



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)



SIXTY-SEVENTH MEETING
WASHINGTON D.C. – APRIL 13, 2003

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Statement by

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Development Committee
Circulated Statement of Dr. S. Narayan
Finance Secretary India and
Alternate Governor, Development Committee

1. Development Committee is meeting this year at a time of continued global economic stagnation, compounded by geopolitical developments, which have heightened global uncertainty. Net capital flows to developing countries are down for second successive year. This continued decline in net capital flows is quite disconcerting. It is this Committee's mandate to seek ways and means to reverse this trend and to initiate measures to enhance transfer of real resources to developing countries to enable them to engender growth and to sustain progress towards the Millennium Development Goals (MDGs).

2. Last year we all met at Monterrey for Summit conference on Financing for Development and renewed our commitment to the objectives of reducing poverty and improving basic human development needs of the poor across the world. It is gratifying to note that this Committee is engaged in the task of implementation and monitoring of the Monterrey Compact. However, it is somewhat disconcerting that most of the MDGs are assessed to be unachievable by target year of 2015 at this point of time. Many developing countries have taken bold steps for reforming policies and institutions and improving the investment climate. Implementation of commitments by the developed world and by the International Financial Institutions (IFIs) has, however, fallen short of expectations. This is evidenced by the continued net negative transfer of resources from developing countries, insignificant growth in ODA and lack of progress in removing trade restrictions on products of interest to developing countries. This Committee must take note of these developments and come out with remedial measures.

3. It is our belief that improving institutions and policies are extremely valuable, but these by themselves, are not enough. Reduction of global poverty and achieving the Millennium Development Goals will require substantial investment in sectors critical for poverty reduction. The IFIs and the developed countries can play a significant role in funding these investments. The inability to tie up adequate additional resources to finance the Education for All Fast Track Initiative underscores these difficulties.

4. The link between infrastructure and poverty reduction is well recognized. MDGs will remain unattainable unless determined efforts are made to narrow the gap between the demand and supply of the infrastructure, especially the needs of the poor. It is indeed unacceptable that the Bank has gradually withdrawn from lending for this sector in the mistaken belief that the private sector would pick up the slack. There is a massive need for supplementing and catalyzing private sector investment in infrastructure through official initiatives and also supporting official investments. To give just one example, investments in water in developing countries will need to increase from the current level of about \$75 billion per year to \$180 billion per year. Only in the Water and Sanitation sector, the present level of investments of \$15 billion per year will need to be doubled in order to achieve the Millennium Development Goal of halving the number of people without access to clean water and sanitation by 2015. The World Bank and other Multilateral Development Banks need to significantly increase the volume of investment in

infrastructure, while at the same time helping clients to improve the institutional arrangements for the delivery of infrastructure services. It is important to emphasize that reform and investment must go hand in hand. The challenge before the Bank is to design and fund a virtuous cycle of investment, reforms, growth and poverty reduction. Externalities and pay-offs from such investments in terms of poverty reduction, higher private sector productivity and economic growth are substantial. We are glad to learn that the World Bank is now engaged in preparing an Action Plan for boosting the Bank's investment in infrastructure and we look forward to its speedy implementation.

5. The IFIs, including multilateral agencies have two critical roles. The first is to monitor the implementation of the Monterrey compact. The second is to increase their partnership with the developing countries so that they there are able to better align their interventions to where it would have most 'critical' impact. The Monitoring Framework should help in identifying deficiencies in implementation, to enable mid-course correction. We appreciate the steps being taken to boost the statistical capacity and development datasets of developing countries. These are essential, as we need to be sure that we know which are the problem areas, at the lowest level of aggregation, which lag behind in respect of each of the MDGs. We would, therefore, suggest better regional and country dimensions of existing deficiencies to enable better appreciation of where we are, and which way we are moving. Related to this is the preparation of accurate estimates of the additional resources, disaggregated country-wise and region-wise, that would be required if we were to meet each of the MDGs.

6. The IFIs have to take up assessing both the quality and quantum of development assistance in a more systematic manner. Harmonization must be both procedural and substantive. The Rome conference succeeded in highlighting the need to streamline reporting, monitoring and procurement requirements. At the same time, by spreading our resources over too many schemes and projects, we risk negligible impact and even failure at times. International assistance should focus on adding value to a country's own development efforts. While we see the merits of individual projects and investments, these should ultimately feed into national policies, priorities and programs. Clearly, our efforts at scaling up need greater attention.

7. We appreciate the advocacy role that IFIs are playing on issues of international trade in goods and services and the importance of improved market access for products of interest to developing countries. Policies of protection and subsidies in agriculture have pernicious effects on farmers in poor countries; subsidy-led over-production and subsidized exports in developed countries depress demand for products that developing countries produce more efficiently, and distort the incentives for agriculture, which is critical for their growth prospects. Progress in removing agriculture protection and subsidies in developing countries is critical to make the Monterrey Compact for removing poverty and achieving MDGs. Progress and work in this area through the advocacy role of International Financial Institutions needs to be strengthened and made more effective.

8. We have before us certain proposals for enhancing the voice and participation of developing countries. We are disappointed that these suggestions fail to address the substantive issues of voice and participation and instead focus on relatively peripheral and procedural issues. It is our belief that reforms of the international financial architecture can be achieved only

through structural changes in the IFIs which is compatible with the global economic changes and the role and importance of developing countries therein. In so far as the World Bank is concerned, there is already a felt need for increasing its capital through a General Capital Increase to enable it to provide more long-term and stable resources to developing countries. We also need to restructure basic votes or capital allocation as part of general capital increase.