



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)



SEVENTY-SEVENTH MEETING
WASHINGTON, DC – APRIL 13, 2008

DC/S/2008-0022

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Statement by

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Finance Minister
India

representing the Constituency of Bangladesh, Bhutan, India and
Sri Lanka

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1. We meet at a time of global financial turmoil, with the world economy slowing down after years of robust growth and the US economy slipping into what most analysts feel is a recession. The European and Japanese economies are also showing signs of slowdown, albeit less sharply. Developing countries showed growth rates in 2007 which were higher than expected, but now we discern early signs of a slowdown there as well.

Recent Market Developments

2. As in the case of global warming, developing countries are threatened by a crisis, not of their making and one for which they have not been responsible in any way. The origin of the present turmoil lay in the sub-prime mortgage crisis in the US, leading to the need to bail out banks in the US and Europe, which were exposed to these dubious securities. While the effects of the turbulence are still reverberating across the entangled financial systems of the world, they have clearly impacted markets in several developing countries as well. Given the growing complexity of ingenious financial engineering and re-engineering, hindsight tells us that it would have been wiser for regulators to have erred on the side of caution. We now need a thorough review and overhaul of financial oversight and regulatory mechanisms through the entire global system.

Higher Commodity Prices

3. The dramatic rise in the price of crude oil and food is adding to the woes of the developing world. The prices of crude oil that have shot up to the region of US\$ 110 a barrel do not reflect either the cost of producing the oil or the risks inherent in the market and in fact, not even the inter-play of demand and supply. These runaway prices require producer nations to seriously contemplate the management of production and pricing policy and to reflect on the crippling burdens that expensive oil imposes on poorer nations.

4. The unprecedented increase in food prices has come on the back of high energy and fertilizer prices and an increased use of food crops for bio-fuels. These food prices which hit the poor hardest, are expected to remain firm in the medium term unless we make serious interventions. The demand for bio-fuels will probably increase, and energy and fertilizer prices could be expected to remain high in the medium term. In a world where there is hunger and poverty, there is no policy justification for diverting food crops towards bio-fuels. It is imperative that developed countries cut off subsidies on food crops for bio-fuel production. Converting food into fuel is neither good policy for the poor nor for the environment.

Global Aid Landscape

5. President Zoellick's call for a "New Deal for Global Food Policy" to focus on hunger and malnutrition could not have come at a more appropriate time. It is becoming starker by the day that unless we act fast for a global consensus on the price spiral, the social unrest induced by food prices in several countries will conflagrate into a global contagion leaving no country – developed or otherwise – unscathed. The global community must collectively deliberate on immediate steps to reverse the unconscionable increases in the price of food which threatens to negate the benefits to the poor nations

from aid, trade and debt relief. Donor countries must increase funding to the World Food Program (WFP) and the United Nations' Central Emergency Relief Fund (CERF). In the long term, these UN agencies need more reliable funding such as through assessed contributions from UN Members. Governments in poor countries must be supported in their efforts to alleviate hunger by immediate financial support to poor consumers. We welcome the shift in focus in the proposed New Deal from traditional food aid to a broader concept of food and nutritional assistance and on medium to long-term efforts to boost agricultural productivity in developing countries.

6. It is in this context we note with concern that aid has declined both in 2006 and 2007. This flies in the face of the Monterrey Consensus target of achieving ODA levels equal to 0.7% of GNI and the Gleneagles commitment in 2005 to double ODA to Africa in five years. On the demand side, the capacity of developing countries to absorb scaled up foreign assistance has increased. However, the quality and quantity of aid still needs considerable improvement, especially with regard to its predictability.

MDGs at the Midpoint

7. The discussion on achieving the Millennium Development Goals is very timely considering that we are at the midpoint today to the target year of 2015. While we have made tremendous strides since 2000, the progress across MDGs varies widely. While we would achieve the target of halving extreme poverty before 2015 on a global level, Sub-Saharan Africa is expected to miss this target by a wide margin. In fact, Sub-Saharan Africa would fall short of all the MDGs in varying degrees. The position of Fragile States, many of which are in Sub-Saharan Africa, has actually worsened as compared to where they were earlier in terms of some of the MDGs. None of them are expected to fully achieve any of the MDGs by 2015. We have noted this with concern. We are of the view that this calls for a major focus on these states in the coming seven years leading up to 2015.

8. Lack of progress on the MDGs related to maternal and child mortality is disturbing. It raises major questions on aid effectiveness and the channeling of public spending. Several MDGs are intimately related to each other and progress in any one should have been reflected across the others. Unfortunately this cross-impact does not seem to have materialized to the extent desired. Reduction in poverty has not led to a proportionate reduction in child and maternal deaths; it has not led to a proportionate reduction in under-five malnutrition. Gender parity in school and universal primary education over the years ought to have had positive effects on child and maternal health. However, this has not happened. Obviously we have not been able to exploit the cross-linkages to the desired extent.

9. The pattern of progress so far is also an indication that future progress on MDGs might actually be slower and more challenging given that increasingly, more and more difficult regions and countries where the greatest gaps prevail would need to be tackled. We believe that the quality of governance and institutional capacity for effective delivery of public services is critical to achieve the MDGs. We must establish and strengthen local governance institutions in Sub-Saharan Africa and the Fragile States. Public Private Partnerships could improve service delivery by bringing in better quality, efficiency and accountability. Good governance and an effective delivery mechanism could ensure an improved performance across MDGs. We must reaffirm our commitment to these principles at this forum.

Development in the context of Climate Change

10. The Development Committee at its Annual Meeting held on October 21, 2007 had noted the scale and challenge of addressing the causes and impacts of climate change, and accordingly, had called on Bank management to develop a strategic framework for Bank Group engagement, including support for developing countries' efforts to adapt to climate change and to achieve low carbon growth while reducing

poverty. The DC had also welcomed the focus on environmental sustainability in the Global Monitoring Report 2008.

11. We take note of the Background Report titled “Towards a Strategic Framework on Climate Change and Development for the World Bank Group: Concept and Issues Paper”. We note that this is an evolving document likely to be finalized in the Annual Meeting later this year.

12. The three objectives stated in the document, namely, priority of economic growth and poverty reduction, increased access to energy for developing countries, and adaptation to climate variability as a central concern, are consistent with the expectations of the Development Committee. The document is comprehensive and rightly focuses on integration of adaptation and mitigation in development strategies, consolidation of efforts to mobilize and deliver financial resources, expansion in the role of the World Bank Group in developing new markets, tapping private sector resources for climate-friendly development, enhancing the World Bank Group’s role in accelerating technology development and deployment, and stepping up policy research, knowledge management and capacity building. However, we feel that the document needs to be reviewed and revised keeping in view the following concerns before its finalization for consideration by the DC at its forthcoming Annual Meeting:

- First and foremost, we would like to underscore the fact that the World Bank is a development institution. The core mission of the Bank – ‘A World Free of Poverty’ - can be secured by ensuring inclusive economic growth and poverty reduction. The developing countries are the clients and customers of the Bank. While climate change is an over-arching global phenomenon which impacts every one, it does not change the primary developmental objective of the Bank. The proposed strategic framework should therefore be reviewed through the development lens to keep it in congruence with the Bank’s core mission. In fact the title of the document should be changed to read- ‘Towards a Strategic Framework for Development in the Context of Climate Change- Concept and Issues’. This will help keep the focus on the primary mandate of the Bank as we move forward.
- Access to energy is the key to development. Enhancing energy supply and access is a critical component in the national development strategy of any developing country. This must be kept in view while discussing various options for addressing climate change.
- No model for addressing climate change would be acceptable, in which some countries continue to maintain high carbon emissions while the development options available for other countries get constrained. The global compact for addressing climate change has to be based on the well established principle of common but differentiated responsibility articulated in the UN Framework Convention on Climate Change;
- There should be a fair, equitable and transparent global regime for resources and technology transfers to address climate change. The developing countries need access to environment-friendly technologies, especially in energy, transportation, manufacturing and agriculture. The new architecture for cooperation must involve finance and technology support to developing countries for adaptation and mitigation. We are happy to note that the Paper clearly states that on both fronts, i.e. mitigation and adaptation, financing and technology transfer to developing countries is required, and that such support should not divert resources from other development programmes. This must be the corner-stone of the global framework for addressing climate change.
- We are aware that the World Bank is working in collaboration with various donor countries to set up a portfolio of Climate Investment Funds. This is a welcome initiative.

However, these Funds must bring in new and additional resources instead of diverting resources from normal developmental flows. There should be no conditionality or intrusive agenda attached to seeking assistance from these Funds. As far as possible, the additional cost of mitigation must be compensated through grant assistance. Finally, the governance structure of these Funds should ensure equal representation to developed and developing countries.

Harnessing Trade for Growth

13. The global community has yet another chance to realize the development promise of the Doha Round. The sensibilities of the developing countries should be key in the run-up to the conclusion of the Round. Agriculture must continue to remain the focal point to the negotiations since the livelihood concerns of more than a billion resource-poor farmers depend on it. But we must also bear in mind that the manufacturing and service sectors would contribute to the bulk of the GDP growth in the post-liberalized economic order, pointing to the need for a balanced final Doha outcome. The Aid for Trade agenda needs to be pursued vigorously, with additional and predictable financing, since it helps the poorest countries integrate better into the world trading system and take advantage of the opportunities that multilateral trade liberalization would throw up. Behind-the-border reforms in poor countries are crucial for them to harness the advantages of trade. It is important at this stage not to overload the agenda or create fresh non-tariff barriers by introducing distracting labour standards and environmental issues which must be addressed in separate fora.

Voice and Representation

14. In order to be able to achieve the various important tasks that lie before this institution, the importance of the issue of voice and participation cannot be over-emphasized. The three principles on which the issue of voice and participation needs to be addressed are in terms of enhancing mutual accountability, enhancing Bank legitimacy and credibility and enhancing Bank competitiveness. These issues have been under discussion in the IMF and we need to move forward quickly in the World Bank also in this matter. The core area that needs to be addressed is what has been termed as structural issues and this relates to the issue of the voting shares. We would once again reiterate that a review of the fundamental formula for IBRD shares is required. While GDP would be an important variable, we need to include other variables such as the poverty numbers and the infrastructure deficit to reflect the demand side. We hope that by the Annual Meetings in 2008, the Bank will come up with a firm, concrete and credible proposal for discussion at the Development Committee.