

**THIRD INTERNATIONAL CONFERENCE
ON FINANCING FOR DEVELOPMENT**

JULY 13–16, ADDIS ABABA, ETHIOPIA



**FINANCING FOR
DEVELOPMENT**
13-16 JULY 2015 · ADDIS ABABA · ETHIOPIA
TIME FOR GLOBAL ACTION

**STATEMENT
OF MR. S. A. STORCHAK
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DEPUTY MINISTER OF FINANCE OF THE RUSSIAN FEDERATION**

(CHECK AGAINST DELIVERY)

July 15, 2015

Mr. Chairman,

Distinguished conference participants,

Ladies and gentlemen,

Since the conference in Doha, a whole series of events have occurred that have seriously altered the landscape of international development assistance (IDA). Among these changes are the greatly expanded role of so-called “emerging donors” and the appearance of new “players,” who are having an impact on the participants in the IDA process in one way or another. These new players include the Financial Stability Board, regional stability and development funds, and new multilateral development institutions. More attention has been given to this topic from such influential forums as the Group of 20 (G-20), Asia-Pacific Economic Cooperation (APEC), and the BRICS group. Granted, the global financial crisis also made its own negative “contribution” to IDA, the effects of which are still being felt by both the partner countries and the donor states.

An independent factor that is without a doubt having a direct influence on our discussion today is the process of formulating the Post-2015 Development Agenda at the governmental level, which has been under way for two years now. First of all, we need to determine the concrete content of the Sustainable Development Goals (SDGs), which will take the place of the Millennium Development Goals (MDGs), and second, we need to adopt an effective strategy for mobilizing the resources necessary to achieve these goals.

I would like to assure everyone here that Russia wholeheartedly supports this approach to the problem and intends to be an active participant in addressing it using all of the resources available.

Broadly speaking, we cannot fail to take note of the progress that has been made in achieving the MDGs. The experience of the past 15 years proves that the international community can be mobilized to address problems on a global scale. Governments, international organizations, multilateral development banks, civil society, and businesses joined forces to combat poverty. We succeeded in agreeing upon new approaches to achieving the MDGs, allocating significant resources, and also creating qualitatively new instruments and technologies (for example, the Multilateral Debt Relief Initiative).

In our view, within the context of the new development assistance agenda, the most important lesson of the post-Monterrey period is that a downward trend in the role and significance of official development assistance (ODA), in both relative and absolute terms, is unavoidable. On the one hand, most of the progress toward achieving the MDGs came from the efforts and resources of the developing countries themselves. On the other hand, “traditional” donors, it appears, have reached historic high-water marks in terms of their

contribution to ODA. A further substantial increase in the flows generated by them is unlikely or problematic. As far as “emerging donors” are concerned, it is not likely that they will be able to make any radical changes.

In light of this assessment, we can draw two conclusions that are of systemic importance in the design of national policies related to the financing of international development assistance. First, ODA offers only limited possibilities for accumulation of the significant financial resources necessary for the achievement of the SDGs being proposed for approval. Therefore, the principal task for the post-2015 era is to create the conditions and the environment necessary for mobilization of internal sources of financing – private and public – and also to attract significant foreign private capital for development purposes. In our opinion, the initiative to reform global tax practices that was launched in 2013 as a result of the Russian chairmanship of the G-20 fits perfectly into this context. Focused assistance to developing countries in the establishment of a modern, effective tax system will make it possible to strengthen and diversify internal sources of development financing and thereby ensure the fulfillment of government authorities’ social obligations.

Second, in Russia’s opinion, given the limits on budget resources, official donors need to take into consideration as precisely as possible the specific needs of two different groups of partner countries. With regard to the poorest countries, which are frequently bogged down in protracted internal conflicts, the first priority is to restore stability, re-establish basic government institutions, and ensure that the population’s minimum needs for survival are met. Accordingly, assistance to these countries really has to be provided primarily from official sources, and on concessional terms to the maximum extent possible, that is, primarily in the form of grants. This is the approach that Russia is taking with respect to Kyrgyzstan, for example. We established the Russian-Kyrgyz Development Fund, with capital paid in by Russia in the amount of US\$500 million, and we provided a grant of US\$200 million to support adaptation of the country’s economy to the conditions of Eurasian integration.

In turn, countries at a middle level of development need to rely primarily on internal resources, as well as funding from the foreign private sector. According to this principle, official assistance to these countries needs to focus on the implementation of measures to improve their macroeconomic, fiscal, and social policies; on easing their access to long-term private capital; on seeking out bankable projects; on developing local capital markets; and on improving the investment climate. This is the scenario that Russia, as the main donor of the Eurasian Fund for Stabilization and Development, intends to follow in the process of working out the terms for a concessional loan to be granted to Armenia in the amount of US\$300 million.

Thus, based on Russia’s experience with the financing of various bilateral development programs and its participation in the work of multilateral development institutions, we consider the following to be the most promising sources of financing for the SDGs.

Mobilization and effective use of internal sources of financing

1. In our view, an effective tax system has to be a key internal source of financing for development. It is our opinion that work on this issue needs to be optimized, if not accelerated. A majority of developing countries have substantial potential to expand their tax base and bring about a dramatic increase in national budget revenues. In the post-Monterrey period, the importance of this matter has been stressed repeatedly in documents of both the G-20 and the Organisation for Economic Co-operation and Development (OECD). Although OECD member countries are already providing aid and technical assistance to many developing countries in the creation of national tax administration systems, we are just getting started with this process.

Russia, whose own tax system is been in existence for just a little over 20 years, is well aware of the kinds of financial and technical difficulties that developing economies face in the creation of modern taxation systems. Many of our neighbors happen to be in just this sort of situation. Therefore, we are providing them with the relevant assistance by holding training workshops, organizing events for the sharing of experience, and making the latest technologies available to them.

2. Work on the use of internal sources of financing is not limited to taxes alone, however. Measures to modernize and strengthen the public financial management system as a whole also have an important role to play. Since the mid-2000s, the Russian Federation has been trying to identify “best practices” in public financial management at the global level, considering the drafting and adoption of a relevant code as a vital resource for the financing of development. In 2013 these efforts were continued within the framework of the Russian chairmanship of the G-20. At our initiative, the Guidelines for Public Debt Management, which were proposed at the beginning of the twenty-first century by the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (World Bank), were adapted to fit the new realities. The deliberate application of these guidelines by sovereign borrowers will make it possible to refine and strengthen the existing approaches to public debt management and will thus promote the stability of national budgets, which serve as a vital foundation for achieving the SDGs.

In light of the above, we assign extremely high importance to participation in the program being carried out by the IMF and the World Bank to provide technical assistance to those countries that need to develop the potential of their national systems for public debt management. In November 2014, under the conditions of what was not the most favorable macroeconomic environment, Russia joined the second phase of financing under this program since, as a sovereign creditor, we are interested in having our potential borrowers design their debt policies on the basis of the best practices.

Investment financing

1. For the majority of developing and emerging market countries, an increase in investments in production sectors of their national economies is a defining condition for (or

factor in) development. In the post-crisis period, however, practically all economic entities have experienced a pronounced decline in their risk appetite, especially with regard to risks associated with the long-term financing of investments. In spite of the fact that this “diagnosis” was made almost three years ago, during Russia’s chairmanship of the G-20, little has changed since then. A new hierarchy of market risks is emerging slowly, which is interfering with the inflow of investments into the real sector and is having little impact on their structure. In this connection, efforts need to be continued to create favorable conditions for the financing of long-term investments, specifically in the context of initiatives to utilize the potential of institutional investors and the development of local debt markets in domestic currency.

2. A key problem in the lack of sufficient investments targeted at development is a shortage of financially sound projects that are attractive from an investment standpoint. In this context, it is of the utmost importance to increase the effectiveness of the planning, prioritization, and preparation of projects, and also to make partner countries more responsible for their implementation. The quality of the preparation of investment projects is one of the main factors that affect their effectiveness going forward, as well as the sustainability of the results.

For several years now, Russia has been focusing greater attention in its ODA policy on this aspect of cooperation with partner countries. Within the framework of programs in place in Eastern Europe and Central Asia, we are providing assistance to countries in these regions, in conjunction with the World Bank, to help them develop their potential in project preparation. The 22 grants provided to seven countries in the region made it possible to attract resources for the financing of projects in sectors such as strengthening the education and social protection systems, health care, modernization of irrigation systems, and road and railroad construction. With relatively small budget outlays, the measures adopted provided for investments totaling around US\$2.2 billion.

Debt on the financing for development agenda

1. Russia is completely satisfied with the content of section E of the outcome document of the Addis Ababa Conference on Financing for Development. Indeed, the active use of debt financing arrangements – which are essential – requires that further improvements be made both in the mechanism itself for evaluating the debt sustainability of a sovereign borrower, which was developed jointly by the IMF and the World Bank, as well as in the practical application of this mechanism, among other things. It is also extremely important to further position the debt sustainability analysis (DSA) model developed by the IMF and the World Bank as a useful tool in the hands of both the borrowers themselves and their creditors and donors. All of the participants in the international borrowing process should have a clear idea of the level of the maximum allowable debt burden, above which resources for development purposes can be provided only in the form of grants.

2. Russia, like many other countries that have gone through the tough challenges of debt crises, shares the complaints expressed by Argentina and a number of other countries regarding the mechanism currently being used to settle (restructure) sovereign debt. It really

cannot be described as fair, balanced, or even effective. The conflicts that have arisen recently between certain debtors and their creditors have revealed that there is – in these conflicts – a threat to global financial stability, that is, the welfare of millions of the planet’s inhabitants depends in a sense on the nature of the relationships between debtors and creditors.

In this context, we support the proposal calling for the creation of legal, regulatory, and administrative frameworks for the universal application of clauses in debt contracts regarding collective actions by creditors, as well as other related clauses (articles) in credit documentation, specifically aggregation clauses and pari-passu clauses.

Over the medium and long term, however, we believe that it is of fundamental importance to develop a universal legal approach that could be applied to the entire amount of accumulated external debt, and not just to bond debt. We believe that this issue must be resolved if we are to prevent threats to the stability of the international financial system. A relevant legally binding document could establish the process, conditions, and procedures for the restructuring of sovereign debt that would provide for a balance of the long-term interests of the debtor country and its creditors.

3. At the same time, we do not believe that some of the “traditional” mechanisms for easing the debt burden of sovereign debtors have outlived their usefulness. For example, the use of the “debt-for-development exchange” model is promising. In our opinion, if a prudent approach is taken to their implementation, financial resources freed up as a result of debt settlement can be used to carry out projects in priority areas, such as environmental protection, health care, energy, education, and infrastructure development. Russia has signed a number of intergovernmental agreements providing for the use of this mechanism, including agreements with the Republic of Zambia, the Republic of Mozambique, the United Republic of Tanzania, the Republic of Cuba, the Democratic People’s Republic of Korea, and several other countries.

The role of multilateral institutions in financing for development

1. We expect that the role of multilateral development banks (MDBs) in the mobilization and transfer of resources for development purposes will grow after 2015. In spite of the fact that they do not account for a large share of the total volume of financing for developing and emerging market countries, their credits and investments are an important factor in the development of key sectors of the economy, in the creation and distribution of regional and global social benefits, and in reducing the development risks associated with natural disasters, epidemics, and economic crises.

We are convinced that MDBs will substantially increase their contribution to development if they help countries to address those problems that are doing the most to slow down economic growth, that are interfering with the improvement of the investment climate, and that are holding back social and humanitarian progress. In today’s environment, the path toward success for the MDBs lies in focusing as much as possible on their clients’ needs while making use of their own comparative advantages.

At the same time, given the new realities, boosting the catalytic effect of operations by the MDBs through the creation of an environment and conditions necessary for their clients' mobilization of funding from all available sources, in amounts that are significantly greater than the banks' own capacities, takes on a special role. This is the only way that we will succeed in providing financing that is on the same scale as the tasks outlined under the Sustainable Development Goals.

That said, at this point Russia is taking a cautious approach to a drastic increase by the MDBs in the volume of lending and investments through a reduction in their capitalization and the use of "innovative" financial solutions that involve the assumption of increased risks. MDBs cannot and should not make up for a decline in official development assistance through an artificial increase in their balance sheets. Furthermore, the catalytic effect of their operations depends directly on their financial condition.

2. In addition to an increase in "sound" activities by already established MDBs, we support and welcome the creation of new development institutions. The launching of the New Development Bank (NDB) following the inaugural meeting of its Board of Directors (in Moscow on July 7 of this year) is a vivid illustration of the profound changes taking place in the international financial architecture. The NDB is the first truly global multilateral development bank, founded exclusively by emerging market economies, to be created since 1944. This demonstrates the growing influence of the BRICS countries and their important role in addressing global development problems. Furthermore, the creation of the NDB cannot help but provide a powerful impetus for further reform of the system of international financial relations, confirmation of which can be seen in the establishment of the Asian Infrastructure Investment Bank (AIIB), which has both developed and developing countries as participants, with the latter accounting for the bulk of its capital.

The best global corporate governance practices were taken into consideration in the establishment of the NDB and the AIIB, and a number of innovative approaches were taken; for example, the decision was made to have the Board of Directors function according to the principle of a non-resident board. The member countries have succeeded in creating modern institutions that are capable of dealing with ambitious tasks in the interests not only of their shareholders, but other developing countries as well. With declared capital of US\$100 billion each, and with a special focus on infrastructure financing, these institutions will undoubtedly help many developing countries to address the development tasks facing them.

At the same time, we believe that it is important to note that neither the NDB nor the AIIB are intended to replace the existing development institutions. Their mission is to complement the activities aimed at promoting economic development carried out by the "veterans," such as the World Bank and the Asian Development Bank (ADB). At the same time, we recognize that should these banks achieve some significant success in a short time span, the very fact of their creation could serve as an important stimulus for the reform of existing MDBs.

3. In Russia's opinion, providing all-around support for the activities of the International Development Association (IDA) as a unique and universal mechanism for the transfer of concessional resources to the least developed countries should be a priority for the international donor community. Unfortunately, practically no mention of the IDA has been made in the course of our conference. Meanwhile, the advantages of the IDA over other organizational forms of providing international aid are obvious. They stem from the use of the so-called country assistance model, which makes it possible to transfer resources on a program basis, following stable, known rules, and in accordance with the national priorities of the recipient countries. As a result, the qualitative characteristics of development aid provided through the IDA surpass by a large margin the characteristics of assistance provided through many official donors. We are in favor of strengthening the IDA's financial position and increasing the flexibility of its policies both from the standpoint of the products it uses and in terms of improving the existing procedures and rules for the distribution of resources.

Unfortunately, it was only in late 2013, during the IDA17 Replenishment Meeting in Moscow, that the association's shareholders gave some serious thought to its modernization. The need for this process arises directly from the fact that funds from the IDA are vitally necessary for a whole set of countries, on the one hand, and on the other hand, these funds are far from enough to meet development objectives and/or for the financing of significant infrastructure projects. Furthermore, it is expected that a number of dynamically developing countries will lose their eligibility to receive assistance from the association in the near future. They will lose access to IDA resources due to growth in their per capita income. Because of insufficient solvency, however, these economies will not be able to compensate for the decline in resources received from the IDA by borrowing from the World Bank, although they will continue to have a need for external concessional financing. As a result, the poorest economies will account for a significant proportion of the recipients of IDA assistance, and many of them will be post-conflict territories or countries whose governance institutions have been undermined. But working only with clients like this is not really appropriate for the IDA as a financial institution.

In our view, the problems referred to above can be resolved by taking the following approaches:

- make substantive distinctions among the terms that are used when granting IDA credits;
- create new financial instruments;
- improve the policy under which countries lose their eligibility to receive aid;
- change the rules for setting lending limits;
- make more active use of mixed financing at the level of both country programs and individual projects.

There have also been some calls for the adoption of measures to boost the catalytic role of the IDA. In this connection, we believe that it is possible to discuss the relevant approaches within the framework of the implementation of the “IDA-plus” concept. We do, however, need to perform a careful assessment of the risks associated with the application of innovative financial arrangements, such as the securitization of future financial flows appearing as a result of the expected repayment of IDA credits by borrowers.

Russia’s approach to official development assistance on a bilateral basis: the relevance of global experience and Russian practice

The Russian Federation’s policy with regard to international development assistance is determined in accordance with the provisions of the Conceptual Framework approved by the President of the Russian Federation in April 2014. Our actions in this area are based on the principle of adherence to the priorities of sustainable development of the recipient countries themselves, and in this context the concentration of efforts on achieving concrete results in combating poverty and inequality, cooperation with partner countries with the aim of increasing trust and mutual respect, and ensuring the transparency of the assistance provided and the accountability of stakeholders.

The systematic approach taken to the implementation of policy in the area of international development assistance confirms Russia’s status as a responsible donor and international partner. Russia provided international development assistance totaling US\$875 million in 2014, which is 20 percent more than in 2013. Thus, Russia is maintaining its commitment to the goals of international development, even during a period that has not been favorable for the country’s own economy. The experience that has been gained and its own donor potential enables Russia, while developing already tested formats for participating in international cooperation and multilateral instruments, to expand bilateral programs for providing assistance.

The aid that we are providing on a bilateral basis encompasses a broad range of issues and target areas. These include food security, public financial management, increasing institutional potential, education, the formation of social support systems, combating infectious diseases, and so on. The existing capacities make it possible to provide international aid to partner countries using exclusively Russian resources and expertise. These are primarily programs in the area of combating infectious diseases, the creation of emergency response systems, as well as training and professional development for government employees of partner countries. The implementation of these programs involves the use of a comprehensive approach that takes into account both practical, operational issues (for example, providing equipment and organizing professional development courses), and also the establishment of long-term foundations for national systems in the respective areas (assistance in the establishment of a regulatory and legal framework, development of institutional potential).

In closing, I would like to note that the Post-2015 Development Agenda that we are considering is intended, above all, to provide guidance for collective actions and, above all, actions that are coordinated to the maximum extent possible. We expect that further work will be organized according to the principles of shared, but differentiated, responsibility, increased transparency, and a maximum catalytic role for official development assistance, and also according to the principle of “measurability” of the achievement of the goals that have been set, and consideration of the effectiveness of existing formats for cooperation, especially South-South cooperation and trilateral cooperative efforts.