DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)

SIXTY-FIRST MEETING
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Statement by Yashwant Sinha
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Mr. Chairman:

I would like to join other speakers in thanking Jim Wolfensohn and Stanley Fischer for sharing with us their valuable insights on the recent trends in the world economy.

Fortunately, the worst of the global financial crisis from East Asia to Russia and Brazil is over, and World economic prospects look reasonably optimistic. However, there are several areas of concern for the developing countries. Though the official development assistance has marginally improved, it is disturbing to note the declining trend in the long term capital flow to developing countries compared to the high level reached prior to the East Asian financial crisis. Developing countries' access to the international capital market still remains limited despite a number of steps taken to boost confidence in the market. These developments had an adverse impact on our fight against poverty. Today, 1.2 billion people are living on incomes below $1 a day. For the Bank whose dream is a "world free of poverty" this is the challenge of the 21st Century. Fighting poverty is a collective challenge to the entire international community. If we fail in this, future generations will not forgive us. Our discussion today should focus precisely on this task.

IBRD'S FINANCIAL CAPACITY

We fully share the view that IBRD's financial capacity needs to be strengthened to meet the increased demands on its capital. We should also recognize that in view of the many initiatives being taken by the Bank to eradicate poverty, such as HIPC, CDF and the fight against HIV/AIDS, developing countries would increasingly turn to the World Bank necessitating changes in the pattern and structure of its lending. On the modality of achieving this, I would like to reiterate our previous position that a general capital increase is the most equitable option and it will send out a strong and clear message of shareholders' support to the IBRD. At the same time, we expect that with this increase in capital, the Bank would be able to take advantage of its leverage and reduce the cost of borrowings to member countries. We would also expect Management to fully exploit this opportunity for reviewing its administrative and other expenses as well as its non-interest income.

TRADE POLICY FOR DEVELOPMENT AND POVERTY REDUCTION

The importance of trade in promoting growth and reducing poverty in the developing countries is too well known. However, over the years, new and sophisticated barriers are being raised to prevent access to goods and products of developing countries from competing in the markets of developed countries. While recognising that this is not the forum, which would decide how to reduce and/or remove these barriers, it is our conviction that since the primary objective of the Development Committee is to focus on issues that promote growth and accelerate the pace of development, we must focus on these barriers so that substantial pressure can be created.

We also recognize that many of the countries in the developing world lack the capacity to prepare their trade policies and to articulate their interests in an effective manner. Multilateral organisations committed to development like the World Bank and UNCTAD must come forward to enable these nations to present a unified position in order to create a level playing field.

Is it not strange that in Seattle it was the developing countries who were pleading for freer trade, while some developed countries were taking protectionist positions? In fact, the developed world should move faster towards dismantling tariff and non-tariff barriers. Barriers to imports of textiles and leather goods, which do not really have any domestic industry angle, and excessive agricultural subsidies, hurt the taxpayers and consumers in these countries as much as it hurts us as producers. It has been estimated that if developed countries allow agricultural imports freely, there would be a net addition of US $ 42 billion in global trade.

Mr. Chairman, it is our hope that we will be able to arrive at a consensus towards clearing the backlog of the agenda of Uruguay Round commitments in a fixed-time framework so that developing countries can take advantage of the global trading regime that is rule-bound, fair, transparent, promotes domestic economic growth and reduces poverty.

In the joint statement issued by Prime Minister Vajpayee and President Bill Clinton on March 21st this year at New Delhi, they observed "Opening trade and resisting protectionism are the best means for meeting the challenges of poverty. We support an open, equitable and transparent rule based multilateral trading system. We agree that developed countries should embrace policies that offer developing countries the opportunity to grow because growth is the key to rising incomes and rising standards." This clearly sets the direction for the future.

SMALL STATES

I must congratulate the joint Task Force of the World Bank and the Commonwealth Secretariat for having studied the particular problems of small states. There are a number of important issues that face them, or which in their context assume much greater significance. These basically relate to the impact that natural disasters have on their economies and on their people. The world community would do well to work with these states to strengthen their preventive capacities and to help them in post-disaster situations.

Most of the small states have undiversified economy with a very narrow range of goods, products and services in their export basket. Legally it would not be possible to extend them Special and Differential treatment under WTO. We have been urging the developed countries to allow duty-free non-risk access to products of developing countries, particularly of the LDCs. A list of such products should be identified which could include products from small states as well.

We would also urge that the next round of IDA replenishments should take into account the special needs of these small states, including those, which are not LDCs. Of course it is our hope and conviction that the donors will see that IDA is sufficiently replenished to meeting the rising demand of LDCs.

ACTION AGAINST HIV/AIDS

The continuing problems of poverty, illiteracy, indebtedness and AIDS have shattered the social and economic fabric of many developing countries. Far from being over, the HIV epidemic has been expanding relentlessly and exponentially. We cannot allow any further reversal of human and social capital development of AIDS-affected nations. What is needed is a substantial and committed response to AIDS on an emergency basis from all the players-- from the Government, civil society, private sector, the media and international development agencies.

We agree with President Wolfensohn that it is a war-like situation. We also agree with the six priority areas outlined in the document for immediate action by the international community. Collaboration between various agencies at the local, national and international levels is essential in meeting this challenge. Above all, we need resources. International communities and donor agencies should contribute resources generously to fight this catastrophe in a meaningful way. The World Bank, whose total lending has unfortunately come down dramatically during the current year, should design programs based on their experience for all countries affected by AIDS.

While additional resources must be found for fighting AIDS, the current ongoing developmental programmes should not be affected in any way. It should not be at the cost of programmes meant for basic education and primary healthcare.

HIPC INITIATIVE AND POVERTY REDUCTION STRATEGY PAPERS

We are very much disappointed to note the slow progress in delivering debt relief to the HIPC countries under the enhanced mechanism. In the last meeting, we arrived at a consensus that financing of debt relief should not compromise the financing made available through concessional windows such as IDA. Using IDA funds for debt relief will only undermine the very purpose of poverty reduction. We would like to emphasize that burden sharing should be wholly and proportionately distributed among all the developed countries and should not cast a burden on developing countries, which are meeting their debt service obligations despite many difficulties. It should be equitable and fair. Similarly, we should recognize that non-Paris Club official bilateral creditors are facing unique problems in providing debt relief to HIPC countries. They should not be forced to provide relief beyond their means. It should be dealt with on a case by case basis. Accordingly, HIPC countries should be encouraged to sort out the matter bilaterally at the earliest. However, we agree that the process should not delay the relief to be given by other multilateral creditors.

POVERTY REDUCTION STRATEGY PAPERS

The preparation of Poverty Reduction Strategy Papers (PRSPs) with emphasis on country ownership is a positive step towards eradication of poverty. We welcome this as it would put poverty removal task at the center of development programs. Though we have very few PRSPs on hand, they do not fully meet the cost involved in implementing strategies and programs contained therein. Absence of full provisioning of resources required for implementing these strategies will result in non-fulfillment of the goals set, causing widespread frustration amongst the people in developing countries. Hence PRSPs need to be integrated with country assistance strategies fully backed by budgetary resources.

Thank you, Mr. Chairman.