We welcome the opportunity of discussing this Country Assistance Strategy for Russia and would like to commend staff for preparing a candid, comprehensive and excellent document. From the report, it is clear that Russia is facing tremendous and complex problems which could have significant and far-reaching implications. Thus, it is very important for Russia, with the help of its development partners, to address its economic problems and therefore contribute not only to the betterment of Russia’s economy, but also to the stability of the world economy.

In the last two years, Russia has been undergoing a tumultuous period marked by financial meltdown in August 1998 which has resulted in some very difficult and adverse setbacks in the economy such as delay in structural reforms, increases in poverty and unemployment, significant capital flight and loss of access to capital markets. These adverse developments pose a difficult challenge to the Bank Group due to high financial and reputational risks involved. This CAS has key features, which in our view, could address effectively these challenging problems. The Bank Group’s strategy and priorities, we feel, are also appropriate. We, therefore, would like to express support for this Russian CAS. Having said this, we would like to make several observations.

We agree with the CAS’ emphasis on institutional reform as key to achieving sustainable and equitable growth in Russia, especially in improving the performance of public sector institutions necessary to facilitate the development of enabling environment for private sector development. The problem of lack of private investment in Russia relative to its potential and to some other transition economies would be overcome if the public sector can be made more efficient and more responsive to business needs and market economy requirements, such as the existence of healthy competition, good legal and fiscal framework, efficient financial sector and adequate infrastructure. Besides these factors, a more stable domestic
environment is needed to enhance investors' interest and confidence in the country, which we hope would result from the recent elections in Russia.

Another serious problem faced by Russia is the weakness of its financial sector which makes it vulnerable to contagion such as the one brought about by the Asian financial crisis. In this connection, we would like to know whether this weakness which had led to the Russian crisis was caused by the premature financial liberalization as might have been the case in other Asian countries. We also note there is still significant capital flight out of Russia and, in this regard, we would appreciate staff elaboration and advice on the appropriate steps to be taken by the government to address this problem. Can some form of capital control be effective to reduce short-term capital flight?

We welcome the Bank’s effort to strengthen macroeconomic and financial management. The lack of access to international capital markets on one hand, and the need to meet scheduled debt service in 2001 require the economy to produce large surpluses. In this regard, reform of taxation is needed to increase government revenues. We therefore encourage the Bank to take an active role in improving the tax system especially in the remaining problematic areas such as natural resource taxes, subsidy expenditure allocations, and intergovernmental fiscal arrangements. We hope the resulting increased revenues would allow improvements in government employees' pay, necessary to minimize the problem of corruption, which constitutes a priority program for both the government and the Bank.

While noting some significant achievements in the Bank’s operations, we are concerned with the rapid deterioration of the Bank’s portfolio performance in Russia, from 78 percent in July 1998 to only 33 percent in July 1999, making it the weakest portfolio performance of the Bank. It is still not clear to us why the Russian portfolio is so highly vulnerable. We would like to know whether such poor performance was caused by lack of supervision, quality at entry, or weak implementation capacity. We would appreciate staff comments on this. We are also concerned with the prospect of the three largest on-going Russia adjustment operations and hope every necessary step will be taken to ensure the success of these operations due to their importance to structural reforms and social protection.

Regarding social protection, we would like to support the expansion of this program due to the increased prevalence of poverty in line with available resources. Besides, the distribution system clearly needs to be improved in order to reach the poorest households. We are concerned that only 8 percent of total social assistance reach the poorest segment of the people and about one-fifth of poor households receive no assistance at all. Staff explanation on this would be appreciated.

The huge and complex challenges faced by Russia in its efforts to develop private and financial sector require significant assistance from the Bank Group. We are glad that IFC and MIGA have been active in Russia to promote private investment by providing technical assistance and coverage for political risks. In this context, we support a 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, while taking into account the lessons
derived from previous operations.

On lending, we support the proposed IBRD investment lending/guarantees during FY 2000-01 to support the implementation of the CAS' programs up to US$600 million per year over the next two years. Due to the high risk and vulnerability involved in this lending to Russia, we encourage the Bank Group to monitor their operations closely especially potential adverse developments in external factors.

Finally, we would like to reiterate our support for the Russian CAS and wish the Government of Russia success in implementing the CAS programs.