RUSSIAN FEDERATION - Country Assistance Strategy

1. Our review of the CAS takes place at a particularly opportune time. This is as critical a period for the Russian Federation as any in the last five years. While there are still enormously difficult economic and social challenges, they are being addressed by a newly invigorated government. The task before them is no less than building a new state - one which can fulfill the essential functions of government and create the environment needed to support a healthy, prospering economy. President Wolfensohn’s statement to the press when he visited Moscow in April called attention to the strong commitment of the new Government’s economic team to accelerate essential structural and social policy reforms. We fully agree with the CAS that this strong Government commitment, and the promise it provides for a more coherent, consistent approach to reform, provides a strong basis for World Bank Group assistance to help accelerate Russia’s economic transition.

2. We would like to see the Bank Group play a dynamic, entrepreneurial role in this transition, and to take the lead and greatly increase its support for needed structural reform. We are encouraged by the fact that the Government, the Bank and the IMF broadly share the same priorities for structural reforms. However, where the IMF played the central role in assisting Russia to stabilize its economy, the World Bank’s expertise on strengthening the public sector, promoting development of the private sector, and tackling sectoral and social problems now place the Bank as a pivotal external “driver of reform.” We therefore welcome the pro-active framework this CAS sets out for expanded Bank assistance.

3. We appreciate the fact that IFC, MIGA and EDI participated in the preparation of the CAS. The inclusion for the first time of EDI - and the proposed closer link between EDI and the preparation and implementation of Bank operations - is a very positive innovation. Staff are also to be commended for the excellent overall quality and frankness of the CAS document.

4. We strongly endorse the goal of an expanded Bank assistance program of $2-3 billion annually. It is ambitious and it carries risks. Yet, as we have discussed extensively in the context of our deliberations on the Strategic Compact, risk-taking is an essential part of the Bank’s development mandate. We believe the CAS is on target in the emphasis placed on the substantial rewards a successful Bank program could deliver and in its judgment that “the Bank cannot afford to miss this important opportunity.” However, the Bank will have to be

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much more pro-active and vigorous than it has in the past in effectively advancing sectoral strategies that promote reform. Moreover, in order to establish the environment where Bank support can expand and be used effectively, it is also essential that the Government move convincingly in following-through on its commitments to accelerate the pace of economic and structural reform.

5. In a country where genuine needs and demands are many, it is particularly important to establish clear priorities. We believe that the CAS has done a good job in setting its relative objectives, and that the proposed lending program is focused on areas with the greatest potential development impact — fiscal consolidation, social services, private sector development, agriculture and rural development, and energy, infrastructure and environment. It is sobering to note that up to one-third of Russian households live in poverty. This underscores the importance of both helping get Russia on a sustainable growth path, and of the specific Bank interventions intended to ensure fundamental reform of the social safety net. We are troubled by the lack of emphasis the CAS places on gender considerations, given the disproportionately high adverse impact of transition on Russian women particularly with regard to employment. We hope that the Bank's team in Moscow will integrate gender concerns more fully into policy dialogue and program implementation.

6. The serious problems identified in The National Action Plan on Environment also highlight the importance of continued involvement by the Bank and other donors in this important area. We view the proposed overall division between adjustment and investment lending as an appropriate reflection of both the government's current reform agenda and the fiscal and budget realities which it confronts. We also understand the importance of the Bank having the flexibility to adjust the sectoral focus of its operations to conform to both the Government's performance at the sector level as well as the Bank's experience in implementing its existing loan portfolio. We support the increased focus on investment lending at the regional and local levels as long as this is selective and contingent on demonstrated commitment to reform and necessary implementation capacity. It must also be part of a coherent and integrated national-regional development strategy. However, this chair continues to have a number of concerns on the broader issue of direct lending to sub-national entities.

7. To promote Russia's transition to growth, the Bank will have to play an active role in catalyzing private investment. We support the IFC's plan to build on to its Russian experience by selectively expanding its operational priorities. We particularly commend IFC's support for privatization and its innovative use of trust funds and technical assistance. We also supported recent use of the Bank's guarantee facility and we urge the Bank to use this operational framework as the basis for vigorously pursuing other opportunities for promoting private sector development consistent with the Bank's development strategy and its social and environmental guidelines. We believe that the guarantee mechanism provides a practical innovative instrument for stimulating foreign investment and creating opportunities for Russian enterprises in major investments in priority sectors. We would appreciate staff comments on their latest assessment of the future guarantee program in Russia and their views on what additional conditions are needed to make the guarantee instrument more useable.

8. The CAS notes the problems of crime and corruption and the adverse impact they have on Russia's business environment. However, we would have liked to see more attention focused on this pervasive and fundamentally corrosive issue. We believe the enormously
difficult job of fighting corruption is integral to development progress and that the Government and the Bank must use every opportunity to strengthen transparency and the rule of law throughout the economy. Addressing corruption is critical to provide confidence for domestic and foreign investors. In the absence of progress, badly needed investment just will not happen.

9. The Bank’s start-up operations in Russia have faced a number of difficulties. It is disappointing, although unsurprising given the uncertain environment of the past, that the quality of initial implementation performance has had a large share of unsatisfactory projects. We are pleased at the emphasis which the Bank and the Government have given to assessing and building on the lessons of these early operations, and that the resulting program of intensified portfolio management is substantially improving project performance. However, much more work is still required in sectors such as agriculture, tax administration, and portfolio development where project ratings remain unsatisfactory. An expanded lending program will require even greater efforts in portfolio management by both the Government and the Bank. As I have already noted, we believe this is an area where EDI can play a very helpful role. We also expect that the Bank’s Resident Mission will have the resources and flexibility necessary to keep portfolio management at the center of the country dialogue and to manage the expanding portfolio efficiently and effectively. The scale and complexity of the CAS program also has major staffing implications given the need to deploy the highest quality Bank expertise and also the huge increase in the demand for on the ground project oversight.

10. The Structural Adjustment loan which we are also considering today is one of the more important elements of the CAS program and it has our full support. Given the importance of helping to protect the most vulnerable people during transition, we also look forward to considering the Social Protection Adjustment loan in the near future.