We welcome this opportunity to discuss the Bank Group's Country Assistance Strategy for the Russian Federation and extend our general support for it. Under the present circumstances, we believe that the strategy gives broad indications of how the Bank Group will be supporting Russia's economic and social development in various sectors. We are mindful that this CAS is being discussed against the background of ongoing parliamentary elections, improved budget revenue collection, thanks to higher oil prices, and a stable exchange rate regime.

The assessment of the political, economic and social situation in Russia is fair, in our view, and we appreciate the candor of the document with respect to the question of corruption. Notwithstanding the recent economic turmoil as a result of the East Asian crisis, we should not gloss over the impressive success recorded in the previous years by the Russian government as the country has made the difficult transition from a centrally planned economy to a market oriented one. As rightly stated in the document, there remains a number of difficult economic and social challenges that will take some time to resolve. The lending program proposed would be instrumental in supporting the government's efforts in addressing these challenges.

We note with concern the increased poverty and inequity in Russia. Despair has replaced the optimism at the beginning of the transition. Basic education and health services that Russians used to take for granted are deteriorating. Arresting this situation would entail, inter alia, more detailed studies on poverty in the country in tandem with a sharper and more targeted poverty reduction strategy supported by the Bank. It is worrisome to note that only 8% of total social assistance in Russia is allocated to the poorest decile of the population and that about one-fifth of poor households receive no benefits at all. We feel that given the fact that most of the poor live in the rural areas and depend mainly on agriculture, the Bank's support should be geared towards reforming this sector. We would appreciate hearing more about the kind of engagement the Bank
intends to make in the agriculture and rural development sectors.

With respect to the public sector and corruption, we feel that the document does not provide a detailed analysis of ways in which to deal with the issue. We believe that much benefit could be derived from the lessons that the Bank has learned from other regions on how to redress corruption, especially through the strengthening of public administration and financial management. It is gratifying to note that, notwithstanding allegations in the international press concerning corruption and misappropriation of public funds, no irregularities in management of World Bank funds were found. We commend management for taking a proactive role in safeguarding the Bank's portfolio in the country.

With respect to private and financial sector development, we believe that the private sector is the key to the country's long-term development. There is need to clearly delineate the role of the state, provide an enforceable legal framework and improve the private investment climate. However, as the government withdraws from productive areas while retaining its regulatory and supervisory roles, greater effort should be made to avoid the replacement of government monopolies with private monopolies.

We commend both IFC and MIGA management for their strong exposure in Russia. IFC support in the form of technical assistance and advice and MIGA's investment promotion efforts should assist in attracting more foreign direct investment into the country.

We fully endorse the suggested strategy for broadening and deepening the consensus on reform agenda. The role of the WBI in helping to forge a political consensus and in promoting public debate on broad economic reforms cannot be over-stressed. The WBI can also play an important role in institutional development and policy dialogue as well as in disseminating the benefits of reforms, especially to anti-reformers.

We are concerned that after reaching a 74 percent satisfactory level in projects both in Implementation Progress and Development Objectives in the July 1997 and 1998 CPPR, only 33 percent were so rated in the July 1999 CPPR, with Russia's portfolio performance rated as the weakest in the Bank. The document is not very clear about the main reasons behind this sharp decline. While we are pleased to note management's efforts to intensify portfolio management, we expect that the Bank will carry out in depth studies on the causes of this disappointing performance.

We support the proposed lending scenarios and associated triggers. While noting the importance of satisfactory project preparation and quality at entry as conditions for good portfolio performance, we would like to emphasize the ownership issue. Stakeholders should be involved in project identification, design, and implementation for improved portfolio performance.

With respect to the program's focus and instrument mix, we agree with the document that the transformation process in Russia is very complex and difficult. We also agree that adjustment loans are more appropriate in the implementation a range of critical reforms and
commend the Bank for taking the lead in using the SAL as an instrument for continuing dialogue with the authorities in an otherwise difficult environment. However, we believe that the Bank should focus more on the long-term reform agenda. The non-lending services summarized in annex 5 will no doubt contribute to the Bank's understanding of the country, help in building institutional capacity, and deepen the dialogue with the Russian authorities.

We applaud the strong presence of Russia's development partners in the country. The success of their endeavors, however, will depend on their effective collaboration and coordination. We expect the Bank to support the government's efforts to ensure that there is no overlap or duplication of efforts. The international community, particularly the Bank, should continue to help the government to strengthen its public sector administration while also addressing the social issues and the systemic causes of corruption.

In closing we would like to make two observations. First, there is little indication that the document has been prepared in consultation with Russia's development partners, stakeholders and civil society. Second, gender issues do not come out clearly in the document. We believe that women tend to suffer most from the transition process. We would appreciate some elaboration from staff on these issues.

Finally, we support the accompanying Regional Fiscal Technical Assistance Project and commend staff for the well-prepared documents. We also wish the Russian authorities success in their efforts to put the economy back on track.