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on the
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Statement by

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World Bank Group - Implementing the Forward Look: IBRD-IFC Capital Package Implementation Update

Almost a year ago we had expressed our views and concerns on the policy and financial components of the then-discussed Capital Increase package, and those concerns remain valid. Specifically, our opinion on the policy component can be summarized as follows:

- We appreciated the World Bank Group's commitment to stay engaged with all clients and emphasized that the WBG should formulate country assistance strategies corresponding to the borrowing countries' actual needs. However, we remained skeptical about the underlying system of Bank-wide numerical lending targets for different clusters of IBRD borrowers based on their per capita income level. We also believed that price differentiation according to the income level was bringing about some discord between the members and too little financial gain for the Institution.

- We felt that the policy package did not fully resonate with the most urgent priorities consistently identified at the country level. In particular, physical infrastructure deficiency and energy shortages remain at the top of the list of binding constraints for development and in this regard we wish the WBG relies on proactive credit policies. We suggested that individual country strategies (partnership frameworks) were restored to their historical role as major platforms for agreed and adjustable allocation of Bank's financing by years, sectors, and operations.

- We stressed that the flexibility of the graduation policy should be the guiding principle and that graduation must be based on a case-by-case approach reflecting country context and needs.

- Regarding the WBG internal reforms, we believed they should not become a goal in themselves and had to be continuously evaluated against the observable gains. Specifically, we underscored the need to strengthen regional and country units as the core delivery elements of the Bank and requested trimming the excessive layers at the HQ level, including the recently invented Global Practices.

Now when the IBRD capital increase package has been approved and the IFC approval can be finalized within a reasonable time frame, we need to revisit the role of the accompanying policy documents. We understand that many members made adoption of these policy documents a condition of their assent. However, we cannot agree to the idea that policy conditions attached to the latest augmentation of the WBG financial resources should be the ultimate guiding rule for the entire universe of the WBG activities and financing. The WBG goals are clearly established by the Charters of the constituent parts of the Group, and we believe these goals remain valid. The WBG has a strong and tested governance mechanism to translate these goals into specific actions according to the needs of clients. In other words, The World Bank has always been and should remain the development institution.

From this angle, we would caution against the excessive proliferation of various sector-specific targets, often expressed as a ratio of operations and financing, forced on the WBG, and in many cases under the disguise of "global public goods". As a matter of fact these targets reflect political preferences of some donor countries rather than priorities of the WBG borrowers. One could ask - what if individual borrowers' preferences do not coincide with the preestablished "global public goods" targets? Which of these two is more likely to be forfeited by the WBG? We do not want the Bank to face this dilemma, nor to see the Bank compelling clients to implement what they do not feel is most needed.

Moreover, the proliferation of the numerical targets makes them mutually inconsistent and leads to tacit manipulations with definitions and results accounting, as the experience of former state planned economies taught us. The outcome will be a widening disconnect between the solemnly announced targets and actual activities ostensibly in line with the predetermined goals. Again, such an unwelcome development would mean the weakening of members' control over the Institution.

Mainstreaming Disruptive Technologies at the World Bank Group

One cannot overestimate the role of technology transfer in the development framework. As less developed countries grow to close their gap with the most prosperous ones, they are eager to take advantage of the latest and most efficient technological solutions. Their stock of physical capital will be less obsolete and less burdened with the sunk costs of previous investment accumulated over generations. They will have modern capacity built anew rather than inherited in a rundown shape.

This mechanism of technology diffusion has been instrumental in all historical episodes when countries were successfully catching up with their peers and in the course of mere decades achieved what took centuries to others. Due to such transfer they can limit their path dependency syndrome common to the economies with mature capital stock.

Development institutions like the World Bank must always make sure that projects they support rely on the most efficient technologies. They have to facilitate transfer of these technologies to the full extent possible. To this end, it is their duty to identify institutional factors, which may hinder such a transfer, and to use their knowledge base and convening power to overcome these barriers wherever they are found, be it donor or recipient countries.

These technologies should be efficient, proven, replicable, reliable, and economically viable. It means that they must be sufficiently mainstreamed in the advanced economies to be eligible for the Bank operational support. All these factors are critically important. The borrowing countries are in no position to serve as testing ground for experimentation with new solutions, which may entail open-ended subsidies, contingent liabilities, and suboptimal use of scarce resources.

New technologies can, and should, make the pace of industrial development faster, but they cannot be expected to produce a magic bullet of instant growth. All historical experience shows that countries are unlikely to leapfrog the familiar stages of development. Unless we talk about few small countries with extraordinary natural endowments, these stages invariably include initial reliance on labor intensive industries, and rapid expansion of energy and infrastructure investment. It is precisely where reliable and viable technologies can prove their transformative nature.

That is why we believe that the World Bank should continue the course it has been following for many decades, i.e. providing technical assistance and financing for the technologically mature investment. These days, when the sheer size of private capital flows easily dwarfs any amounts the development institutions can provide, they must be very selective and apply the time-honored complementarity principle, sometimes referred to as the "cascade approach". Financing should be provided primarily to the sectors with most articulated political economy issues, like extensive land use, free rider exclusion problems, long-term commitment requirements, and relatively high capital intensity. Power generation and transmission, transport infrastructure, landline connectivity, basic health and education are commonly known to be among those.

On the other hand, digital services are usually more easily taken up by the private sector as they are generally not fraught with these complications. In many countries the inadequate regulation and red tape is the single most important binding constrain in this area. Thus, we strongly support the Bank's initiative to roll out the new diagnostic tool aimed at evaluation of the countries' progress in mainstreaming digital economy. This diagnostic should be the first step toward providing the client countries with assistance in designing the optimal regulatory regime for digital services providers.

Such regime should focus on two issues: first, maintaining a competitive environment to ensure affordability and access, and second, legitimate security precautions against illicit flows, money laundering, terrorism financing, and privacy infringements.

Another area where digital innovations can play an increasingly important role is access to public services, including the multitude of applications, filings, submissions, inquiries, grievances, and transfers. The Russian Federation has accumulated significant experience in this area, and we can confidently attest to the fact that positive results in terms of improved governance, ease of access, fast and seamless approval process, and greater accountability, are very significant and highly appreciated by the public. The Bank is strongly encouraged to expand its assistance to the countries that are willing to improve their digital public services.