Statement by
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Minister of Economic Development
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1. Sustainable Financing for Sustainable Development

1.1. WBG Policy Package

The policy component of the Capital Package is comprehensive and in most aspects, follows the consensus of the membership. We see it as a living document subject to further refinements and clarifications, particularly in view of specific concerns expressed by the borrowing members. It should be recalled that members’ governments take the ultimate decisions about the IBRD/IDA/IFC operations and bear responsibility for timely repayment of loans and credits out of their own budgets. Thus, their opinion should carry the utmost weight in all decision-making by the Bank. We want to express the following specific views on the policy package.

First, we feel much sympathy with the desire of the management to do more in the countries, which are still lagging in terms of per capita income but demonstrate strong commitment to structural reforms and development. It is entirely possible that this approach will be translated in the increased share of so called below-GDI countries in the overall financing envelope. However, we remain skeptical about the proposed idea to establish Bank-wide numerical lending targets for different clusters of IBRD borrowers based on their per capita income level. We do not want to see various groups of Bank’s clients being played off against each other. These tactics has never done anything good for the WBG.

In our view, the Bank has a well-tested and historically trusted mechanism to allocate its financial resources, which takes into account their scarcity and individual requirements, capacities and specificities of each borrower. Country Partnership Frameworks (and former Country Strategies) have always been an appropriate platform for agreed and adjustable allocation of Bank’s financing by years, sectors, and operations. It is our strong belief that the Bank should reinforce this instrument and make it more operations-oriented, with financing parameters clearly spelled out.

Second, on the WBG internal reforms. Important as they are, they should not become a goal in themselves, and need always be evaluated against the observable gains. Relatively minor savings should not be instituted at the cost of efficiency when some major areas, which may promise greater rewards in terms of budget and performance, are left intact. For instance, we may need to revisit the matrix structure, which combines vertical (regional and country-level) management with horizontal (thematic and sectoral) one. In our view, there is a strong case for strengthening of regional and country units as the core delivery elements of the Bank, and for trimming the horizontal layers at the HQ level. The Global Practices framework appears as both too cumbersome and too costly, thus inviting certain degree of rationalization and streamlining, and future budget savings on this basis.
Third, we feel that the policy package does not fully resonate with the most urgent priorities consistently identified at the country level. The new rolled out country diagnostic tool provides ample evidence that for most borrowing countries physical infrastructure deficiency and energy shortages, as well as excessive market regulatory burden, remain at the top of the list of binding constraints for development. We suggest the Bank should bring these “brick and mortar” issues back at the forefront of its policy agenda.

Due to their significance these areas should be treated by the Bank as the global public good at the country, regional, and global levels. Most other issues the Bank presents as global public goods are more efficiently dealt with by countries themselves as they move along the development path. This is, in our view, the true spirit of the Paris Climate Agreements and other global arrangements.

Fourth, for IFC we wish to endorse its growth strategy with an emphasis on the investment approach that is geographically balanced and diversified across sectors. While we see value in more operational impact by IFC in lower income parts of the world, it should proceed organically within the sound parameters of income generation and risk management. The latter considerations call for a simultaneous growth of operations in middle-income countries to maintain financial health and a triple-A rating of the Corporation.

1.2. WBG Financial Package

We have one major issue with the IBRD financial package. In the report on “Sustainable Financing for Sustainable Development” we find the proposal to extend the IDA 18 formula to guide future IBRD transfers to IDA as part of the capital package. We do not support this proposal for the following reasons.

We take note that keeping the IDA 18 formula intact until 2030 will result in a cumulative transfer of about $8 billion to IDA over this period, weakening capital accumulation at the IBRD and having a significant impact on the size of the current capital request. Supporting average annual commitments at $27 billion in FY2016 prices requires only one half of $7.5 billion that WBG Management asks for in the financial package. Another half is needed to generate the envisaged IDA transfers. Therefore, the package that shareholders are invited to finance is a 50% - 50% blend of IBRD capital subscription and IDA replenishment. Clearly all shareholders will judge this request in line with their own understanding of what constitutes solidarity with IDA. However, for IBRD borrowing members the decision on the IDA formula “doubles the price” they have to pay for access to Bank’s lending.

We are of the view that IBRD transfers to IDA make very little difference for IDA’s equity position, but have a large negative impact on the IBRD capital base. If sizable IDA transfers continue, financial sustainability of IBRD will never be assured, and the current package envisages a transfer of almost one third of IBRD net income over the whole period to IDA. We know that the major factor behind the IBRD capital shortage today was a massive transfer to IDA between 2010 and 2016. Having observed this in the previous capital cycle, we are reluctant to see this story replayed again.

We should not forget that every dollar transferred from the IBRD net income to IDA is generating only one dollar in IDA lending and grants, while every dollar left in IBRD reserves generates five dollars of IBRD lending, including to IDA graduates and other lower middle-income countries (LMICs). Keeping all IBRD income in reserves is a financially sound way to finance higher lending to LMICs without excessively restricting lending to middle-income borrowers, which seems to be a feature of the current capital package. We understand that the politics behind IDA transfers is complicated, but they clearly represent a sub-optimal financial solution.

Also, we believe that for the cooperative credit institution like the IBRD all income above the administrative expenses and reserve accumulation must be treated as an extra surcharge on the price paid by the borrowers.
Thus, these are the borrowers who have generated the IBRD transfers to IDA all over the past years, and these transfers ought to be attributed to the Bank’s borrowers commensurate to their interest payments.

The capital package report claims that “all shareholders are expected to receive benefits that significantly exceed the capital investment proposed”. Unfortunately, the proposed package falls short of this noble aspiration, as only the costs are well defined while potential benefits supposedly accrued to each and every member are presented in a rather declarative manner. Because of the unclear benefits of the package and its unjustifiably large size it is highly unlikely that we will be ready to approve the Resolution on the IBRD financial package.

Turning to the IFC financial package, we see the rationale behind IFC’s capital request since expanding business in IDA and FCV countries is a very costly endeavor. We very much welcome the elimination of IDA transfers and conversion of retained earnings into paid-in capital. Absence of IDA transfers will allow IFC to accumulate about $1 billion more capital, while conversion of retained earnings opens the way for IFC to quickly mobilize $920 million of new capital through a Selective Capital Increase (SCI).

We, however, see other components of the IFC package as problematic. Releasing the largest shareholder from its capital subscription and allocating this amount among other members raises a question of fair burden sharing. Amending the Articles of Agreement to preserve the largest shareholder’s veto power on any future capital increases in IFC is unacceptable from the governance point of view. This proposal undermines positive results achieved through the reforms of Voice and Participation since 2009. Moreover, linking the General Capital Increase (GCI) with the approval of changes in the Articles makes the timing of the GCI highly unpredictable with its overall feasibility very much in doubt. Under these circumstances, our participation in the IFC GCI is very unlikely.

2. IBRD Shareholding

We agree with a 100% formula-based allocation of new SCI shares together with using unallocated 2010 shares to additionally support the most under-represented countries. The new IBRD shareholding will be better aligned with the dynamic formula and will address the most obvious distortions regarding both under- and over-representation, while protecting the voting share of smallest poor members.