

A SAARC Development Bank to Bridge the Infrastructure Deficit in South Asia?

Saman Kelegama

IN the third week of July, the Narendra Modi government mooted the idea of a SAARC Development Bank (SDB) along the lines of the BRICS Bank announced by the BRICS Summit around the same time. It was reported that India will propose the SDB at the SAFTA Ministerial Council in Bhutan and later at the forthcoming SAARC Summit in Kathmandu, Nepal.

This is not something new. As far back as 1998, the report of the SAARC Group of Eminent Persons (GEP) highlighted the need for a development bank for the South Asian region. The report titled: "SAARC Vision Beyond the Year 2000", strongly argued for a South Asian Development Bank in addition to the South Asian Development Fund of US\$500 million. It said "The South Asia Development Bank should mainly finance commercially viable infrastructure projects and trade-creating joint venture projects". What the GEP had in mind for the South Asia Development Fund was to play a role to assist the LDCs to achieve higher levels of development, and particularly enhance their export production capacity. A similar Fund operates in EU for economically weaker members like Ireland, Poland, etc., to assist them to catch up with others.

Despite nearly three decades of SAARC and two decades of preferential trade via SAPTA and SAFTA, intra-regional trade in South Asia remains at a low level of 5%. Among other factors, two issues that explain this low level of intra-regional trade is poor infrastructure connectivity in the region, and the lack of a supply base in small South Asian countries to exploit the growing market demand in the large South Asian countries, in particular, India.

Both these problems can be addressed if South Asia could have more funding for physical infrastructure development and improving regional connectivity. In that context, a readily financing SAARC Development Bank can be a key player in stimulating intra-regional trade in the region. Needless to say, to play such a role the SDB should function along the lines of the World Bank and the ADB and should extend concessional financing to SAARC member countries. The details pertaining to the Bank's start-up capital, annual budget, and functioning mechanisms will have to be worked out by the member states.

A recent report released by the World Bank sheds some light on the annual financial resources required and sectors to which such resources should be channelled. The report titled: "Reducing Poverty by Closing South Asia's Infrastructure Gap" was released in early 2014 and according to the report, South Asia has a US\$ 2.5 trillion worth infrastructure deficit. The gap is defined as the difference between South Asia's development goals and its actual capability to meet these goals. The said amount according to the report is required to invest in transport, water supply and sanitation, solid waste management, telecommunications, and irrigation to bridge the infrastructure gap over the next ten years. The report says that one third should be spent on transport, one third on electricity, and the remainder on water supply and sanitation, solid waste management, telecommunications, and irrigation.

The SAARC Development Fund was established in 2005 due to the shortcomings of the South Asia Development Fund that functioned from 1996 to 2004. In 2010, the SDF Secretariat was established in Bhutan with three Windows – social, economic and infrastructure, and a total fund of US\$ 300 million. So far, only the social window has been active with fund allocations made to various poverty alleviation and social development projects in the region. The other two windows have been dormant, perhaps due to the small capital base and problems of identifying viable projects for funding.

If the SDB comes into operation, it may be prudent to take out the infrastructure window out of the SDF and make it a part of the SDB. The economic window which is defined as non-infrastructure projects

related to trade and industrial development, agriculture, service sector, science and technology, etc., can remain under the SDF with more focused areas for fund allocation.

Advertisement



In addition to what the World Bank report has identified, the SDB can focus on highways, ports, etc., that will play a key role in improving the connectivity in the region. SDB can complement the current sub-regional economic cooperation projects funded by the ADB and other multilateral financial institutions in South Asia. It could also draw lessons from existing regional group specific development banks such as Caribbean Development Bank for CARIFTA (Caribbean Free Trade Agreement) where it finances specific projects in national, sub-regional and regional development programmes.

In all probability, the Indian proposal in establishing an SDB will be endorsed at the 18th SAARC Summit in Kathmandu, Nepal scheduled in the last week of November 2014. While the SAARC member states would welcome this initiative, it is disappointing to note that an idea mooted in 1998 never got into the SAARC agenda for 16 long years. And this has happened in a regional grouping which is lagging behind most others and referred to as the least integrated region in the world.

The writer is the Executive Director of the Institute of Policy Studies of Sri Lanka.

Published: 12:00 am Saturday, August 30, 2014

Last modified: 10:44 pm Friday, August 29, 2014

TAGS: [infrastructure](#) [South Asia](#) [Brics summit](#) [BRICS Bank](#) [SAARC Development Bank](#) [SAARC Group of Eminent Persons \(GEP\)](#)
[South Asian Development Bank](#)

More from The Daily Star

- [Bangladesh lose 2-5](#)
- [Ruling party unruly in some upazilas](#)
- [Garment orders on the rebound](#)
- [First cheer BNP's](#)
- [Ten Buet students sent to jail](#)

Comment Policy

Other Internet Stories

- [Tracing your Irish ancestry – The O'Hara clan](#) (IrishCentral)
- [Ending the AIDS Epidemic? U.N. Says It's Possible](#) (Roll Call)
- [New study claims that Irishmen descended from Turkish farmers](#) (IrishCentral)
- [Kids duct taped to beds at daycare center: Restless kids at nap time...](#) (Examiner.com)
- [Video | LOT Polish Business Class 737-400 Seat 3D](#) (modhop)

Recommended by