Statement of Mr. Yashwant Sinha
Chairman of the Development Committee
Finance Minister
India
We are meeting to discuss and exchange views on critical development issues facing the World against the backdrop of the slowdown in global output. This slowdown would affect developing countries quite adversely. The multilateral development institutions need to scale up their efforts to play an important catalytic role to assist these countries achieve the International Development Goals.

2. The financial crises in Argentina and Turkey, along with the cyclical slowdown of the global economy, underline the fact that the developing countries as a whole are still exposed to an uncertain and challenging economic and social future. I would like to highlight a few areas of concern:

   a) The estimated Official development finance-concessional and non-concessional level of $47.1 billion in 2000 is substantially lower than the level achieved in 1990. ($55.2 billion)

   b) ODA from the OECD countries has declined as a percentage of GNP from 0.33% in 1990 to just 0.24% in 1999.

   c) While World Foreign Direct Investment continued to grow rapidly, FDI to the developing countries declined in 2000 (by 5%) for the first time in a decade.

   d) The share of Official Development Assistance (ODA) going to Sub-Saharan Africa and South Asia which together account for a majority of the world’s poor, has declined continuously from a high of 49.4% of total aid flows in 1990 to 37.3% in 2000.

3. All these cause enormous concern. In this situation, it is essential that the volume of capital transfers to developing countries increase. The multilateral development institutions have a major responsibility in the transfer of resources and capacity building in the developing countries. This has assumed much greater importance in the context of the world economic slowdown. I call upon the industrialized countries to take immediate steps to increase development assistance. The issues identified for deliberations in the Development Committee and also in the Joint Session of the IMFC and DC are timely and it is hoped that these would lead to the emergence of a consensus on greater resource mobilization.

4. Financing under IDA has proved to be a valuable concessional resource for developing countries over a period of time. This has become even more important at a time when globally such resources are dwindling. We welcome the much greater participatory tone and tenor of the on-going IDA-13 replenishment discussions. The greater involvement of the borrowers will undoubtedly increase the effectiveness of IDA lending. We would urge that the IDA-13 replenishment process be based on the following three premises:

   I. Given the urgent need to achieve the International Development Goals within the given time-frame, the on-going replenishment must be substantially larger than IDA 12.
II. Given the problems of debt sustainability in HIPC countries, there should be an increased proportion of grant financing.

III. Scarce IDA resources must be allocated strictly on the basis of poverty and performance.

Given the fact that over the next several years, repayments of IDA loans will be considerably lower due to debt forgiveness under HIPC, the current replenishments must be substantially higher to ensure that there is no net reduction in IDA assistance

**PRSP**

5. The recent efforts by the Bank to assist countries in formulation of Poverty Reduction Strategies and greater country ownership of the Poverty Reduction Strategy Papers (PRSPs) are welcome. It is necessary, however, to ensure that the PRSP proposals are realistically costed, as there is a need to underpin the strategy with a credible financing plan, which incorporates the projected level of domestic borrowing as well as external flows. Only this can ensure the prioritization of the PRSP initiatives and ensure that the goals set are realistic. We also agree on the need to put into place a sound public expenditure management system, which will track poverty-related expenditure. However we feel that the absence of such a mechanism should not be made a reason for delay in reaching completion point, if alternate bridging mechanisms for poverty tracking are available.

6. Let me now deal with the specific issues in our agenda.

**World Bank Group Strategy in Middle Income Countries**

7. The challenge of achieving the International Development Goals, cannot be met without rapid progress in the so-called ‘middle income countries’, which by definition are the IBRD eligible countries, including India and China. We believe that sound policies and practices which take into account the ground realities prevailing in a particular country, consciously adopted and endorsed by the respective representative institutions are essential for poverty reduction. The Country Assistance Strategy (CAS) should continue to be the primary instrument for the Bank’s works and support to a country. However, the CAS must reflect the aspirations of the people of the country, aimed at promoting the development strategy of the government. The Bank’s CAS cycle should seamlessly flow into the planning and budgetary cycles of the respective countries. For this purpose, the Bank should:

   (i) begin by making assessments of the current development policy and strategy with a special focus on poverty reduction;

   (ii) undertake assessments of fiduciary and safeguard policies simultaneously; and
(iii) once these assessments are completed, propose a CAS containing lending/non-lending programmes.

Such a mutually agreed CAS can become the basis for adjustment and investment support from the Bank.

8. We endorse the continued relevance of both investment and adjustment lending in ‘middle income countries’. We prefer the Bank to use single tranche operations with respect to adjustment lending subject to a transparent and sustainable medium term fiscal framework being put in place. In the event of a need to resort to multi-tranche operations, the number of tranches needs to be related to the nature of the specific situation rather than being a matter of pre-determined design and policy.

9. We welcome the proposed Deferred Drawdown Option but the Bank would need to price this instrument competitively so that it can be useful at the time of vulnerability.

10. All the Multilateral Institutions do not offer the same products and same services. Their cost of borrowing and lending, their areas of expertise and comparative advantage are different. The Bank must certainly be selective in its approach and focus on the areas of its comparative advantage. Obviously, the precise choice of sectors and geographic areas of operation would be that of the borrower.

11. We are deeply concerned at the decline in annual IBRD commitments and disbursements. This suggests the need for changes in the pattern and structure of the Bank’s lending. In this context, we appreciate the recent efforts of the Bank to consult clients on the cost of doing business. The Bank faces a number of new high-cost financing challenges such as the enhanced HIPC initiative, PRSPs and the implementation of international standards and codes, etc. Urgent action is needed to arrest and reverse the decline in annual Bank lending and also lower the costs of borrowing.

Global Public Goods

12. The increased interest in the issue of the funding of global public goods is indeed welcome. We appreciate the Bank’s role in bringing greater clarity and selectivity in the definition of global public goods. The Bank needs to leverage its strategic partnerships with other international agencies to maximize additional financing for global public goods and also to ensure access of the poor to these goods at reasonable and affordable prices. We recognize that developing countries stand to gain by increased provisioning for global public goods like cost-effective drugs for HIV/AIDS and other killer diseases such as malaria and tuberculosis. Funding for global public goods must be additional to global development finance flows and should not seek to displace assistance for country programmes. There is an urgent need to adequately finance existing institutions and increasingly locate new institutions and organizations that provide global public goods, in developing countries.
Progress on HIV/AIDS

13. We commend the efforts of the Bank in the war against HIV/AIDS in collaboration with strategic partners. This war can be decisively won only if the vicious cycle of AIDS-Poverty-Illiteracy is broken. While we mobilize resources to battle AIDS; we should not lose sight of the need to strengthen the basic health infrastructure in the developing countries, to deliver effective service to all sections of society.

14. We believe that the fight against HIV/AIDS would determine the outcome of the fight against poverty reduction in Africa. Patent rights should not come in the way of the patients’ right to live. The recent resolution of the drugs price issue in South Africa is a positive development. However, much remains to be done to allow drugs to reach the needy at affordable prices and in a timely and regular manner. We endorse the view that all countries need to be vigilant against this growing menace. No nation will remain unaffected if it is not controlled in time.

Guidelines for Public Debt Management

15. The international financial crises over the past few years have shown the necessity of countries to have a prudent debt management system in an Asset Liability Framework. The recently formulated Guidelines on Public Debt Management prepared by the Bank and Fund is a good initiative. There is now an imperative requirement to build up capacity in several developing countries to manage public debt in a sound and sustainable way.

16. All of us are facing a critical test: Can we make globalization work better for the poor? This is possible only when we support the endeavours of developing countries in poverty reduction tasks while integrating national economies with global systems.