Statement by

Mr. Pranab Mukherjee
Finance Minister of India
Leader of the Indian delegation to the Development Committee

Representing the Constituency of Bangladesh, Bhutan, India and Sri Lanka
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We meet today at a critical juncture to deliberate on the direction of the global economy, the pace of recovery and how global institutions like the World Bank can make a difference to the lives of the poor who have been seriously affected by a series of crises since 2008. These crises have adversely impacted the ability of developing countries to progress towards the Millennium Development Goals, and have held back millions in poverty. Despite the efforts of the global community to sustain the economic recovery made in 2010, uncertainty still persists. This is affecting global sentiments on long term investments in developing countries, and has pushed up the cost of finance in these countries. More importantly, a slowdown in investments in developing countries has made prospects of sustained global recovery more uncertain.

Global Economic Scenario:

While Bank projections and near term economic data unexpectedly shows encouraging economic conditions, such as a stronger economic performance in the middle income countries, modest recovery in the USA and stronger growth prospects in developing countries, uncertainty prevails. Although actions by Euro zone countries and the ECB have stabilized the situation and have somewhat calmed the markets, the underlying structural problems remain. The possibility of further increases in oil prices, concerns about medium-term fiscal sustainability of some advanced economies, and persistently high unemployment rates add to the downside risks. Global economic challenges, therefore, remain formidable especially as the policy space for many countries remains limited. We need to carefully deliberate our options going forward.

Key Challenges for the World Bank Group

During the last three years of successive crises, the Bank has committed more than US$ 100 billion for the developing countries. This has helped protecting the poorest from adverse effects. This effort of the Bank is historical. Commendable progress has also been made on modernizing the Bank by making it more result oriented, open and transparent.

While we may derive some comfort from reports that Millennium Development Targets are likely to be achieved in reducing extreme poverty, increasing access to safe drinking water, and also from the fact that progress on some other MDGs are on track or within 10 percent of on-track trajectory, it is a matter of concern that MDGs closely linked to food and nutrition are lagging, particularly infant mortality, child mortality and maternal mortality. Sustained and concerted global action is required to achieve the remaining goals.

It should, however, also be realized that even though many may have moved out of extreme poverty, they are still vulnerable to crises of various kinds, a fact that has become clearer to us during the last three years of successive crises. They will need safety nets to prevent them from falling back into poverty. Access to safe drinking water is also susceptible to risks of climate change and depletion of sources.
While urbanization is an engine for economic growth, it also creates challenges of sourcing water for the growing urban population and challenges to prevent downstream pollution of water sources. Thus, new challenges in water supply and sanitation will continue to demand greater attention of the international community and the Bank.

We strongly feel that the role of the Bank in intermediation of global savings for investments to achieve poverty eradication and development should actually increase rather than decrease for three important reasons: (a) the Bank is a repository of an exceptional collection of knowledge, data and expertise in development (b) through excellent credit rating and leverage the Bank actually recycles a large amount of private savings for investment - ensuring rules based, predictable long term finances for real sectors and (c) global participation in its capital diversifies risks all over the globe.

However, as things stand today, lack of financial capacity of the Bank to address a future crisis as well as effectively to meet the normal client needs is our central concern. Bank lending, which was $ 44 billion in 2010, will come down to US$ 15 billion per annum from 2013. IFC’s growth plans of 6% per annum appear inadequate to meet all developing country needs. If financial capacity of the Bank is not augmented urgently, the utility, and effectiveness of the Bank might get called into question.

Going forward we would like the Bank to focus its work on the following areas:

- **Enhancing the financial capacity of IBRD and IFC:** During this economic uncertainty and volatility, it is important that the World Bank Group has adequate financial capacity to respond to any future crisis.

- **Keeping poverty removal as the core mandate of the Bank:** The core mandate of the World Bank Group is poverty removal. Given the large numbers of the poor in the world, especially in middle income countries (MICs), the Bank should remain focused on its core mandate.

- **Allowing surplus of IBRD and IFC to create further leverage:** Significant profits of IBRD and IFC are being transferred to finance IDA. IFC leverages four dollars for every dollar it spends in the developing countries. IBRD also leverages its balance sheet for lending capacity. Perhaps, it makes greater sense to let these profits create leverage for further investments in developing countries. IDA replenishments should come from donor contributions and reflows.

- **Attending to Long term sustainability of IDA:** There are a couple of challenges facing IDA, arising from economic slowdown in developed countries and from imminent graduation of large IDA borrowers in the medium term. Careful deliberations should be done for ensuring long term sustainability of IDA.

- **Promoting country ownership:** The Bank has been thinking of promoting country ownership in lending and implementation. While some progress has been made, much more needs to be done in this regard. The Bank should take concrete steps to increasingly promote country ownership.

- **Developing a Middle Income Countries Strategy:** About half of the world’s poor live in MICs. The Bank needs to have a meaningful partnership with the middle income countries to assist them in infrastructure development and removal of poverty. The bank should find innovative ways for leveraging its resources and knowledge to achieve these goals.
Safety Nets Work: During Crisis and Prosperity

Effective social protection and safety nets are necessary not only during crises but also under normal situations as they enhance productivity and build human capital.

We support the Bank’s initiative and efforts in promoting Social Protection and Safety Nets in its operations to address the challenges of poverty and development. Multi-vulnerabilities of the poor require that safety nets should cover many aspects. But, we also acknowledge that complexities and fragmentation in programmes lead to inefficiencies.

The directives principles of the Indian Constitution have been the guiding force for extending promotional, preventive and protective safety nets as a matter of social policy. Within this broad framework, policies and programmes have been framed aiming at social protection and ensuring inclusive growth. India spends nearly 2.5% of its GDP on safety net programmes. Many of our recent efforts like guaranteed rural wage employment (through Mahatma Gandhi National Rural Employment Guarantee Act), Health Insurance (Rashtriya Swastha Bima Yojana) etc. have been globally acclaimed for their impact.

We have also moved from mere programmes to legally enforceable entitlements by enacting legislations on Right to Free and Compulsory Education for children between age 6 to 14 years, and on guaranteed wage employment for the poor and vulnerable. Food security legislation is also under consideration. We are also working towards harmonization of social safety nets. We are currently in the process of implementing a unique identification programme that will substantially improve the delivery and impact of these social safety nets.

Universal Financial Inclusion is also an important commitment. To this end we have launched the Swabhimaan (self-esteem) campaign which aims at extending banking facilities to all habitations with population above 2000; or above 1000 in North Eastern and Hilly States.

Poverty eradication and safety nets are central to the issue of inclusive growth. The Bank has to expand its lending and advisory services to the developing countries. We believe that a well-resourced Bank, leveraging its expertise and knowledge can take this agenda forward in a meaningful way. There is huge scope for south-south learning and the possibility for transfer of knowledge. World Band Group can help in the compilation and dissemination of successes and failures in different country situations and assist the developing countries in designing effective social safety nets programmes to protect the poor and the vulnerable.

World Bank Group Innovations in Leveraging Private Sector for Development

Involvement of the private sector in development is important. The IFC and MIGA have been actively involved in this area as it is their primary mandate. In order to further stimulate investments in emerging and developing countries, the World Bank Group should (a) focus on synergies within its institutions for effective convergence of its work on lending as well as analytical and advisory services (b) support PPPs through flexible procurement and financing options and (c) encourage leveraging through innovative financing as well as credit enhancement mechanisms.

Our experience shows that leveraging private sector on a large scale requires specialized arrangements both within governments and the Development Banks’ country offices.
While it is important to leverage private sector wherever possible, there will be several areas where investments by the government will also continue to be important e.g. in poverty alleviation, social infrastructure and such areas where leveraging private sector is difficult.

In either case, it is important that the Bank should have adequate financial capacity to support its development intentions. Recycling larger amounts of global savings, and developing innovative financing instruments to meet the demands of resources from the developing countries, particularly of infrastructure, will have to be important strategies for the World Bank.

Knowledge partnerships with developing countries, additional analytical and advisory work, documenting best practices and fostering experience sharing among the developing countries should be equally important aspects of Bank’s work in leveraging private sector for development.

**World Bank’s Business Modernization: Results, Openness and Accountability**

We welcome the focus of the Bank on business modernization with its emphasis on results, openness and accountability. We are very pleased to see substantial progress in each of the areas.

However, we would like to suggest that stake-holder consultation and feedback from the ground is a very important element in implementing the modernization agenda. The Bank management should also look at its organizational structure, including the networks, and on their effectiveness in delivering results and supporting clients more effectively.

The Bank should take into account client responsiveness, further simplify lending and implementation procedures and encourage adoption of country systems.

**Conclusion**

Profound transformations are taking place in the balance of economic growth in the world, and in the role of MICs in sustaining global growth. Importance of private capital in stimulating development is growing. The World Bank Group has a vital role to play in poverty eradication and growth in developing countries. It should be fully prepared – financially and organizationally -to respond to any crises in future, as well as meet the huge demand of resources to finance development. We believe that the various reforms that are underway in the Bank would make it more agile and nimble. We also feel that adequate attention should be given by the international community to the resources of the Bank to enable it to play an enhanced role in development and global rebalancing.