1. I commend work the Bank has done to improve the condition of its own portfolio, but I note that overall structural reform stagnated in 1996. Obviously, this was mainly due to preoccupation with macro-economic crisis management throughout much of the year. But an overly diffuse and ambitious structural agenda set by the IMF and World Bank did not help. Asked to do everything, the Russians were not able to do much.

2. This led to current parlous state of affairs, with tax revenues at rock-bottom levels, rising arrears through 1996, and an extremely adverse private sector environment. I fully agree with the new emphasis on a focused and better-prioritized structural program for 1997, set and monitored jointly with the Fund. The new economic team have got off to a good start in implementing this program, but it is absolutely vital that this momentum is kept up. In recent discussions on resuming the Fund EFF program, Executive Directors stressed that structural reforms would have to be implemented to the letter. The *quid pro quo* of a less ambitious, more realistic, program was that slippages would not be tolerated.

**Proposed Lending Levels**

3. I endorse the view put forward in the CAS that the rewards of a successful expanded program would be substantial, and that the Bank should be geared up to respond to such an opportunity. The trigger mechanisms seem adequate, if adhered to properly. However, implementation problems are likely to be huge and seem under-represented in the risk analysis. Expansion of the program should be accompanied by an improvement in the quality of the portfolio, and expansion can only be justified if this is the case.

4. It is imperative with fast disbursing one tranche lending, such as the SAL, that monitoring of prior conditions is comprehensive, and that the new conditions set are ambitious.
but achievable. Once conditions are set they should not be watered down subsequently. The conditions for a SAL 2 should be expected to be more demanding than for SAL 1.

5. I am not convinced of the rationale for the intermediate lending scenario, including SECALs. If the pace of reforms continues to be sporadic and implementation problems continue, there would seem to be little case for any continued SECALs lending.

**Private Sector Development**

6. Private sector development is a key issue for Russia’s longer-term health. At present, legitimate investment in private enterprises is undermined on three distinct fronts: first, it is crowded out by government debt issue which seems to capture all the energy of the financial sector; second, it is stymied by adverse legal and taxation systems; and third, it is threatened by crime and corruption. Establishing and upholding a transparent system of property rights will be crucial. I would like to hear more about how last year’s Legal Reform Project is going, and to what extent it is successfully addressing this issue—is there a need for more Bank assistance in this area?

7. I welcome the clear presentation of potential for increased cooperation between IFC, MIGA and IBRD on private sector development. There is very little in IBRD plans for direct enterprise restructuring rather than in supporting provision of an enabling environment. Does the Bank Group now see this mainly as a role for IFC and EBRD?

8. The strategy would benefit from greater clarity of the position of the Bank Group vis a vis EBRD. The CAS acknowledges that EBRD has greater financial and human resources for working with private sector, but it is not clear how this has affected Bank Group strategy.

**Public Expenditure and Fiscal Reform**

9. I commend the strong cooperation between the Bank and Fund to date. This cooperation has been important to success on the macroeconomic front and will be even more important in this vital stage of structural reform.

10. The CAS and SAL papers highlight appropriate measures, for fiscal reform in some detail. Much less is said about the timetable for such reform measures which looks very ambitious given the current institutional constraints. Given that improving revenue collection has been top of the Bank and Fund agenda for some months, does experience to date give any indication that implied timetable for reform is realistic? What are the implications for the package if, for example, a new Tax Code is not passed? Is there a fall-back position for this set of reforms?

11. Equally important are improvements on the expenditure side. The problem in Russia is not so much that the government does not have enough money to spend, but that expenditures are very poorly allocated, and are not getting to those most in need. Four per cent of GDP is going
on housing subsidies is a case in point. I wonder whether the Bank could make a contribution with a Public Expenditure Review?

12. Is the Bank convinced that the proposed new expenditure control and budget management arrangements, e.g. reform of procurement procedures, can be effective in fighting corruption? Are the relevant bodies and institutions capable of enforcing existing and new regulations in these areas? Are any further measures appropriate, beyond those identified in the current SAL paper, and could they be introduced more speedily?

13. Another crucial Bank contribution will be assistance in the reform of inter-governmental fiscal relations. As the SAL document says, this issue is at the heart of much of Russia’s fiscal problems. As in other aspects of the economy, perverse incentives are a central issue. I would like to hear more about what the Bank is doing to help the Government formulate policy and legislation in this area. At present, there are a large number of regions which, at least on the surface, remain hostile to reforms and to even the current fiscal policies of the center. To what extent has the Bank (and the Government) sought to address this constituency to date? The paper seems optimistic on the level of cooperation that may be forthcoming.

**Poverty Reduction**

14. It is likely that further structural reform measures may take a fairly significant percentage of the working poor into unemployment in the short-term. Are the social expenditure plans envisaged in the CAS sufficient to prevent a further rise in this type of poverty over the next few years?

15. Emphasis is rightly placed on greater targeting of social expenditure, but there seem to be few concrete ideas of how this may actually be done, given the institutional constraints and the likely lack of consensus on policy measures, especially at regional level. The balance of instruments with which this could be done, i.e. greater resource transfers or improved social services, needs to be addressed. The Federal Government does not seem to have the instruments necessary to carry out a full refocusing of social expenditures, while the vast majority of expenditure is now undertaken by the regions.

16. More people may perceive themselves to be in poverty than economic indicators would suggest. The removal of the state/enterprise support structure has been traumatic for large sections of the population. Perception of poverty will have a direct knock on impact to political support for reform program and particularly on targeting of benefits. Does the new household survey information give a clearer picture of how many Russians perceive themselves to be poor?

17. One important determinant of the political impact of poverty is the people’s perception of the upwards (and downwards) mobility of themselves and their children. In this regard, I should be interested to hear more about the Bank’s role in providing and improving education and training for the “chronically poor” and “transitory poor”.
Gender/Social Impact

18. I welcome focus on social issues. It is vital not only for their own sake but to preserve very fragile social consensus. Gender issues in transition in Russia are more complex than Box 1 on page 7 suggests. Has the Bank done any real analysis of gender issues in Russia. For example, there are some indications that women have tended to suffer disproportionately from restructurings and closures in “single-industry” towns. Provision tends to be made for the predominantly male workforce of the central company, but predominantly female workforce involved in peripheral support industries may receive no social protection.

Non-Lending Services

19. There is an important role for technical assistance in leading into Bank operations in Russia. While realistic in recognizing scope for change in fundamental Bank procedures, the CAS might have gone on to identify this as typifying the need for, and benefits of, close cooperation with other donors who can provide technical assistance. The CAS rightly notes that IFC experience points the way. What is needed is explicit recognition by the Bank that it needs strategic partnerships with leading technical assistance providers, bilateral and other (especially TACIS, which I am keen to see more effectively deployed).

WTO

20. The CAS notes Russia’s intention to accede to the WTO in 1998. I agree that this will be important to the preservation of the liberal trade regime. However, I understand that Russia is severely lacking in capacity to prepare a bid for accession, which is quite a demanding process. Is there anything the Bank is doing or could do to assist?