to supplement what is available from Indian financial institutions or capital markets, and will help to mobilize financing from both domestic and international sources. This will include pioneering investments in infrastructure where innovative structures and long tenors are required; and investments in projects which are constrained by limited risk appetite of other investors, including medium-sized manufacturing companies, agribusiness companies and companies entering new markets domestically and internationally.

For the Bank, global knowledge support - policy dialogue, analysis, technical assistance and advisory services - will be re-focused to better support the Program Priorities. The strategy calls for enhanced focus on major analytical work on emerging issues of national interest, as well as strengthening the demand-driven nature of the Bank's advisory work.

The CAS notes that, based on country performance ratings and India's absorptive capacity, a substantially higher level of IDA resources could effectively be utilized by India. Particularly in human development and rural livelihoods, increased lending will depend on availability of IDA resources, whose expansion would be justified by the opportunity to contribute to achieving the MDGs. Beyond any ceilings that are imposed by the IDA Deputies, the CAS will not place additional constraints on India's IDA resources unless a dramatic unforeseen deterioration in performance warrants a review of the overall strategy.

The CAS also proposes a new way of looking at IBRD lending. Rather than establishing low or base case scenarios for Bank lending, and structuring triggers to shift from one case to another, the Bank program will fall within a range limited by an upper bound for IBRD lending (US\$2.15 billion per year on average) to support India's achievement of MDGs. Getting to this upper bound will require strong reform performance as well as a strengthened pace of project preparation.

As is currently the case, the level of IBRD investment lending to the states will depend on the pace of reform implementation and application of 'self-regulating' triggers. Unlike the recent past, however, the guidelines for engagement will increase the transparency of the triggers for state level investment lending and open up opportunities for an increased number of states to engage with the Bank. These guidelines also specify new triggers for investment lending with the Center.