Statement by

Mr. P. Chidambaram
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India

Representing the Constituency consisting of Bangladesh, Bhutan, India and Sri Lanka
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Mr. P. Chidambaram
Leader of the Indian Delegation to the Development Committee

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Global Economy

1. World real GDP growth was over 5% last year, primarily due to a robust performance of Asian economies, notably China and India, supported by most of the industrial countries and emerging markets. However, recent financial market turbulence triggered by the sub-prime residential mortgage has enhanced the risk of global credit crunch which may adversely affect the global economy in the coming years. If growth in industrialized economies slows, it will have an adverse impact on the prospects of emerging and developing economies through, among other factors, reduced demand for their exports.

2. A significant slowdown now appears unavoidable, especially when most of the world economy is operating at near or above potential. Besides housing market corrections underway in US, other important risks that would challenge global growth in coming years include high volatility in the commodity prices including oil prices, inflationary pressure forcing Central Banks to tighten their policies, over-leveraged global equity market and continued imbalances in some major economies. So far, action on major policy adjustments that is necessary and sufficient for an orderly mitigation of these risks has not been taken. If the deficits or surpluses of countries with largest imbalances continue to expand, the impending threat of counter-productive protectionist measures is real and cannot be disregarded.

Strategic Direction of the World Bank Group

Focus on the Poorest

3. We would like to remind ourselves that the Bank’s mandate is “Working for a World Free of Poverty”. As current projections show, the end of poverty is not imminent and poverty eradication would continue to remain a major goal of the World Bank and the international development community in general. The changes in the Global Aid Architecture and the international financial markets, especially in the two major areas – the growth of private financial flows and that of the Trust Funds- have been prominently mentioned in the World Bank paper on Long Term Strategic Direction of the Group. As has been noted, private financial flows often do not flow to the regions which are lagging or the people who are the poorest. Similarly, Trust funds are often focused on particular areas and may not encompass the entire gamut of activities required for the poorest regions. Both of these impact the elements of the service package that the World Bank offers. We feel that these elements would need greater focus from the Bank to ensure its continued relevance going forward.

Knowledge/Learning Agenda

4. We endorse the need to enhance Bank’s over-arching role in knowledge services and the research priorities associated with it. In order to ensure that knowledge services and research are more focused on the issues on the ground and more recipient-sensitive, we would like to emphasize the need for the World Bank to actively engage with research institutions in developing countries in a more proactive manner than it has in the past.
5. We urge caution in broadening arrangements for fee-for-service technical expertise. Provision of fee-based knowledge services, should be strictly demand-based. Since the Bank’s comparative advantage as a knowledge institution derives primarily from its operational presence in a large number of countries through its lending program, in our view, the main task for the Bank should be to ease access to IBRD and design more customized and innovative products to address the specific needs of middle income countries.

6. While we recognize the Bank’s service instruments include financial services, knowledge and other specialized services, and coordinating, convening and catalytic services, we would like to emphasize that financial services should be regarded as the fundamental and paramount service that the Bank provides. Without provision of financial services, it may be difficult for the Bank to function effectively in the knowledge, service and coordinating role. In the context of the Paris Declaration, we also propose that the WBG may take up the task of developing a global inventory of best practices to help cross-learning from one country to another.

Global Public Goods

7. We welcome the Bank’s proposed engagement with partner countries on those Global Public Goods which are subservient to its developmental mandate of poverty reduction and MDG attainment. The Bank should engage in those GPGs in which institutional gap exists and where the Bank has comparative advantages over other players and where it is in position to bring additionality in terms of resources and knowledge. We consider the issue of additionality of resources as a critical one because increased focus on GPGs will create competing demand for the scarce resources and may alter the hierarchy and composition of national developmental priorities in the low income countries which do not have access to the capital market. Country ownership should be the focal point for integration of GPGs within national developmental strategies like CAS/PRSPs.

8. While climate change is important, it involves legacy issues and cannot be addressed by developing countries alone, where per capita emission is a small fraction of that in developed countries and energy intensity in PPP $ terms less than that of developed countries. The trade-off is between the quality of life of the present generation living in developing countries with those of future generations of all countries. It will have substantial resource implications for the low income countries and may distract and retard their developmental effort. UNFCC has adopted the principle of “common and differentiated responsibility” and we should be careful not to embark upon any course of action that may cause distortion in any manner.

9. The current set of GPGs being pursued by the Bank does not cover some of the major concerns of developing countries. Globalization has caused integration of not only economies through movement of capital across the countries, but also through labor mobility. In this context, the scope of GPGs should be evolving with emerging global challenges and also include developing countries’ concerns like orderly international labor mobility; technology transfer and intellectual property rights issues, especially for access to clean energy and access to cheaper medicines etc; stolen assets recovery; portability of social security; and reduction in transaction costs related to remittances.

Strengthening the World Bank's Engagement with IBRD Partner Countries - Implementation Report

10. We welcome the recent IBRD pricing reform that was overdue. This clears the legacy of 1998 and sends a positive signal concerning the financial health of IBRD and the intention to continue and upscale effective engagement with MICs. The Bank’s continued engagement with MICs is vital for the
global development agenda and also to maintain effectiveness of the Bank. Strengthening the Bank’s engagement with IBRD partner countries would require supplementing the recent pricing decision with concrete and urgent actions to lower the non-financial costs of doing business with the Bank; unfortunately, not much has been achieved on this equally important aspect of the matter till now.

11. The development issues faced by middle income countries are diverse, complex and rapidly changing. We welcome IBRD’s emphasis on a partnership approach and urge its further consolidation through necessary reforms in Bank policies, internal processes and culture. The Bank should strive to provide timely, customized and ‘cutting-edge’ solutions in key areas, including infrastructure financing. As a development bank, we are sure that the Bank would prefer to reverse the trend of net negative IBRD disbursements witnessed in the last five years.

12. Given that IBRD lending constitutes less than 1% of public investments in middle income countries, enhancing the use of country systems and collaboration with domestic research and academic institutions are the means to maximizing and sustaining development benefits of the Bank’s interventions. These issues are neither new nor novel; what is needed is vigorous implementation as countries are at a critical juncture in their effort towards achieving the Millennium Development Goals.

Scaling up and role of IDA

13. We welcome this discussion of the role of IDA in the Global Aid Architecture supporting the country-based development model, along with an Assessment of Progress and Agenda for Action in respect of Country Based Scaling Up. We agree that the main strengths of IDA are its financial resources; its knowledge base and quality of policy advice; a global reach combined with local presence; a multi-sectoral perspective and its convening power.

14. We believe that IDA provides a lot of its value addition due to an emphasis on a country-based model under which it operates ensuring full ownership of the activities by the recipient countries. IDA’s role is more than just providing financial resources which, in itself, are crucial. The coordinating role of IDA at the country level can also be effective and stronger with an increased level of IDA funding. We, therefore, strongly support the recommendations in the paper that IDA support should reach a “critical mass” and this support should continue to grow in tandem with the increasing absorptive capacity of its clients.

15. It is encouraging to note that many developing countries have acquired the capacity to absorb scaled up foreign assistance to accelerate the process of development and achieving the MDGs in varying degrees following the country-based development model initiated through Poverty Reduction Strategies. Although demand and need for aid is increasing, on the supply side of aid progress in scaling up its quantity and quality has been slow and uneven. Further, the level of predictability of aid remains low. In this context, keeping in view that opportunities exist in a broad range of countries which can absorb increased aid, conscious and proactive measures would be needed to scale up to 0.7% of GNI, the Monterrey Consensus target.

16. The Paris Declaration spoke of ownership, harmonization, alignment, results and mutual accountability between donors and recipients. We need to move quickly on the Paris principles which, in a way, define the compact between donors and recipients. The principle of mutual accountability will need progress from all. The recipient countries have shown strong progress in moving on their part of the accountability framework. We believe the IDA15 Replenishment process would provide the first step in moving forward in this compact.
We commend the Bank for scaling up energy investments to $10 billion. However, this falls short of the huge investment needs in developing countries where access to affordable energy is a binding constraint in development. India alone requires energy investments to the tune of $154 billion in the next five years to sustain its growth and human development objectives. Therefore, the Bank needs to innovate, leverage and scale up financing for the full menu of energy options. Promotion of clean technology should be accompanied by provision of additional resources to meet the incremental costs.

We agree that effective action on climate change requires a multi-sectoral approach. In fact, it requires a multi-sectoral and multi-country approach in both developed and developing countries. India is committed to addressing the challenges of climate change and has made progress in de-linking economic growth and energy use and reducing the CO₂ emission-intensity of the economy. Further work in development of a climate change strategy for the Bank should keep in view its core mandate of poverty alleviation and also legacy issues of emissions, energy equity issues and the principle of ‘common and differentiated responsibilities’.

We heartily welcome the Bank’s intention to enhance its involvement in acceleration of clean technologies. Given the Bank’s global presence and convening power, we believe it could play an important role in establishing an international consultative group for collaborative research and development of efficient and cleaner technologies by institutions in developed and developing countries. Efforts should also be made towards greater private-sector involvement in climate-related technologies and investments.

We are happy to note that since last year, three more countries have reached the Completion Point and two other countries have reached the Decision Point taking their total to 22 and 9 respectively. However, the real challenge lies with the remaining pre-decision point countries where the progress is modest. While we acknowledge the reduction in debt service in the completion point countries leading to increase in their poverty-related expenditures, a detailed analysis correlating the increase in pro-poor expenditure with other different factors contributing to it like increased external assistance, reduction in other development expenditures and additional borrowings may give us clearer picture on the respective contributions of each component.

We share the concern that most of the CP HIPC countries are still vulnerable to debt risk mostly due to various exogenous factors, especially discount rates, exchange risk and commodity price risk, which have contributed, more than anticipated, to free riding instances in last few years. We would urge the Bank and the Fund to take steps to assist HIPC/MDRI countries in augmenting their debt management capacity on issues like predicting long term future discount rates or currency risks on their debt stock or matching the currency composition of their assets and liabilities. This is necessary because HIPC & MDRI eligible countries are IDA-only countries, and do not have access to the capital market and, therefore, cannot hedge these risks at their own level.

We broadly support the need and importance for a better and transparent disclosure mechanism of debt relief provided by all official creditors. We also feel that, to maintain the balance, the gap between the pledges and commitments made by the donors towards compensating IDA for its lost reflows due to MDRI are equally critical and deserve prominence and visibility in the global development community.
Aid for Trade

23. To realize the development promise of the Doha Round, it is crucial that all countries return to the negotiations with a firm commitment to resolve the remaining issues which are frustrating a resolution. The discussions on agricultural issues must keep in view the interests of millions of subsistence farmers that cannot be equated with those of other sectors. The interests of the poor also require us to reaffirm the overarching principle of special and differential treatment for developing countries, in order to protect their fragile sectors. Only a strong commitment to development and to the poor would ensure a befitting and ambitious conclusion of the Doha Round. The Bank and Fund must continue to highlight the importance of this aspect through their research and advocacy.

24. We welcome the emphasis on Aid for Trade in helping countries benefit from the global marketplace by easing the supply side constraints which stifle their infrastructure and institutions. It is important to keep emphasizing that Aid for Trade cannot be a substitute for the benefits of fair trade that would flow from a successful conclusion of the Doha Round, particularly with respect to market access. We must rapidly resolve the definitional issues relating to Aid for Trade and help implement a robust AFT package that would benefit developing countries. This would need additional, predictable and sustainable financing from the donor community.

Voice and Participation

25. We welcome this discussion on Voice and Participation and the steps initiated by IMF in this regard and look forward to their completing this process within the timeframe set out at Singapore. We would like to underscore the importance of the issue of Voice and Participation in order to strengthen the credibility and legitimacy of the institution. We agree with the three principles on which the issue of Voice and Participation needs to be dealt with, namely, to enhance mutual accountability, to enhance Bank legitimacy and credibility and to enhance Bank effectiveness.

26. We note the two-phase program suggested in this process with the first phase focusing on analytical and technical work along with some issues of non-structural nature. The second phase, we note, would focus on the structural issues in the matter.

27. On the issue of Structural Options, different possibilities including doubling the basic votes, tripling the basic votes and allocating 50% of the Bank’s voting power to DTCs have been proffered. We feel that there is a need to analyze the structural options more deeply. In case we use the existing IBRD Shares and IMF Quotas to examine which countries are under-represented, the data shows that it is the developed, Part I countries, which would turn out to be “underrepresented” and most of the developing countries including all but two Sub Sahara African nations would be adjudged “over-represented”. We feel that this sufficiently highlights the fact that the present formula which has been used to allocate IBRD shares is fundamentally flawed and inequitable. Therefore, any calculation done with this basic, inequitable structure and examining features like doubling or tripling of basic shares or adding some membership shares will only compound the distortions. We have repeatedly advocated in the past that we should re-look at the variables that are used to calculate the Voting Shares. The criteria which can be used to evaluate the weight and efficacy of any variable should, in our opinion, be based on the ability to contribute to the World Bank and the potential need for assistance from the World Bank. Thus, while GDP (on market- and/or exchange-rate) would no doubt be relevant, other relevant variables could be the depth of poverty (below US$1/day and/or US$2/day) and quality of infrastructure. This would provide a better reflection of the need and relevance of the World Bank for a country.

28. Without recognition of the need to re-examine the variables and the formula for calculation of IBRD shares, any discussion on the structural options would, in our view, be incomplete and superficial.
We would, therefore, like these issues regarding the formula to be included in the discussions on Voice and Participation to make them more meaningful.

Thank you.