

INDIA

PALANIAPPAN CHIDAMBARAM, Governor

May I start by warmly thanking our hosts, the Government of Spain, for the excellent arrangements they have made for this Annual Meeting.

The historic and beautiful city of Madrid is an ideal venue for this important Annual Meeting of the Asian Development Bank (ADB). The long-term strategic framework 2008–2020 (Strategy 2020) will set the path for ADB until 2020. We welcome ADB's vision of "an Asia and Pacific Region free of poverty" and its mission to help "its developing member countries (DMCs) reduce poverty and improve living conditions and quality of life". Now ADB needs to back up the broad Strategy 2020 with a detailed implementation strategy.

Addressing Challenges in Asia

Asia is a challenging place for any development institution because of its heterogeneity. The region houses some of most dynamic economies of the world and also some of the most fragile. Even middle-income countries that have achieved considerable economic progress are still grappling with extreme poverty in pockets.

Role of the Private Sector

As rightly emphasized in Strategy 2020, the private sector would have to play a more important role in the development of the Asia and Pacific region. However, it is our belief and experience that the bulk of the resources for infrastructure will still have to be found through the public sector. Hence, a portfolio restructuring plan for ADB to increase the private sector's share of annual loans to 50% will be consistent with the continued need for a vibrant public sector and this twin strategy will succeed only if total loan approvals and/or disbursements are enhanced significantly.

The fundamental role of ADB as a multilateral development bank should not be diluted by an overemphasis on nonsovereign loans at the cost of sovereign loans. This problem will be resolved if overall disbursements were to increase.

Environmentally Sustainable Growth

On environmentally sustainable growth, we support ADB's focus on climate change and the urban environment. India is committed to following an environmentally sustainable energy policy with a spirit of mutual accountability and the principle of "common but differentiated responsibilities". We urge ADB to secure greater financing resources at more concessional terms for energy efficiency and clean energy projects.

Regional Integration

Regional cooperation is one area where ADB has been demonstrating its comparative strength among international financial institutions, and India welcomes Strategy 2020's emphasis on it, including the intention to increase the share of regional and subregional projects in total operations. However, these must be in addition to national projects and should preferably be on concessional terms.

New Sectors

India welcomes Strategy 2020's choice of the five core areas of operations: infrastructure, environment, regional cooperation and integration, financial sector development, and education. However, we would also like to see more stress on health-related infrastructure, agriculture and irrigation. Given escalating food prices across the world, which hurt the poor the most, it is both premature and inappropriate for ADB to disengage from agriculture fully. It is well established that robust agriculture infrastructure can help prevent the huge waste which occurs due to the inappropriate handling, storage, transportation, and marketing of agricultural produce. Improvements in irrigation infrastructure are equally important for increasing food grain production. Strengthening the farm-to-market link is critical for improving food security and this could be an important area of ADB intervention.

Asian Development Fund (ADF)

ADB needs to respond to DMCs' needs and to maintain an appropriate operational size. ADF X negotiations have now been concluded, with a significant increase in operational size and I congratulate the donors and the management of ADB. I may, however, point out that the bulk of the resources are being generated by financial re-engineering of ADF operations and partly by the transfer of ordinary capital resources (OCR) to the ADF. As you are aware, OCR resources have mostly been generated from income from OCR borrowers. Sadly, we seem to be moving into an era where increasingly poor countries will be asked to help out their poorer brethren. My earnest appeal is that the ADF should be replenished through greater contributions from donors, as was done in the past.

Need for a General Capital Increase

We are deeply concerned about the resource position of ADB, which indicates that, with the planned level of lending over the next 3 years, the OCR lending headroom will be exhausted by 2010. There is an urgent need to focus attention on resource mobilization. For the past 2 years, India has been stressing the need to augment the capital resources of ADB. Any further delay will be at the cost of ADB's commitments and its credibility. Our discussions should not only define the amount of the increase but also the modalities and the need to take general capital increase proposals before the next meeting of the Board of Governors.

Unlike the past, where unsubscribed or partially subscribed shares were kept aside for allotment to new members, I suggest that this portion may be offered to the subscribing members.

We also think that ADB is perhaps making inefficient use of equity. Its provisioning is far beyond any prudential requirements and its liquidity levels are extremely high. Removal of headroom constraints would allow ADB to unleash the full potential of its equity and reserves. At the same time, there should be no compromise of its AAA status.

Finally, I would like to commend ADB for responding to the rapidly changing Asian economic scene by preparing a new long-term strategic framework 2008-2020 which lays the foundation for environmentally sustainable and economically inclusive growth in the Asia Pacific region. As one of the largest and fastest growing economies in the region, India looks forward to enhancing

the quality of its engagement with ADB and for a larger role for the ADB itself in the development of the entire region.