



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-EIGHTH MEETING
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Statement by

Mr. P. Chidambaram
Finance Minister
India

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

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Recent Economic Developments

Financial Market Turmoil

1. We meet today in the midst of great financial turmoil across the world. Financial markets are beset with doubts and a lack of trust. While the financial world is morphing beyond recognition, the sharp decline in credit availability has started impacting the real economy. Some early signs of recession in the three major economic regions of the world – the USA, Japan and the European Union – are discernible.

2. This crisis will necessarily impact upon the global availability of financial resources for development. Emerging markets have so far shown resilience. However, they may be vulnerable to both first order and second order effects. Accessing financial resources may become more difficult and expensive. Flows of foreign capital may shrink. On the other hand, a global recession will sharply contract the demand for exports of many developing countries, adversely affecting their growth prospects. The developing countries will suffer for no fault of theirs. They did not cause the contagion. Many are not equipped to face the consequences. We need a global effort, particularly in countries with developed capital markets, to review financial oversight and regulatory mechanisms.

Impact of the food and fuel price crisis

3. The food and fuel price crisis has rightly been placed at the top of the agenda. At the Spring Meetings earlier this year, all members were seized of the issues like vulnerabilities arising out of the surge in food and energy prices since 2007. The vulnerabilities were on many fronts. Rising food prices made the poor vulnerable to malnourishment and hunger; governments vulnerable to rising and unsustainable fiscal deficits; and societies and polities vulnerable to instability. The problem has continued over a major part of 2008 with both headline inflation and core inflation registering substantial rises in both emerging and developed economies. After a decade of moderate price rises, developing countries are facing higher levels of inflation once again. This continues to be a concern. On the fiscal front, over 70 countries have reported fiscal costs stemming out of measures that they were forced to take, ranging from tax cuts to increase in subsidies.

4. Developing countries have adopted alternative approaches to address the problem of food price inflation. While many have adopted a range of social safety nets to shield the most vulnerable sections, some have had to take recourse to more harsh measures like export taxes and bans. We do realize that such policies may not be welfare-enhancing. However, given the limited options and instruments many of us have, we have been compelled to take recourse to such measures to manage our domestic stocks better.

5. In the long run, demand for food is bound to go up, leading to a rise in food prices. Although there has been a moderation in the prices of food grains, the drivers of food grain demand continue to be active. Growing populations, increasing incomes and purchasing power, changes in consumption patterns

and the rising demand for bio-fuels will continue to exert an upward pull on food prices. The long term solution to this problem is to increase the supply of food grains; immediately, however, we should avoid wastage and diversion of food to fuel. That requires a renewed thrust to public investment in agriculture with policies designed to boost private investment as well. We need technological breakthroughs to ensure that growth in crop-yields does not taper off but gives rise to a new green revolution. We need to focus attention on the less well-endowed cropping areas of the world – those which are dry, unirrigated and have poor weather conditions. We also need urgent action in the US and Europe for rationalizing the biofuels policy. Biofuels derived from non-food crops or biofuels produced from crops that do not compete with food production may be an appropriate and climate-friendly response to the rapid increase in global oil prices. But biofuels produced from food grains such as corn and oil seeds cannot be justified under any circumstances. In the US, use of corn for ethanol has consumed more than 75% of the increase in global corn production over the past three years and this trend must be reversed.

6. I would like to take this opportunity to congratulate President Zoellick for his promptness in setting up the US\$ 1.2 billion Global Food Crisis Response Facility for short and long term assistance to the countries adversely impacted by the crisis. The menu of options given is especially welcome as it allows countries to choose the type of intervention that they most need. I also congratulate him on the World Bank Group's advocacy of a new 'agriculture for development' agenda. This is a welcome initiative in view of the fact that Bank lending to agriculture and rural development had declined in the 80s and 90s. If I may say so, the Bank must also refocus on articulating a positive role for the State in agriculture. The importance of effective State institutions in raising investment in agriculture and in supporting social safety nets cannot be over-emphasized at the present juncture. I hope that the Bank will be at the forefront in this activity as a part of its response to the food price crisis.

7. The single most important component of the rise in headline inflation has been the unprecedented rise in oil prices. Despite the recent fall in oil prices, they continue to be high as compared to the position a few years ago. We are possibly seeing the end of the era of benign energy prices. This will require massive readjustments in developing countries. We will need to refashion our growth strategies, reduce our economies' energy intensity and explore alternate sources of energy - particularly renewables. We are certainly less fortunate in this regard than developed countries that did not face such a scenario.

Aid

8. I must state unequivocally here that the planned increase in ODA for 2008 as reported by OECD is not sufficient to cover the fiscal cost to countries arising from the price shocks and the consequent fiscal vulnerability. Advanced nations should now focus on not only renewing their aid commitments but actually fulfilling them. Debt relief for HIPC countries needs to move quickly now since a number of them have been adversely affected by the present food and fuel price rises.

MDGs - at midpoint

9. The effect of the food and fuel price crisis on the achievement of MDGs has been touched upon in the background material for the meeting but has not been given the elaborate treatment that it deserves, probably due to the fact that MDGs were discussed during the Spring Meetings. Whatever be the reason, they merit continued consideration. It is notable that the countries that are most vulnerable, fiscally, to food and fuel price increase are also amongst those that are most likely to miss the MDG targets. This was the scenario even before the food and fuel price crisis started exacerbating. We are not yet clear about what the picture will be like if we fail to increase ODA to keep pace with the fiscal cost of the present shocks. Important gains in poverty reduction and reduction in malnutrition will be wiped out completely in the next few years if action is not further scaled up. More than a 100 million persons are likely to be

pushed into poverty anew. The fiscal distress and the resource diversion to purely food and fuel issues are also likely to have adverse effects on the achievement of the other MDGs not directly related to food.

10. The present response of multilateral institutions, while being the right response, would also need to keep the needs of the other sectors in mind. We need to ensure that the momentum on education and other major issues like infrastructure is not lost. Or else, this could lead to a vicious cycle jeopardizing our movement towards the achievement of the MDGs. The World Bank and other institutions, through their analytical work, must look at the impact of the price rise on all MDG related outcomes.

11. An important aspect that would need to be noted is that most of the countries that have been identified to be fiscally vulnerable and those whose progress towards the MDGs would be worsened also feature in the list of countries with the lowest capacity to absorb aid effectively. It would be necessary to work with these countries in order to increase their capacity to utilize aid effectively and to prevent their further slide backwards from the MDGs.

Development and Climate Change

The Strategic Framework document – Positive Features

12. In the meeting of the Development Committee last year, we had called on the Bank management to develop a strategic framework for the engagement of World Bank Group in addressing issues related to climate change. Let me express my appreciation for the very good Paper that has been prepared and for the extensive consultative process that the management undertook to seek the views of the different constituencies in drafting the document on the framework. We recognise that the final Document that emerged is more inclusive and collaborative than all the previous drafts.

Two Critical Issues – Transfer of Financial Resources and Technology

13. We are all aware that issues relating to finance and technology are fundamental to the success of any global strategy to address climate change. The initiatives for providing the required financial flows to the developing countries for addressing climate change have to ensure not only that the resources are new and additional and do not detract from the ODA, but that these resources are provided in a manner that is consistent with the international obligation of the developed countries in the UNFCCC.

14. It is equally important to facilitate international cooperation to transfer clean, environment friendly technology from the developed to the developing countries at affordable prices. The challenge of climate change is huge and so is the requirement of funds. In any strategy, we have to address the issue of magnitude of funds required, manner of raising them and the governance of these funds through a mechanism which is consistent with the UNFCCC principles.

15. Developing countries are the most vulnerable to adverse effects of climate change and our efforts have to support the adaptation strategies in these countries. The developing countries look up to the World Bank Group to support their development efforts as market forces will play only a limited role. In this context, a higher support for adaptation efforts in the Climate Investment Funds, than the US\$500 million envisaged, is called for. Similarly, in relying on the private sector for mobilizing additional finance in the proposed strategy, we have to be mindful of the additional costs that this imposes on the industry in terms of cost of technology and, in conformity with the UNFCCC principles, this additional cost both for mitigation and adaptation, needs to be compensated.

16. We fully subscribe to the shared vision of the international community on future actions for addressing climate change. It is essential for everyone to recognize that the basis of international

cooperation in this regard lies in the UNFCCC principle of “common but differentiated responsibility and respective capability”. No attempt at addressing climate change in a collaborative and cooperative manner will succeed unless it is based on fairness and equity embodied in this principle.

17. There is no escape from the reality that for fast emerging developing countries consumption of commercial energy will increase, and even with continuing decline in energy intensity of GDP growth. On its part, India is committed to evolve and pursue a strategy of environmentally sustainable development, both for reasons of our own vital national interests as well as our role as a responsible member of the international community. We have formulated our National Action Plan on Climate Change and have committed to ensure that our per capita carbon emissions will never exceed the average of the per capita emissions of developed countries.

18. All the countries have to do their bit to ensure the success of global efforts for mitigation and adaptation in accordance with the Action Plan adopted at Bali last year. They also have to engage in a constructive manner in the international negotiations on climate change. As regards the World Bank Group’s strategy, it has to remain consistent with the principles of the UNFCCC and aim at supporting evolution of the institutions and policies that facilitate the climate change-related actions of the developing countries.

Voice and Participation

Purpose of Voice Reform

19. Multilateral institutions exist in a dynamic, evolving world and have to periodically realign their structures, functions and procedures to meet current requirements. In the absence of such readjustments, there is a danger of these institutions losing relevance, legitimacy and interest of their clientele. The ongoing Voice and Participation reform process at the Bank is a step towards reorienting the Bank to meet the requirements of the coming decades. It is an opportunity to make the Bank a more responsive, credible and relevant organization so that it continues to play a vital role in global economic affairs and to realign the Bank’s role in pursuit of the vision of a “more inclusive and sustainable globalization”. This is an opportunity that must not be lost and, therefore, no attempt should be made to rush through elements which would not meet the long term purposes of this reform process.

20. The changing dynamism of the global economy, the evolving weights of developing and emerging market economies in the global scenario and their stake in the development process needs to be reflected in the governance structure of the World Bank. These countries need to see in the Bank an institution which is relevant to the developing world’s economic development agenda. They also need to see a greater role for themselves in the strategic agenda setting processes of this important global institution.

21. Further, we know that there are many new challenges emerging across the globe, many in areas which are termed as global public goods. Climate change, global warming, rising energy costs and rising food prices are some to name a few. In all these areas, there is a critical role for the Bank as a thought leader, opinion maker and lead financier. If developing countries have to see a role for the Bank in addressing these challenges, they need to see a role for themselves in the long term agenda setting for the Bank and in its operations and staffing.

Our View on the Package

22. The element in the package which gives us most satisfaction is the proposal for an additional Board seat for Sub Saharan Africa. We strongly support the consensus on this element. This step was long

overdue and must be given effect to at the earliest to redress the skewed representation and constraints on work effectiveness which the region has been facing. We also fully support the proposals envisaged for other aspects of the two dimensions of voice relating to effective representation at the Board and responsiveness to DTC views on development, particularly on the selection process of the President, enhancing diversity in management and decentralized decision making.

23. However, we are disappointed by the proposals on the most important dimension of Voice, namely 'Voice as voting power and shareholding'. The current proposal falls much short of expectations by moving away from being a comprehensive one, a commitment made at the Spring DC meeting. What we have is a minuscule increase of 1.4% in the voting share of developing countries, that too through a mechanical exercise of doubling Basic Votes.

24. The World is expecting a much more ambitious outcome to ensure a more equitable, enhanced and substantial representation of DTCs. It does not take us anywhere near the 'parity' which has been discussed as a goal of the reform process. Let us not be lulled into believing that significant progress can be achieved by the proposal that leaves the progress on realignment to be fulfilled at a future date.

25. We support the increase in Basic Votes; we are suggesting only a modification in the sequencing of this increase. We believe that the two aspects of realignment at the IBRD, increasing Basic Votes and realignment of shareholding, have to be addressed in tandem to achieve the objective of equitable and enhanced participation of all DTCs in the Bank's governance. The proposal for adjusting votes in two phases would severely limit options and flexibility for the final realignment. Therefore, they should be addressed together and not separately.

Way Forward towards a Comprehensive Package

26. We need to work towards a comprehensive package on realignment addressing all aspects. Share realignment should be based on a formula or criteria that are specific to the mandate of the Bank. Any link with IMF results and mechanical parallelism with the IMF should be given up once and for all, given the completely different mandates of the two institutions. While identifying new criteria for a reallocation framework for the World Bank, relative weights in the world economy should be given the primary role. This is best captured by GDP calculated in PPP terms. The Bank uses GDP PPP data rather than GDP data at market exchange rates for determining poverty levels. The IMF too has introduced this as a relevant variable. How and why has GDP PPP suddenly become irrelevant or less relevant?

27. We are acutely aware of the intensity of efforts required to bring a consensus on the issue of realignment, but we must not, for the sake of pace, sacrifice the broader objectives and wider contours of reforms that are needed in this institution. With our collective will, we have achieved a comprehensive revision of the quota formula relevant to the IMF and we are confident that we can similarly achieve a result that is relevant to the Bank.

28. The World Bank is a multilateral institution with immense capacities in terms of its knowledge base, in its expertise in managing the economic development process and in its ability to help countries meet development objectives. Its credibility as a financially robust institution is exceedingly high. It is a global institution which can have great relevance in future, as it has had in the past. By having an ambitious Voice reform outcome, we will not only meet the expectation of the DTCs but also strengthen the Bank and make it a dynamic international organization, which can help in transforming this world into a more prosperous and equitable one.