Statement by

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1. We meet at a time when a broad-based economic recovery seems to be underway in many regions of the world with the developing countries of Asia in the vanguard. There has been a resumption of earlier trends in global trade, and a rebound in commodity prices. Doubts are, however, being expressed whether this marks the beginning of a period of sustained growth because of the uncertainties regarding the incipient recoveries in Europe and Japan, the continued high price of petroleum, and the persisting twin deficits and high levels of private debt in the US. The signs from the trends in global capital flows are mixed. Geo-political and strategic developments, including terrorist attacks in various parts of the world, continue to dampen investor sentiment and threaten the pace of economic recovery.

Achieving the Millennium Development Goals (MDGs) – Global Monitoring Report

2. In this context, it is indeed disheartening to note that a number of MDGs may, in all likelihood, not be achieved. Furthermore, the goals that are met at the global level may hide significant under-achievements at regional or sub-national levels. Meeting the goals would require those regions and countries to bolster their efforts, supplemented by suitable external assistance for longer periods. South Asia region and particularly the countries in our constituency are on track to meet the goal of income poverty, but in various social indicators, like universal primary education, infant and maternal mortality, and gender gap would require a step-up in efforts. It is, therefore, necessary at this juncture for the international development community to take stock of the situation in terms of achievements and shortfalls, and of the performance of the three parties to the Monterrey Compact -- developing countries, developed countries, and the international financial institutions. The Global Monitoring Report prepared by the staff of the Bank and the Fund is a commendable job in collating data for enabling a proper analysis of the performance in different sectors, and to identify the gaps in policy performance standing in the way of achieving the MDGs.

3. The Global Monitoring Report rightly highlights the wholly inadequate levels of global flows of Official Development Assistance (ODA) as a critical constraint that impedes performance in achieving the MDGs. The most conservative estimates are that as much as an incremental $30 billion in ODA can be effectively utilized by developing countries annually even today, and far more, say $50 billion, as capacity develops. The Development Committee had, in Dubai, decided that the International Financial Institutions (IFIs) should identify the volumes and forms of development assistance needed to implement agreed strategies. This needs to be done urgently for appropriate benchmarking of current efforts. Current level of ODA as percentage of gross national income (GNI) of the developed countries is at a much lower level than what was prevailing in the early 1990s, the reference point for the MDGs. Moreover, at a closer look, global statistics of ODA flows reveals that, lately, even the meager increases in ODA flows have been accounted for almost wholly by special-purpose allocations. A large part of ODA has been directed for debt relief or aiding the war on terror, and not to directly finance the incremental cost of MDGs. The need is for flexible, predictable and
longer-term aid commitments that can be effectively utilized for meeting the incremental costs of achieving the MDGs. In this regard, the evidence is now very clear that resource allocation by the multilaterals is based on far more reasoned and objective criteria than that by the bilaterals. The bulk of incremental resource flows need to be channelised through the multilateral agencies, such as IDA, with a proven track record of effective use of concessional resources.

4. Performance-based allocation has rightly become a buzzword. It is now well-recognized that more and more resources need to be directed to countries that have demonstrated the capacity for effective utilization of aid, and where incremental resources have the maximum marginal impact. Yet, in reality, much of aid allocation continues to be driven by strategic considerations rather than objective criteria. Even when performance is claimed to be the basis of allocation of concessional finance, caps and exceptions distort the process quite substantially. Any artificial capping of the allocations on a selective basis significantly undermines the global efforts to achieve the MDGs. While many developing countries have taken bold steps for reforming policies and institutions and improving the investment climate, the flow of ODA to these countries has fallen way short of expectations. As a result, even the better performing developing countries are in danger of slipping up on several of the MDGs.

5. The South Asia Region is a case in point. There are many emergent problems like serious shortfalls in providing universal primary education and basic health services, huge gaps in access to safe drinking water and sanitation, and challenges of combating diseases. These problems may prevent this region, with the largest concentration of poor people, from achieving some of the MDGs. The quality of governance in this region is not only relatively better, but also is in the process of improvement, as noted in the report. In terms of both unmet needs and performance-based allocation criterion, therefore, more and more concessional assistance should be flowing to this region. Yet, we find that per capita allocations, and sometimes even absolute levels of such assistance to the countries of this region, are some of the lowest, and substantially less than that for countries with much higher per capita incomes.

6. The recent trend of net negative flows from the World Bank is also a cause of concern. With the efforts to focus on enhanced lending at appropriate terms to middle income countries, we hope that the trend of negative disbursements will be reversed at the earliest. The World Bank and other multilaterals should step up their investment lending to better position the recipient countries to take advantage of growth opportunities.

7. While increased level of ODA is critical for achieving the MDGs, global trade is a key factor for promoting economic development and poverty alleviation, especially in developing countries. In terms of hurting development, barriers to trade prevalent in developed countries, particularly on goods and services where developing countries have a comparative advantage, dwarf the insufficiency of global ODA flows many times over. While developed countries are expected to remove tariffs on developing countries’ exports of manufactured goods as well as agricultural products, and dismantle the
massive export subsidies, there is little evidence of appreciable progress in this direction. If anything, the movement is in the reverse direction. New restrictions on global long distance provision of services, notwithstanding the efficiency and resource gains for developed countries, is a manifestation of this protectionist trend. The IFIs have been playing an invaluable advocacy role on issues of international trade, especially on improving market access for products and services of interest to developing countries. They must not only continue this advocacy but add further value by helping developing countries in strengthening trade infrastructure and building capacity to maximize the benefits of globalization.

8. On the harmonization agenda for the IFIs, there has been a significant forward movement. But, the overwhelming focus so far has been on procedural harmonization rather than substantive issues. There is still much to do on focusing the IFIs on their respective core competences to derive benefits of their comparative advantages. Further, harmonization has to go hand in hand with country ownership, by reconciling borrowers’ needs with IFIs’ priorities in each case. The harmonization efforts should result in genuine synergies at the country level, aimed at reducing transaction costs and working with countries to help achieve the priorities outlined in country-owned PRSPs.

9. We are glad that the close linkage between access to basic infrastructure and human development has been recognized. Reduction in rates of child mortality cannot be achieved without improving access to safe drinking water and basic sanitation; roads facilitate access to schools and hospitals; electrification improves efficiency of basic services. There are large gaps in the availability and quality of key infrastructure. The Bank’s renewed commitment to scale up infrastructure financing through a well-crafted Infrastructure Action Plan is welcome. We eagerly await its implementation in full measure. The success of the plan will depend critically on how the key administrative issues, including streamlining the safeguards compliance framework without defeating their underlying purpose, are addressed.

10. The issue of internal governance of the Bank and the Fund has a close bearing on the fulfillment of the Monterrey commitments by these IFIs. We hope the ongoing discussions address the substantive issues of voice and are not confined to peripheral changes. The stake of developing countries should reflect the current economic realities, like GNI measured in PPP terms. At Monterrey, we all committed ourselves to rectifying the present imbalance. The core of the matter lies in actual shareholding levels in the Bank and enhanced quota at the Fund. In terms of decision-making, developing countries have to be enabled to make their concerns heard, and influence decisions that ultimately affect them the most. Against this backdrop, it is equally important to devise a transparent and merit-based process for selection of the chief executives of IFIs.

Education for All (EFA) – Fast Track Initiative (FTI)

11. Given the huge challenge of EFA, the achievements on this score have been rather limited. The shift in the focus to country-level operations adds to the uncertainties of donor coordination, shortens the horizon, increases the unpredictability of external
assistance, and tends to divert ODA from other equally important sectors, countries and regions. The focus of FTI should continue to be on global efforts for EFA with flexibility for recipient and donor countries. The advocacy of FTI should result in incremental concessional assistance to developing countries rather than a mere redistribution within the existing ODA envelope. The lack of additional ODA has perhaps been the biggest limitation of FTI. The meager commitments for a few years are simply inadequate to expand the FTI. These commitments and actual funds flow commensurate with the requirement of external financing for EFA have to come as a part of larger overall commitments for MDGs.

12. There is a need for better donor coordination at the global level. The multilaterals should take the lead. A strong country ownership of the programme and better alignment of donors’ requirements with domestic procedures will help in the success of the programme. There is need for exercising caution against a multiplicity of donors at the country level leading to duplication of reporting, monitoring and safeguards requirements.

Financing Modalities for MDGs

13. We support further work in developing all the options including International Finance Facility for financing MDGs. The concern of the developing countries is how the aid is delivered and not how it is raised. We see a lot of merit in front-loading the ODA. However, a significant step up in current net ODA should be the starting point for exploring topping-up options. The front-loading should be done after a significant step up in the ODA level. It should also be ensured that, post front-loading, after 2015, net ODA does not fall below a pre-committed level. The aid flow from any new option should be through the existing multilaterals to reduce additional requirement of donor coordination and duplication of aid selectivity.

Long-term Debt Sustainability in Low-Income Countries

14. It is now well acknowledged that even highly concessional lending can impose a debt-burden, which many of the poorest countries of the world cannot sustain over the long term. We acknowledge the need to go beyond reactive approaches such as the HIPC initiative and devise a framework that will provide guidance to borrowers, donors and the IFIs alike, and potentially help pre-empt contracting of debts that become unsustainable. We acknowledge the quality of work done by the Bank and the Fund to prepare an appropriate framework. This work needs to be further refined.

15. We are, however, of the view that there cannot be a perfect mathematical solution to the debt-sustainability issue. What constitutes ‘excessive debt’ itself is a critical issue and no single quantitative measure can be used to arrive at a conclusive judgment regarding sustainability of debt in specific situations. Further, we see contradictions between the proposed framework and the performance-based allocation model. It is implicit in the framework that countries with poor policies and institutions can only sustain lower debt thresholds and therefore need more grants and concessional assistance.
The use of scarce concessional resources to keep high debtors afloat will come at the expense of more deserving, and often equally poor countries that have made significant efforts to improve their policies and institutions. The global community will have to ensure that any debt relief comes as net additionality to ODA rather than by redistributing the funds meant for MDGs for non-debtor countries to the countries in need of debt relief.

Conclusion

16. There is a strong case for harmonization among various donors and multilaterals in applying selectivity principle for aid flows to the developing countries. The aid allocations should be based on need and performance alone. The achievement of MDGs cannot be left to the market forces alone. These would require public investments over long periods. Therefore, private capital flows to a country should not be over-emphasized while estimating its capacity to raise funds for the MDGs and deciding the concessionality element. The performance assessment should be simple, transparent, and inclusive of the stakeholders. While LICUS and HIPC countries may require highly concessional aid, the requirement of other low-income countries is also very substantial. Any artificial capping of their allocations will significantly undermine the global efforts to achieve MDGs.

17. It is time for all parties to the Monterrey compact to ‘walk the talk’ for a significant and swift scaling up of actions for achievement of MDGs. Notwithstanding the near stagnation in ODA flows, the developing countries have still made significant progress in the last decade. Now it is time for action by developed countries. This should get reflected in much increased commitment levels in the upcoming multilaterals’ replenishment processes and in successful completion of the Doha round.