Statement by

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The critical role of energy for development has been widely recognized, thanks in part to Russia’s interest and active involvement in this issue in its capacity as G8 Chair, which has put this issue at the forefront of global discussion. In this respect we can only welcome the new World Bank report on investment framework for the energy sector. Russia, in its turn, intends to emphasize these issues at the upcoming G8 Summit in Saint Petersburg in July 2006, including through support of Bank’s strategy for increased lending for infrastructure and related sectors.

Importance of energy stems from several global trends. Most prominent among them is the unprecedented success and duration of macroeconomic stabilization worldwide that has led to historically low inflation and interest rates in most countries. At the same time, many countries have accomplished profound market reforms, trade liberalization and deregulation. This, in turn, has led to substantial acceleration of economic growth in China, India, former planned economies and many others countries, including those of Sub-Saharan Africa. As a result, we see great successes in poverty reduction.

At the same time, we observe some new important supply-side constraints to further growth, most particularly systemic investment gap in the energy and infrastructure sectors. This gap remains an important obstacle for global development.

This global challenge is identified in the report as the need to provide all people with reliable, clean and efficient energy. We fully share this goal and agree with report’s assessment of the level of investment required to achieve it.

Today’s energy problems are many and varied. Therefore, when we discuss the Bank’s work in the energy sector we have to address the question of priorities. For the Bank, these priorities should reflect its mandate, in other words, be directly linked to the goal of poverty reduction and sustained growth in the developing countries. When formulating these priorities, the Bank should be particularly responsive to the voice of its clients.

Against this background, the report seems somewhat biased towards the development of alternative and renewable energy sources as a means of addressing the so-called
greenhouse effect. There is no doubt that some of the Bank’s shareholders give this problem paramount importance. It is however equally certain that the majority of the Bank’s clients attach an even higher priority to the urgent need to provide their people and economies with reliable and affordable energy, particularly electricity.

From this point of view, we would like the Bank to devote more attention in its future work to the support of traditional energy sectors. This should include refurbishing existing power plants and building new ones, supporting extractive industries, promoting good governance and transparency in extractive, infrastructure and energy sectors. Special importance should be attached to Bank’s efforts to attract private sector resources into developing countries’ energy sector.

The report proposes new Bank instruments for these areas. We believe this to be a very useful initiative. On the other hand we believe that we should not neglect existing instruments of assistance, especially in view of the recent successful efforts to reduce the cost of doing business. Consequently, we are not convinced that the Bank should promote new energy technologies before they have demonstrated their commercial viability. Bank’s comparative advantage is in spreading established and proven development knowledge. For its clients, Bank’s support for a particular policy or technology is tantamount to an expert and unbiased verdict of efficiency. We believe that the Bank would be well advised not to stray from this traditional role.

By the same token, we are not sure about blending together support to the energy sector and helping countries affected by climate change. In future we would prefer to consider these two issues separately.

While we are happy to support the proposed expansion of the Bank’s energy agenda, we would also suggest the following areas for future work:

- Review Bank’s policy on large hydropower projects. Experience shows that such projects can play a decisive role in developing entire regions and lifting tens and hundreds of thousands of people out of poverty. At the same time, international financial institutions continue to put prohibitively high barriers to financing such operations.
- Review Bank’s policy on other traditional large energy projects, especially in the electricity sector, so as to allow expanded assistance to clients in this area.
- Initiate analytic work on possible Bank involvement in nuclear energy.

With respect to the last point, it should be stressed that nuclear power is a clean source of energy both from the point of view of its local environmental effects and from the greenhouse gas emissions standpoint. Modern technologies ensure high levels of safety and reliability, and the lessons of Chernobyl have been well learned in the intervening twenty years. In addition, Bank’s participation in infrastructure projects traditionally ensures a high level of compliance with all international standards and best practices – be it in financial transparency or environmental protection. Conversely, when the Bank stays away from projects it sees as controversial, they are quite often implemented
anyway, but with a poorer governance and oversight structure, and usually less efficiently.

With this in view, we propose that the Bank, as a minimum, set up a working group to consider this issue.

**Global Monitoring Report 2006**  
**Strengthening Mutual Accountability**

We welcome the Global Monitoring Report 2006, which focuses on major mutual accountability areas of the key players of development process – developing countries, developed countries, and IFIs. We find especially useful a more detailed analysis of challenges associated with closing the infrastructure gap, which is one of the major impediments to growth and increased productivity and competitiveness of developing countries. For the first time the GMR talks explicitly about huge gaps in access to basic infrastructure for different population groups and uneven quality of infrastructure services that exacerbates existing inequalities. The report also recognizes the need to create and adequately manage the fiscal space for infrastructure development while addressing the growing role of sub-national entities in implementing and financing of infrastructure programs.

However, there is still a long way to go in addressing these critical developmental challenges, both at the theoretical and practical level. For instance, the World Bank which claims to be a "knowledge bank", still has a limited understanding of the role of infrastructure in human development despite the fact that the magnitude of these effects is widely admitted nowadays. One manifestation of this “knowledge gap” is the fact that the Bank Group until quite recently has been unable to respond to growing requests to provide financing directly to sub-nationals, in local currency, and without sovereign guarantees.

The report candidly discusses issues related to budget management for human development results. We support Bank’s open discussion of the obstacles that prevent many countries from meeting the MDGs. Bank’s particular attention to maintaining efficiency of social spending is well justified. This problem is facing many developing countries. We believe that the World Bank Group has an important role to play by providing direct technical assistance as well as by enhancing donors’ coordination along countries’ priorities and budgets.

Regular discussions of scaling up aid and improving its quality are very important. There is a clear indication that improving the quality of aid can largely substitute for its increased volumes. We also believe that the issue of macroeconomic management of aid needs to be analyzed in more detail. We believe that in future a separate chapter of the GMR should be devoted to this issue.

This GMR emphasizes the role of governance as a means to ensure development effectiveness. In our view, this emphasis is excessive. Instead, it would be more
appropriate to concentrate on issues that are immediately relevant for the ways and means of achieving the MDGs. For example, a number of client countries are facing an urgent problem of improving their public finance management systems, which is essential for aid effectiveness, especially taking into consideration new opportunities opened up by MDRI. We are concerned that many of these countries still lack such essential elements of public governance as reliable statistical systems and public expenditures tracking mechanism. In this environment it would be very difficult to assess the immediate outcomes of programs financed by the international donor community, not to mention implementing refined methods of impact evaluation in the Managing for Developmental Results framework. We would therefore welcome an emphasis on practical approach to improving governance and fighting corruption in the area of public finance and public administration. The proposed monitoring of governance should emphasize the more obvious and less controversial aspects of the issue which are directly linked to our ongoing work.

**Fiscal Policy for Growth and Development: An Interim Report**

We welcome this report, which is one of the first attempts to tackle the issue of fiscal space in a systematic fashion. The document correctly states that macroeconomic stabilization achieved through severe compression of public investment cannot be sustained without depriving the economy of long-term growth prospects and undermining key publicly funded social programs, particularly in infrastructure maintenance and construction, as well as in education and health services.

Clearly, fiscal policy prescriptions cannot be the same for all countries. On the other hand, it is also clear that international financial agencies have to develop some basic approaches to the issue that could be applied across the board. The issue therefore is that of the balance between these basic principles and particular circumstances of each country.

In the framework of Russian Chairmanship of the G8 we have achieved important common ground with respect to principles of responsible and efficient management of public finance. We hope that further G8 work in this area will stimulate global discussion that would benefit both particular countries and the world economy as a whole.

One of the solutions proposed by the Bank – calculating government net worth – deserves future study, although it is too early to say whether this could lead to a practical methodology of designing fiscal policy. We intend to consider this point further when the final report is available.

It would be fair to note that most of the conclusions presented in the Interim Report are not new. For example, we have already had many discussions of rationalizing public expenditures to reflect the requirements of stability and growth; mobilizing additional local resources and revenues; using loan and grant proceeds for productive purposes. The
The task is not to formulate these goals, but to attain them in practice. Introducing the notion of fiscal space will not by itself lead to a practical resolution of these urgent problems.

The Doha Development Agenda and Aid for Trade: Hong Kong and Beyond

The World Bank plays an important role in international trade discussions. We therefore welcome this report on the status of implementing the Doha development agenda. Bank’s role in this area is twofold. First, the Bank is a unique analytic center, performing independent and candid assessments of developments and proposing novel approaches to existing problems. Second, the Bank has an advocacy role in championing the interests of the developing countries, helps them formulate their negotiating position, provides technical assistance to build capacity and implements related projects.

As for the analytical role, the current state of negotiations as described in the report points to still substantial slack in multilateral trade liberalization. Negotiations are clearly lagging behind expectations. It should also be noted that the Bank is also to some extent responsible for these inflated expectations, because it was the Bank that initially proposed unrealistically high estimates of potential gains from agricultural trade liberalization. We were always skeptical about such estimates, and the Bank itself was eventually compelled to revisit these numbers.

We believe that the Bank should not confine its analytical work to the WTO paradigm. The logic of trade negotiations often dictates that a drop in tariffs is seen as a retreat, a favor that requires compensation. Since the Bank is not a party to negotiations, it has a unique opportunity to emphasize the advantages of liberalization to the liberalizing country itself. These advantages have long been analyzed and understood by economists, but the Bank could help convince both the negotiators and the broader public.

As for aid for trade, we maintain our traditional supportive view of this work. At the same time, we are disappointed by the low effectiveness of technical assistance in this area and hope that it can be improved. Only increased effectiveness of this aid would justify allocating additional funds for these purposes.

HIPC Initiative: List of Ring-Fenced Countries Potentially Eligible under the Initiative

We are fully satisfied with the decision to draw the line under the list of potential beneficiaries of the HIPC Initiative. This is in line with our long-standing opposition to attempts to convert it into a mechanism for recurrent debt write-offs condoning irresponsible borrowing and lending.

We have always insisted that the Initiative had been designed as a package of mutual obligations and incentives, rather than a complete and unconditional debt forgiveness. The purpose of the Initiative was to ensure that the debtor countries adhere to strict conditions in the area of macroeconomic management and social policy. Their inability to meet these conditions should not be used as an argument for new extension of
eligibility. We believe the only logical approach is to close this chapter. If the international community wishes to continue tackling the debt problem of the poorest countries, we should start working on new approaches to this issue.

It is likely that not all of the listed countries will be able to meet the stringent requirements of the Initiative, so that in the end some of them will not benefit from the Initiative. This only underlines the fact that the HIPC Initiative is but one of the many instruments available to the international community to assist sustainable development in the poorest countries. Current stage of the HIPC Initiative is a good time to start looking for more effective alternatives.