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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)

NINETY-FOURTH MEETING
WASHINGTON, D.C. – OCTOBER 8, 2016

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Statement by

H.E. Arun Jaitley
Minister of Finance and Corporate Affairs

India

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

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94th Meeting of the Development Committee

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1. We meet in a time of continued slowdown in the global economic growth. The countries in our constituency, however, have been able to present a reasonably strong growth performance with India likely to grow at more than its previous year's growth of 7.6%, Bangladesh at 6.3%, Sri Lanka at about 5.3% and Bhutan at 6.8% driven by robust domestic demand, sustained investment backed by strong reforms and improved investment climate, lower oil prices and favourable demographic profile.

2. The emerging and developing economies, in general, have suffered on account of collapse of commodity prices, falling imports by the advanced economies and risk averse capital despite record negative policy rates in much of the developed world. Low interest rates should normally be contributing to larger flow of funds to developing countries and that too at low interest rates. However, emerging and developing countries continue to face very high interest rates for private investment flows reflecting heightened risk aversion. Realisation of twin goals of the Bank and comprehensive development ambition, encapsulated in the sustainable development goals (SDGs), require massive resources. The WBG, global leader in intermediating development finance at affordable rates, continues to be as relevant today as it was anytime in the past.

3. The Forward Look Report is very timely and rightly reaffirms the role of the WBG as a central player in the global development architecture and a key driver for achieving shared global responsibility for development. We are fully in agreement that the WBG needs to work with and assist all client segments. Certainly, the low income countries (LICs) and lower middle income countries (LMICs) need to get much larger support. We welcome, in this context, the proposal to build up IBRD portfolio for the lower middle income countries, including IDA graduates by significantly increasing lending going to LMICs over the next decade. We also welcome special focus on and a stronger share in IDA-18 for the LICs affected by situations of fragility, conflict and violence (FCV) and small states. We are also quite appreciative of the Forward Look identifying and implementing measures to expand WBG's work with the private sector and creating markets.

4. All these priorities rightly identified in the Forward Look raises the demand and need for the resources manifold. Extreme poverty has become more concentrated and more difficult to eradicate. The challenge of climate change and the massive investments required to achieve INDCs brings on additional responsibility on the bank to mobilise additional resources. These challenges not only necessitate that the bank grows bigger and becomes better, but also require the Bank Group to devise innovative solutions and rework its financing model The starkest challenge that the bank faces is a shrinking lending space amidst a significantly higher borrowing appetite and need of the clients. There is need for trillions for engendering growth, bridging the infrastructure gap, make investment in human development, quality education and

health services. The Bank being capital constrained today, there is a need to enlarge the lending programme of the Bank Group. The resource gap facing the bank is further widened by our heightened engagement in delivering global public goods, prevention and mitigation of crises, fragility and conflict. In case of India, during the last fiscal year, as against the requirement of USD 5 – 7 Billions, only USD 3.8 billion of fresh commitments were delivered.

5. We share the assessment of the Forward Look paper that annual IBRD lending of USD 40 billion per annum would be needed to effectively support the 2030 agenda and for IBRD to remain a central player in global development given the ambition of SDGs and demand of IDA graduates. We are also in agreement that a capital increase of USD 10 billion would be needed for the IFC to double its lending capacity and to mobilise USD 2 trillion over the coming decade.

6. I had called for a USD 100 billion annual investment support from the WBG in my statement for DC Spring Meeting of 2016. Increasing lending capacity to the Bank to USD 40 billion per annum and doubling IFC's annual investment capacity would contribute towards realisation of that goal.

7. IDA remains critical to development and an extremely robust IDA18 replenishment is sine qua non to meet the developmental goals of the low income countries. I am happy to note that preparations for a USD 75-80 billion replenishment for IDA 18 is on course. I am also happy to see the Global Concessional Financing Facility taking shape to tackle FCV related crises across the entire spectrum of Bank clients. This facility echoes with my suggestion made during the last spring meeting.

8. The countries as they graduate from IDA face a double whammy during the transition period – while the access to concessional finance decreases and availability of alternative finance is at a higher cost, the country is also expected to accelerate its repayment of existing IDA credits which are subject to the acceleration clause. I am happy to note that the management has proposed to postpone acceleration for the graduates of IDA18 but it should be done away entirely. India paid over 1.8 billion in present value terms by agreeing to acceleration clause. I am happy this burden will not fall on Sri Lanka for the time being.

9. We had agreed for IBRD shareholding reviews to be based on a dynamic formula. The IBRD shareholding must reflect and represent the evolving role of its member countries in the world economy. We also share the notion that the formula should recognise the contribution for development mission of the Bank Group. We must, however, not lose sight of the principle objective of our shareholding reviews. It is to increase the voice and power of the developing countries in the ownership, governance and management of the institution. The 2010 realignment led to a 3.13% increase in the shareholding of the developing and transition countries. We have in the past, in 2010 and in 2015 DC Communiqués, unequivocally stated the goal of moving towards equitable voting power as synonymous with giving more voting power to the developing and transitioning countries, and this must remain as a primary goal of this alignment.

10. We can live with the formula proposed by the executive directors- 80% economic weight represented by GDP and 20% development mission weight represented by IDA contributions. This will not however ensure that the power of developing countries will go up in the 2017 review. It would rather fall unless we take counter-balancing measures. We should clearly reiterate that in this round of shareholding review also, the voting power of developing countries will increase by about 2%. Additionally, while we support incentivisation of contributions to IDA replenishments through the incorporation of booster for the first time donors, the mechanism to implement the booster must be based on contributions according to the burden share.

11. The IBRD and IFC incomes have suffered on account of low interest rate regime forcing the Bank to earn much less on its equity. The effect has been quite severe on its equity income. The IBRD and IFC

have not been able to add to their reserves, which is the first call on their income. We recognise that time has come to revisit transfers from the IBRD and IFC to IDA and to ensure that much of the IBRD and IFC income remains in these institutions for more efficiently leveraged funds for the clients especially the low income countries and LMICs.

12. The World Bank assistance primarily aims at the achievement of the twin goals of poverty reduction and boosting shared prosperity. There are a few financing issues which have been a concern for the borrowing countries. The effective interest rate of World Bank loans is quite high compared to other MDBs. Also the commitment charges levied by the Bank are the highest among other Multilateral Financing Institutions. These commitment charges begin accruing 60 days after the Loan Agreement is signed and are not linked to the annual allocation agreed to in the project document. Since project requires time to be completed, payment of such fees as per Loan Agreement is not justified and adds to the burden of the borrowing agencies. In addition, IBRD loans to AAA rated state-owned agencies are also subject to sovereign guarantee. However, there is a limit to the amount of loans for which the Government can provide the Sovereign Guarantee. The requirement of Sovereign Guarantee for Loans to such AAA rated state-owned organizations thus, delays the process of financing and also increases the financing cost. There also exists a possibility for availing of local currency loan instead of LIBOR based Dollar denominated loan from World Bank which has inherent exchange rate fluctuation risk. We urge the World Bank Group to work together with the member countries to explore innovative financing solutions including local currency financing.

13. Finally, if the World Bank has to remain relevant and has to continue to be numero uno in developmental landscape, it has to be both bigger and better. I believe the Forward Look makes right prescription for the WBG to improve its efficacy and efficiency. We would look forward to its sincere and effective implementation.