Statement by

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Strengthening Bank Group Work in Governance and Anticorruption

We are glad that governance and anticorruption issues are so prominently featured on our agenda. It is clear that improvement of public institutes and social, economic and financial policies, along with uncompromising fight against all kinds of corruption, are all critically important for the achievement of the MDGs. G8 summit (Saint Petersburg, 2006) underscored that "corrupt practices contribute to the spread of organized crime and terrorism, undermine public trust in government, and destabilize economies. Corruption by holders of public office can deter foreign investment, stifle economic growth and sustainable development, and undermine legal and judicial systems. The net effect of corruption is felt most directly, and disproportionately, by the poor." Therefore, we believe that the new World Bank governance and anticorruption strategy meets the expectations of the global community.

It should be noticed, though, that links between development and governance are complex and causality often runs in both directions. Thus, the Bank should rely on its own comparative advantages, including its knowledge of the development process and realities of developing countries, and its contacts with member countries should be predictable, transparent and free of bias. The new strategy should underscore the following issues, which, in our view, reflect the emerging consensus among the membership:

- All governance and anticorruption activities must be aimed at the overarching objective, i.e. achievement of the Millennium Development Goals.
- Anticorruption is only one of the elements of governance.
- Fight against corruption is not a valid justification of disengagement of the Bank from client countries.

Governance cannot be improved without increasing the quality of economic and regulatory policies. Of course, they are mutually interdependent, but World Bank research has demonstrated that improved governance does not automatically lead to better policies. In any event, development failures can be driven both by governance and wrong policies, and a wrong policy usually creates ample opportunities for misuse and corruption. In our view, the Bretton Woods institutions are best positioned to assist their
member countries in designing and implementing adequate macroeconomic, structural
and social policies aimed at development and poverty alleviation.

All World Bank governance and anticorruption work must be closely coordinated with
member countries' strategies. It is governments who bear full responsibility for the
quality of governance. From this angle, the Bank should be more sensitive to some
members' concerns that unanticipated elements of politicization in the Bank's work, even
if driven solely by anticorruption efforts, could sour relations between the Bank and the
government. As a result, it may lead to lower interest in the Bank's advice and,
eventually, slow down governance and anticorruption progress.

There are many countries where governance and anticorruption issues are best tackled by
means of improved fiscal management. This is exactly the area of prime competence of
the Bretton Woods institutions. We have already expressed our concern that some
countries, including those eligible for MDRI, lack even basic elements of financial
governance, like reliable economic and social statistics, monitoring of public expenses,
etc. It is obvious that improvement in this area will lead to better utilization of public
resources, lower opportunities for fraud, and increased trust of the global community.
That is why such an improvement should be among key conditions of expanded
assistance in the World Bank's country strategies.

The issue of good governance has been on the agenda of several important fora including
the recent APEC Finance Ministers’ Meeting with its focus on promoting public finance
efficiency and sustainability. On Russia’s initiative, the G8 Finance Ministers and a
number of colleagues from key economies had a productive discussion at the outreach
meeting in Saint-Petersburg in June 2006 on measures required to strengthen good
governance in public finance. Ministers agreed that responsible and effective
management of public finance is of fundamental importance for achieving
macroeconomic stability and sustainable growth, and provides the essential foundation
for good governance. As there seems to be an increased interest in this important issue,
we believe there is a scope for IFIs to work towards drafting a Code of Good Practice on
Public Finance Governance, supported by guidance on its application and
implementation.

**Strengthening the World Bank’s Engagement with IBRD Partner Countries**

We welcome this paper, which describes the renewed strategy for engagement with
IBRD partner countries. We believe that it raises very relevant issues at the right time.
The proposed solutions are in general appropriate and, if implemented, would allow the
Bank to maintain its relevance in a rapidly evolving world. Because middle income
countries (MICs) are home to 70 percent of the world’s poor, continuation of the Bank’s
strong engagement with them is indispensable in order to fulfill its core mandate. At the
same time, engagement in middle income countries strengthens the Bank’s financial
capacity, which serves as a basis for sustaining and enhancing resource transfers to the
poorest countries.
In our view, the priorities of the strategy are chosen well. They include enlarging the menu of financial and knowledge services, designing more flexible and timely delivery mechanisms, and eliminating internal impediments to implementation of innovative solutions.

We would like to lend our strong support to the proposed revision of the traditional model of service delivery based on bundling lending and non-lending services (for example, in the form of technical assistance loans). These activities can be easily put on a stand-alone basis. By doing so, the Bank may become a leading provider of policy advice and other expert services to the MICs, especially when delivered through a quick-response window. In order to be successful in this business segment, the Bank should be prepared constantly to demonstrate its ability to add value and provide high quality and timely services to the clients. The quality of knowledge products would clearly benefit if the Bank more actively used the experience and scientific and analytical capacities of MICs.

It is clear to us that investments in this business segment will be associated with substantial positive externalities. The Bank’s capability to maintain its competitiveness in knowledge and advisory services to the more advanced partner countries will generate the knowledge base to benefit all clients. We strongly believe that the Bank’s ability to remain the MIC’s partner of choice can be used a criterion to evaluate its overall success.

We also support the Bank’s intentions to innovate and increase its competitiveness in the area of financial services. It seems particularly appropriate to clarify the issue of the final costs to borrowers associated with Bank-financed projects, including the so called “costs of doing business with the Bank”. At the same time, we must not overlook the other side of the coin, namely the overall development impact that transcends the boundaries of isolated projects. We believe that improving the transparency in the area of loan pricing will allow the clients better to appreciate the value added by the Bank in terms of its contribution to development. This, in turn, will facilitate their judgment with respect to the Bank’s overall competitiveness as a financier.

We appreciate the proposals to enlarge the menu of financial products offered by the Bank: new lending instruments that are better tailored to the clients’ demands (such as lending in local currency); structured financial products, including Bank guarantees that may facilitate clients’ access to the international capital market and stimulate foreign investments; risk mitigation instruments; assets management; and so on. We also believe that these financial vehicles should be made more accessible to the qualified borrowers with strong macroeconomic policies.

We expect also that in the near future the Bank will mainstream its public-sector financing instruments at the sub-national level without a sovereign guarantee. Although not all countries are ready to make use of this vehicle at the moment, we see a strong demand for it in the future. Of course, in order to maintain the necessary fiscal responsibility, central governments should always be in a position to control activities in this area.
We would like to emphasize that Bank engagement with IBRD partner countries should be based on a customized approach, tailored to the needs of each client. This approach is reflected in the menu of option proposed by the Management (summarized in the corporate declaration and described in more detail in the discussion paper), which emphasizes the differentiation of services and improvements in their delivery mechanisms. This is especially true in the case of countries enjoying a good economic and financial situation. At the same time, the Bank should take fully into account the interests of those clients who prefer traditional instruments and mechanisms. Finally, based on these considerations, we should be careful and considerate when we address the issue of countries’ graduation and eligibility for different forms of IBRD support.

An Investment Framework for Clean Energy and Development: A Progress Report

This stimulating Progress report contains a number of valuable insights into the ways of dealing with "energy poverty" in the developing countries, as well as ideas on new approaches in the areas of clean energy and adaptation to climate variability.

Lack of access to modern energy services is a barrier to economic growth and can put at risk the achievement of the Millennium Development Goals, especially in Sub-Saharan Africa. That is why Russia as the G8 Presidency decided to put the issue of energy for development on the agenda of the G8 Finance Ministers Meetings in Moscow and Saint-Petersburg earlier this year. Recognizing the important linkages which exist between energy services and health, education, gender inequality and environmental sustainability, the G8 Finance Ministers in a separate statement *Access to Energy Services for the MDGs* agreed to take steps to alleviate energy poverty. In this context, Russia decided to contribute US$30 million to the Global Village Energy Partnership (GVEP) – a promising international initiative which seeks to accelerate the provision of energy services to the world’s poorest people – in order to scale up the GVEP’s activities in Sub-Saharan Africa.

We therefore welcome the increased emphasis on the role of energy for development made in the Progress Report and support the proposed Africa Energy Access Action Plan. At the same time, we disagree with the choice of priorities set out in the paper. For instance, it is necessary to further underscore the role of electricity shortages as one of the key impediment to development. These shortages also result in poorer investment climate and environmentally suboptimal energy mix. With no prejudice to the role of private sector in energy generation, we believe that this serious issue cannot be addressed without substantial public investment. Innovative ways to foster public-private partnership in this area are also of great importance.

To eradicate "energy poverty" we need a comprehensive strategy with measurable goals. Such a strategy would include evaluation of energy and technological requirements, and of sources of possible financing needed to meet these requirements. Particular emphasis should be given to large-scale regional projects with a potential to make rapid progress in the pockets of deep "energy poverty".
In this regard, it would be appropriate to recall the suggestions we made during our Spring Meeting, specifically, to rescind World Bank restrictions on large-scale hydro energy projects, and to initiate preliminary work on the feasibility of bringing the Bank back to the area of nuclear energy – provided, of course, that all related issues are fully taken into account.

Sections of the report that discuss clean energy seem to demonstrate that it is premature to count on mobilization of resources needed to put the global economy on the low-carbon path. Global regulatory regime is not a realistic option either at the moment. Still, we support proposals to launch, on a pilot basis, innovative tools to finance clean energy projects. We would like to see these new approaches operationalized. At the same time, we have to be cautious and not make the Bank a champion of new untested technologies which have yet to prove their viability in the industrial countries. This area is far outside the Bank’s core expertise, while erroneous investment decisions may turn extremely costly for the developing countries and for the shareholders as well.

As for the adaptation to climate variability, no one would deny the importance of our assistance to the developing countries in this area. However, this issue is not too closely related to the energy agenda. In view of the acute "energy poverty" it will make sense to deal with these issues separately, as different elements of our overall strategy.

**Progress Report on the Education for All – Fast Track Initiative**

We welcome the tangible results in the implementation of the Education for All – Fast Track Initiative (EFA-FTI) achieved over a relatively short time span. We believe that this successful start is evidence of the correct overall design of the strategy. One of the main pillars of the Initiative is its focus on concrete and measurable results. The ultimate success of the Initiative would critically depend on whether we are able to maintain this focus in the future, including also through an explicit link between external assistance to the education sector and country track record in achieving those measurable results. In this respect, we fully agree with the need to strengthen country ownership in terms of building institutional capacity to monitor progress in education reform.

We can safely predict that as gross primary enrollment improves in most participating countries, quality indicators will be gaining more and more prominence. Therefore, it is paramount to have in-built elements of quality assessment within the general structure of monitoring EFA-FTI targets and benchmarks, so as not to lose focus on quality while analyzing relative effectiveness of various policies and instruments used. Ultimately, support for this initiative critically depends on its ability to achieve concrete learning outcomes.

Despite impressive progress, current financing gaps and lack of longer-term predictability of resource inflows continue to thwart the process. The experience of early EFA-FTI participants demonstrated that they could not on their own mobilize sufficient resources to meet the targets, yet donor funding already falls short of the required volumes. In our
view, the Initiative is an efficient tool of focusing the attention of both recipient countries and the donor community on the key development goals, and we cannot afford to waste its huge potential.

At the same time, present underfunding of the Initiative should not stand in the way of accommodating large countries, even though their participation in EFA-FTI is inevitably going to increase the overall resource envelope. We believe that the task is to concentrate efforts on securing sufficient donor funding for the program, increasing long-term predictability of resource inflows and improving the flexibility of financing instruments, particularly in terms of direct budget support and sector-wide approaches.