



DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)



SIXTY-SIXTH MEETING
WASHINGTON D.C. – SEPTEMBER 28, 2002

DC/S/2002-0051

September 28, 2002

Statement by

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Implementing The Monterrey Consensus

The report on the progress made in achieving the Millennium Development Goals and on the participation of the Bretton Woods institutions in implementing the Monterrey Consensus is informative albeit somewhat formalistic. Most points it makes were discussed long before Monterrey and at subsequent fora. We expected a more candid analysis of the issues still to be resolved and a frank assessment of the factors impeding the implementation of Consensus decisions.

We are pleased to note, however, that the Bank and the Fund are actively monitoring the extent to which individual countries have been meeting the Millennium Development Goals and are increasing their cooperation with the United Nations. It is also encouraging that they have begun to focus on the need to improve statistical systems in poor countries, for such improvements will provide a more objective picture of world poverty and its causes. Participation by the Bank and the Fund in an international dialogue on tax policy and in evaluations of the investment climate in various countries could be also of great benefit.

We support the efforts of the Bank and the Fund aimed at improving donor coordination, developing a common analytical base, and enhancing the predictability of resources allocation in tandem with tracking budget expenditures in recipient countries. Despite significant difficulties in this area, we can confidently expect that these efforts will bring about positive and tangible results in terms of enhanced effectiveness of the international development assistance system.

We welcome the improved dialogue with WTO regarding poor countries' access to the developed countries' markets as well as the establishment of a special trade department within the Bank. However, the trade issue poses a host of complex problems. It is important to note that despite all declarations of Monterrey about access to the markets of developed countries and reduction of access-distorting subsidies, practical policies have by no means always been consistent with these intentions. This applies particularly to agricultural subsidies.

Also, we still do not see solid results from the efforts of the Bank and the Fund to strengthen the financial architecture and prevent crises. The actual outcomes in this area indicate, at best, that these efforts have not been productive enough.

Improving the Effectiveness of International Development Assistance

The Monterrey consensus implies strong focus on results of development assistance and necessitates critical analysis and a revision of established approaches in this area. Although the issue of aid effectiveness has been under discussion for a long time, the document prepared by the World Bank for this session is the first to formulate it so clearly and openly. Its conclusions and recommendations are based on rich experience in implementing aid programs in various countries and sectors. We fully concur with most observations made in the document, especially since many of them square with the experience of the Russian Federation.

In particular, it is clear that the key conditions for sustainable development and for solving social problems are sound economic and social policies, adequate institutional capacity at every level of

government, proper public expenditures prioritization and control, and involvement of civil society in setting up development programs' priorities and monitoring their results.

To enhance and scale-up effects of individual projects, countries must involve existing administrative structures directly in their implementation. Although establishing parallel structures to implement individual international aid projects may in some instances help accomplish various immediate tasks, in the medium and long term this approach does not contribute to improvement of existing institutional capacities and carries additional costs.

We fully agree with the observation that the limited resources allocated for development assistance are not always being spent in the most productive way. Improving cost-effectiveness of this assistance and getting maximum possible results from each available dollar is of critical importance. Specifically, a considerable share of the resources allocated for technical assistance is spent on foreign consultants, whose selection is often outside the control of the recipient country. Thus, the country is unable to monitor the quality of the services it receives. Aid effectiveness could be substantially increased by using local expertise and better controlling the cost and quality of services financed with assistance funds.

In order to improve the effectiveness of resources, they should, whenever possible, be linked directly to the level of government structure where they will be used. The actual outcome of aid redistribution, however, depends on the administrative structure and the relationship between the central and local governments in each country. As the document correctly points out, any program funded with international aid can succeed only when it is consistent with the existing system of governance and takes into account the budgetary linkages among the various levels of public administration. Moreover, one of the most important political priorities in many countries is to increase responsibility for, and oversight of, the disbursement of financial resources at every level. Aid programs should not conflict with these priorities, particularly where sovereign guarantees are involved.

The proposals for more flexible financing arrangements for development programs deserve special attention, particularly the proposal to move away from the rigid linkage of such financing with capital investments. This complex issue should be carefully studied and an acceptable, balanced solution should be found. We should also enhance predictability in allocation of donors' resources, for example, by creating insurance mechanisms to cover unexpected costs and bridge temporary interruptions in aid flows.

We fully agree that increased aid effectiveness requires improved coordination and harmonization of the efforts of all donors on a country level. We should not, however, underestimate the difficulties of meeting this goal. It is no secret that bilateral assistance in many countries remains largely tied and is used as a tool to meet the economic and foreign policy objectives of donor countries. Nor can we disregard possible resistance from influential interest groups which may oppose easing such tying arrangements. Accordingly, the first step toward better coordination and synchronization of donor activities could be to depoliticize the assistance to a certain degree.

At the same time, from developmental point of view there is a strong case for eliminating fragmentation and poor coordination in donor activities and enhanced focus on results. Perhaps an appropriate institutional mechanism could be established by using the experience and institutional capacity of the World Bank, which has coordinated donor activities with success for a long time.

Better Measuring, Monitoring, And Managing For Development Results

The new focus on results presupposes a fundamental improvement in the system of measuring, monitoring and managing the effectiveness of development programs. However, as the reports clearly indicate, these tasks present substantial methodological and practical challenges. At least four sets of problems arise in this connection. Specifically, we refer to the issues related to quantitative measurement and evaluation of:

- the impact of domestic factors (economic policies and the quality of institutions) on development outcomes;
- the role of the external environment, including the state of the world and regional economy and the trade policies of the main partners;
- the collective contribution of all donors operating in a country; and
- the contribution of individual donors and partners.

Solutions to these problems are a long way off at this point; it is unclear whether they can be solved at all. It should be emphasized that they are all highly sensitive politically, for donors and recipient countries alike, and this aspect may make progress in this direction even more difficult.

Even the most developed countries have basically failed thus far to devise a system for evaluating the effectiveness of their publicly financed domestic programs. The task seems still more complex for developing countries. It is not altogether clear what criteria should be used to evaluate the quality of domestic policies in various countries and to interpret those countries' achievements. For instance, in some cases a country's partners may regard its policies as incorrect even though it may be nominally close to achieving the Millennium Development Goals. Nevertheless, the proposal for wider disclosure of CPIA ratings of IDA-eligible countries will provide the international donor community with a more objective evaluation of what is happening in those countries and of the impact of the assistance they receive.

The ability to collect and disseminate knowledge and information about development, is critical for monitoring development outcomes. Progress in these areas will have a positive impact on the quality of governance. This is especially important when it comes to evaluating the effectiveness of government expenditures. In this connection, we fully endorse the international initiatives aimed at enhancing and developing national statistical systems. We support efforts to improve national statistical systems that can be supported by loans and technical assistance from international institutions (IFIs), as well as bilateral donors' grants.

It should be borne in mind, however, that at present statistical data collected in poor countries often remain unreliable and fragmentary. Moreover, setting-up a modern statistical service requires substantial resources and a considerable amount of time. In any case, high statistical

standards cannot be imposed from outside – the principle of country ownership must be fully adhered to. In addition, the country programs of IFIs and donors should contain appropriate incentives, and these programs should be closely coordinated.

A focus on results should be fully integrated in the World Bank's activities. The final outcomes of operations can appropriately be added to existing quantitative and qualitative indicators. However, we should take care that no risk aversion behavior emerges. For example, if quantitative results, which may not be completely reliable, are unduly overemphasized, this may significantly distort the incentives of IFIs, prodding them toward opportunistic behavior. It is not altogether clear, for instance, how the proposed changes in the focus of the Bank's activities on final outcomes will affect its activities in problem countries, where its contribution could be enormous and critical.

It is also important to bear in mind the high cost of shifting to measurable results-based approach, both in financial terms and in terms of the actual institutional capacity of the participants in the development process. Investments in measurement and monitoring systems will make sense only when they are recouped through increased investments and improved quality of assistance in the future. In any case, the alleged lack of reliable systems for measuring results must not be an argument for curtailing aid programs and the fight against poverty.

The HIPC Debt Initiative

In reviewing HIPC progress, we were struck by sharp slowdown in the implementation of the Initiative over the six months since the Spring meeting. During this period, only one country has managed to reach its completion point under the Initiative. In addition, despite the considerable amount of debt relief, actual results in terms of improved macroeconomic indicators or increased level of social expenditures remain very modest. However, these circumstances should not lead us to excessive alarm or panic.

One major negative consequence, if panic were to prevail, could be the desire to accelerate the HIPC process by easing the eligibility threshold while expanding the overall number of beneficiaries, as well as by raising the level of debt reduction in each individual case against the initial indicators. Such an approach would be absolutely unacceptable. We consider it important to caution against potential swings from excessive optimism at the start of the Initiative to panic caused by gradual slowdown in accession of new participants. The growing difficulties in the implementation of the Initiative, especially with regard to the preparation of full country-owned poverty reduction strategy papers and improved governance, could have easily been predicted.

The international community today must certainly display patience and consistency in its commitment to the Initiative's original principles. It is worth taking another critical look at the goals and objectives that this instrument was designed to achieve. Again, it is important to remember that external debt write-offs, no matter how substantial, cannot replace sustainable economic growth, structural reforms, and an improved investment climate. Similarly, a mechanical increase in social expenditures cannot replace meticulous efforts to improve budget execution systems, external debt management, as well as to develop adequate sector strategies, and to generally increase the efficiency of public governance. The Initiative is merely one of

many prerequisites for sustainable development; participation in it is not a passport to a problem-free future.

We therefore underscore our conviction that it is essential to adhere both to the agreed eligibility criteria for countries to reach decision point of the Initiative and to the set of triggers for completion point. We take a similar approach to the issue of topping-up at completion point. No clear-cut methodology has yet been developed for evaluating the negative impact of exogenous factors that would justify such an additional debt relief. This issue must be approached with the utmost caution in order not to raise excessive expectations of potential candidates for such topping-up or to create distorted incentives that could result in a temptation to manipulate statistical data. A well-defined and clear procedure for allocating such additional assistance should be developed, and the procedure should then be applied only in exceptional cases; under no circumstances should this exercise be automatic. To proceed otherwise could erode the eligibility terms and conditions, a development that would eventually erode the basic principles of the Initiative and would be unfair to the countries that were the first to reach completion point.

It is with similar caution that we approach the proposed two-year extension of the sunset clause for the Initiative. This is the third such proposal, meaning that the total extension will amount to six years. In our view, this runs counter to the originally stated intention not to turn the Initiative into a permanent debt relief mechanism. The Initiative's rigorous time limits, were, *inter alia*, intended to encourage potential participants to adopt appropriate structural reforms on an accelerated basis. In practice, however, a large group of countries continues to have serious difficulties meeting all the conditions for participating in the Initiative, and it is hard to expect that all the candidates will make it over this bar in the two remaining years. Sooner or later we will face a difficult choice anyway—to call an end to it or extend the time limit once again. Consequently, even though in a spirit of compromise we are prepared to agree to the proposed new two-year extension, we would urge both the Bank's management and donor countries to use this period to devise future strategy and alternative approaches to the countries that will still not be able to meet the criteria for participation in the Enhanced HIPC Initiative.

National Poverty Reduction Strategies

We agree with the conclusions and recommendations of the report on Poverty Reduction Strategy Papers (PRSPs). We believe, however, that they need to be further refined on the basis of ongoing experience.

Although the majority of the least developed countries have already prepared and adopted their poverty reduction strategies, experience in implementing them is still rather limited. Accordingly, for the time being there are more questions than answers. Therefore, the dialogue on the issues of sustainable economic growth in the interests of poverty reduction must be expanded. It is important to get all stakeholders - including civil society, the private sector, parliaments, and local subnational authorities - adequately involved in the development and implementation of national poverty reduction strategies. Monitoring the implementation of these strategies must be improved on the basis of realistic and measurable indicators. A great deal needs to be done with regard to building up cadre and institutional capacity; their inadequacy in

the least developed countries is a very serious obstacle to achieving economic and social development goals.

In the context of national poverty reduction strategies, it is particularly essential for multilateral and bilateral donors to coordinate their activities and harmonize their aid policies and procedures. Otherwise the recipient countries are doomed to incur excessive transaction costs and administrative burdens related to external assistance. We firmly believe, however, that the primary responsibility for effective utilization of external assistance and a subsequent reduction of aid dependency lies with the recipient countries themselves.

Anti-Money Laundering And Combating Financing Of Terrorism

We give high marks to the work of the Bretton Woods institutions on anti-money laundering and combating the financing of terrorism (AML/CFT). Thanks to them, the first comprehensive methodology for assessing the level of resilience of national financial systems to these dangerous abuses has been developed.

Naturally, this work is still far from being complete. A whole host of issues remain unresolved and require further research and consultations.

To begin with, we continue to have serious doubts about some aspects of the proposed assessments. From the very outset, our approach to these assessments has been based on the fact that the Financial Action Task Force (FATF), as planned, would adopt the ROSC principles—the uniformity of rules applied to every country without exception, the voluntary nature of the assessments, and full collaboration and cooperation among all parties. FATF, however, is far from adopting these rules, which makes prospects for active participation by the Bank and the Fund in this area somewhat problematic.

We are also concerned about the fact that FATF is not ready to stop compiling blacklist of countries (the so-called NCCT process). At the same time, we regard the decision not to hold the next round in this process during the next twelve months as just a first step in the right direction.

We are especially disturbed by the probable course of events in which FATF announces that conducting an assessment according to the standards of the Bank and the Fund is an additional condition for adopting a decision to remove countries from the NCCT list. Given FATF's specific decision-making system, even an assessment with positive results may prove insufficient for such a decision to be adopted. This would seriously discredit both the methodology of the assessment and the participation by the Bretton Woods institutions in the fight against money laundering in general.

It is imperative to build mechanisms into the assessment process to preclude situations in which the Bretton Woods institutions become involved in non-transparent and unfair processes that run counter to their principles and mandates. We expect the Bank and the IMF to declare outright that they do not consider and do not recognize FATF blacklists.

In addition, it is not clear how the interaction and division of labor will proceed between the Bretton Woods institutions, on the one hand, and FATF and similar regional bodies, on the other hand. The ROSC process implies that assessments are conducted by the Bretton Woods institutions, which assume responsibility for the quality of their results. In our view, the mechanical consolidation of two unrelated groups of institutions within this ROSC module carries the risk of a certain conflict of interest that could damage the participants' reputation. It has been proposed that the Bank and the Fund should not bear responsibility for the portion of the assessment conducted by "independent experts." But in that case the assessment in effect falls outside the integrated ROSC process.

We believe it would be better to separate outright the assessments conducted by the Bank and the Fund from the assessments conducted by FATF and related organizations. The latter assessments must not be viewed as an element of the ROSC process, especially since there is no agreement between the Bretton Woods institutions and FATF on mutual recognition of assessments.

We are prepared to endorse the consensus that is taking shape. This endorsement reflects our fundamental and unconditional commitment to the fight against money laundering and financing of terrorism. Nevertheless, our attitude toward the specific mechanisms of the Bretton Woods institutions' participation in these activities hinges on the FATF's position during the pilot period. If FATF fails to take appropriate steps to meet the agreed ROSC criteria, we will have to review our position.