Board Meeting of Tuesday, December 22, 1998
Statement by Ruth Bachmayer

Russia: CAS Update

I would like to thank management and staff for this update concerning the Bank’s strategy in Russia. The Board has approved in the last years a considerable amount of finance so that it is very appropriate and important to inform us about the plans how to further proceed in the country in this difficult situation.

1. My first point relates to the Bank’s overall concept concerning its assistance for the country.

We have the impression that there is no model and no recipe, not only in the World Bank, how to assist Russia at the time being. What we are in particular missing is a thorough study, similar to that for East Asia, which analyzes the actual systemic and economic circumstances, as well as the Bank’s program so far in terms of its effects on the country’s development, what has worked and what not and why this was the case. We consider such a systematic and comprehensive analysis as a necessary precondition for a bank strategy.

Obviously, in case of former communist countries support strategies cannot easily be copied from the experiences in other regions since circumstances are so different from other paths of development.

Therefore, we appreciate management’s intention to bring early next year a retrospective analysis to the Board that takes a serious look on the Bank’s lessons from Russia. The analysis would be, we believe, a valuable contribution for a revised strategy with respect to Russia.

One issue in such an analysis should deal with concrete aspects concerning the real sector in terms of which sectors and which existing enterprises are in principle viable and worth being restructured; which productions are needed in terms of domestic supply and for exports; what is the appropriate sequencing for restructuring of existing enterprises, liberalization, legal system reforms, privatization etc., what is needed in terms of incentives, or training etc. In our view, the Bank must not shrink back from
dealing with this difficult subject as the real sector plays an extraordinary role in this country. All industrial countries had or still have an industry policy which laid very often the basis for successful economic and social development.

2. We agree with Management that it is of great importance that the Bank remains present and visible in Russia, that it maintains the dialogue with the government and with politicians and that it keeps the authorities familiar with our development approach. But at the same time it is crucial that the Bank preserves its leverage effect regarding reforms. We agree, therefore, that the Bank concentrates primarily on technical assistance while remaining cautious and consequent as concerns lending and disbursement.

We also support, in principle, that the actual priorities for Bank support are in social sector programs including education and also in emergency measures as necessary. If financing is involved in any of the projects we would like to know how the Bank makes sure that proper targeting of the poorest is guaranteed and which division of labor and cooperation with other donors will be put in place.

3. Concerning the themes for technical assistance it seems to us that the focus on the financial sector and on public resource management is important, but what we are missing is the explicit reference to capacity building including corruption. Also corporate governance seems to us a very important item in light of the importance we attribute to the real sector. All these are cross-cutting issues for the functioning of the economy and the whole society and should thus be emphasized in all aspects of the Bank’s work in Russia.

4. These remarks relate implicitly also to the proposed Road Rehabilitation project. As said earlier, we welcome very much that the Bank makes all efforts to continue with projects in Russia - as far as reasonably justifiable in terms of proper implementation.

Since additional finance and therefore an increase in the country’s debt is involved we wonder whether this project really increases its capacity for repayment - both fiscally and in terms of hard currency earnings - and also how much it supports the creation of employment. We would, therefore, like to know more about where management would see the sectoral priorities for its project financing activities.

In conclusion, we approve the Bank’s strategy in Russia as indicated in the updating note, but would at the same time urge management to work on a profound and comprehensive analysis on the country’s overall status and Bank’s experience on which a sensible longer-term country assistance strategy can be built upon.