

protection programs grows. Two priorities stand out in this agenda: restoring minimum benefit levels to adequate subsistence requirements, and development of a needs-tested transfer program targeting the poor. These steps will require reallocating financial resources to the social sectors. Given stringent fiscal austerity measures needed for stabilization, attention should be given to raising minimum benefits by reducing high benefit levels through taxation of benefits and restructuring. These steps will necessarily rely on greater involvement of local government in benefit targeting and administration.

18. Institutional Development. The institutional structures supporting many of these reforms have required major changes and in some cases were developed from a non-existent base. This has proven to be a major bottleneck to the implementation of economic reforms. Key institutions are needed for the management of a market economy, such as the Ministry of Finance and the Central Bank, as well as supporting civil institutions such as an effective judiciary and civil service. The weakness of institutions and lack of transparency in the legal system also impede the inflow of needed foreign direct investment. Moreover, institutional weakness of the political system has led to lack of clearly delineated legislative authority. While foreign technical assistance can help address some of these problems, the needs are immense and must be met largely from Russia's own resources.

Creditworthiness

19. An important goal of the Government is to regain access to international credit markets and to facilitate inflows of private foreign investment. Restoring full creditworthiness will take some time since Russia is in substantial arrears on debt payments and will face large scale repayment obligations for the next several years. Rescheduling of debt service payments falling due during 1994 was concluded with a group of official creditors participating in the Paris Club in early June, 1994. The terms, which reflect the arrangement with the same creditors in April 1993, provide substantial cash flow relief for Russia during 1994. Thus far, Russia and its commercial bank creditors have been unable to implement a rescheduling agreement reached in principle last year, and arrears continue to accumulate vis-a-vis bank creditors. A new Paris Club debt payment rescheduling may follow adoption of the IMF Standby Loan Agreement.