



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)



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Statement by

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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)**

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**Strengthening the Development Partnership and Financing for Achieving the
MDGs: An Africa Action Plan**

We welcome the fact that the international community is paying increasing attention to the task of development in Africa, and we also share the general concern that Africa is off track to achieve the Millennium Development goals. In this connection we strongly support World Bank's Africa Action Plan that forms an integral part of recent international initiatives to spur development in this region.

We note with much satisfaction the recent shift of emphasis towards greater reliance on **economic growth** as the main engine of lifting these countries out of poverty, a change in attitude that Russia has been advocating for some time. We believe it is time to identify development paradigms that could realistically put Africa on a better growth trajectory. Successful examples in South-East Asia and Latin America suggest that such paradigms should be based on building a socially oriented industrial society with massive job creation. Needless to say, increased labor productivity should be the cornerstone of this model. In this respect it is particularly instructive to reflect that labor productivity in Africa has been falling for the last 50 years.

Against this background we particularly welcome the renewal of attention to investments in **infrastructure**, a topic that has been neglected by the multinational institutions for too long. We are happy to see that the Plan envisages doubling infrastructure investment in Africa, which can form an important step on the road towards self-reliant growth. In practical terms this would mean investing up to 20 billion dollars a year in African infrastructure projects, up from the current level of about 10 billion a year. We hope that the bulk of the **promised increase in aid to Africa** will go towards improving the continent's productive potential, because otherwise we risk wasting this historic opportunity.

Debt Relief

Russia has already stated its view of the debt problem by signing the G8 Declaration in Gleneagles. We believe that this bold step will offer a new chance to the most vulnerable, and as such it is an act of humanism and international solidarity.

We are happy to note that this initiative has met broad international support. At the same time we realize that putting this momentous proposal into practice requires serious and detailed

analysis reflecting the interests of all concerned parties and forming the foundation of true multilateral consensus.

The idea of writing off all the debt owed to the multinational financial institutions is a logical progression of the Enhanced HIPC Initiative, so we can use the experience and mechanisms of the Initiative for complete debt relief.

There is a general consensus that the G8 debt relief proposal should be seen as a package of interlinked components. In this respect it is important to be cautious in using the time remaining under the HIPC Initiative to broaden the number of its participants, both in its original format and in the enhanced framework under the G8 proposal. We must acknowledge the obvious fact that adding new participants at the final stage of the Initiative would create a number of serious problems, namely, in terms of effective use of released funds.

Aid Financing and Aid Effectiveness

Since the Monterrey Conference the question of donor accountability for providing timely aid resources of adequate amount and quality has been at the forefront of the Development Committee agenda. There is no doubt that the quality and quantity of aid are closely linked: improving the quality of aid could raise the effectiveness of development assistance even at constant aid levels. It is also clear that the existing structure of aid flows is not optimal, and its continued replication would not bring us nearer to achieving the MDGs. Unfortunately, existing modalities of aid makes it difficult to judge to what extent any increase in nominal aid volumes is translated into real improvement in resource transfers. We therefore support the proposed action plan to enhance the World Bank's role in the global monitoring of development assistance.

At the same time we would like to caution against a simplistic view of what would constitute an improvement in the structure of aid. For example, we believe it would not be useful to equate it with an increasing share of budget support. Direct budget support is only justified when we can be sure that recipient countries have adequate capacity to use these resources effectively, in terms of both sound public resource management and maintaining reasonable macroeconomic framework. An important aspect of this decision is the distribution of aid flows between investment and consumption as well as between productive and social sectors.

We welcome the progress achieved in developing new mechanisms of aid mobilization, in particular in the area of vaccines. We are however cautious with respect to new proposals on taxation, such as proposals to introduce airline ticket surcharge. At the same time we would like to point out that any tax proposal would be much more effective if it played the dual role of mobilizing resources for aid and rectifying structural imbalances in international trade that prevent the developing countries from taking full advantage of the international division of labor. In this respect it would be useful to discuss the feasibility of taxing agricultural subsidies in industrialized countries.

Focusing on tangible and measurable results is a major instrument of enhancing aid effectiveness. We welcome the Bank's efforts in this area. However, given the complexity of

this issue, the Bank must make sure that these efforts do not lead to additional bureaucratic procedures, delays in project preparation or any other negative developments that could undermine the recent trend of containing the costs of doing business with international development institutions.

Finally, as regards the problem of donor coordination, we believe that the best way of overcoming it would be to channel an increased share of external aid through multilateral agencies, such as IDA.

Infrastructure and the World Bank

We are particularly gratified to see World Bank's return to infrastructure financing because Russia has been a long-standing proponent of this historic shift. It seems that only recently the primacy of infrastructure financing for development seemed debatable; yet today, this idea once again enjoys global support.

One important example of this shift is that Africa Action Plan gives priority to infrastructure financing. It is well known that infrastructure projects help overcome key obstacles to economic growth, meet crucial demand for basic services, including by the poorest strata of population, and promote export and diversification. In addition, infrastructure projects can be an effective vehicle of improved governance and catalyst of civil society development.

The Bank should focus its efforts on developing mechanism of sub-sovereign support without the sovereign guarantee. Clearly, instruments of such support should be used sparingly, only where there exist adequate institutional and macroeconomic conditions. Initially these conditions are most likely to be met in middle income countries. This sub-sovereign support could complement ongoing efforts of these countries to improve fiscal federalism, manage urbanization and achieve economic and environmental balance in major urban conglomerations.

Review of World Bank Conditionality

We welcome continuing World Bank efforts to improve lending conditionality in view of experience and extensive research. It is encouraging that this research seems to confirm some long-standing beliefs of Bank borrowers, namely, that conditionality works best when it is least intrusive and does not disrupt country ownership. In this respect we are certainly encouraged by the gradual shift in World Bank attitude to conditionality and hope that it will lead to substantial improvements in aid effectiveness.

One of the main outstanding issues in this respect is the balance between country ownership and aid effectiveness in designing conditionality. While we all agree that ownership is essential, it would be misleading to suggest that the World Bank and the international community would support any reform a client government may attempt. It is the Bank's role as an international development institution and as the "Knowledge Bank" to make sound judgment with respect to the viability of development programs, and to support only those programs that have a good chance of success.

This role of the “Knowledge Bank” is extremely valuable and should not be underestimated, both in the input the Bank can provide through its analytic work, and through focusing conditionality on those aspects of the country program that are most likely to lead to growth and poverty reduction. In practical terms it means, among other things, that the Bank should be able to continue to attract and retain staff able to make these sorts of complex judgments.

We are happy to see the steady decline in the number of binding conditions attached to Bank loans. At the same time we note that the numbers of “benchmarks” are increasing, begging the question of whether what we see is a real “un-cluttering” of conditionality, or merely an exercise in re-labeling. Indeed, the paper itself suggests that the borrowing governments often do not see any difference between “conditions” and “benchmarks”, so it is not clear whether this re-labeling is very useful from their point of view.

We agree that existing policy provides adequate foundation for good judgment on conditionality. The policy is permissive and flexible enough to accommodate a wide variety of country circumstances, and good practice notes provide useful design guidance to Bank teams. There seem to be systematic differences in the way judgments are made in different regions, or even within the same region. Clearly, equal treatment cannot be assured at the policy level, so it must be achieved through institutional means. We urge the Bank to review and implement appropriate mechanisms for ensuring equal application of Bank policies to all clients, including on setting loan conditionality.

2005 Review of the Poverty Reduction Strategy Approach: Synthesis and Balancing Accountabilities and Scaling Up Results

We welcome this detailed report and find the evidence on practices in implementing the PRS approach very illuminating. Nevertheless, we hope that future analysis would focus more on the link between growth and sustained poverty reduction on the one hand, and policies and approaches that are likely to bring it about, on the other. After all, the proof of a strategy’s success will be in whether or not it brings about the development results it was designed to attain.

In this respect we regret that the substance of poverty reduction strategies did not get enough attention in the paper. It would be important to know whether most countries following a PRS approach in fact have a viable strategy to achieve sustained growth and poverty reduction, particularly in view of a worrying statement in the paper that “quality of growth strategies generally remains weak”.

We are also surprised that the long term goal of reducing aid dependency was not given any prominence. The call on the donor community to increase aid can only make sense if such increase leads to a permanent improvement in the recipient countries’ growth path, and thus to an eventual drop in reliance on aid. Without a clear sunset clause and a viable withdrawal strategy, increased predictability of budget support flows creates a serious danger of deepening aid dependency and creating unsustainable debt burdens.

We share the view expressed in the document about the importance of country ownership. Indeed, we believe that ownership is essential to any strategy that has a chance of success. We also believe that ownership is impossible without greater reliance on country systems. In this respect we particularly support the appeal to the donor community to ensure that aid “reinforces, rather than detracts from, national accountability”.

The Bank and other donor agencies can do a lot to help create analytical foundations for sensible policy choices, and to focus complex country strategies on a manageable set of key actions. The Bank and the Fund can help their clients focus on the steps that are most important and most likely to achieve the twin goals of sustained growth and poverty reduction in their specific country circumstances. With this, the PRS approach can indeed spell a breakthrough in effective aid.

Voice and Participation of Developing and Transition Countries

We attach much importance to the work on strengthening the voice and participation of developing and transition countries in decision making at Bretton Woods institutions. We therefore welcome the practical steps taken in this area since the last DC Session in spring 2005. We would like to take this opportunity to reiterate our long-standing position that any further actions on voice should not politicize decision making in the Bank and the Fund or jeopardize the tradition of governance by consensus.

The fact that so far we have not made any tangible progress on the proposed structural measures, both in relation to the re-allocation of shares and changes in voting rules, is a clear indication of the many difficulties associated with such proposals. In addition, as we have stated on previous occasions, we do not believe such structural changes to be the most efficient vehicle of improving the voice of developing and transition countries. We see much more promise in the steps to ensure better representation of all nationals among the Bank and Fund management, as well as in further efforts to anchor assistance strategies and lending operations in client countries’ own programs and priorities of development. We suggest focusing our efforts on these practical steps, leaving the discussion of the structural measures until after the next IMF Quota Review in 2008.