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on the  
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Statement by Aleksei Kudrin  
First Deputy Chairman of the Government  
Minister of Finance  
Russian Federation

## **Development Effectiveness, Partnership and Challenges for the Future**

Increasing the development effectiveness and strengthening partnership in the global fight against poverty are essential for achieving the Millennium Development Goals (MDG). The Financing for Development conference in Monterrey demonstrated the international community's firm resolve to make every effort to achieve these goals. A critical and impartial analysis of positive and negative experiences in this area is of key importance in identifying a sound strategy for the war on poverty, and in setting priorities for international organizations and official donors, including priorities related to the allocation of financial resources.

At the beginning of the 21<sup>st</sup> century, the world continues to face widespread absolute poverty, the widening gap between rich and poor countries, and a number of serious humanitarian, social, and environmental problems. At the same time, the positive experience of countries that have achieved substantial progress in accelerating growth and reducing poverty clearly demonstrates the critical importance of three factors:

- sound economic policies, institutional development, and better governance;
- openness of the economy to international trade and capital flows;
- adequate and timely international support of national efforts to advance economic and social reforms.

The success of the development process is determined to a great extent by the ability of countries themselves to achieve national consensus in favor of pursuing sound economic policies and reforming government institutions, the economy, and civil society. Specifically, this means that countries should have an effective judicial and legal system, combat corruption, ensure the stability of the financial sector, and build and maintain infrastructure. These are key factors of a good investment climate conducive to increased capital investments and higher economic growth.

There is no doubt that private sector is a key engine of economic development. However, in many poor countries the state will have to remain a major agent of development at least in a foreseeable future. In this connection, in addition to improving investment climate, we should also focus our attention on the issues of how to engage the private sector in the development process, build partnership between the public and private sectors. It is also important to ensure sound management and adequate financing of public investments.

Globalization of world economy facilitates accelerated development. At the same time, it may entail additional risks which have to be managed. Expanded access to the markets of industrial countries is a key development resource. Its potential impact could significantly exceed the amount of official development assistance and sharply reduce poverty worldwide.

It would be wrong, however, to get mesmerized by these expectations alone. Realistically, it is difficult to expect that developed countries will radically change their present trade

policies in the sectors like agriculture, textiles and clothing etc. For instance, despite the solemn pledges made in Monterrey about lifting trade barriers and eliminating subsidies the opposite has occurred.

Moreover, the elimination of subsidies to agriculture in developed countries can in fact stimulate its concentration and spur productivity, making them even more competitive compared to small-scale producers in poorer countries. It is industrial and service sectors development which can support sustainable growth in developing countries and their integration into the global economy. Of course, agriculture will remain an important sector in terms of ensuring food security and creating a strong foundation for the development of modern sectors of the economy.

To take advantage of the opportunities of the greater market access in developed countries, developing countries still need significant investments in order to fill the gap in infrastructure and other sectors, including research and development, and raise productivity. Thus, while liberalization is certainly desirable it is not a panacea by itself. Therefore, developing countries should themselves pursue policies aimed at export diversification, as difficult as this may be. The overall modernization of their economies and the development of nontraditional exports are crucial in improving their marginal role in modern trade and finance. It is this area where the IFIs can play an important role as source of financing, knowledge, and technical assistance.

The issue of devising a more vigorous evaluation system to measure aid effectiveness is very important; however, it is fraught with major difficulties. Even developed countries have not yet advanced enough in creating a system to evaluate the effectiveness of their public programs and investments. It is all the more difficult for developing countries to solve this problem. It should also be borne in mind that with the exception of some 30 or 40 poorest countries, total international development assistance, including resources transferred by IFIs, does not represent a very large share in comparison to domestic public expenditures or investments financed by local and foreign corporations. With rare exceptions, it is domestic economic and social policies of the developing countries themselves, rather than international creditors and donors, which are a decisive force in determining the success or failure of their development strategies. By the same token, the continuing existence of widespread poverty in the today's world by no means indicates the alleged failure of the entire system of international development assistance.

No statistical calculations can indicate the extent to which the successes achieved by certain countries should be attributed to either adequacy of domestic policies and institutions, or external assistance. An overemphasis on artificial quantitative indicators of development effectiveness could distort IFIs incentives in terms of excessive risk aversion and opportunistic behavior.

At the same time, we agree that the presentation of more compelling evidence that foreign aid plays a significant role in poverty alleviation will help to reverse the downward trend in the levels of assistance seen over the past decade. We support the Bank's conclusion that, broadly, development assistance has made and is continuing to make a significant positive

contribution to the development progress. It can play a major role in the area of Global Public Goods such as fighting HIV/AIDS, tuberculosis, and malaria epidemics. We believe that there are important lessons to be learned from experience in the development of regions, countries, and various projects and programs. These include:

- Countries receiving assistance must play a leading role in setting their own development priorities.
- The volume of resources allocated must be tied to the countries' actual development performance (the de-politicization of international development assistance is an important factor here).
- Attention must be paid to the proper and timely selection of the instruments and levels of assistance.
- Multilateral and bilateral donors should coordinate and harmonize their activities.
- The catalytic and demonstration effect of assistance should be strengthened; and
- A thorough critical analysis of negative and positive experiences should be conducted on a regular basis and incorporated into aid programs.

The effectiveness of development assistance can be enhanced only if all countries and international organizations make a concerted effort to pool their efforts: by expanding cooperation between the Bretton Woods institutions, the WTO, and the United Nations; by involving the private sector more broadly in resolving global development problems; and by ensuring that civil society participates in setting development priorities. The Monterrey Consensus is focused on precisely this sort of coordinated action by all the participants in the development process. We are realists and would not like to harbor inflated expectations; still we believe that these actions will create more favorable conditions for increasing the level and effectiveness of development assistance.

Poverty Reduction Strategy Papers (PRSPs) have incorporated these new approaches. The PRSP process has already been extended to 60 poorest countries. However, despite all progress in this area in terms of putting poverty reduction to the forefront of countries' policies, PRSPs still have to become a full-fledged instrument of macroeconomic and budgetary planning.

The following issues should be addressed in order to enhance the PRSPs:

- They should be better balanced between social sectors, particularly education and health care, other basic sectors of the economy, such as energy, infrastructure, and transportation.
- They must be more closely linked to macroeconomic policies and real prospects of growth as the basis of poverty reduction.
- Many of the strategies have not been properly costed and appear to be mere "shopping lists"; hence, more attention should be given to avoiding the situation of unfounded mandates stemming from these strategies.
- With rare exceptions, the level of countries' ownership is still uneven and a lot of efforts have to be deployed to ensure that all the PRSPs are country-driven and fully-owned.

To conclude, the existing PRSPs should be used with due caution as a vehicle for the channeling resources by the international community, including the Bretton Woods institutions. They should be further developed to become a fully operational element of international resource transfer framework. The efforts should be two-pronged: first, PRSPs should be upgraded to the level of comprehensive national development plans and provide for better resource planning and management, including public debt management; second, civil society, including parliaments, trade unions, and other stakeholders, should participate on a much deeper and broader basis in the preparation of PRSPs.

### **Education for Dynamic Economies: Action Plan**

Human capital has long been recognized as a crucial factor for sustainable development and poverty eradication. Without universal primary education, it is impossible to make the transition to a modern economy, increase productivity and raise the living standards. In this connection, we welcome and wholeheartedly support the Education for All Action Plan that has been presented to the Development Committee. In our view, it combines innovative approaches and realism in an appropriate manner. The new approaches are needed in order to help countries that are lagging behind to make significant progress in the area of primary education; without a realistic assessment of actual conditions in these countries, international assistance may be ineffective, which has already occurred in a number of cases.

The proposed emphasis on completion rate, instead of enrollment, is an example of this realism which should be further encouraged. Realism is also evident in the estimates of financing gap that must be bridged in order to achieve established goals. In our view, the gross overestimation which occurred in the *Financing for Development* Report could prove counterproductive, by scaring donors away from tackling tasks that seem unrealistic. In this regard, we welcome the calculations proposed in the Bank's report.

The Bank's report very convincingly outlines the key directions for practical work and the corresponding targets for primary education systems. At the same time, in the course of subsequent work on implementation of the Action Plan, additional attention should be focused on the key role played by domestic factors. International assistance, as important as it is, will be effective only if it supports a national consensus in favor of universal primary education.

Such a consensus should be evident at three levels:

- At the government level: preparation of a national primary education program; collecting timely, reliable, and comprehensive statistics in the area of school education; giving priority to education related expenditures; identification of bottlenecks; and effective targeting of available resources.
- At the level of the teaching community and NGOs: development of modern curricula and introduction of modern methods in primary education; mobilization of public opinion in the country and abroad; priority attention to gender and poverty issues.

- At the household level: commitment towards primary education; active participation in the work of school boards and similar bodies at the community level.

We are in full agreement with the Bank's view expressed in the report that stable household demand for education must become a major factor determining success in achieving the goals set by the international community.

In working to meet such challenges as achieving universal primary education by 2015, we will inevitably confront the problem of limited resource at national as well as international levels. Therefore, a significant share of these resources must be concentrated on addressing the most difficult issues, and on relieving bottlenecks.

Traditionally, these bottlenecks have included providing universal primary education for girls. It is also necessary to pay special attention to children from the poorest families. Specifically, analysis of overall education statistics broken down by family income should be added to the proposed list of baseline indicators.

Mobilizing the resources and potential of the private sector to the greatest extent possible could become an effective instrument for enabling families to address education problems and concentrating efforts by governments and donors on the most underprivileged segments of the population. We believe that all available tools must be combined in order to increase the effectiveness of services. The public sector, of course, will remain the key element in primary education under all circumstances. Participation by the private sector will make it possible to provide the necessary flexibility, to take into account local demand for specific school programs and mechanisms, and also to free up some budget resources for use in critical areas. Within the framework of the overall World Bank strategy, the International Finance Corporation (IFC) could play an important role in this area.

The report correctly refers to the need of further improvements in the donor assistance effectiveness. In particular, we share the concern expressed in the report that thus far a significant proportion of this assistance is allocated not to the budget support or fixed investments, but to the technical assistance, seminars, and the like. We are convinced from our own experience that although in certain cases this type of technical assistance can be useful and desirable, its overall effectiveness is comparatively low. To put it frankly: this kind of assistance sometimes serves vested interests of certain groups in donor countries themselves, rather than genuine needs of developing countries. The problem appears to be particularly acute with regard to assistance for education purposes.

The report provides a persuasive outline of the basic directions of the Bank's future work in the area of education. We endorse these directions and the expanded funding for the respective programs. Naturally, we expect that this additional financing will not come from a redistribution of funds for education purposes used by the Bank in the middle-income countries.

### **Heavily Indebted Poor Countries Initiative**

We are gratified to observe further progress in the implementation of the Heavily Indebted Poor Countries Initiative (HIPC Initiative) to date. A number of countries have been able to reach the completion point under the Enhanced Initiative. Many countries have already begun to receive substantial financial resources within the interim assistance framework.

At the same time, we are particularly concerned by the worsening prospects for participating countries to achieve debt sustainability. This not only puts into doubt the very rationale of the Initiative, but also implies a steady rise in costs associated with its implementation. Therefore, we believe that given the current situation, it would be extremely irresponsible on our part to simultaneously ease the completion point conditionality and expand the number of participants. Specifically, by continuously easing the requirements for participating countries during the process of debt reduction, we are running the risk of moral hazard and in fact penalize those that have already gone through the rigorous approval process based on stricter criteria.

We are especially concerned about the so called “flexible approach” towards compliance with macroeconomic components of completion point conditionality. If a program under Initiative goes off-track, it has a lot of adverse implications in terms of moral hazard and distorting incentives for other participants. In our view, the one-year time limit for the successful execution of these programs should be regarded as a minimum requirement. Any “flexibility” leads us in fact to universal debt forgiveness without any performance criteria.

Additional problems are associated with a higher debt reduction in comparison to estimates at decision point due to emergencies and external shocks. We cannot agree with the idea of continuous revisions of debt sustainability figures in line with constantly changing statistical data. We believe that the only way to avoid “revolving door” situations would be to set a sufficiently high threshold for readjusting the additional support level. In this process, of course, extremely strict criteria should be applied for determining the impact of external shocks that cause a fundamental deterioration of the macroeconomic situation of a given country.

### **Harmonization of Operational Policies, Procedures, and Practices**

We welcome the continued efforts by IFIs and bilateral donors in the area of harmonization, which is a key factor in improving the outcomes and effectiveness of international development assistance. By reducing costs for recipient countries and donors alike, harmonization could ideally free up significant additional resources. It is time to make the transition from recognizing the need for each donor to change existing rules and procedures to concrete actions, and bring a common denominator to such rules and procedures.

We believe that challenging work lies ahead in order to overcome massive bureaucratic red tape. We would like to avoid an endless process with countless working groups and meetings

of experts. At this stage we need a clear-cut action plan for each of the established harmonization priorities, namely:

- the procurement system,
- financial management, and
- environmental assessment.

Concrete deadlines need to be set for completing the coordination process and initiating the application of harmonized rules. Otherwise, a significant share of the limited resources earmarked for development purposes will continue to be spent unproductively on internal bureaucratic processes.