Statement by

Subhash Chandra Garg
Finance Secretary and Secretary Economic Affairs
Ministry of Finance

on behalf of

India

Representing the Constituency of Bangladesh, Bhutan, India and Sri Lanka
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99th Meeting of the Development Committee

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1. As we get together for the Development Committee meeting of the World Bank Group, the global economy seems to be entering in a slowdown phase with trade tensions and deteriorating financing conditions playing sombering role. While the global economy continues to grow, it is facing significantly higher risks of a sharper decline, most notably in global trade. In addition to cyclicality, the slowdown is also associated with the withdrawal of policy stimulus, tightening of financing conditions, weaker trade growth, declining working age population in many parts of the world, and a slower pace of structural reforms. The Central Banks have much lower maneuvering space now in monetary policy. Further, with the more integrated global economy, the monetary and fiscal policy measures tend to have much larger cross border impact affecting emerging market economies much more than what they can handle with their own monetary and fiscal measures. The Development Committee provides right opportunity to the World Bank Group to discuss the challenges in moving forward with the development agenda and ambitions of their client nations.

2. Let me begin by providing a brief update on economic and development progress made by our Constituency countries in recent past.

3. India achieved average growth of 7.5% in last five years and continues to be the fastest growing major economy in the world. From being the eleventh largest economy in the world in 2013-14, India today is the 6th largest economy on GDP on market exchange rate basis. Besides generating high growth rate, India contained double digit inflation to average 4.6% in past five years and restored fiscal balance by reducing the fiscal deficit from the high of almost 6% seven years ago to the projected 3.4% in 2018-19 Revised Estimates. India has managed to contain the Debt to GDP ratio at 46.5% in year 2017-18, while expanding the scale and scope of public investments, development initiatives and poverty alleviation programs.

4. India have undertaken path breaking structural reform by introducing Goods and Services Tax (GST) which is aimed to merge the diverse federal structure into a common market and to consolidate seventeen different taxes and their cascading effects. Further GST has resulted in increased tax base to add over 5.5 million businesses; and improved the ease of trade. India also rolled out Banking Reforms and Insolvency and Bankruptcy Code (IBC) as a resolution-friendly mechanism, to tackle the stressed assets which had reached USD 77.08 billion in 2014. An amount of USD 42.08 billion has already been recovered/resolved in favour of banks and creditors while preserving many underlying businesses and jobs. Banking sector reforms are underway with recapitalization and consolidation of smaller public sector banks.
These reforms, coupled with a stable and predictable regulatory regime, has enabled India to attract $239 billion Foreign Direct Investment (FDI) during the last 5 years.

5. India is also focusing on sustainable development having launched a number of well-designed and massive national development programs. The Swachh Bharat Abhiyan has also initiated enormous behavioral change which has led to achievement of 98% rural sanitation coverage. As many as 545,000 villages have been declared "Open Defecation Free". From September 25, 2018, India has started the world’s largest healthcare programme, Ayushman Bharat, to provide free medical hospitalization coverage to nearly 500 million people. Already close to 1 million patients have benefited through medical treatment which otherwise would have cost them USD 428.26 million. Almost 60 million households have been provided with free LPG connections securing the health of every women household by eliminating air pollution and health hazards from firewood, used as cooking fuel.

6. Social security for the vulnerable sections of our society has always been a priority for India. India have now initiated structured income support to around small and marginal 120 million poor farmer families against the declining commodity prices in the domestic market. To provide pension coverage to millions of workers in the informal businesses in India, the Government has initiated comprehensive social security coverage for 420 million workers in the unorganised sector to assure them a monthly pension from the age of 60 years. In the last five years, nearly 340 million Jan Dhan bank accounts were opened and Aadhaar identification system is now near universally implemented, which have been leveraged to ensure transparency and speed in the delivery of social protection and cash benefits to the poor.

7. **Bangladesh’s** socio-economic achievement in recent years is a global role model. It has made remarkable progress in reducing poverty as extreme poverty has been reduced from 44% in FY 1991 to about 13 % in FY 18. With per capita income of $1,670 and GDP growth rate of about 7.8% in FY18, supported by sustained economic growth, Bangladesh fulfilled the graduation criteria from Least Developed Countries (LDC) category in 2018 and now Bangladesh is the 43rd largest economy in the world in terms of nominal GDP.

8. The Government has shown enviable capacity for rapid implementation of socio-economic development plans. During the last decade, Bangladesh has transformed itself into the second largest readymade garments (RMG) exporter, with the sector contributing about 82% export earnings, 15% to GDP and providing over 2.5 million jobs. In parallel to economic growth, life expectancy, literacy rates and per capita food production have increased significantly. Bangladesh has demonstrated dramatic improvements in girls’ education, fertility, mortality, immunization, sanitation, rural roads and micro-credit. Bangladesh is now holding the top position among South Asian countries in reducing gender disparity. Wage employment for women grew even faster. The country has witnessed a profound social transformation with an influx of girls into the education system and women into the labor force.

9. **Sri Lanka** is expected to rebound from a low base and move towards 4% in the medium term, driven by domestic demand and is forecasted to grow by 4% in 2019. The economy is transitioning from a predominantly rural-based economy towards a more urbanized economy oriented around manufacturing and services. The country has made significant progress in its socio-economic and human development indicators. Social indicators rank among the highest in South Asia and compare favorably with those in middle-income countries. Economic growth has translated into shared prosperity with the national poverty headcount ratio declining from 15.3% in 2007 to 4.1% in 2016. Sri Lanka is a development model for facilitating credible transformation through high economic growth, low inflation, strong human development and reduction in poverty.

10. **The Kingdom of Bhutan** is considered a development success story with decreasing poverty and improvement in human development indicators. Bhutan has developed a solid development management
system founded on the principle of Gross National Happiness (GNH). For the country, annual average growth between 2006 and 2015 reached 7.5% and growth after moderation was 4.6% in 2017-18. The growth is forecasted to accelerate to 7.6% in 2018-19, supported by ongoing infrastructure projects and rising tourism. The annual average GDP growth rate of 7.6% since 1981 is the third-highest in the world.

11. Building upon a decade of high growth, Bhutan has been successful in reducing poverty. The country has almost eliminated extreme poverty. Only 1.4% of the population lived on less than US$1.90 a day in 2017. This is the second-lowest level in South Asia and substantially lower than the regional average of 15%. The growth rate of consumption for the bottom 40% at 6.5% between 2007 and 2012 was the highest in South Asia. Between 2000 and 2017, Bhutan’s per capita GDP increased more than four times to US$3,100.

Let me now turn to the agenda for this meeting of the Development Committee.

12. **Disruptive and Transformative Technology** – Digital Technology is revolutionizing the entire business, governance and development process. The private sector has emerged a critical partner in harnessing this as a force for production of goods and services and also for delivering public good. What has been generally described as disruptive technology is actually transforming the production and governance system of industrial economy to the newly emerging digital economy and its entire development potential. The new digital technologies offer enormous opportunities to the developing countries left behind in the development process to leapfrog. It is also an opportunity to garner digital dividends through appropriate use of technology in the developing countries. One major concern has been that much of the cutting age new digital technology has also been evolved in the advanced countries, which has to be appropriately managed to make digital technology both accessible and affordable for developing countries and the poor and vulnerable sections of their societies. “Transformative” technologies whether disruptive or otherwise, an opportunity to apply technology to address development challenges such as scaling up of interventions, increasing resource efficiency and reducing costs of service delivery through whole of government approach In this background, we support mainstreaming of disruptive and transformative technologies in the World Bank group operations.

13. We support the five corporate priorities identified and are supportive of the regional and sectoral approaches as, these will translate into a coherent long-term strategy, **focusing on requirements and priorities specific for each country**. It would be important for Bank to develop the requisite capacities, to assess the areas for effective intervention in building technological solutions to address development challenges in the Bank operations. We are keenly appreciative that the Bank does not plan to limit itself to IT driven digital solutions but will also examine the use of non-digital technology in scaling up and speeding up the access to public services and development benefits.

14. We also expect the World Bank to help countries manage the risks and costs associated with the adoption of new technologies, particularly those which disrupt traditional service delivery and business models. One of the risks is the concentration of supply of such technology solutions with a few global monopolies. The **imbalance in bargaining power between super firms and developing countries** at the lower income levels can be counterproductive in the longer run to the adoption of technological solutions in the development arena. We would expect the Bank to build its own capacities to provide help to developing countries to navigate these transformations successfully. This would require also significant efforts at the global level on **policy advocacy to build a fair and transparent ecosystem** for such transformative technologies to be swiftly disseminated. The rapid pace of technological innovation should be an opportunity and not a burdensome cost for developing countries.

15. A Moonshot is a welcome initiative for a holistic technology led development in the African continent. Looking into the debt stress in the region, where over 24% countries are at high risks of external
debt distress, we will support a process which brings low cost solutions without adding debt stress in the
countries. The active use of South-South co-operation may facilitate the lowering of data cost, and
adoption of FinTech drivers of Financial inclusion in Africa drawing upon the experience of Asia. India as
a developing country is always ready to share her technological success stories and experiences to build
digital capabilities particularly in Gov-tech for development as part of South-South co-operation.

16. Another aspect of the growth of digital economy is the challenge and opportunities it brings for the
fiscal health of developing countries. Global digital economy valued at $11.5 trillion accounts for 15.5 %
of the global GDP and is expected to rise to 25% in next decade. Digitalization is shrinking the fiscal space
due to the declining ability of some governments to tax digital economy. FinTech is a well-developed
sector, yet the regulatory framework required to address risks and optimize competition is still nascent.
Further, the ownership of financial and economic data brings complexity to the whole process. We expect
the Bank to work with global IFIs and partners to create fair and transparent models to enable
developing countries to channel the growth in digital economy into a strong stream for domestic
revenue mobilization.

17. IBRD – IFC Capital Package Update - We appreciate the structured update on progress of various
commitments in the policy and financial components of the Capital Package. This approval of the capital
infusion has provided the much-needed firepower to energize the Forward Look vision of the World Bank.
While we note the satisfactory progress in implementing the Package, let me share some of our key concerns
on its operationalization.

18. The middle-income countries (MICs) house about 70% of global population and 40% of the
extreme poor. But their demand for development financing from IBRD and IFC still remains significantly
unmet. The situation of the lower MICs (LMICs), many of whom are recent IDA graduates, is particularly
challenging. Given the scale of their developmental challenges, and the massive potential of the SDG
impact of LMICs, the Bank Group should earnestly act on the Forward Look vision and its commitments
to the LMICs through the Capital Package. In particular, we need to prioritize IBRD support to IDA
graduates for ensuring 100% replacement of IDA financing. IBRD is to serve the middle-income countries,
as the IDA is designed to take care of the low-income countries. Their distinct and proportionate business
models have served us well and the relative capacities in the national systems should inform the application
of governance and fiduciary policies. There is a very clear need for continuing to strengthen and use the
IBRD for essentially serving the development needs of middle-income countries.

19. Financial Sustainability: We are concerned that despite agreeing to the largest ever capital
infusion in the history of the Bank, we are unable to ramp up the lending. While the increase in loan price
has been effected, the financing volume remain muted. This is not a balanced implementation of the Capital
package. The IBRD specially needs to scale up lending significantly. As part of the Capital package, we
also committed to the financial sustainability framework, and the need to build capacity to respond to large
systemic crisis. But we are not at all convinced that setting aside capital in the form of a crisis buffer is the
right way to create that capacity. It must be remembered that the larger share of the equity over the period
FY 18-30 comes not from capital infusion but from loan price income. If we wish to ensure future financial
sustainability, robust lending volumes and the reflows and income that they assure, should not be sacrificed.
We therefore ask that the Bank explores more efficient ways of provisioning the buffer. We also urge that
the Financial Sector Assessment carried out jointly by IMF and the Bank be used effectively to address
fiscal vulnerabilities and build resilience through non-crisis lending. Further, while sizing the buffer, we
need to clearly delineate the mandate and comparative advantages of the Bank with respect to other IFIs,
regional MDBs, and IMF.

20. Development outcomes: In addition to financial sustainability, we would like the Bank to focus
on measurable development outcomes. We had envisioned the Bank Group as the leading institution on
Global Public Goods (GPG) such as gender, climate change, fragility etc. and the Capital package has specific targets on each of these. However, we find that we are faltering on the twin goals; especially on eradicating extreme poverty, which looks increasingly unlikely to be achieved. The core responsibility of the Bank Group relates to poverty reduction, human development, improved governance and bridging infrastructure gaps in client countries. Hence, the Bank Group must remain focused on achieving measurable development outcomes on the Twin Goals and the SDGs agenda apart from pursuing the GPGs.

21. **Global issues:** We are quite supportive of the Bank’s work on addressing climate change and gender. Countries in our Constituency are all vulnerable to climate related impacts. We are working on long term initiatives informed by climate change challenges including the areas of renewable energy, urban mobility, agriculture and water management. We would like to see greater coordination of the Bank with specialized Global Funds purposed with Climate agenda on a global scale. We are equally supportive of the efforts to build gender as an intrinsic component of development financing. We do need to go beyond gender tagging of operations and should strive to close gender gaps and generate gender disaggregated data on health, access to education, work opportunity, social and political empowerment. We also urge the Bank to build a clear strategy for operating in fragile states, while making continued efforts to build resilience, protect the most vulnerable and build up state capacities. Here too, we advocate the leveraging of the Bank’s core competence in development.

22. **Budget efficiencies:** On budget efficiencies, while we appreciate the steps taken towards financial discipline and expenditure control, we encourage the Bank to explore better cost recovery from Trust Funds and FIFs. On manpower size and costs, we must also conduct benchmarking with other MDBs. To ensure the global reach of the Bank Group and to improve cost efficiencies, the Bank Group needs to pursue decentralization agenda with vigour and commitment.

23. **Role of Private sector:** The Bank has committed to maximizing Finance for development and the need to incentivize the private sector in taking up projects which contribute to development financing. The achievement of the SDGs in developing countries, requires bridging the annual investment gap of $2.5 trillion, of which around 70% i.e. $1.8 trillion is expected to be invested by the private sector. This is double the existing annual rate of private sector investments. Hence, the capital package has acknowledged the need for expanding and deepening IFC efforts to mobilize adequate private investments in the developing countries. For this, IFC needs to focus on innovative ways for enhancing scale, efficiency, additionality and impact of private solutions while ensuring that private sector is able to make reasonable returns from such investments. This requires a concerted and coordinated effort on building conducive policy environment, and transparent regulatory frameworks through upstream advisory services. Without these and the support of MIGA, it would be difficult for IFC to achieve the scale of investments envisaged in IDA clients and Fragile, Conflict and Violence affected (FCV) states. Given the need for IFC’s up-scaled ambition for supporting private investments in riskier markets; as also the fact that the 2010 Capital Package provided only $0.2 billion capital to IFC, we urge member countries to support the early adoption of the IFC Resolutions.

24. **Let me again reiterate our strong support to the Group in operationalizing the Package. In our Constituency, all the four Governments have approved all the six Resolutions for operationalizing the capital increase for IBRD and IFC. We are happy that the IBRD resolutions stand adopted now. In our Constituency, India has also completed subscription of the first installment towards IBRD capital increase. The benefits of this Package will only be truly realized after the capital increase is fully subscribed, providing IBRD and IFC with the essential resources required to support client countries in boosting sustainable and inclusive growth, building human capital, and increasing resilience. Hence, we also urge all Governors to expedite subscription process.**
Summing up:

25. Overall, we commend the Management on steering through the Capital Package. Now its focused and quicker operationalization is essential given the need for enhanced MDB action amid the expected slowdown of the global economy. Public and Corporate debt levels in AEs and EMDEs have risen over the past decade with the global debt surging to historic high levels. Reversal in the financial market conditions are exacerbating the worrisome aspects of debt vulnerabilities of low-income countries. With reduced fiscal space, the response to slowdown will be challenging. The role of the World Bank Group, IMF and other MDBs in collectively developing sound monetary, development finance and fiscal strategies and synchronizing developmental actions will be critical to enable economies to face the challenges ahead. The need of the hour is to resolutely pursue inclusive and sustainable development; invest in human capital and resilient infrastructure; attract private capital for developmental outcomes; and build robust fiscal management systems.

26. In this direction, we urge that the World Bank Group to deploy its strengthened capacity for expanding low cost financing and knowledge services to support the client countries in achieving the Twin Goals and the SDGs and remain committed to the welfare and well-being of mankind.