



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)

NINETY-SIXTH MEETING
WASHINGTON, D.C. – OCTOBER 14, 2017

DC/S/2017-0048
October 14, 2017

Statement by

H.E. Maksim Oreshkin
Minister of Economic Development

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1. Learning to Realize Education's Promise

We appreciate immense wealth of data and information contained in the report. World Development Reports are well known as first class reviews of the cutting edge development thinking. Education is undoubtedly one of the issues which is a permanent priority for policy-makers, as its outcomes define countries' future for generations to come.

Our reading of the report leads us to two major conclusions.

Firstly, we are now witnessing historically unprecedented progress the developing countries managed to achieve within a relatively short time, generally much faster than advanced economies about a century ago. Universal school education with full gender parity is now almost a global default standard rather than an elusive goal it used to be just a few decades ago. This achievement is by no means trivial and needs to be clearly recognized.

Secondly, many developing countries are still facing the challenging task of translating this nearly universal enrollment into the truly learning process. Quality is generally harder to come by than quantity, and school education is no exception. This message is very important, and the Bank is doing a great job in driving it forward.

Still, we do not feel it would be correct to call the current state of affairs a crisis, as this terminology implies a sudden deterioration rather than newly evolving challenges, and understates the immense success in school enrollment and completion registered by the developing countries. We prefer to see it as a second generation of education reforms, that requires developing new approaches and tools.

To implement such reforms countries must cope with many challenges, including those related to the demographic bulge and a relatively high ratio of school age children, as well as teachers needed to educate them, to the wealth-generating labor force. Inadequate revenue mobilization often exacerbates these challenges, making it very difficult to guarantee that all teaching staff is properly skilled and motivated. Another major challenge rightly articulated in the report is properly measuring learning outcomes and improving teaching methods on this basis. These issues should be dealt with by the countries' authorities, and the Bank seems well suited to provide its expert assistance and financial support in this area.

We have always strongly supported this component of World Bank country work. That is why in 2008 the Russian Federation launched a dedicated Russia Education Aid for Development (READ) trust fund, which proved very efficient in leveraging World Bank knowledge to increase institutional capacity of the education sector in nine developing countries. In 2016 we launched a second phase of this trust fund program (READ 2) to capitalize on the result achieved under phase one. Stronger capacity to assess student

learning and using those assessments to improve teaching methods, importance of which is underscored throughout the WDR, have been at the center of programs supported by this series of Russian trust funds.

Another area where the Bank might deploy its expertise is the overall institutional settings of the education sector. In order to mobilize all sources of public and private finance, these settings may include, for instance, proper alignment of various school formats, from public schools to private, charter, confessional ones. Giving sub-national governments, local communities, and parents stronger voice in determining school size, location, staffing, and other parameters, while ensuring uniform educational standards, is one more policy area where the Bank might find its assistance invaluable.

2. Maximizing Finance for Development through Leveraging the Private Sector

We fully support the objective of achieving a strategic shift in the way that the WBG engages the private sector in its core activities. A substantial increase in the volume of private finance for development is a necessary condition for attaining the SDGs. However, in the present global environment post-2008 deleveraging and reduced direct investment flows to emerging markets continue to be the underlying trend. Achieving a meaningful progress in this area requires a transformation of the institution from a predominantly public-centric to a much broader mindset. Part of this transformation will be a genuine cultural change, involving internal adjustments, changing skills mix and the incentives structure. The document presented by the Bank management gives us good insights into this adjustment process.

This said, a more comprehensive and structured approach towards formulating and operationalizing these tasks is required. We need a clear picture of what is feasible in terms of mobilizing the private sector resources for development and what is the realistic leverage that could be achieved given current capital constraints.

The four examples in the paper of successful approaches to maximize finance for development are quite impressive, but they are rather unique, involve a lot of manual work in structuring and may rather be understood as a first attempt to address the problem. The goal of leveraging the private sector for development requires a much more systematic organization and implementation structures, bringing the functioning of the institutions to another level. In other words, a well-established operating platform has to precede a full-scale roll-out of the strategy.

We hope that management will soon produce a realistic and convincing strategy for transforming the WBG into a leveraging machine. Beside the necessary internal adjustments this strategy should include a detailed list of financial instruments and specific actions to be used in this endeavor. Relevant financial instruments and sophisticated structures are absolutely necessary to tailor to different groups of prospective investors with different risk appetites and investment horizons.

Finally, an essential component of this strategy should be creating a conducive environment for private sector contribution. This component has always been the bread and butter for the World Bank, and will continue to be an integral part of any strategy to leverage private resources.

3. Forward Look – Serving All Clients

We recognize the need to ensure an equitable access to the WBG finance for all clients, including fragile and conflict states, lower middle-income countries as well as recent IDA graduates. At the same time, we believe that any sustainable treatment of this issue should involve protection and enhancement of the Bank's financial capacity.

A simplistic approach such as prescribing allocation objectives for less creditworthy clients based on their needs will contradict the principles of good financial management and imperil the financial future of the WBG. Increasing risk profile of the Bank's balance sheet without a commensurate increase of its capital and reserves and/or protective measures may detrimentally affect its credit rating with many negative consequences, including a decline in its lending capacity and the ability to leverage private resources. We trust in demonstrated abilities and a good track record of the Bank's financial management and believe that it will find appropriate ways to accommodate the changes in risk appetite without endangering its financial standing. In order to continue its mission, including in the poorest member countries, the Bank should remain a first-class lending institution, and it is in the best interest of all shareholders to protect its financial health and lending capacity.

4. Forward Look – Strengthening Financial Capacity

Maintaining the appropriate level of the IBRD and IFC capitalization is a key precondition for preserving their lending and investment capacities, extending their capabilities to leverage large private resources and assuring their financial sustainability. In fact, their capital is a valuable global public good that allows them to play a central role in financing the global development. We should recognize that since the last capital increase in 2010 the management of this unique resource has not been prudent. During the period since 2010 IDA transfers led to sharply reduced allocations to reserves and foregone capital accumulation. The result was an effective depletion of their capital base, necessitating another round of capital increases today. This phenomenon also had detrimental effects in terms of opportunity costs associated with forgone leveraging capacity that, in our view, massively exceeded any positive effect of contributions to IDA. If placed into IBRD/IFC reserves, these transfers could have made a visible difference in the two Institutions' lending capacities today.

In this context, a new capital increase of the WBG could hardly be efficient unless its Management closes all the loopholes that leak reserves and impede organic capital accumulation. Therefore, full discontinuation of IDA transfers should be a key component in the package of measures to expand financial capacity.

We are skeptical that the ongoing independent external review of IBRD and IFC's respective capital adequacy frameworks could reveal any hidden capacity that would allow the two institutions increase their lending using the existing capital base. Going below 20% for the IBRD's E/L ratio could only weaken Bank's financial position and put its credit rating at risk. The only way to increase the lending capacity while the capital increase discussions are ongoing is to accumulate all net income in reserves and close all reserve leakages.