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Minister of Finance and Corporate Affairs

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Representing the Constituency of Bangladesh, Bhutan, India and Sri Lanka
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100th Meeting of the Development Committee

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1. We gather today with the backdrop of subdued and uneven global economic outlook, and moderation of manufacturing and trade growth. Recent forecasts indicate that the global economy is heading into a period of deepening uncertainty, intensified by geopolitical developments, tightening of global financing conditions, rising debt levels and currency volatility. Though the world economy continues to grow, it is facing significantly higher risks of a decline and of weaker enthusiasm for multilateral solutions. Given this slowdown, several countries are making renewed efforts for policy stimulus and structural economic reforms, though the monetary policy space of several Central Banks remains constrained and their balance sheets remain stretched. But with highly integrated world economy, the impacts of trade frictions and tightening financing conditions have much larger cross border impact on emerging market economies.

2. This makes measures to boost growth and expand economic opportunity all the more urgent. Hence, we underline the crucial role of World Bank Group (WBG) and the International Monetary Fund (IMF) in encouraging concerted international action as well as supporting domestic policies that ensure robust and inclusive economic growth, reduce risks, and foster competitiveness, while strengthening fiscal sustainability and financial resilience. This Committee provides us the right opportunity to ponder on how the Bank- Fund combine could further support in development finance, sound monetary and fiscal strategies at this crucial stage.

3. Let me begin by providing a brief update on progress made by our Constituency countries in the recent past.

4. Indian economy has been showing great resilience from the global headwinds despite the high level of integration our economy has with the global economic system. India continues its momentum of economic growth with the economy growing from about US$ 1.85 trillion in 2013-14 to US$ 2.7 trillion in 2018-19. While, fiscal parameters have been strengthened with the fiscal deficit declining from 4.5% in 2013-14 to 3.4% in 2018-19 and the outstanding public debt to GDP ratio reducing from 50.5% in 2013-14 to 47.8% in 2018-19, the Government is focusing public spending on the expansion of the scale and scope of development and welfare initiatives.

5. Thus, all 600,000 villages have now been electrified under Saubhagya Yojana. In its pursuit of sustainable and inclusive development, the Government has started the world’s largest healthcare program, Ayushman Bharat, to provide free medical treatment. In a short span of one
year, about 346 million beneficiaries have been enlisted and about 2.6 million patients have received medical treatment through over 15,000 hospitals. Construction of affordable housing has been given a major boost with 15.4 million rural homes getting constructed in the last five years. India also implemented the world's biggest sanitation campaign, building over 110 million toilets in just 5 years and engendering behavioural transformation across India. The poverty head count ratio fell from 21.2% in 2011 to an estimated 7% in FY 19-20 (as per WB estimates) and will further decline to 4.6% in FY22. Thus 168 million people have been lifted out of poverty in one decade.

6. The growth dynamics of our economy are perhaps best captured by our thrust in improving infrastructure, particularly physical infrastructure connectivity. All weather road connectivity has now been provided to over 97% of such habitations by ramping up pace of road construction to 130 kilometers per day! Government is now introducing Public-Private Partnerships in Railways sector to unleash faster development and completion of tracks, rolling stock manufacturing and delivery of passenger freight services. By now, 657 kilometers of Metro Rail network has been constructed and operationalized. India has now indigenously developed transport payment ecosystem, based on National Common Mobility Card (NCMC) standards, to enable people to use metro services, toll highways, bus travel, and parking with full cashless inter-operability. From the year 2017, the Government has strived to make air travel affordable for common citizens through the UDAAN scheme. This has now fostered strong regional air connectivity, rejuvenating Tier-3 and Tier-4 towns, mainstreaming over 30 airports and creating additional 4 million seat capacity.

7. Through the Jal Marg Vikas Project, the Government is enhancing the navigational capacity of rivers as inland waterways. The movement of cargo on Ganga river is estimated to increase by nearly four times (by volume) in the next four years; thereby making freight and passenger movement cheaper, decongesting roads and railways, and also reducing air pollution. As these initiatives will improve logistics and reduce cost of transportation, they will increase competitiveness of domestically produced goods in the international market.

8. This discipline in macroeconomic management is matched by the zeal to undertake path breaking reforms. To contain revenue expenditure, we have embarked on major rationalization of subsidies on food, fertilizer and petroleum, which is expected to reduce this outlay to 1.3 per cent of GDP by FY 2021-22. Not only this, we are promoting use of micronutrients, based on soil health assessment which in turn has reduced indiscriminate use of fertilizers, thereby rejuvenating the earth.

9. Another massive exercise has been the Pradhan Mantri Jan Dhan Yojana (PMJDY), a financial inclusion initiative. The linking of mobile numbers with bank account numbers and subsequently Aadhaar, created a JAM (Jan Dhan, Aadhaar, Mobile) trinity that further secured Direct Benefit Transfers (DBT) to the intended beneficiaries. Presently close to $15 billion is deposited in more than 370 million bank accounts opened under PMJDY. Within short span, the JAM trinity has enabled cumulative direct benefit transfers of around $100 billion. Mobile payments have witnessed a major shift in the past five years with the proliferation of payments like UPI, mobile wallet, Bharat Interface to Money (BHIM). The volume of unified payment transaction has increased at a Compound Annual Growth Rate (CAGR) of 246% during the period from 2016-17 to 2018-2019. In 3 years of its launch, UPI has got 955 million number of transactions per month.
10. We have also rolled out Banking Reforms and Insolvency and Bankruptcy Code (IBC) as a resolution-friendly mechanism, to tackle the stressed assets which had reached USD 77.08 billion in 2014. Banking sector reforms are underway for consolidation of sub-optimally sized public sector banks. Several investor-friendly measures have been taken, including a highly liberalized FDI regime. In the World Bank’s Ease of Doing Business Rankings, we jumped from 130 to 100 in 2018 and from 100 to 77 in 2019. These reforms, coupled with improvement in ease of doing business and a stable regulatory regime, have enabled India to attract robust FDI inflows which reached US$ 64.375 billion in 2018-19.

11. Given the vagaries of climate change, the Government is emphasizing on ensuring water security and providing access to safe and adequate drinking water through integrated demand and supply side management, and creation of infrastructure for rainwater harvesting, groundwater recharge and safe reuse of wastewater in agriculture. In past five years, 80 million households got access to clean LPG connections liberating women from drudgery and eliminating air pollution. The Government has operationalized the very large programmes for Standards & Labelling, Energy Saving Certification and Trading and LED Installation which are ensuring annual energy savings of $7 billion.

12. India has taken strident steps on its commitment to install 175 GW of renewable energy by the year 2022. Thus the installed renewable capacity has more than doubled from 35 GW in FY 2014 to 78 GW in FY2019 and the share of renewables from around 6 percent to 10 per cent. Now globally India stands 4th in wind power, 5th in solar power and 5th in renewable power installed capacity. India has leveraged its market demand to develop strong domestic capacity in solar and wind sector and to bring their tariff below 3.5 cents / kWh.

13. India is leveraging its development experiences with a view to contribute to global solutions of common concerns facing us. India along with France have taken the initiative to establish the International Solar Alliance with a current membership of 70 solar rich countries, that aims to provide innovation and impetus to solar energy programs at a massive level. India has also initiated the Coalition for Disaster Resilient Infrastructure to share its experience and technical expertise with countries that are challenged by natural disasters.

14. Indian economy is fairly resilient to the external growth stress with macro-fundamentals being robust enough to enable a quick bounce back of growth rates. While India too is experiencing the headwinds of global deceleration in growth, we remain the fastest growing amongst the major economies. Hence the Government has proactively initiated a slew of important measures for boosting economic performance and for bolstering consumption levels. Having set the goal becoming a 5 trillion-dollar economy by 2024-25, the Government is now focusing on creating world-class infrastructure. From its investment of US $1.1 trillion on infrastructure in the last ten years (2008-17), India is now are going to invest about US$ 1.4 trillion in the next five years. A task force has been constituted to draw up a National Infrastructure Pipeline for the next five years.

15. **Bangladesh** – Through sustained economic growth, Bangladesh has made remarkable progress in reducing poverty with extreme poverty rate declining from 44 percent in 1991 to 13 percent in 2018. In the World Bank’s Human Capital Index 2018, Bangladesh performed better than the South Asian average as well as the lower-middle income average. During the last decade, Bangladesh has transformed itself into the second largest readymade garments (RMG) exporter, with the sector contributing about 82% export earnings and providing over 2.5 million jobs.
16. Bangladesh’s GDP expanded at around 7 percent per year on average between 2010 and 2018, with GDP per capita more than doubling to US$1,751 during this period, well above the lower-middle-income country category threshold. Growth was supported by strong investment in infrastructure, robust private consumption, public investment, and ready-made garments’ exports. Bangladesh is now the 43rd largest economy in the world in terms of nominal GDP. The country, however, faces increased expenditure pressures because of the refugee crisis, resulting in the widening of fiscal deficit from 3.3 percent of GDP in FY2017 to 4.2 percent of GDP in FY2018.

17. The country has witnessed a profound social transformation with the increased participation of girls into the education system and women into the labor force. The Government has shown enviable capacity for rapid implementation of socio-economic development plans with sharp improvements in life expectancy and literacy rates. Bangladesh has demonstrated dramatic improvements in girls’ education, fertility, mortality, immunization, sanitation, rural roads and micro-credit. Bangladesh now holds the top position among South Asian countries in reducing gender disparity.

18. Sri Lanka - Though Sri Lanka faced a difficult period in the last one year due to capital flight and currency depreciation, the growth outlook of the economy is gradually stabilizing. Given the deep impact on tourism sector, the Government is initiating several reforms which would support the economy to achieve growth rate of 3.5%.

19. The Government is also committed to invest more in social infrastructure and the social safety net and emphasizes on the quality of that spending. It is also planning to revamp its social safety net, to improve targeting and efficacy. Thus, Sri Lanka’s social indicators rank among the highest in South Asia and compare favorably with those in middle-income countries. Its economic growth has translated into shared prosperity with the national poverty headcount ratio declining from 15.3 percent in 2006/07 to 4.1 percent in 2016. The Sri Lankan Government has been promoting the concept of “Enterprise Sri Lanka” to promote genuine entrepreneurs and encourages Sri Lankan companies to compete on the global stage and win.

20. Bhutan - The Kingdom of Bhutan continues its focus on planned socio-economic development for making strident progress in poverty reduction. The Gross National Happiness, a noble development philosophy, has been its overall guiding development philosophy. Over the last three decades, Bhutan’s economy has grown at the rate of approximately 7.5 percent and is one of the fastest growing economies in the region. In the last 10 years alone, GDP has more than tripled and per capita income increased from US$ 1,815 to US$ 3,438. In FY 2019-20, the economy is projected to grow at 7.2 percent, mainly contributed by strong service sector performance and increased production and export of electricity.

21. The hydropower sector has been a major driver of Bhutanese economy with the industry sector getting major fillip through the installation of about 1700 MW hydropower capacity. While this will engender structural transformation of the Bhutan’s economy, tourism industry has emerged as the new pillar of economy as a rapidly expanding industry and a major contributor both in terms of revenue generation and employment creation. As per the latest Labor force survey 2018, Bhutan’s employment rate stands at 96.6 percent, of which male and female employment rate are 97.3 percent and 95.8 percent respectively.

22. Reducing poverty and inequality remains as one of the National Key Result Areas in the Twelfth Five Year Plan. The national poverty rate has been reduced from 23.2 percent in 2007 to
8.2 percent in 2017. In the last six years, multi-dimensional poverty has also decreased from 12.4 to 5.4 percent today. While Bhutan has managed to bring down the incidence of both income and multi-dimensional poverty, the Royal Government of Bhutan has begun steadfast work towards achieving SDG goal of “no poverty”.

23. Let me now turn to the agenda for this meeting of the Development Committee. The interlinkages between the issues taken up for discussions is clear. Both building human capital as well as integrating into Global value chains are important development choices that can facilitate countries in their endeavor to create jobs and bring about economic transformation. At the same time, it is critical that we pursue these choices in a manner that would improve the intended development outcomes. In short, we need to focus not only ‘doing the right things’ but also ‘doing them right’.

24. **World Development Report 2020 – Trading for Development in the Age of Global Value Chains** – Given the backdrop of political uncertainty and trade frictions, it is essential for us to remember the progress the world has made over the past few decades of economic integration. Since 1990, more than one billion people have lifted themselves out of poverty, owing to growth that was underpinned by global trade. Such expansion of international trade based on Global Value Chain (GVC) represents an opportunity for developing countries to access capital, pursue specialization, leverage domestic skills and resources and escape constraints of domestic demand and supply. While the market benefits of Global value chains are well known, we are glad that the Report highlights the development benefits of countries integrating in GVCs. We, therefore, appreciate the Bank Group for focusing on the crucial role of GVC based international trade in economic growth, job creation and sustainable development.

25. Thus, attracting offshored factories and ensuring domestic firm participation in international GVCs has become a major priority for many policy makers in developing countries. But as we strive to design policies to harness this opportunity, we must also be cognizant of its challenges and work on policies and systems that can maximize the development benefits for developing countries. With well-designed polices, these benefits of GVCs would include improved income levels through access to quality jobs, technology driven productivity gains, and increase in fiscal capacity to make public investments in infrastructure, human capital and public services.

26. While GVC participation improves access to capital, enhances efficiency, and promotes the diffusion of technology, the gains are not distributed equally across and within countries. It is a fact that advanced economies may benefit as much, if not more, from the expansion of GVCs, in terms of inducing demand through lower priced goods and services for their consumers and higher profits for their firms, both of which increase tax potential. Within host countries, too, public policy must be enabled to address risk of inequality as the focus on GVC may hasten unplanned urbanization, accentuate geographical disparities in investments, and pull public investments into infrastructure spending around the selected locations. Therefore, the promotion of GVC also requires developing countries to build governance capacity in order to counter monopolistic markets, foster transparency and competition, support consumer rights and encourage fair benefit sharing.

27. We must also be alive to the challenges of declining gains based purely on leveraging of low wages and insubordination of domestic partners. GVC participation induces hyper-specialization and technology diffusion, but if not negotiated tactfully, it can lock developing countries out of the higher value-added activities in design, key technological inputs,
marketing. The policy challenge also extends to strengthening linkages with domestic firms and to ensuring that the host nation benefits from technology transfers, knowledge spillovers, and increased value addition.

28. Many GVCs also operate through digital firms. Rapid expansion of digital firms across borders is also a form of GVC. This inroad of digital firms without simultaneous development of regulatory framework also raises the risks of privacy abuses in data-based services, tax avoidance and anti-competitive practices in platform-based services. Such advent of new technologies and digital platforms further accentuates these risks from monopolistic market power affecting the gains from trade.

29. Finally, encouragement to GVCs should not result in a race to the bottom in terms of competitive tax incentives. Tax policy and administration as well as International tax cooperation would be needed to ensure that financial gains are shared along all participating economies. Thus, the critical issue is how such GVC linkages translate into wider economic and development benefits and induce structural economic transformation.

30. **Human Capital Project: An Update** – Given the need for harnessing GVCs adroitly and the long-term impacts of disruptive technologies on the workforce, the developing countries need to be prepared for facilitating smooth transition and for enriching their human capital. But building human capital demands significant investments and evidence-based policymaking. This will necessitate effective revenue mobilization strategies and innovative approaches for social protection, health and education systems with universal coverage and skilling. In this context, we support the quick operationalization of Human Capital Project (HCP). This project rightly emphasizes on the need for increased and more effective and inclusive investments in better learning and health outcomes.

31. We also appreciate the ongoing efforts towards the research on Skills of working age population, the comprehensive analysis of Child survival rates, Enrollment, Test scores and Stunting, and the gender disaggregation of the HC Index (HCI) values. While we note the proposed methodological refinements to HCI, we urge the Bank Group to address the methodological weaknesses creeping in through over-reliance on the Quality Adjusted Years of Schooling indicator which relies on Harmonized Scores built upon a set of 9 varied testing systems. This would help improve authenticity and relevance of the HCI and, indeed, of the Project, at large. We also urge that the risks and weaknesses of using workforce participation rates as a proxy for Human capital utilization be fully understood, as this relates to various factors such as gender empowerment, migration etc.

32. We appreciate that the update dwells on the need to focus on efficiency in public spending in human capital. Of course, spending efficiencies are dear to Finance Ministers and should not be restricted to social sectors. However, in the context of the Human capital project, we would strongly advocate South-South knowledge sharing as an integral part of the Bank’s country level engagements. We also look forward to the Project addressing the potential of private sector investments bringing in innovation and efficiencies into health and education spending without sacrificing affordability and inclusivity. Hence while we appreciate this update on the Project, we urge the Bank Group to work with the Client countries to develop innovative and cost-efficient approaches for bridging the human capital gaps in shortest span of time. A World Bank Group approach to the Human capital project would be important in this direction.
33. **Jobs and Economic Transformation (JET) – Drivers, Policy Implications and World Bank Group Support** - Over the next 12 years, more than 620 million jobs will be needed globally to accommodate the youth workforce. More than three-fourth of these jobs will be needed in the South Asia and Sub-Saharan Africa regions to keep pace with demographic trends. But the recent Jobs Diagnostic (IDA) revealed that workers moving out of agriculture in client countries are failing to find quality and appropriately waged jobs in the urban sector and are increasingly relying on self-employment in relatively low productivity services. Given this staggering contrast, we welcome the Paper on Jobs and Economic Transformation (JET). This paper goes beyond JET framework of the IDA18 and IDA19 of creating markets, building capabilities, and connecting people to jobs and firms to market. Given the strong link between labor incomes and poverty reduction, this paper resonates strongly, particularly for development impact. Inclusive and quality jobs are also essential to deliver female empowerment, and social cohesion. While the JET theme finds its origins in IDA discussions, we are cognizant of the challenges on this front in all developing countries across the globe. We are especially happy to note that the paper acknowledges the need for creating an appropriate mix and for strategic sequencing of policy and investment in countries with different endowments and at different stages of development.

34. The Bank Group now needs to operationalize this thoughtful and customized approach for more meaningful and impactful interventions. Given the context of GVCs and the disruptive technologies, we urge the Group to plan interventions to leverage country potentials to enter GVCs, not just in agriculture and mineral resources, but also in industrial and services sectors. The Bank Group need to focus on engendering regulatory, institutional and governance reforms to ensure the translation of the JET initiative towards quality and inclusive jobs, creating multiplier potential, boosting domestic entrepreneurship, encouraging private investments and supporting revenue generation for virtuous fiscal cycle. Further, given the need for IFC’s upscaled ambition for supporting JET agenda, we urge the member countries to support the early adoption of the IFC Resolutions.

35. At the same time, the financing of the JET agenda is also critical. The appropriate mix of development financing, public and corporate debt underpinned by robust domestic revenue mobilization must be pursued through a sustainable fiscal strategy in developing countries particularly those prone to fiscal stress or debt distress. We look to the Bank’s work in helping low income countries craft and execute such sustainable financing strategies and build fiscal resilience. The diversion of development resources through illicit finance flows, tax avoidance and money laundering are challenges not just to the integrity of the international financial system but also deprive countries from precious resources for pursuing development goals be it jobs and economic transformation or human capital improvements.

36. **IDA Voting Rights Review: Report to Governors** – IDA, over the last sixty years, has demonstrated its comparative advantage in tackling global challenges and delivering good country outcomes. Its client country-driven model ensures that programming focuses squarely on the development priorities of IDA countries. Simultaneously, its dual nature as a financial and a cooperative institution facilitates IDA to work with openness and transparency, ensuring that donors, clients and citizens can hold it accountable. These two unique strengths of IDA are contingent on the protection of the voice of developing countries which allows them to participate as equal partners.

37. While we again strive to review IDA’s Voting Rights system, we must preserve this cardinal principle which also stems from the Monterrey consensus which envisioned strengthening
voice of developing countries in international organizations. The current voting system represents this commitment by building in strong incentives for the current and new donors and even IDA graduates to support IDA to emerge as the strongest global cooperative in our fight against poverty. It has enthused the better placed countries to contribute voluntarily to multilateral and faceless initiative instead of only focusing on bilateral aid and loans. It has also incentivized the IDA graduates to become responsible donors immediately after crossing the graduation income threshold, though this threshold is just one tenth of the global average income or just a fraction (2 - 3 %) of income levels in developed countries. Thus, it has facilitated strong growth of donors from 18 at the time of inception to 54 countries today.

38. We, therefore, expect that the proposed review protects the voice of developing countries so that the voting rights get evenly balanced through increased contributions from the developing countries. It should strive towards a graduated and pragmatic approach for contributions so that the developing countries do not lose their voice within IDA. Finally for IDA to remain the strongest global co-operative, this review must address IDA’s long-term financial sustainability by enhancing incentives for all nations – active and dormant donors - as lower ambition by capable donors has a discouraging impact on all. With these expectations, we endorse the approach, the Guiding Principles and the scope for the proposed Review.

39. **Summing up:**…. Our constituency of Bangladesh, Bhutan, India and Sri Lanka, has been a consistent voice in promoting the development agenda at the Bretton Woods Institutions. The World Bank Group is constantly striving to evolve strategy and capacity to handle new challenges in a world of increasing policy uncertainty, rapid technological changes and urgency of global issues such as gender, fragility and climate change. The risks of fragmentation of attention, diversion of purpose and dilution of efforts are real. We advocate strong focus on the essential elements of the Twin Goals, the Forward look and the SDG. We would welcome that the Bank Group commits itself to measurable outcomes and substantial contribution to the development goals of member countries. We would like the Bank Group to be a strong voice for good at global level and a strong agent of development at country level.