Statement by Ruth Bachmayer  
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Russia: Country Assistance Strategy FY00-01

1. I thank management and staff for the CAS document. It reflects the problematic situation, a tough policy agenda and difficult challenges ahead, including those faced by partners of Russia with regard to their strategies on how to support the country.

2. In view of the broad needs for tackling the enormous problems on the one hand and the finite support Russia receives from the international community on the other hand, it is critical that all donors and financial institutions who are active in Russia strongly coordinate their efforts. As the CAS document states in paragraph 50 “the Bank efforts have not borne fruit to date on a scale commensurate with the increase in Bank exposure”. This fact is not only true for the World Bank, but also for many other financiers. The big inflows of financial assistance which could not be absorbed appropriately, unfortunately contributed also to the high level of debts that now have to be served by the country. This fact constitutes now by itself one of the biggest obstacles for enhancing the reform agenda.

3. With respect to the need to strengthen cooperation, I very much welcome the efforts to strengthen the synergy between the Bank and the European Union with respect to lending operations and the substantial volume of technical assistance by preparing a Memorandum of Understanding. It would be interesting to receive more information from staff on the "division of labor" between the Bank and other external supporters of Russia and where staff sees further opportunities to increase the efficiency of overall external support.

4. We consider it of great importance to intensify the dialogue with the government and civil society. The instruments proposed to be used during the upcoming CAS period, i.e. reform-linked investment lending and extensive analytical and advisory services, including strong involvement and support by the World Bank Institute, should provide the basis for

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continued cooperation with the relevant stakeholders and increase capacity urgently needed to master the complex transition process.

5. It is also of utmost importance for everyone involved in the difficult transition process to **increase the understanding** of the difficult development process taking place in Russia. In this sense, the CAS for 2000-01 is more realistic than the previous one. It acknowledges that expectations on the speed of reform were unfounded. As the short history of transition taught us so far, there is no quick fix for the enormous task of transition to a market economy, in particular for such a complex and large country as Russia. One has to realize that the specific social and historical conditions of the country did not and will not allow the same speed of reform, which may successfully materialize in some countries of Central Europe.

As the first Global Development Network meeting in Bonn, organized by the Bank/DEC and WBI, clearly demonstrated, there is a broad array of policy related research being done, both outside and **inside** Russia which relate to systemic issues such as “transition or growth”, barter trade, economic effects of privatization, implementation of policy reform and financial sector, trade and investment related issues.

I very much welcome that ECA is drawing on the valuable insights, in particular from domestic researchers. It is an urgent task to put all the information which is relevant for a better understanding of the transformation process together, as announced in paragraph 58. In this respect, a CEM, produced together with the OECD and the IMF, should provide a coherent assessment of the developments in the actual situation in Russia and thus could serve as a basis for longer-term strategic reflections, as is to be hoped, together with the government.

6. I can in principle endorse the **Country Assistance Strategy** as set forth in the document. I agree with the two-year time horizon of the CAS, reflecting the uncertainties in the country’s political and economic landscape. The CAS recognizes that structural and social imbalances that exist in Russia will take a long period to be overcome. The Bank is, in our view, realistic in preparing itself to remain a partner of Russia for many years.

To bring the country on a sustainable development path requires first and foremost that appropriate governance structures are in place. Only they can provide a solid and reliable basis for the World Bank (and others) to intensify cooperation and support. Yet, in view of increasing poverty and economic down-turn the Bank must stay ready to assist the country on a larger scale when circumstances ensure proper absorption to the benefit of Russia. One must also not ignore the impact that Russia’s economic development has on the whole region surrounding the country.

The strategic focus of the CAS on **systemic** policy and institutional issues should guarantee a high leverage effect with regard to critical reforms. The fight against corruption is one of the crucial systemic elements to restore the functioning of the economy, the public sector and the society altogether. I welcome that this objective has found its proper reflection in the CAS.
The great importance given to analytical and advisory support is justified. The issues on which these services focus are of systemic relevance and, therefore, well chosen. However, more attention should be paid to the development of knowledge and skills related to entrepreneurship. The transition to private business and ownership (including in the agricultural sector) requires specific credentials which must, very often, be built from scratch in Russia. In view of the critical economic and social importance that the private sector has, the Bank should provide more support for developing the related skills.

With regard to the planned financial support, it is

- crucial to strongly link lending and disbursement to clearly defined triggers in order to stimulate progress in the reform agenda. This will give the government a clear message of what can be expected from the Bank, and will also help to improve the Bank’s portfolio;
- as to the proposed lending volumes I endorse the cautious volumes under the different scenarios; however, I wonder how realistic a negative net disbursement scenario after 2001 is; and
- I do not understand what the rationale of providing WB partial risk guarantees to Russia is. This instrument is, as experience to date shows, highly complex. Given the weak implementation capacities in Russia, straight-forward lending may be more appropriate.

The phased shift in responsibility from IBRD to IFC for operations in which funds are on-lent to commercial enterprises and other forms of commercial lending is welcome.

However, I have difficulties to understand why the Bank practically withdraws from the agricultural sector. This sector traditionally played an important role in the economy, not least as a basis for employment. If the Bank wants to focus on poverty and economic development, it must help Russia in restructuring the agricultural sector and continue the dialogue with the government in this respect. One also has to take into account that the country is importing already more than half of its food supply to meet the demand of its population. In this sense, one also has to look at this sector in terms of food security and possible detrimental effects on the social consensus for reform.

Finally, we wish the Government of Russia all success in managing their challenging development and reform agenda.