



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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Deputy Chairman of the Government –
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 13, 2008

We thank the management of the World Bank for the 2008 Global Monitoring Report that provides a candid assessment of the international community's successes and failures in advancing the Millennium Development Goals. We particularly appreciate the emphasis on inequality and environmental sustainability. We believe that the proposed six-point action plan that addresses, inter alia, such important issues as human capital development and trade, provides an appropriate direction for further work.

Overcoming Poverty and Achieving Sustainable Growth in the Poorest Countries, Particularly in Africa

The acceleration of economic growth across regions that was facilitated by the favorable economic situation of the recent years, better governance and private sector development, allowed countries to reduce the number of people who live in absolute poverty (MDG 1). Yet, this overall positive picture masks the large disparities between social groups and regions within countries, and between countries and the regions of the world. Countries in the Sub-Saharan Africa, despite significant economic growth in some of them, are still only approaching a trajectory towards sustainable poverty reduction. Disparities are also increasing between the more successful countries that enjoy better economic management or significant natural resources, and the fragile states that lag behind on all indicators.

Today we are at the mid-point towards the MDGs that we were planning to achieve by 2015. This presents us with an opportunity to think how to better allocate the limited development resources in order to sustain growth and simultaneously allow gradual reduction of the poor countries' aid dependency that in some cases reaches up to 40-50 percent of government expenditures.

Energy and infrastructure are the priority sectors. Their lagging behind or, as one can also put it, developing countries' energy and infrastructure poverty, is the main impediment to sustainable economic development that could raise the standard of living for the majority of the population. It is not accidental, therefore, that the level of electrification in the Sub-Saharan Africa (25.9 percent) is on the lowest in the world. Almost 550 million people on the continent live without access to electricity. According to the recent *Doing Business Report*, lack of access to electricity is the biggest issue in investment climate as well. In addition, energy poverty has a major effect on health and education.

Another serious impediment to accelerating development is the deficiency of infrastructure, particularly in transport, water supply and sanitation. As the African leaders have stated many times before, transport infrastructure is critically important for the continent, particularly for the land-locked countries. The development experience of the past decades suggests that creation of adequate infrastructure is critical for reducing the gap between the poor and the rich countries.

As of today, despite the progress made we were unable to achieve a decisive breakthrough. In order to accomplish this task, we need to formulate clear and ambitious action plans on fighting energy and infrastructure poverty in Sub-Saharan Africa and other poor countries. The Bank's Infrastructure Action Plan, Africa Action Plan and Clean Energy Investment Framework together shape a good strategic platform for further actions but do not yet amount to addressing the infrastructure problem on a large scale.

We still have not developed reliable mechanism for increasing investments from all sources, including internal resources, external aid and foreign investments. Promoting public-private partnerships and sustainable tariff policies are of critical importance. We believe that the IFIs, and the World Bank Group in particular, have the capacity and comparative advantage to meet these challenging objectives. In doing so, one could rely on the experience and resources of the middle-income countries that have succeeded in bridging the infrastructure gap. In this context, we find of interest Robert Zoellick's ideas about directing a fraction of sovereign wealth funds' resources to the African countries.

We share the Bank's view that the poorest countries require our assistance in **building capacity to effectively manage their development** and concentrate their efforts on the optimal sources and models of growth. It is important that growth benefits all and not only the privileged. Unequal distribution of the benefits of economic growth that often goes together with its acceleration creates a new set of socio-economic problems. We concur with the GMR's view that for many countries improving investment climate, strengthening governance and investing in human capital are key to accelerating economic growth. We also believe that the issues of economic and social inequality deserve focused attention, especially in developing the Bank's cooperation strategies with its clients.

We would like to support a stronger focus on the **quality of programs and services in the health and education sectors**. Increasing social expenditures alone cannot lead to a breakthrough and, in some instances, can be accompanied by stagnant or declining health and education outcomes. In order to reduce waste, the quality of education and health services should be improved based on a better management of resources. This applies not only to the poor but also to the middle-income and rich countries. Another dimension of this issue is malnutrition, particularly, among children. Child malnutrition has a strong impact on the effectiveness of learning and, therefore, future development. This "forgotten" problem proves to be very pressing in light of the drastic increase in the food prices.

MDG-7 is particularly important because of its links to other MDGs and its impact on economic growth. We thank the Bank for its work on climate change and fully share the management's view that the Bank should counter the negative impact of climate change without scaling down efforts on its main mission – fighting poverty.

Climate change can become a serious threat to the global economic and social development. Developing countries are at the greatest risks as they can lose their last years' gains in poverty reduction. Prevention of the negative impacts of climate change is a classic case of externality that requires collective efforts by all interested countries.

Russia is a participant of international talks on climate change. It is after Russia's ratification that the Kyoto Protocol to the international Framework Convention on Climate Change became effective. We share the Bank's view on the collective accountability. Still, we believe that in developing policies, one should allow for differences in geography, economic structure, and the stage of development of a particular country.

While the industrial countries should play a leading role in the prevention of climate change, we believe that the fast growing middle-income countries should also contribute to this objective, as in the future

they will be responsible for most greenhouse emissions. One should realize that for the developing countries economic and social development will remain the main priority for many years to come, so we should focus on such win-win solutions as energy conservation and energy efficiency.

For the least developed countries, particularly in Sub-Saharan Africa, where, at times, less than 10 percent of population has access to electricity, energy poverty is no less important than climate change. These countries should be able to choose energy technologies based largely on economic efficiency considerations.

In the medium term, the developing countries will meet most of their energy needs from traditional sources. We are against the Bank's withdrawal from the conventional energy projects, as this would undermine the clients' trust and reduce the Bank's role in critically important sectors.

We welcome the Bank's support to the development and implementation of clean energy technologies. Reduction of the costs to the level, where clean energy can compete with the traditional sources, is the key to success. In this context, investments in R&D and technology transfer are gaining importance. We hope that the World Bank Group can capitalize on its capacity to network with governments, research centers and the private sector and act as a catalyst in these areas. To preserve its reputation, the Bank should refrain from promoting untested technologies that eventually could have a cumulative negative impact on socio-economic development.

On several occasions in the last few years we called upon the Bank to study the potential of the nuclear technology in serving as an alternative source of clean energy supply for the developing countries. In the meantime, this idea became even more appealing in light of the ever rising carbon fuel costs and the increased demand for energy supported by the world economy growth. Many countries are revisiting this option, as modern nuclear technologies are becoming more secure, and the need to diversify from carbon fuels becomes more acute. The Bank still has an opportunity to take a fresh look at this issue.

Deforestation is the second most important reason for global warming. It contributes to about 20 percent of greenhouse gas emissions. At present, the developing countries lack incentives for implementing large-scale measures aimed at containing deforestation. We believe that this issue deserve a greater attention from the international community and welcome the establishment of the Forestry Carbon Partnership Facility that will promote the reduction in the greenhouse gas emissions associated with deforestation and ineffective land use.

Assistance to Fragile States

A phenomenon that deserves our special attention is the extremely slow growth in the fragile states. The lack of security, political instability, shortage of administrative capacity, economic and humanitarian problems complicate their progress towards MDGs.

We believe that prevention and alleviation of conflicts is one of the most important regional and global public goods. Consequently, the World Bank should play an important role in fragile states. One particular area where such engagement could produce the biggest impact is improving the quality of donor assistance. Despite the increase in the overall volume of aid, its distribution across fragile states is very uneven and varies from \$16 to \$200 per capita. Serious issue is the aid's unpredictability and its disconnection from the reconstruction programs. The low effectiveness of aid reduces the sustainability of results. Some positive steps have been taken lately to address these concerns including the establishment of the UN Peace-Building Commission, agreement among the multilateral development banks on the goals and guiding principles for engagement in fragile states as well as guidance on state-building activities by OECD-DAC. But the whole issue remains a challenge.

The Bank's involvement in fragile states should be consistent with its mandate and comparative advantage. Bank should not assume functions of humanitarian assistance, state-building, maintaining peace and public order or public administration. Such functions should be carried out by other specialized agencies. The Bank should work in the fragile countries only with consent and oversight of its shareholders. The management bears responsibility for assessing the risks and benefits of the Bank's engagement in the fragile countries and keeping the shareholders timely informed of the plans and the results.

We believe that as soon as security permits, IFIs and the donor community should try to engage with fragile states in a more regular way and with a more long-term view. Basic challenges these countries are facing are not substantially different from those confronted by the majority of poor countries.

There may be a different risk tolerance of such an engagement among different group of players. For example, some middle-income countries or even low income countries may be better positioned to work with fragile and post-conflict countries than traditional donors. Consequently, the IFIs should be open to engage with all parties willing contribute to peace and reconstruction efforts. Outreach and cooperation with non-traditional official and non-official donors, as well as investors from middle-income and even low-income countries should be mainstreamed.

Finally, apart from obvious cases of fragility related to conflicts, the criteria for classifying countries as fragile should be clarified. Such classification significantly reduces access to traditional external assistance and the country's appeal to investors. Anyhow, one should be very careful in classifying a country as fragile and abstain from too liberal use of this label.

Recent Market Development: Challenges and Opportunities for Low and Middle Income Countries

Recent global economic developments such as financial market turbulence, slowdown of economic growth in industrial countries and rise in energy and food prices, may increase risks for developing countries, especially the most vulnerable ones. Economic slowdown appears to be unavoidable with the view of a necessary correction of existing global imbalances. We share the views of those analysts, including in the World Bank, who see the increased deviation of the structural components of growth in the developing and emerging markets from those in the developed countries as a factor that is increasing the resilience to crisis in the former. We would like to caution against overestimating the dangers to the developing countries from the recent market slowdown in the absence of sufficient information on its scale and duration.

We are concerned with the sharp increase in the food prices that reduces the purchasing power of the poor and raises the risk of not meeting the MDGs. This increase has a negative impact on the balance of payments, fiscal sustainability and welfare of many developing countries. The poor, who spend 70-80 percent of their income on food, have to reduce their consumption. The net importers of both petroleum products and food experience the greatest shocks.

The increase in agricultural prices appears inevitable after they have been decreasing for two decades. The shift of investments from the capital market to the commodity market may have also contributed to the rise of food prices. We believe that insufficient attention that IFIs paid to agriculture in the 80s and 90s was unjustified and contributed to the current situation.

However, in the medium term, the rise of food prices can help to spur investments in agriculture. We are satisfied that the Bank is reinvigorating its approach to addressing hunger and malnutrition. As Mr. Zoellick has correctly noted in his April 2, 2008, speech, the traditional food aid should give way to a

broader concept, with an emphasis on the development of the agricultural markets and production capacity. The Bank should be more aggressive in promoting new ways to help the poorest countries to develop their agriculture. It is unlikely that a breakthrough can be achieved without major investments into horizontal and vertical integration of agricultural production, careful building of supply chains, etc. In general, fight against hunger is very important but should not overshadow the longer-term objectives and should not become an alternative to comprehensive development of agriculture and attainment of food security. We support Mr. Zoellick's call for the reduction of protectionism in the world agricultural markets.

To summarize, we broadly share the view that the rise in prices of basic commodities and food can also be seen as presenting new opportunities. In this context, the role of the World Bank and other IFIs is not only to alleviate the negative impact of the sharply increased food prices on the population and economic growth in the developing world, but also to help the poor countries to capitalize on new opportunities in promoting their long-term developmental goals.