Statement by Balmiki Prasad Singh
Date of Meeting: February 6, 2001

**Russian Federation: Country Assistance Strategy Progress Report**

and **Moscow Urban Transport Project**

We welcome the discussion on the Country Assistance Strategy Progress Report for Russia and commend the Staff members for this highly analytical and candid report.

Since we have discussed the C.A.S. in December, 1999, the political and economic situation in Russia has undergone tremendous changes. The environment for reforms is more positive today than ever in the past. The increase in oil prices has brought stability to the economy with improvement in industrial production and GDP. The government revenue has gone up, fiscal deficit is reduced, inflation is under control, and the unemployment rate has come down. Though the increase in oil prices is a major reason for Russia's economic stability, we should also congratulate the Government for their farsightedness and commitment to continue with the reform process. As a matter of caution, we would like to add that this stability on both economic and political front should not lead to any complacency either on the part of Government or on the part of the Bank. This is the time for the Bank to involve in soul-searching operations and to design a viable and sustainable strategy for economic development of Russian Federation.

We welcome a shift in the Bank's program that embraces the plan formulated by the Government of Russia for all round development of the economy. We urge the staff and management to devote some time to understand why the Structural Adjustment Loan-3 is a failure. We have to learn from the past. Various factors which have contributed to this failure have not been properly spelt out. We take note of the fact that President Wolfensohn's meeting with President Putin has brought a positive change. Now, it is the responsibility of the Government of Russia to make sure that the strategy and the reform process succeeds.

We are pleased to note the impressive analysis and advisory work planned by the Staff for the next two years. The program of Advisory Services listed in Appendix-3 is really ambitious and exhaustive. This will definitely contribute a lot to understand the Russian economy and will provide a road map to achieve the Government’s program in the medium term. The role of gender in Russian economy and the impact of HIV/AIDS also need to be studied in detail.

It is regrettable to note that the reform in financial sector is going very slow. Before pushing the reform, the diagnostic work needs to be strengthened and the legal and judicial
environment be made favourable for market orientated economy. This may take a long time than expected but there is no need to worry as long as the reforms are on the right path.

We very much appreciate the role played by I.F.C. in Russia in creating an atmosphere for private sector development. IFC's continued presence will improve the investor's confidence and accelerate growth of foreign investment. Transition from the totally controlled economy to a market orientated one is really painful but initial hiccups can be easily overcome if we are cautious in choosing the partners and realistic in our objectives.

IFC should explore the possibility of setting up venture capital fund, particularly in the area of new economy – information and bio – technology. This will achieve the twin objectives of financial markets development as well as private sector development. Has I.F.C. any plan to commission a study on the viability of such initiatives? We will be glad to have the comments from the Staff.

Though the unemployment rate has come down, 10 percent of the youth are still unemployed. IFC's continued support for the development of small and medium enterprises can play a positive role in creating more employment.

Russia’s external debt service continues to be a major risk. Does the Government have any contingency plan in case there is sharp decline in oil prices? In fact this is the time for the Government to take steps to diversify its exports. Its over dependence on oil will not help to find a viable solution for sustainable growth.

Though political and economic stability has returned to Russia, the people of Russia and international business community are looking for quality of governance. Determined action from government against corruption and organized crime will send positive signals for increased foreign investment which is very much needed to modernize Russia's diverse but dilapidated industrial base.

**Moscow Urban Transport Project:**

We also welcome the presentation of Moscow Urban Transport Project for Board's approval. This project will go a long way in improving the mobility and quality of life in Moscow. We are very much impressed by the project's design and its core objective of improving the institutional capacity of the city of Moscow to plan, design and implement effective traffic management. We extend our support to the project and urge the staff to finalize the new Structural Adjustment Loan quickly in consonance with the Government's program.