Statement by

Mr. P. Chidambaram
Minister of Finance
India
Statement by Honourable Finance Minister
Mr. P. Chidambaram
Leader of the Indian Delegation to the Development Committee
Singapore, September 18, 2006
(Representing the Constituency consisting of Bangladesh, Bhutan, India and Sri Lanka)

Mr. Chairman,

1. Please allow me to first thank the people and the Government of Singapore for their warm hospitality and excellent arrangements.

2. The Development Committee is meeting in Singapore at a time when the performance of the global economy continues to exceed expectations. This is in spite of an unprecedented rise in oil prices, global uncertainties, and the continuing menace of terrorism. According to the latest World Economic Outlook (WEO), global growth prospects for 2006 have improved from the last assessment in April 2006. The growth scenario is now more broad-based with the expanding potential of the Euro area and a resurgence of growth in Japan. Apart from Japan, with China and India continuing to reinforce the impetus to growth in the emerging markets, there has been a global repositioning of growth with new economic drivers from Asia. It is gratifying that the world’s Gross Domestic Product grew at an annual average of 4.8 per cent during the last 4 years (2003-06), the strongest since 1970.

3. There is no scope for complacency on the growth front because the current growth phase is fraught with several downside risks. These include inflationary pressures, high oil prices, a disorderly unwinding of global imbalances and a sudden slowdown of the US economy. Increased threats of terrorism, including that to oil installations which can cause supply disruptions, and increased protectionism due to the collapse of the WTO Doha round, are added causes for concern. The twin challenges facing the international financial community at this juncture are: how to mitigate the specific downside risks that could act as dampeners to the otherwise bright medium-term growth prospects and how to leverage this benign growth scenario to advance the broader development agenda in general and remove capability-deprivation in particular. The World Development Report 2007 entitled “Development and the Next Generation” provides a good example of the daunting task faced by the Development Committee in the critical area of successfully managing the five transitions concerning the world’s young. These transitions are: continuing to learn, starting to work, developing a healthful lifestyle, beginning a family, and exercising citizenship. The time is opportune to address the issue of strengthening the work programme of the Bank Group, which is undoubtedly the most important global development institution.

Strengthening Bank Group work in Governance and Controlling Corruption

4. Moving on to the Agenda on Strengthening Bank Group engagement on Governance and Anticorruption, we agree that good governance and anticorruption are important, but we ought not to allow them to obscure or negate the overall development agenda. Good governance and anticorruption have the potential to improve development effectiveness. We
urge the Bank to see Governance as one of the means for attainment of development objectives, and not as an end in itself. In the development dialogue, the Bank’s work on Governance and Anti-Corruption should maintain this development-centric approach with “proportionate and concomitant responsibility” in dealing with governance among all development partners, namely the developing countries, developed countries, and the Bank.

5. Governance and anticorruption are not substitutes but supports to achieving important development objectives, such as the Millennium Development Goals. It is extremely important to avoid a sequential approach of rooting out corruption and improving governance before getting down to the development agenda. Development cannot wait for improved governance and a corruption-free world. Both must go ‘hand in hand’. We support a simultaneous and curative approach to these issues in any Bank strategy in this regard. This will avoid the risk of governance becoming a conditionality for development.

6. As on date, there is no universally accepted methodology for measuring governance. Governance is further characterized by historical and contextual specificities of countries. There is a proposal that in countries with serious governance challenges, the strategy will be supported by in-depth governance diagnostics and monitoring tools including actionable and outcome indicators. We doubt if the Bank can categorize countries on a governance index. Governance diagnostics is an evolving subject. The correct approach will be to determine, in consultation with country governments and through extended research, a set of transparent, measurable and consistent governance indicators. Till such work is complete, the established deliberative mechanism of Country Policy and Institutional Assessment (CPIA), which gives due weightage on governance indicators, and also involves consultations with Governments, should be followed.

7. We note that the Bank would like to categorize some countries as ‘high-risk’ and treat them accordingly. In the highest risk category, there may even be no lending and the Bank will focus only on non-lending engagement. This is ‘zero tolerance leading to zero development’ that several Governors had opposed at the Spring meetings. Our opposition to this line of thinking remains. It may protect the fiduciary interests of the Bank, but will adversely impact its development goals. Fiduciary concerns cannot outweigh the development mission. In other words, anticorruption should not become anti-development.

8. The Agenda also states that governance categorization would determine the type and quantum of Bank engagement. It is not clear whether governance categorization will predominate Performance Based Allocation (PBA) in determining resource allocation. We are opposed to any such suggestion. In countries where there may be a break in lending, the proposed strategy envisions that IFC and MIGA may play roles in ‘socially responsible investment policy’. This is not clear at all. If a country is not considered fit for IDA support, how can it qualify for IFC/MIGA engagement?

9. On the specific governance initiatives proposed by the Bank, the Bank should actively utilize and strengthen country systems as vehicles of change. Interactions with non-executive institutions must be through country governments to enhance the synergy between Bank commitment and country ownership. The Bank must recognize that fortifying country
systems and fostering country ownership are the only ways to effect sustainable governance improvement. Let me remind you that the DC Mandate of Spring Meetings 2006 was for strengthening national systems.

10. There is a case for further consultations with stakeholders as well as for studies and research on governance and growth to ascertain how they impact each other before a global strategy for governance for development can be rolled out. Even the Bank’s research in different countries has highlighted that “while there are many countries where results are not being achieved and indicators of governance and corruption are poor, there are just as many where results are being achieved despite poor indicators of governance”.

11. The issue of restitution of assets needs to be given greater importance in the fight against corruption. All undue profits accruing to firms and individuals, which result from acts of bribery and corruption, must be restored to Governments and the people to whom the money rightfully belongs.

**Strengthening the World Bank’s engagement with IBRD Partner Countries**

12. Over 70 percent of the world’s poor living below $2 per day reside in countries that are eligible to borrow from the IBRD. The Bank has to remain actively engaged with these IBRD partner countries. It is in this context that we welcome the opportunity to discuss the issue of ‘Strengthening the World Bank’s engagement with IBRD Partner Countries’. Over the last few years, the Bank has taken some steps to address the concerns of these countries, such as reducing project processing time, offering a wider menu of financing, and risk management products. However, as the document before us states, ‘much more remains to be done’. I outline below a few of our concerns:

13. **Firstly**, as the paper points out, infrastructure remains seriously underfinanced in most partner countries. Since the late 1990s, commitments by private investors in infrastructure in these countries have been on a downward trend. The Bank has been engaging in investment lending for public infrastructure, including support for public-private partnership. New IBRD commitments in the sector have increased by more than 40 per cent between FY 2003 and FY 2006. This is welcome, but more remains to be done.

14. **Secondly**, with its ‘preferred creditor status’ and AAA rating, the IBRD has the ability to mobilize low-cost funds from the market. As a cooperative lending institution, it is imperative that the Bank provides loans to MICs at attractive terms. The comparison of lending rates should be not only with those of other IFIs or the rates at which the countries can borrow from the market, but also with the rates at which the IBRD mobilizes funds and the best rates that it can offer.

15. **Thirdly**, we believe that greater use of ‘Country Systems’ is the best way for scaling-up the impact of Bank’s engagement with IBRD-partner countries. The progress thus far and the lack of clear direction for the future are disappointing. Consensus on the use of country procurement systems (for ICBs) continues to elude us. In order to have a development impact
far greater than the resources it provides, we urge the Bank to work vigorously towards substantive progress on the use of country systems.

16. **Fourthly**, we warmly welcome the intention to enhance the partnership approach in the Country Strategies and to improve the link between research and operations. Here, we would suggest that knowledge transfer would be enhanced if the Bank makes greater use of research institutions and academics available in these countries. Also, for its financial transactions the Bank should actively seek to work with suitable domestic financial institutions, and not remain limited to the multi-national financial institutions.

17. **Finally**, the issue of Global Public Goods (GPGs) has been given much prominence in an MIC Action Plan for the first time. Since the coverage of GPGs extends far beyond MICs, we cannot see value addition in including it in the MIC Action Plan. The issue of GPGs is important, but needs to be dealt with independently and comprehensively taking into account their global implications and the comparative advantage of the various international agencies. In so far as the Bank is engaged with the Partner countries, the relevance or otherwise of a GPG can be adequately assessed through the Country Partnership Strategy process.

**An Investment Framework for Clean Energy & Development: A Progress Report**

18. We warmly welcome the focus on energy access needs of developing countries. A shortfall in GDP growth of 1 to 4 per cent, because of energy deficiency, could indeed be the critical difference between success and failure in eradicating poverty. There are 675 million people in South Asia without access to electricity, and improved access is not keeping pace with population growth. Given the lead time for sector reforms and improvements in business climate to result in new private investment, we urge the Bank and other development partners to scale up resources for improving energy access. In this context, the investment estimates in the report appear to be too modest; it would not even provide the 1,000 kwhr of per capita access required for ‘a basic quality of life’ as defined by the International Energy Agency.

19. Clean energy is extremely important for our planet. The path to sustainable clean energy, however, is for the international community to reach an agreement on a long-term, stable and predictable global regulatory framework which respects the principle of “common but differentiated responsibilities”. We support the shift to a low-carbon economy. However, given the GPG nature of a low-carbon economy, adoption of the more expensive (and often untested) clean energy options by developing countries has to be supported by transfer of additional resources from developed countries. Diversion of resources from IBRD for the proposed clean energy financing vehicle could jeopardize the achievement of the Millennium Development Goals (MDGs).

**Education for All- Fast Track Initiative (EFA-FTI)**

20. EFA-FTI had created high expectations in developing countries committed to the universal primary education target of the MDGs. Till now, however, only 5 million of the 100 million out-of-school children have been enrolled, and cumulative disbursement from the
FTI catalytic fund has been only US$96 million. At the current rate, having the necessary infrastructure for universal primary education in place by 2009 will remain a distant dream.

21. Meagre commitments are the major constraint on FTI. For the EFA-FTI to be rolled out into a fully expanded programme, donors’ political statements and pledges must be translated into firm commitments and actual disbursements.

**Doha Development Agenda and Aid for Trade**

22. The Doha Development Round appears to be in jeopardy, and the development promise appears to be in danger of being broken. It is important for the developed countries to take the lead in bringing these discussions back on track so that the world – and especially the developing countries – can reap the promised development dividend. We believe that the Bank should continue to play a proactive role, and lend its weight to a pro-development outcome.

23. We have been supportive of the Aid for Trade Agenda as a means of enhancing the capacity in developing countries for realizing the gains in trade. However, while helping build supply-side capacity and trade-related infrastructure particularly in least developed countries, we need to remind ourselves that Aid for Trade cannot be a substitute for the expected development benefits, particularly on market access, from a successful conclusion of the Doha Round. While we look forward to the implementation of a robust Aid for Trade package, its effectiveness would require additional predictable and sustainable financing by the donor community. Aid for Trade funds need to be channeled multilaterally for ensuring maximum effect on the ground, and integrated into country development strategies rather than delivered through multiple vertical funds that may be created for the purpose.

24. Mr. Chairman, we are meeting at a time when the actions of the global development community are being closely matched against the promises that we have made and repeated often. The scale of the development challenge facing us is daunting and the Bank, as an institution, needs, more than ever before, to focus on where it can actually make a difference, add value, and become increasingly result-oriented. We are collectively answerable to the poor and the under privileged of the world. Through the Millennium declaration and the MDGs, we gave them hope. Let us all strive by our actions to convert that hope into a reality.

Thank you.