

INDIA

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We are meeting at a time when developing Asia has achieved its best growth since the 1997 financial crisis. This has been possible due to continued strength in external demand, buoyant domestic demand and a marked revival of business investment. However, the emerging global macroeconomic scenario has some discernible dark clouds in the horizon. These have arisen due to imbalances in growth among major world economies, continued high oil prices, which are predicted to remain sticky in the foreseeable future, and the continuing twin-deficits in the USA. Firming up of interest rates in global markets and inflationary pressures in some developing Asian countries are distinct possibilities in case the larger macroeconomic imbalances remain un-addressed.

In coming years, as the global economy goes through the process of addressing these challenges, Asia would need to share the burden. It is possible to play our role in this adjustment process through coordinated action and increased economic cooperation so that developing Asia can avoid paying a disproportionate cost. While major economies play their role for orderly adjustment of the imbalances, developing Asia needs to be firmly committed to successful implementation of reforms, nurturing domestic investment and demand, strengthening financial systems, and above all, to following policies and strategies that facilitate “inclusive” growth.

Regional Economic Cooperation

I am glad that the ADB has hosted a Governors’ Seminar on the theme of “A Road Map for Asia’s Economic Cooperation and Integration”. The seminar was timely and relevant for policy makers in the region. The starting point for any such economic cooperation is normally trade. Today, the largest trading partner for developing Asia is developing Asia itself, with very significant potential for further intensifying intra-regional trade.

Confining economic cooperation to trade would be missing the larger potential of this region. Trade agreements are the most common form of regional cooperation—there has been a fair amount of progress in the ASEAN region and attempts are well underway to expand trade cooperation in the East and South Asian regions also. However, there are other areas of economic cooperation that have significant potential. These include financial cooperation, cross-border infrastructure, joint harnessing of natural resources, initiatives for environmental sustainability and energy needs, common natural disaster warning and management systems and joint research in frontier technologies. I trust that ADB will continue in its efforts to facilitate and foster the progress on economic cooperation in the region. I am particularly encouraged by ADB’s initiative in setting up an “Office of Regional Economic Integration” that can play a complementary role to regional multilateral and bilateral efforts that are already under way.

India, for its part, has intensified its efforts in engaging more actively with ASEAN and other Asian countries on a comprehensive basis. We are engaged in negotiating an FTA with ASEAN, a comprehensive Economic Cooperation Agreement with Singapore and an FTA with Thailand and are exploring frameworks for active economic cooperation in all areas with the People’s Republic of China and Japan. Our commitment to furthering Asian integration is, therefore, clear and firm.

Tsunami Disaster

The response to the Tsunami showed us the importance of mutual cooperation. Even before assistance could come from outside the region, countries within the region reached out to the affected countries in rescue and relief operations. Further, ADB played its role as the regional development bank in a manner that can only be called exemplary. As soon as the rescue and relief operations were completed, ADB staff were in the field participating in joint need assessments. ADB was not only first off the block in putting together and approving rehabilitation and reconstruction packages for the affected countries, but also set up an Asian Tsunami Fund with significant contributions from its own resources. In India, the ADB cooperated in exemplary fashion with the World Bank and the UNDP in putting together a unified Tsunami package with the Government of India. I must also place on record our appreciation for the aid that poured in from outside the region. Organizations, both government and non-government, and individuals responded to the disaster in a way which only emphasizes how we are fast becoming a vast global community.

Millennium Development Goals

We will soon be approaching the fifth anniversary of UN Millennium Declaration. It is heartening to note that a consensus has already emerged on what is needed to achieve the Millennium Development Goals (MDGs) and the role of all the parties involved - developing countries, the developed countries and the multilateral institutions. Some progress has also been achieved in putting together a road map and furthering the global compact to achieve the MDGs.

The assessment of the past five years shows that the policy and institutional environment in developing countries is continuing to improve. As these countries have increased, and continue to increase, their capacity for effective absorption of aid, the absorptive capacity of the developing countries for effective use of ODA is no longer an issue. At the same time, these countries have shown their strong ownership of the goals by maximizing the mobilization of domestic resources.

There has been a marginal increase in the Official Development Assistance (ODA) of Development Action Committee (DAC) countries from a low 0.22% of GNI in 2000 to 0.25% in 2003, though this is much lower than the 0.34% in 1990, the reference year for MDGs. A large part of the increase in recent years has been for assistance to post-conflict and geopolitically significant countries, debt relief and through technical cooperation. Such specific assistance does not address the MDG agenda in the most needy countries. Funding for MDGs must come over and above the ODA provided for specific purposes.

There have been encouraging signs by way of announcement of timetables by several DAC countries to increase their ODA level to 0.7%. The recent confirmation in the Development Committee in Washington to deliver on the pledge made at and after Monterrey, and the call by all Development Committee members to those donors that have not done so to make concrete efforts towards the target of 0.7% of GNI, is welcome. The increase of around 30% in IDA-14 fund envelope recently and 25% in ADF IX last year are also encouraging signs from the development partner countries to fulfill their part of the global compact. I look forward to early implementation of the proposed pilot International Finance Facility for Immunization.

Multilateral institutions, including the ADB, have been playing their part through better harmonization and intensification of efforts. The issues covered in the High Level Forum on Harmonization in Paris in February were comprehensive, though the challenge is in real time implementation.

Overall progress in achieving MDGs has been uneven and slower than envisaged. The scope and pace of the efforts has been inadequate. There is an absolute urgency to pick up the momentum and sustain it over the next decade to keep our date with our vision for 2015. We have no choice as the security of the world, peace among nations and the well being of all depend upon this. I would urge ADB to sharpen its advocacy for larger ODA and concessional financing for the Asia-Pacific region with largest number of the poor people, and to further enhance its efforts in helping developing member countries (DMCs) in improve the lives of hundreds of millions people through escape from poverty, disease, illiteracy and gender inequality.

MDGs in India

Progress in the achievement of the MDGs by India would be critical to the global achievement. India is well on track to achieve the poverty and hunger-related MDGs at the country level. The achievement of the other MDGs, especially in the poorest or lagging states, districts and communities in the country would require extraordinary efforts. Our challenge lies in accelerating and sustaining high growth that is equitable and in implementing policies and programmes that promote sustainable inclusive development. Reforms pursued in India after 1991 have put the country on a high growth path. Today, second generation reforms are underway, building upon the earlier achievements. The Government believes that growth, stability and equity are mutually reinforcing objectives, and policies and programmes lean towards decisive intervention by the State in favour of the poor to shape our destiny. The Common Minimum Programme launched by the Government has been based upon this principle. The Government and the people of India are committed to our rendezvous with destiny in 2015.

The Government of India has launched various new countrywide programmes in this direction and demonstrated its commitment by significant enhancement of allocations for these programmes in the recent budget. The Sarva Shiksha Abhiyan (Education for All), the National Rural Health Mission, the Expanded Midday Meal Scheme and the Integrated Child Development Mission are the main programmes devoted to achievement of the MDGs.

Infrastructure Development

The critical importance of scaling up infrastructure in developing countries as a means of promoting economic growth and achieving MDGs is well established. A study recently completed by the ADB, World Bank and JBIC, indicates a requirement of \$ 200 billion per annum over the next five years for new investment and maintenance of infrastructure in East Asia alone. A separate assessment for India indicates investment requirements of \$ 15 billion per annum.

Funding alone is not sufficient for infrastructure. The joint study has brought out a need for a new framework for infrastructure development with three essential elements: inclusive development, coordination, accountability and risk management. At the same time, the role of the private sector in infrastructure in this region needs a relook in order to revive its flagging interest in this area. The study suggests that the private sector bubble has burst, with investment levels falling from \$ 40 billion in 1997 to \$ 11.5 billion in 2003. In the medium term, there is no doubt that public investment has to play a large role in infrastructure development, notwithstanding the limited fiscal space available in most of the DMCs. ADB can assist the DMCs through analytical work to improve the investment and regulatory environment, increasing its lending volume and finding innovative ways to do business in spite of limited fiscal space.

I welcome the recent approval of funding for the Nam Theun 2 project by ADB and World Bank. This should form the first step for the re-engagement by the MDBs in sustainable

harnessing of water resources in DMCs. The public-private partnership model and the cross-border sharing aspect of this project have the potential for replication in other DMCs. ADB must aim at more streamlined project preparation and clarity in its engagement with the stakeholders so that subsequent projects do not consume disproportionate time and resources in preparation. Unless DMCs are assured that large projects with MDBs can be prepared with lower costs and in a shorter time, they will shy away from engaging with MDBs.

Role of ADB

The multilateral funding institutions, including the ADB, need to demonstrate a renewed commitment to expanding their role as financial intermediaries for investment in infrastructure through the public sector, the private sector and public-private partnerships.

There is a strong need to look at the past performance of ADB and set a strategy for the future. ADB's lending has remained stagnant at around US\$ 5 billion per annum during the last 14 years except in 1997 and 1998. The quality of lending and the quantity are both important for a meaningful role of ADB in the region—a region with a massive need for public investment, especially for infrastructure and poverty alleviation. For ADB to remain relevant to regional DMCs, it must assist them in mobilizing additional resources for public investment.

The financing of MDGs would require the use of innovative instruments and mechanisms. ADB should explore possibilities like blending, co-financing, and guarantee with other MDBs and bilateral partners under common design, funding implementation, monitoring and fiduciary arrangements. Such instruments would be relevant for all DMCs irrespective of their access or otherwise to concessional financing sources like the ADF. In middle income DMCs, the major part of funding for the MDG-agenda is expected to come from domestic resources. At the same time, external public funding made concessional through innovative instruments can play a strong catalytic role in social sector programmes and the financing of global public goods.

The role of the ADB could also be significant in another area: that of public-private partnerships. While the need for capital investment in infrastructure in developing countries cannot be over-emphasized, there appears to have been excessive optimism in the past about the success of the model. Experience has shown that the response of the private sector has not been commensurate with the requirements. We need to examine the arrangements in place to facilitate infrastructure. What has been done? What is required to be done? Perhaps this is an area that the ADB would like to examine. Much larger private funding can be leveraged through appropriate actions to mitigate risk in public-private partnerships.

Cost to DMCs

ADB needs to take a critical look at financial and non-financial costs to its clients that largely influence their borrowing decisions. Competing sources of infrastructure financing are available to the large OCR borrowers and their public infrastructure entities. These sources are not confined to the MDBs and bilateral agencies. ADB would need to compete with such alternative sources of financing, including the commercial sector, in order to increase its business. Competitive lending charges with the least possible burden of policy baggage and non-financial costs, facilitated by simplified procedures and innovative lending products would need to be put in place. Reduced costs of doing business with DMCs will play a critical role in their determining the relevance of the ADB for them.

I have taken note of the recent part-waiver of loan charges for one more year. Such short-term waivers may provide incidental help to borrowing countries by reducing their current debt service requirements, but are of little consequence when a long-term view of the comparative cost of ADB loans is taken. Investment decisions for infrastructure, which has been focus of ADB's lending, require projections of funding costs over the medium and long-term.

When loan charges were increased in 2000, it was understood that the increase would only be temporary until ADB's key financial indicators were restored. The increase was an outcome of a sudden increase in the loan portfolio of the Bank in response to the Asian financial crisis. The crisis is well behind us. The financial parameters of the Bank have since been restored and have been robust for three consecutive years - much earlier than the timeframe envisaged. The partial waiver of loan charges in 2003 and, thereafter, on a bigger scale in 2004, and the recent decision to continue them for one more year are an endorsement of the comfortable levels of the Bank's Loan-Equity Ratio. In such a situation, the Bank should permanently reduce the loan charges to the pre-2000 level.

I am encouraged by ADB's resolve, through its innovation and efficiency initiative, to find ways to respond to the development needs of DMCs through flexible and faster assistance, use of country systems for procurement and safeguards, value addition through appropriate expertise and simplified procedures to reduce non-financial costs. I look forward to the early implementation of this.

I thank the people and the Government of Turkey for their warm hospitality as hosts of this year's meeting in this beautiful city of Istanbul. I also congratulate President Kuroda on his assuming the leadership of the ADB earlier in the year, and extend to him and to ADB my Government's full support in the efforts to help us to attain our common goal of an Asia free from poverty

Thank you.