

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
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INTERNATIONAL DEVELOPMENT ASSOCIATION
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Statement by the Hon. **P. CHIDAMBARAM**,
Governor of the Bank and the Fund for **INDIA**,
at the Joint Annual Discussion

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This plenary is very special in one respect: we have with us a new President of the World Bank Group and we will, in a few days, welcome the new Managing Director of the International Monetary Fund. Both Mr. Robert Zoellick and Mr. Dominique Strauss Kahn are exceptionally qualified individuals, we are sure they will provide wise leadership to the two institutions, and we wish them success. If the two institutions had launched a world wide talent search for persons to head the institutions, these two names would have figured in any short list; such a process would have also enhanced the credibility of the two bodies as truly global institutions. Fellow Governors, I think this is the day and the hour when we should declare our intention to uphold the principles of corporate governance and state in unambiguous terms that the next President and the next Managing Director will be selected through a transparent process from among the best talent available in any part of the world.

Global Macroeconomic Situation

2. The global economy has registered sustained growth in recent years. The world GDP growth is projected to cross 5% this year. China and India continue to remain the engines of global growth. Latin America and Sub-Saharan Africa have also recorded strong growth. However, with financial market turbulence spreading from its epicenter in the U.S. to Europe, the downside risks have increased. Financial market risks continue to unfold and the prospects for 2008 are somewhat uncertain. We urge the advanced economies to take appropriate measures to restore full normalcy in financial markets and share with the world what they intend to do.

3. Global imbalances, supply-side inflationary pressures and protectionism continue to pose risks to growth. Oil and food prices have spiraled. As food comprises a large share of the consumption basket in developing countries, high food prices have political and social ramifications, apart from triggering inflation. These risks call for greater vigil on the part of all countries and a state of readiness to respond with both short and medium term measures.

Strategic Direction of the World Bank group

4. We welcome the step taken by the Bank to reposition itself as an aid institution and a knowledge bank. With different products on its menu, the Bank would be attractive in different ways to different countries: the poorest will be more inclined towards the financial products while the Middle Income Countries will be attracted to, besides financial products, to the knowledge and research products.

Strengthening the World Bank's Engagement with IBRD Partner Countries

5. We welcome the steps taken to strengthen IBRD's engagement with partner countries, especially on pricing reforms. These should facilitate financing of infrastructure that is integral to the attainment of MDGs. However, further action is needed to reduce IBRD's non-financial costs. I propose that the Bank should commit itself to greater use of country systems and take concrete action to ensure that this commitment percolates to operational levels.

Global Public Goods

6. The Bank's work on GPGs should sub-serve the core of its mandate of poverty reduction. While supporting the idea of a "special focus on climate change", we urge the Bank to be mindful of issues relating to legacy of carbon emissions, energy equity and the principle of "common but differentiated responsibilities".

7. Besides, the special focus should not distort the hierarchy of developmental needs of low income countries. Orderly international labour mobility; technology transfer; intellectual property rights; affordable medicines; stolen assets recovery; and portability of social security are some GPGs that are more relevant for developing countries, and should not be crowded out.

8. India is committed to addressing climate change. We have made considerable progress in de-linking economic growth and energy use, and in reducing our CO₂ emission-intensity. We have offered that our per capita GHG emissions will not be allowed to increase beyond the per capita GHG emissions of industrialized countries, and we have urged the industrialized countries to reduce their per capita GHG emissions. While welcoming the Bank's initiatives on clean energy, we need to remind ourselves that access to affordable energy is a major challenge: 675 million South Asians live without such access.

Voice & Participation

9. The Singapore resolution on Quota and Voice Reform in the IMF called for a formula that should provide a simpler and more transparent means of capturing members' relative positions in the world economy. We are disappointed with the progress made until date. While there is an appearance of progress in identifying the elements of a new formula, a new formula itself is not yet on the table. The new formula must result in a meaningful transfer of shares from developed to developing countries. We believe that this is possible only if GDP is computed on PPP terms. We are willing to consider a blended GDP as a measure of compromise, so long as the outcome meets our basic objectives. Other elements should be part of the formula only to the extent that they are useful to identify those who would need to draw from the Fund and those who have the capacity to contribute to the Fund. The time between now and the Annual Meeting of 2008 is short. We must therefore redouble our efforts and agree on a formula that will redeem the pledge made in Singapore.

10. Governance structure and voting shares of developing countries are at the core of the Voice reforms' issue in the Bank. We maintain that any discussion on the structural options without a review of the fundamental formula for IBRD shares would be superficial. While GDP would remain a variable, we also need to include other variables, such as poverty numbers and infrastructure deficit, to correctly reflect the demand side.

Scaling Up and the Role of IDA

11. We believe that the coordinating role of IDA can be more effective with increased IDA funding. We endorse the recommendation that IDA support should reach a "critical mass" and this support should keep pace with the increasing absorptive capacity of its clients.

12. We are constrained to note that the supply side of aid, both in quality and quantity, is not keeping pace with the demand. IDA's real growth has been flat for over two decades. The slow and uneven global aid spread contrasts with the Monterrey and Gleneagles resolves on scaling up. The predictability of aid also continues to be low. We urge the donor countries to honour their commitments.

13. Mr. Chairman, the world community looks up to us to deliver on our promises. Let us match our words with action for a world free of poverty.

Thank you.