Statement by Mr. Matthias Meyer  
Date of Meeting: December 22, 1999  

**Russian Federation: Country Assistance Strategy**

The Political and Economic Outlook

Such a short time after the parliamentary elections it is difficult to predict future events. There is hope that the government and the parliament will work together more effectively. The presidential elections in June 2000 will give new clues on the reform agenda. The course of the hostilities in Chechnya will also influence future economic and social trends. Even if positive economic growth persists in the months to come, obstacles to macroeconomic progress are considerable: a structural balance of payments imbalance, a heavy debt burden and continuing capital flight. Sustainable growth will depend on structural, legal and economic reforms. Only decisive steps will help to regain investors' confidence and bring back investment to Russia.

The Bank's Strategy

Over the last few years the Bank moved away from project lending in infrastructure and energy to focus on systemic aspects and policy development. As the Staff mentions, the August 1998 meltdown signaled the failure of this strategy. Meanwhile, once Russia acquired the necessary experience with the Bank's procedures, the performance of the project portfolio improved from 31% to 74%. Even if the crisis in 1998 caused a setback, we agree with Bank management that it will be important to build upon this positive experience with investment projects using them as an important vehicle for institutional change. Under most scenarios the financial scope for such interventions will be necessarily limited but still relevant. This approach is borne out by the Swiss cooperation with Russia. Most projects have had tangible results providing the Swiss agency with powerful arguments on the home front to continue this form of partnership in the future.

We agree with Bank staff that interventions have to be highly selective, and given the limited
means and the potential impact, a preference should be given to working at the central level. We would like this preference to be interpreted flexibly, case-by-case, particularly for sector and project lending. It should depend upon whether the project partners, at the regional or central level, are able to take ownership and provide guarantees for sustainable results. We understand that the EBRD as well as some bilateral funding sources are considering working more closely with some regions.

Institutional development - be it through investment projects, sector programs, stand-alone technical assistance or training - should be the main concern of the Bank’s program. Technical assistance bears fruit only in the context of a long-term involvement. It makes sense to use, whenever possible, grant assistance from bilateral donors and local consultants rather than foreign consulting firms. In a number of cases international consultants might be useful for supervisory tasks.

We would like to express one caveat on adjustment lending in the high-case scenario: adjustment lending should not be seen as an easy way out of the difficult task of project supervision. Efficient monitoring will require significant human resources, and the Bank should ensure that it has the means to do this job well.

Poverty

The Staff points out the potential conflict between the growth and poverty reduction goals. If the Bank recommends enterprise restructuring, then recommendations must also be made as to how to deal with the resulting unemployment. Safety nets must be put in place in time and conditions fostering the creation of new enterprises must be fostered. The Bank has an important responsibility in this regard, and will be held accountable if policies are implemented which do not take the consequences for society into account. It would be preferable to accept a more modest short-term growth objective than to compromise the goal of poverty reduction which is, after all, a major part of the Bank’s mission.

As far as the reduction of poverty is concerned, we support the idea of reconsidering the current disbursement system and to do more for the poorest of the society. The problem of poverty in the regions is particularly serious. As is foreseen by the CAS, the benefit of such corrections should be addressed to those who really are in need. As elsewhere, careful monitoring is a must.

Business Environment

We agree with the Staff on the way the difficult business environment is characterized. Technical assistance in the legal and administrative areas is particularly appropriate. One problem facing principally small businesses in Russia today is the omnipresence of organized crime, as this leads to additional costs of doing business and additional security risks.

Financial Sector Development

We fully support the Bank’s view that this sector is not yet adequately regulated and that there is
a need for action. Regarding further restructuring of the banking sector, forceful government measures are necessary.

Corruption

The fight against corruption should not be delayed. But as the Staff mentions, anti-corruption programs can only succeed if they are firmly and credibly initiated by the government and are based on political leadership and a broad coalition of forces in the civil society. Therefore contacts with the authorities have to be intensified, working conditions and wages of civil servants have to be adjusted. In this way, an important incentive for corruption will be eliminated. We support the Staff's approach to this problem.

Organized crime

Although organized crime is a major threat to Russia's recovery, this is not mentioned in the CAS. While we recognize that the Russian authorities are responsible for dealing with this problem, we feel that this issue should also be taken into consideration in the Bank's strategy. We would therefore encourage Staff to propose indirect measures through which the Bank could give support to the government.

Conclusion

We support the CAS but would like to insist upon the high priority to be given to poverty reduction. We agree with an approach that maximizes dialogue and institutional development using mainly discreet project and sector operations as well as studies. The choice of partners should be flexible, taking into account that, in some areas, regional partnerships might be more promising than central ones.

The approach taken by the Staff is realistic. They admit that there will remain "an exceptionally large degree of uncertainty in view of the scenario projections." There is no room for enthusiasm, but neither for resignation. A long-term relationship is needed to support Russia.