Statement by Balmiki Prasad Singh  
Date of Meeting: December 22, 1999

**Russia - Country Assistance Strategy**

We welcome the opportunity to discuss the Country Assistance Strategy for Russia at this crucial juncture. We commend the Management and the Staff members for this candid and analytical document.

2. Russia is undergoing a long and painful transition. Irrespective of the turmoil Russia is experiencing in past 2 years, we cannot undermine the progress made by Russia during the last 10 years in transforming itself into modern democracy and market oriented economy. In fact, we appreciate the piece of political futurology contained in the report stating that “it is thus unlikely that the upcoming elections will result in a general reversal of reforms” (para 6, page 2). We agree with the Staff's assessment that overcoming the remaining structural and social imbalances in Russia will take many more years. The Bank is in a delicate position and its support may attract criticism from some quarters. However, we should not forget the fact that given the difficult position from which Russia started, the Bank’s continued supportive role is all the more essential in future for some years to come.
3. Notwithstanding several negative developments and given the extraordinary difficult circumstances in domestic politics, Russia has made noteworthy progress by turning a negative growth rate into moderate one during the current year. It is, however, saddening to note that domestic and foreign capital markets have almost lost confidence in the Government's ability to impose sustained fiscal discipline. What corrective measures are required to be undertaken that the Government is unwilling and/or unable to undertake? We would like to have comments from the Staff on this as it is a critical factor for success of CAS strategy.

4. The fluctuation in oil prices will pose a great risk to Russian economy. A one-dollar-per-barrel decline in the price of oil is likely to wipe out 20 percent of the foreign exchange reserves. With the projection that oil prices are likely to fall in the coming year, we would like to know what are the contingency steps taken by the Government to meet this extraordinary risk.

5. It is distressing to learn about the deteriorating performance of the portfolio. Only 33 per cent of the portfolio has been rated satisfactory in 1999 against 74 per cent in 1997. However, we should not be tempted to look at this deterioration in isolation. This should be seen along with the difficult path Russia had to travel on the road from controlled economy to market economy. Transition problems are likely to continue for some more time and the Bank is to live with it. We understand the Staff's sensitiveness to its reputation as a development institution. The risk is substantial but the very fact that we have identified the same at the right time and the cautious approach to disbursement and strengthening the accounting procedures will help us to overcome this risk. In this connection we are satisfied with a number of steps taken by the Bank Management in safeguarding IBRD portfolio and developing institutions and systems, as a part of near term anti-corruption strategy.

6. Given the current situation, implementation of projects in Russia, whether it is adjustment loan or investment loan will continue to be difficult and problematic. What is needed is to build consensus among various groups in Russia - Parliamentarians, private economic groups, regional political allies, etc - so that the potential threat to delay or block any meaningful reforms can be
reduced. In this connection we appreciate the Bank’s strategy for going ahead with investment in building a strong knowledge base to deepen the understanding of the Russian economy and the sharpened focus on the institutional barriers to growth including governance issues.

7. To avoid unfounded allegations against misuse of Bank’s funds – since the fiduciary management in Russia is weak – the Bank should come out with a detailed report of its operations and use of funds at least once in six months and the same may be widely shared with the Board, public and the Press. This transparency on the part of the Bank would enhance its reputation as a leading international financing institution and prohibit any whisper in the dark.

8. Since our exposure to Russia is quite high and the sovereign risk may continue to increase, we would like to have a brief from the Staff separately about the threat it poses to the Bank’s creditworthiness as a whole and the suggested steps to be taken to mitigate the same.

9. We are concerned that the ‘strategic compact’ has compressed the administrative budget for the region. Russia is strategically very important for the Bank and the budget should not be a constraint in improving our long term relationship. Staff may be requested to present a separate paper on this to Budget Committee/Personnel Committee and adequate funds should be provided so that their ability to safeguard our portfolio and carry out extensive research and analytical report can be strengthened.

10. We are very glad to note that the leading role being played by the WBI in institutional development and in stimulating participation and debate among the Russian intelligentsia. This is very much needed not only in disseminating the knowledge but also in understanding the mindset of various policy making bodies in Russia.

11. We would also like I.F.C. and MIGA to step up their efforts in privatization, promoting foreign investment and strengthening the financial sector.

12. On the whole, we congratulate the Staff once again for the difficult job they are carrying out in Russia and extend our support to the proposed Country Assistance Strategy.