



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)



**SEVENTY-FIRST MEETING
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Statement by

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Minister of Finance
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Minister of Finance of the Russian Federation

**to the Joint Ministerial Committee of the Boards of Governors
of the World Bank and the IMF on the Transfer of Real Resources to Developing Countries
(Development Committee)**

Washington, D.C., April 17, 2005

**Global Monitoring Report 2005
MDGs: From Consensus to Momentum**

We have read the new World Bank's Global Monitoring Report with much interest. In general we believe that this Report meets the requirements put forward by the international community, namely, it is objective in assessing the real progress towards the MDGs and towards meeting the goals of the Monterrey Consensus. This report is also an improvement on the previous version in that it presents a clearer and more complete description of the tasks facing the international financial institutions in the area of accelerating development.

Present report is focused on the problems of Sub-Saharan Africa, which faces particular challenges in attaining all MDGs. It is clear that in order to overcome this difficult situation both the African countries and the international community as a whole would have to step up their efforts. The document puts forward a five-point agenda aimed at putting the poorest countries onto a new growth path:

1. Anchor actions to achieve the MDGs in country-led development strategies.
2. Improve governance and environment for stronger, private sector led economic growth
3. Scale up delivery of human development services by dedicating to them more resources and improving efficiency.
4. Dismantle barriers to trade.
5. Substantially increase (double in the next 5 years) the level and quality of official development assistance, including reaching closure during 2005 on current proposals for additional debt relief.

The importance of all these actions has been long recognized both by the donors and by recipient countries. International financial institutions have put them at the forefront of their activities. It is therefore hard to dispute these points. In our view *the main problem is putting these proposals into practice*. In this respect we would like the report *to clarify obstacles to tangible progress in all these areas, and to provide realistic assessment of likely future results*.

The document makes a novel attempt to analyze general and specific problems of Sub-Saharan Africa that determine the region's failure to catch up with the rest of the world on most measures

of socio-economic development. In this respect the document provides interesting and useful information. Any strategy to put the poorest African countries on a new development path must be based on their particular local conditions, while at the same time drawing on the global experience of resolving similar problems. The key question however remains unresolved, namely, whether the donor community is indeed prepared to provide additional resources to address African priorities, and whether the promises of aid obtained thus far can be taken seriously enough to serve as a basis for more ambitious national development strategies.

We must bear in mind that many countries that achieved remarkable progress in development and the fight against poverty had started from a similarly low base. They did not enjoy as much external assistance as does Africa. Given that many African countries are already aid-dependent, it would be particularly useful to analyze the reasons for past failures to reach the desired outcomes through bilateral or multilateral aid. *Such analysis would help to clarify whether a massive increase of aid could lead to desired results with respect to achieving the MDGs.*

In this context we note with optimism the acceleration of economic growth in Africa in 2004. We hope that this momentum can be sustained and supported by the international community, since lasting economic growth is the key prerequisite for overcoming poverty. Global Monitoring Report convincingly demonstrates that a low level of private investment in Africa has been an important reason behind its historically low growth rates. We believe that this low investment is due not only to poor institutional capacity and investment climate but also to the lack of essential infrastructure.

This is also the opinion of the recipient countries, whose voice and priorities should be always taken into account in any aid programs. For example, many African countries have pointed to the critical role of infrastructure for increasing competitiveness, improving investment climate, speeding up growth and reducing poverty. At the same time in the past there has been a trend of falling investment in infrastructure, caused to some degree by donors' requirement to channel aid resources to expanded social spending.

The document makes it clear that channeling foreign aid to infrastructure investment leads to faster gains in terms of productivity and growth while at the same time avoiding the problem of poor countries' limited absorptive capacity. At the same time channeling external resources to social sectors immediately faces local capacity constraints and leads to slower growth and loss of competitiveness.

It is therefore obvious that absorptive capacity, especially its macroeconomic aspects, should be a primary concern determining the scale, timing and structure of aid (financing investment or recurrent costs, imports or liquidity). This is especially true for countries where the share of aid in GDP and government budget is high, as in most poor African countries. Progress in resolving this problem will determine the effectiveness of foreign aid for development. *Until such a solution can be found it would be very difficult to discuss the timing and volumes of additional development assistance, including proposals for possible frontloading.*

Anchoring external assistance in national development strategies as expressed in concrete budgets is the key to improving the effectiveness of international aid.

The document contains an interesting analysis of recent proposals for additional debt relief to the poorest countries; however the conclusions of this analysis remain unclear. We would like the World Bank and the IMF to come up with a clear and balanced answer to the questions put forward in the analysis, and to relate any proposals to the more general problem of sustainable debt levels, which is under review at present. We would also like any assessment of proposals to take account of the conclusions contained in the OED report on the HIPC Initiative.

We consider is a shortcoming that the report does not clarify *the role of the private sector in speeding up economic growth and attaining the MDGs*. The document emphasizes the need to remove existing obstacles to entrepreneurship in poor countries. This point is hard to contradict. At the same time we believe that regulatory failures are not the only cause of private sector's modest contribution to growth. Moreover, it appears that entrepreneurs in the poor countries demonstrate remarkable resilience and success in extremely difficult conditions.

The World Bank has often pointed to *the lack of link between national development strategies and the agenda of private sector development*. The report's section on the IFIs is almost entirely silent on the subject of promoting private enterprise. Nor does it pay sufficient attention to the role of the IFIs in developing infrastructure, including at the sub-national and regional level, despite a clear client demand for such work and its link to investment climate, competitiveness and growth. *At the same time many experts agree that channeling more resources to private sector development in the poor countries is an important condition of effectiveness of additional aid*.

In our opinion private sector development and improved competitiveness should be the filter through which we should consider possible effects of the new round of trade liberalization on the poor countries. The document contains some sober and balanced assessment of the benefits of this process for developing countries. It states that we should not expect miracles. The signal to the poor countries is clear: their future will ultimately depend on their own efforts in economic reform, institutional development and investment, including human capital investment. The document concludes that poor countries are not doomed to the vicious circle of poverty and aid-dependency, a conclusion which we wholeheartedly share.

We would like to thank the World Bank for this extremely useful and rich report. With the above mentioned caveats, we can support the proposed five-point agenda of accelerated development, as well as the action priorities that it implies. In future reports we would like to see clearer answers to the questions mentioned above, in particular relating to the assessment of absorption capacity, the role of infrastructure and private sector development.

Moving Forward: Financing Modalities toward the MDGs

We consider with great interest proposals that could enhance the ability of the international community to mobilize additional aid flows. The use of innovative mechanisms is especially justified in cases where traditional mechanisms are unable to quickly allocate adequate resources necessary to address urgent development challenges.

In this regard, we welcome the pilot IFF for Immunization (IFFIm) linked to Global Alliance for Vaccines and Immunization (GAVI). We believe that successful implementation of the IFFIm would directly contribute to achieving the MDG of reducing infant mortality. In addition, it would be instrumental in addressing major challenges facing the health sector in poor countries, such as:

- assuring adequate and predictable funding necessary for development and production of essential vaccines;
- stimulating private sector investment and competition necessary to maintain adequate levels of vaccine production while reducing costs;
- strengthening vaccine delivery capacity in recipient countries;
- decreasing budget costs associated with preventable deceases and thus freeing up resources for other urgent need.

Vaccination and immunization offer an especially promising avenue for cost-effective solutions of existing problems by frontloading aid. The Russian Federation is considering the possibility of participating in this initiative to the extent allowed by its budget law.

At the same time, plans to use the IFF as a mechanism for additional aid mobilization on a global scale need to be further elaborated. In particular, they need to be aligned with varying absorptive capacities of recipient countries vis-à-vis increased volumes of aid flows, including institutional and macroeconomic aspects of this issue. Present Global Monitoring Report shows that these issues have not yet been fully resolved either at the analytical or at the practical level.

We also believe that we need to *continue discussing issues related to global taxes and voluntary contributions, while dropping the proposals that have no chance for a meaningful consensus*. The paper proposed for the Spring DC meeting is quite useful in terms of assessing the practicality of various proposals. At the same time, we believe that it does not exhaust all possible options.

When assessing various proposed global taxes the paper gives preference to those which can be most efficient in fulfilling their direct revenue collection function while at the same time contributing to improved equity and efficiency of global resource allocation. In this regard, an obvious candidate for taxation would be *agricultural subsidies in developed countries that are especially harmful to the poorest developing countries*. Bearing in mind that it would be unrealistic to expect sharp reduction or elimination of these subsidies in the near future, their negative role for the poorest countries could be somewhat offset by applying a voluntary quasi-taxation mechanism. Depending on their political preferences, donor countries could choose between two options: either reduce subsidies or directly transfer resources calculated on the basis of such subsidies as compensation to the poor countries. *In this case, instead of taxing trade, we would be taxing barriers to trade.*

Although the proposals put forward so far appear reasonably attractive, we believe that maximum practical effect could be achieved thorough the *blending of funds from various sources that could substantially enhance the flexibility and capacity of existing development finance*

mechanisms without introducing any revolutionary changes. Such blending arrangements could contribute to attaining the following urgent goals well described in the paper:

- addressing the needs of the so-called “gap countries” whose development financing requirements are not adequately met in the current system and which are caught between their ineligibility for either IDA or IBRD funding;
- financing large infrastructure projects in poor countries, especially those on the regional scale;
- assuring adequate financial support to private sector development in poor countries;
- providing adequate World Bank financing for infrastructure projects on sub-sovereign and municipal level (especially in the area of water and sanitation, which is directly related to the MDGs).

Despite the fact that the above proposals have been on the agenda for a long time, practical results of our discussions have yet to materialize. We believe that we should move ahead in this area more expeditiously.

The Russian Federation has always paid much attention to mobilizing resources for development. Although we have not yet completed our own program of structural reform and poverty reduction, we are trying to increase our assistance to the poorest developing countries. Thus, we have decided to double our contribution to IDA in the framework of the 14th IDA Replenishment. In March 2005 we wrote off some US \$1.1 billion of Ethiopian debt and are now considering the possibility of complete write-off of the debts of the poorest countries in the framework of the Debt Initiative.

Voice and Participation of Developing and Transition Countries in Decision Making at the World Bank and the International Monetary Fund

The document for consideration by the Development Committee contains some systematic and useful information on past progress and proposals for future actions for increasing the voice and participation of developing and transition countries (DTCs) in decision making at Bretton Woods institutions.

On this topic we have always stressed that any possible actions in this area should be pragmatic, should not lead to further politicization of Bretton Woods institutions, and, most important, should not undermine the long standing tradition of governing by consensus. This tradition in our view is one of the key assets of these institutions that benefits all of its shareholders and ensures Bank’s and Fund’s central role in the international financial architecture.

In the last few years we made some tangible progress on the subject of voice, in particular, improved the capacity of the Executive Directors’ offices representing many poor African countries. We are convinced that an extension of the program of secondment for representatives of DTC governments would lead to greater client understanding of World Bank programs and policies, and therefore would make a solid contribution to capacity building in the borrowing countries and improve the quality of Bank-client collaboration.

We note that many of the structural measures put forward so far, in particular those concerning the reallocation of shares or changes in voting rules, are fraught with political and technical problems. Another reason for persistent lack of consensus in this area is the fact that even if such structural changes were possible, they would not lead to practical improvements of DTC voice. This is well illustrated by the example of MIGA, whose Convention ensures parity of votes between Part I and Part II countries. In practice even such radical difference of voting rules has not led to any significant manifestations of greater voice of developing and transition countries in MIGA as compared to the rest of the World Bank Group.

At the same time, we believe that many practical steps in the desired direction can be made at the level of institutional management. It is no secret that many crucial decisions that affect the quality and content of the work of Bretton Woods institutions are made by the management and staff of these institutions on a day-to-day basis. Such decisions often either are not offered for discussion by the Board of Directors, or are presented for a *post factum* approval in their most general form. For example, the Board of Directors has never officially sanctioned a reduction in financing for infrastructure in the late 1990s. Instead, this shift was made gradually, as a result of many choices made by staff and management at the operational level that tended to reflect the point of view of the large donor countries.

It is important to point out that we are in no way advocating micromanagement of the Bretton Woods institutions by their respective Boards. The existing division of authority, whereby the Boards focus on strategy and management takes operational decisions, has in general worked quite well. It is however important to ensure that the voice of developing and transition countries is heard at all levels of the system.

In this respect, we believe that increasing the share of developing and transition country nationals among the staff and management of the Bank and the Fund can play an important role. In particular, this could increase the credibility of the Bank and the Fund in the public opinion of countries undergoing economic reforms, and dispel the view that they reflect only the interests of their largest shareholders. Proposed measures in this area, and especially better anchoring aid programs in client countries' own priorities, have a very good chance of bearing fruit. Let us therefore *focus all our efforts on these practical and effective steps, so as to demonstrate that the international community is truly serious about the issue of voice.*