Statement by
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Deputy Minister of Finance
of the Russian Federation
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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)

94th Meeting of the Development Committee

October 8, 2016
Washington, D.C.

We welcome the discussion of the WBG strategy going forward, which should enable us to consider immediate steps against the longer-term objectives and challenges faced by the WBG as a development institution.

The “Forward Look” report prepared for the Development Committee is quite comprehensive in presenting a large spectrum of work streams, as well as the instruments and tools to implement them. It describes both WBG achievements and new areas that it intends to enter in pursuit of the SDGs. The agenda that the “Forward Look” offers is very ambitious, with the WBG institutions striving to cover a lot of new ground, while at the same time solidly delivering in the traditional areas, like addressing the development needs of their clients. The bar is raised high although we take it as a positive sign of continued relevance of the WBG and its work.

At the same time, the WBG is now at a crossroads with its capital adequacy over-stretched and continuously tested by the high demand for its resources from practically all members. While the borrowing clients seek the WBG resources in the pursuit of their national development strategies, the non-borrowing members increasingly attempt to steer the WBG to meet their global priorities. Given the already high lending volumes and the looming capital constraints, it is not clear to us how much more ground the WBG can cover and to what extent the ambitious agenda presented in the “Forward Look” is realistic and could be implemented.

While aspiring for as large contribution to the global development agenda as possible, we have to remember that the WBG should at the same time remain a viable financial institution, capable to generate income, build up its capital base and sustain an adequate level of financing for its members. In doing so the WBG will most likely have to rely increasingly on its own resources, rather than build its strategy on expecting another sizeable recapitalization from its members, most of which are fiscally strained and have to navigate in a very difficult economic environment. Therefore, the long list of global challenges that the WBG is capable and willing to address and which are in a great detail presented in the “Forward Look” would require prioritization. This is what we are missing in the “Forward Look”.

The WBG cannot be responsible for tackling all developmental problems that the humanity is facing and will continue to face in the future. Doing so will spread its efforts thin and make them inefficient. Without a clear focus, WBG strategy documents will not look strategic but will be just long lists of things that the Group can or want to do.
Better and more explicit awareness of its financial constraints should help the WBG with focusing and prioritization. For example, while work on global public goods is very important, it normally does not generate revenue for the Institution. On the contrary, this work increasingly generates claims on its net income and weakens the WBG’s financial position. Thus, selectivity filter should be consistently applied whenever we discuss future WBG strategy and agenda. This selectivity should be defined primarily at the country level, by the national authorities according to their individual development vision and strategies.

More specifically, we welcome a valid observation made in the report that “going forward with a predetermined IDA transfer amount would be hard to reconcile with the Articles of Agreement’s requirements that reserves needs be considered first”. We only regret that this simple thought materialized at a very late stage, when a considerable weakening of WB lending capacity became apparent. This weakening is a direct result of sizeable IDA transfers in the situation of near zero interest rates that lasted for a number of years. This business model is obviously unsustainable and we need to reconsider it in the context of IDA18.

In the course of last two decades transfers to IDA from IBRD and IFC evolved from a dividend-like annual distribution into a sort of perpetual liability, totally delinked from actual income levels earned. The predetermined amounts of such transfers led to effective under-capitalization of those two institutions, with cumulative transfers exceeding paid-in capital for both of them. It is worth mentioning that IBRD has transferred about 90 percent of its net income to IDA17. We believe that this resource leakage has to stop, at least during the period of IDA18, to allow organic reserve accumulation and to restore capital adequacy of IBRD and IFC. The decision to discontinue such dividend payouts is not easy to take but there is apparently no viable alternative in the scenario of modest net income amounts within the next few years.

Furthermore, we know that the idea of a formula-based distribution of net income is gaining wider acceptance within both the WBG management and shareholders. To us, this approach seems to be the most natural one as it combines financial prudence and predictability befitting the global financial institution with impeccable reputation. Such a formula should follow clear guidance provided by our Articles of Agreement and prioritize building reserves and preserving lending capacities of respective entities.

As for resource allocation across countries within the WBG, we believe that the current system serves it well and does not require any revolutionary changes. In the situation when diminished lending capacity is more than likely, IBRD needs to exercise particular care not to scare away middle-income borrowers because it will further weaken its financial position. The Bank is a credit cooperative by its nature and as such is required to respond to the needs of all its borrowers. This general principle translates into the modus operandi that different client groups and segments have to be treated fairly and in a balanced manner.