



Ministère des Affaires étrangères
et du Commerce international

Department of Foreign Affairs
and International Trade

**Les opérations du Groupe de la
Banque mondiale en
Fédération de Russie :
Guide canadien des affaires**

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Guide canadien des affaires :

Les opérations du Groupe de la Banque mondiale en République de Russie

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le Bureau de liaison avec les
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Opérations BIRD/IDA

Introduction

La Fédération de Russie a été l'objet d'un certain nombre d'importantes transformations depuis la désintégration de l'ex-Union soviétique et la mise en marche subséquente de réformes de marché en 1991. Le plus vaste programme de privatisation de l'histoire de la Banque mondiale a permis de libéraliser considérablement non seulement les prix et le marché de change, mais encore les contrôles à l'importation et une grande partie des contrôles à l'exportation. D'autres progrès significatifs ont été enregistrés au cours des quatre dernières années, notamment en ce qui concerne la stabilisation financière de l'économie russe et l'établissement d'institutions de base d'une société démocratique.

En dépit de ces progrès encourageants, la Russie devra relever des défis majeurs dans les années à venir. La reprise du programme de stabilisation financière dépendra de décisions politiques difficiles à prendre à l'égard des revenus et des dépenses, de même que de réformes structurales clés qui mettront durement à l'épreuve la capacité du gouvernement à poursuivre la mise en œuvre de ses politiques.

En règle générale, les autorités russes commencent enfin à comprendre l'importance d'un secteur privé vibrant, le rôle d'une économie de marché et le besoin de stabilité financière, sans mentionner plusieurs autres aspects clés des premières années de réformes. Il faut maintenant s'attacher davantage à résoudre des questions d'importance à moyen terme pour maintenir les réformes initiales, rétablir la croissance économique et se pencher sur les coûts sociaux du processus de transition. Au cours des trois dernières années, le programme d'aide de la Banque a mis l'accent sur le rôle du secteur privé en émergence. C'est un domaine où il reste encore beaucoup à faire, mais il cèdera peu à peu la place à d'autres priorités comme l'évaluation de l'impact des réformes sur les groupes socialement vulnérables et d'autres points à l'ordre du jour qui ont du plomb dans l'aile.

Stratégie d'aide au pays

De concert avec des officiels du gouvernement russe, la Banque mondiale a énoncé quatre objectifs spécifiques qui serviront de pierre angulaire de sa stratégie d'aide au cours

des trois prochaines années. Les priorités s'établissent comme suit :

- 1) Continuer à soutenir le développement d'une économie de marché en faisant fond sur des initiatives du secteur privé;
- 2) Développer des institutions du secteur public et des processus appuyant le libre jeu de la concurrence sur le marché et orientés vers la prestation d'une infrastructure physique, sociale, juridique et institutionnelle;
- 3) Atténuer l'impact de la transition sur les groupes socialement vulnérables en appuyant la création d'un filet de sécurité sociale viable, maintenir les services sociaux et l'infrastructure tout en accroissant l'efficacité des dépenses sociales, et promouvoir des marchés du travail plus flexibles;
- 4) Faire de la Banque un partenaire fiable au développement en finançant des investissements hautement prioritaires dans le secteur privé et en donnant des conseils stratégiques sur les principaux thèmes économiques et sectoriels.

La Banque s'efforcera d'atteindre ces objectifs en adoptant des politiques de prêt spécifiques selon les secteurs, plus précisément des politiques et stratégies suivantes:

1) Infrastructure

Il s'agit de promouvoir de saines décisions d'investir en assurant un bon entretien des infrastructures existantes, en encourageant le recouvrement des frais et en développant les capacités des principales institutions responsables de la gestion des programmes d'infrastructure.

2) Transports

Les projets en voie de préparation dans ce secteur comprennent la réfection de ponts dans le réseau national d'autoroutes et des améliorations essentielles au niveau des installations portuaires. Le gouvernement examine la possibilité d'un nouveau prêt pour la réfection d'autoroutes en Sibérie et en Extrême-Orient, ainsi que le financement de projets visant l'amélioration de l'infrastructure de transports et la réfection du système d'aéroports régionaux.

3) Environnement

À la suite de décennies de développement économique inefficace, la Fédération de Russie se retrouve avec un héritage extrêmement coûteux sur le plan de l'environnement. Le « Projet de gestion de l'environnement » administrera les investissements prioritaires dans des villes et régions industrialisées clés, et s'attachera notamment à établir un mécanisme de financement innovateur pour des projets de contrôle de la pollution commercialement viables. La Banque envisage en outre de faire le démonstration de techniques qui permettront, espère-t-on, de réaliser des réductions notables au chapitre des émissions des gaz contribuant à l'effet de serre ainsi que d'améliorer les taux de récupération du pétrole.

4) Création d'institutions

Le gouvernement accorde une grande priorité aux réformes des institutions et du système judiciaire. En raison des coûts élevés que représentent la conception et la supervision de l'assistance technique, la Banque encourage le gouvernement russe à utiliser les fonds destinés à l'assistance technique dans des domaines qui cadrent avec ses activités de prêt courantes.

5) Énergie

Ce secteur est important pour le programme de stabilisation en ce qu'il permet de dégager des recettes fiscales additionnelles et d'attirer de l'investissement étranger, ainsi que de relever assez rapidement le niveau des approvisionnements en choisissant avec circonspection les investissements. La participation de la Banque s'orientera de plus en plus vers des projets gérés par des entités du type de services publics avec insistance sur des thèmes tels que la fixation de prix, le recouvrement des coûts et la création d'institutions. Les projets d'activités de la banque comprennent les secteurs du gaz naturel, de l'énergie électrique, du pétrole et du charbon.

6) Secteur des finances

Les éléments principaux de ce programme sont i) les prêts consentis aux entreprises par des banques commerciales, ii) les fonds régionaux de création d'entreprises communes par actions et iii) l'assistance technique offerte aux entreprises par des centres de privatisation locaux au niveau des régions. Le gouvernement a également manifesté de l'intérêt dans le renforcement des institutions financières autres que les banques ainsi que dans la promotion des exportations de biens non traditionnels.

7) Agriculture

Les principales questions posées par la réforme agricole sont i) l'accélération de la restructuration des exploitations, ii) la libéralisation des canaux de commercialisation et de distribution, iii) l'amélioration du système de crédit agricole et de crédit en milieu rural et iv) la réorientation de l'aide gouvernementale vers le secteur agricole de manière à soutenir les nouveaux agriculteurs travaillant à leur compte. Toutefois, convenir d'une réforme agricole ne sera, certes, pas chose facile dans l'état actuel de la situation.

8) Secteur social

La Banque a élaboré plusieurs approches de conception des projets qu'elle débat avec le gouvernement, à savoir dans les domaines suivants : i) projets de création d'institutions, ii) projets de démonstration au niveau régional, iii) projets d'élaboration de systèmes fédéraux/locaux de transferts financiers, et iv) programmes de réforme du secteur social.

Priorités de prêt

Au mois d'août 1995, la filière des prêts de la Banque mondiale pour la Fédération de Russie totalisait 4,7575 milliards \$ US. La répartition sectorielle s'établit comme il suit :

- 1) Agriculture - 750 millions \$ US (15,8 %).
- 2) Éducation - 200 millions \$ US (4,2 %).
- 3) Énergie - Aucun projet dans la filière.
- 4) Environnement - Aucun projet dans la filière.
- 5) Finances - 140 millions \$ US (2,9 %).
- 6) Industrie - Aucun projet dans la filière.
- 7) Infrastructure - 150 millions \$ US (3,2 %).
- 8) Population, Santé et Nutrition - 400 millions \$ US (8,4 %).
- 9) Énergie électrique - 1,0635 milliard \$ US (22,4 %).
- 10) Développement du secteur privé - 200 millions \$ US (4,2 %).

- 11) Gestion du secteur public - 325 millions \$ US (6,8 %).
- 12) Secteur social - 300 millions \$ US (6,3 %).
- 13) Ajustement structurel - 600 millions \$ US (12,6 %).
- 14) Transport - 629 millions \$ US (13,2 %).
- 15) Développement urbain - Aucun projet dans la filière.
- 16) Télécommunications - Aucun projet dans la filière.
- 17) Adduction et assainissement - Aucun projet dans la filière.

Marchés adjugés à des firmes canadiennes

Les marchés suivants ont été adjugés à des firmes canadiennes en Fédération de Russie entre les AF 1990 et 1994 (valeur des contrats en équivalent dollars US) :

AF 1994

N° C / L	NOM DU PROJET	DESCRIPTION DU CONTRAT	NOM DU FOURNISSEUR	VAL. DU CONTRAT
T28647	BIODIVERSITÉ RUS.-FME	SERVICES CONSULT. - LAC BAÏKAL	PAUL GRIGORIEV	70 200 \$
				70 200 \$

AF 1993

N° C / L	NOM DU PROJET	DESCRIPTION DU CONTRAT	NOM DU FOURNISSEUR	VAL. DU CONTRAT
LP1870	SERV. & S. EN MATIÈRE D'EMPLOI	FORMULER DES RECOMMANDATIONS - MISES À PIED MASSIVES	ANNE HEMSWORTH	7 622 \$
LP1870	SERV. & S. EN MARIÈRE D'EMPLOI	FORMULER DES RECOMMANDATIONS - MISES À PIED MASSIVES	KEN JOHNSON	13 518 \$
				21 140 \$

AF 1992

N° C / L	NOM DU PROJET	DESCRIPTION DU CONTRAT	NOM DU FOURNISSEUR	VAL. DU CONTRAT
AUCUN MARCHÉ EN FÉDÉRATION DE RUSSIE N'A ÉTÉ ADJUGÉ AU CANADA POUR L'AF 1992				

AF 1991

N° C / L	NOM DU PROJET	DESCRIPTION DU CONTRAT	NOM DU FOURNISSEUR	VAL. DU CONTRAT
AUCUN MARCHÉ EN FÉDÉRATION DE RUSSIE N'A ÉTÉ ADJUGÉ AU CANADA POUR L'AF 1991				

AF 1990

N° C / L	NOM DU PROJET	DESCRIPTION DU CONTRAT	NOM DU FOURNISSEUR	VAL. DU CONTRAT
AUCUN MARCHÉ EN FÉDÉRATION DE RUSSIE N'A ÉTÉ ADJUGÉ AU CANADA POUR L'AF 1990				

N° C / L	NOM DU PROJET	DESCRIPTION DU CONTRAT	NOM DU FOURNISSEUR	VAL. DU CONTRAT
12897	MODERNISATION DES SERVICES	SERVICES CONSULT - IAC SARAJEVO	PAUL GRIGORIEV	20 200 \$

N° C / L	NOM DU PROJET	DESCRIPTION DU CONTRAT	NOM DU FOURNISSEUR	VAL. DU CONTRAT
12898	SERV. & BIEN-ÊTRE	FORMULES DES RECOMMANDATIONS	ANNE HEMWORTH	7 222 \$
12899	SERV. & BIEN-ÊTRE	FORMULES DES RECOMMANDATIONS	KIM JOHNSON	12 212 \$

N° C / L	NOM DU PROJET	DESCRIPTION DU CONTRAT	NOM DU FOURNISSEUR	VAL. DU CONTRAT
AUCUN MARCHÉ EN FÉDÉRATION DE RUSSIE N'A ÉTÉ ADJUGÉ AU CANADA POUR L'AF 1991				

Opérations de la SFI et de l'AMGI

Introduction

L'année 1994 a été active pour la SFI dans la région de l'Europe et de l'Asie centrale, trois autres républiques issues de l'ex-Union soviétique ayant adhéré à la Société, à savoir l'Estonie, la Lettonie et l'Ukraine. L'ancienne République yougoslave de Macédoine a, elle aussi, satisfait aux exigences d'adhésion, portant le nombre de pays membres de la région à 17 -- 16 des 22 anciennes économies planifiées par l'État, en plus de la Turquie.

En Europe et en Asie centrale, la SFI se concentre sur des projets que l'on juge être rentables, tout en contribuant au développement du secteur privé. La Société a poursuivi sa participation à la privatisation d'entreprises publiques dans l'ex-Union soviétique. Elle a également été partie prenante à plusieurs investissements dans les secteurs des télécommunications, de la fabrication et des agro-industries.

On a établi que l'expansion de la petite et moyenne entreprise était essentielle au développement soutenu des nouvelles économies d'Europe. Il est maintenant largement reconnu que le manque de capitaux disponibles paralyse la croissance du secteur privé. Aussi le développement des marchés financiers s'est-il vu accorder une haute priorité dans le cas de la SFI. Les plus importants des programmes de développement des marchés financiers ont permis la création de marchés et d'institutions financières devenues nécessaires par suite de la privatisation de grosses entreprises en recourant à un système de bons d'échange.

La SFI continue d'appuyer le développement de petites entreprises en Pologne par l'intermédiaire des Services consultatifs polonais aux entreprises (PAS). La Société offre aussi une aide technique à bon nombre d'entreprises privées et d'organismes gouvernementaux de la région. Elle s'est attachée, en particulier, à aider les gouvernements à concevoir et mettre en oeuvre des projets pilotes de privatisation, à aider les entreprises privatisées à trouver des partenaires stratégiques et attirer des capitaux, et à développer des marchés financiers.

La Banque mondiale et la SFI poursuivent leur coopération dans un certain nombre de domaines, notamment dans le cadre de l'évaluation du secteur privé mise en marche en

Hongrie et dans le cadre d'une étude de l'entreprise privée effectuée au Bélarus.

Opérations de la SFI en Fédération de Russie

Le programme de la SFI en Russie complète à maints égards les mesures prises par la Banque mondiale pour élargir le rôle des organisations du secteur privé dans l'économie russe. Au moment de la privatisation à petite échelle, la SFI a commencé à fournir une aide technique dès 1991, s'appuyant sur le financement obtenu du gouvernement du Canada, le savoir-faire britannique et la coopération de USAID.

Le premier projet de privatisation de ce genre a eu lieu en avril 1991 à Nijni-Novgorod, qui était à l'avant-garde des premières réformes économiques. La SFI a collaboré à l'organisation de la première série de ventes aux enchères utilisant des bons d'échange, expérience dont on s'est inspiré par la suite dans la mise en oeuvre du programme de prêts de la Banque mondiale en faveur de la privatisation. Elle a aidé aussi à la privatisation de terres par sa démonstration d'une exploitation agricole modèle dans la région de Nijni-Novgorod, modèle repris à la fin du projet (1994) par le premier ministre Tchernomyrdine comme base d'un programme national.

Au cours de l'année 1995, à la demande du G-7, la Banque mondiale a pris en charge la coordination des efforts visant à développer aux quatre coins de la Russie des institutions financières capables de fournir des prêts et du financement sous forme de participation à des entreprises nouvellement privatisées et à des entreprises privées émergentes. La Banque mondiale s'attache en particulier à développer le secteur bancaire commercial.

La SFI et la BERD ont porté leur attention sur la constitution de fonds de développement des capitaux de participation à l'échelle régionale. Le Fonds Framlington pour la Volga à Nijni-Novgorod est la première initiative de la SFI à ce chapitre. La Société s'attache également à mettre sur pied un programme de formation commerciale qui permettrait de former des gestionnaires des entreprises nouvellement privatisées. Ce programme est inspiré par un programme analogue offrant une aide technique pour la période d'après-privatisation en Pologne.

Les services consultatifs offerts par la SFI et la BERD aux fins de l'établissement d'un marché des valeurs en Russie pourrait servir de modèle à une initiative plus large de la Banque

mondiale visant le développement d'un marché financier. Jusqu'ici, le SFI a concentré ses efforts sur la mise en place d'un cadre juridique et d'une structure institutionnelle nécessaires à l'instauration des régimes de copropriété et de cession, ainsi qu'à l'amélioration de la régie des sociétés.

À l'heure actuelle, la SFI est en train de contenir l'aide technique au profit d'un programme d'investissements multisectoriels. À la fin de février 1995, la SFI avait approuvé 14 projets et elle devrait approuver d'autres projets d'ici la fin de l'exercice 1995. Les projets approuvés en date de février 1995 comprennent 75,6 millions \$ US d'investissements sous forme de participation au capital et 185,9 millions de prêts. Le projet le plus important de la SFI a été, jusqu'ici, une usine intégrée de fabrication de papier journal. La Société contribue quelque 86 millions \$ US à ce projet.

Sur le long terme, la stratégie d'investissement de la SFI vise à développer des coentreprises dans des secteurs de l'économie russe comme la fabrication, l'infrastructure du secteur privé, le pétrole et le gaz, et les agro-industries. La Société envisage d'autres investissements sur les marchés financiers, notamment en ce qui concerne les fonds d'investissement sous forme de participation, la création d'institutions, et l'investissement dans des banques commerciales et dans des installations spéciales destinées à l'accroissement du commerce.

Toutes les initiatives susmentionnées seront entreprises dans le dessein de développer le secteur privé en misant sur le succès des entreprises et sur l'amélioration de l'environnement commercial en Russie.

Participation canadienne aux projets de la SFI en Fédération de Russie (AF 1989 à 1995)

Le Canada ne participe à aucun des 14 projets approuvés par la SFI en Russie. Toutefois, des entreprises canadiennes ont adressé de nombreuses demandes de renseignement à la section de l'investissement en Russie de la SFI l'an dernier, et elles pourraient présenter des propositions dans les années à venir.

Opérations de l'AMGI en Fédération de Russie

L'AMGI a conclu avec le gouvernement russe des accords sur la protection juridique et sur l'utilisation de la monnaie locale. Elle a également obtenu un accord qui vise à faciliter l'approbation des garanties qu'elle consent à la Russie.

Au 31 mai 1995, l'AMGI avait un contrat de garantie en cours en Russie pour une obligation globale maximale de 9,9 millions \$ US en cas de guerre ou de troubles civils, en faveur d'une société belge engagée dans un projet de transformation de métaux. Les demandes de couverture, au nombre de plus de 160 depuis l'institution de l'AMGI -- une centaine de dossiers sont encore actifs --, sont en train d'être examinées pour des projets dans les secteurs de la fabrication, des services financiers et du pétrole. Ce sont, à l'heure actuelle, principalement des sociétés américaines et européennes qui font ce genre de demandes et elles représentent plus de 10,8 milliards \$ US d'investissements potentiels. Bon nombre de ces projets n'emprunteront pas la filière de l'AMGI ou seront assurés grâce à d'autres instruments d'assurance contre le risque politique. À ce jour, une seule société canadienne a présenté une demande de services à l'AMGI; cette demande est actuellement en cours de traitement.

Outre le piètre état du cadre institutionnel, juridique et réglementaire auquel se heurtent les investisseurs en Russie, les investisseurs qui demandent une couverture à l'AMGI appréhendent surtout la possibilité de restrictions quant au régime de change. Cette question se pose particulièrement en rapport avec les secteurs du pétrole/gaz et de l'immobilier qui nécessitent d'importantes mises de fonds. Bon nombre de projets voués à ces secteurs dépassent le plafond de 50 millions \$ US admissible par l'AMGI, mais l'Agence peut y donner suite en s'associant à cet effet à d'autres instruments d'assurance-risque politique.

Annexes - Banque mondiale : Appendice 1

Étude de la Banque mondiale sur la situation macro-économique et budgétaire de la Fédération de Russie

1. Le texte qui suit est directement tiré du *Country Brief* de la Banque mondiale sur la Fédération de Russie daté d'avril 1995 et est présenté en langue originelle.

Recent developments

2. Economic developments during 1994 were dominated by the continuing decline in official GDP and changing inflationary expectations as single digit inflation mid-year gave way to a sharp increase in prices by year's end. GDP registered a further 15 percent decline in 1994, bringing the total fall in production to almost 40 percent since 1991.

However, other indicators suggest that the fall in output has not been as sharp or impacted so severely on living standards as the GDP estimates suggest. Unregistered economic activity appears to be expanding at a robust pace, both in services such as retail trade and banking, and also through informal manufacturing activity. Real industrial output has shown modest gains since mid-1994. Personal incomes and consumption increased during 1994 as relative price changes and restructuring continued the shift in GDP share towards private consumption at the expense of investment.

3. Monthly inflation averaged just under 10 percent during 1994, well below the 21 percent average monthly rate of 1993 but far above official inflation targets. Early tightening of monetary policy helped reduce monthly inflation to 4.6 percent by August, but political pressure to expand credit led to a resurgence of double-digit monthly inflation during the last quarter. Financing of the fiscal deficit and credit to agriculture and the Northern territories were sources of growth in the broad money supply. The consolidated government deficit (including extra-budgetary funds and interest due) for the year was near 12 percent, a dramatic reduction from 30 percent experienced two years earlier. However, with limited recourse to foreign or domestic borrowing, the government resorted to monetization of the deficit, in turn fuelling inflationary

expectations and reducing willingness to hold ruble denominated balances. Lack of confidence in government policies also lay behind the October plunge in the ruble exchange rate, necessitating heavy intervention to restore stability in the market.

4. The drop-in trade that accompanied the break-up of the FSU and CMEA trade system has been reversed. Exports to all countries (both FSU and non-FSU) grew by 13 percent to reach \$66 billion in 1994. There was an even healthier growth in total imports, which reached \$54 billion. Over three-quarters of total trade in value terms is with non-FSU countries. Moreover, growth in trade with non-FSU countries continues to expand as Russia's trade is increasingly directed to Western Europe. The shift in trade patterns is particularly noticeable for raw materials such as oil and gas. Exports of crude oil to non-FSU countries increased from 47 percent of the total in 1992 to 74 percent in the first half of 1994. Similar shifts occurred in manufactured products such as processed timber and pulp and paper.

5. Throughout the year, unemployment continued to worsen as enterprise restructuring led to labor shedding. Open unemployment rose from about 5 percent at the end of 1993 to 7 percent by the end of 1994, although registered unemployment amounted to only one-third of this. The rise in unemployment is smaller than earlier expected, apparently due to the continued retention of labor, while real wages have been reduced and arrears have expanded, as well as resort to involuntary unpaid leave and part time employment. Including workers affected by these adjustments would raise the unemployment figure to around 13 percent by end-1994.

6. Social indicators reflect mixed patterns of adjustment during 1993 and 1994. Population data shows a sharp increase in morbidity rates in 1993, contributing to the decline in male life expectancy by 4.9 years between 1990 and 1993. Many households have been seriously affected by the inflation-induced erosion of real transfers (especially minimum pensions and unemployment benefits), the decline in wage-earning opportunities, and distinct widening of income distribution. The incidence of poverty has increased significantly since the onset of transition. Moreover, regional variation in incidence of poverty and unemployment is widening, with the greatest concentration in regions dependent on declining industries. At the same time, some indicators show improvements in average household consumption and average real income levels, consistent with expansion of income from informal economic activity. But indirect evidence

suggests opportunities in the informal sector are also skewed, and may contribute to the observation of worsened income distribution.

7. In April 1994, the IMF approved Russia's purchase of the second tranche under the Systemic Transformation Facility (STF). The basis for the purchase was the Government economic program for the remainder of 1994. In early March, 1995 negotiations over an IMF Standby Loan were under way and an agreed program was anticipated later that month. This program will help to form the basis for fiscal and monetary policy in support of macroeconomic stabilization.

Progress on structural reforms and medium-term outlook

8. Following the major structural reforms introduced in 1991-1993, the past year was a period of general consolidation. By mid-1994 private retail trade already accounted for over 60 percent of total turnover, and domestic prices of traded goods moved closer to world levels (the main exception was energy). Greater progress was made in specific areas. The privatization program continued strongly through mid-year, moving onto the next phase of cash purchases following completion of the mass voucher privatization launched earlier. As far as trade policy is concerned, further steps were taken to reduce trade barriers, particularly the removal of export quotas. Few new policies were introduced in social protection, but the social programs established after 1991 continued to support large segments of the population. On land reform, little progress was made. The rights of land owners to lease or rent land were reiterated in late 1993 and the moratorium on land sales was lifted, but only 6 to 7 % of arable land is thought to be cultivated by individual farmers.

9. Further structural reform will need to be made within the context of the government's top policy priority: adherence to a realistic macroeconomic stabilization program. The stabilization program, adopted by the government in early 1995 as the basis for a \$6.25 billion standby loan from the IMF, will require significant fiscal tightening and more stringent monetary measures to reel in inflation. With elections scheduled for end-1995 and mid-1996, resisting political pressures to relax credit constraints will pose a challenge to authorities. If these pressures can be resisted, a gradual resumption of positive growth and investment trend during 1995 is expected, with inflation reduced to moderate levels by 1996. The structural reform objectives outlined below are consistent with stabilization measures to reduce fiscal outlays and streamline government operations.

10. Privatization. Progress in privatization has been the centerpiece of the Government's achievements in structural reform of the economy. The Russian privatization program has been impressive; by end-1994, 84 percent of the industrial workforce was employed in enterprises with majority private ownership. The voucher program for divesting ownership was completed in October, with over two-thirds of large and medium enterprises, and over 80 percent of small enterprises privatized, or a majority interest auctioned for vouchers. The new phase, based on cash auctions and investment tenders, began in July 1994 under new regulations clarifying land transfer and limiting concessional shares for employees. Other legislation has strengthened the role of the bankruptcy agency in handling insolvent enterprises. However, legislation on collateral, property rights, and accounting have not made rapid progress. Many state and collective farms have been technically privatized, though often they remain under collective management and most have not been significantly restructured. Land privatization should accelerate following the Prime Minister's announced commitment in March 1994 to expand a pilot model of farm privatization carried out in Nizhny Novgorod. By the end of 1993 some 25 percent of eligible housing units had been transferred to occupants under a nationwide framework of housing privatization on a giveaway basis. In 1994 housing privatization has continued but the pace slowed as fewer occupants perceived private ownership as advantageous.

11. Further progress on privatization remains encouraging, although difficult tasks lie ahead. The core of remaining state enterprises has shrunk to (i) extraordinarily large and profitable enterprises, (ii) large and particularly poor performers, and (iii) public utilities. The first group of enterprises, particularly in the energy sector, raise the issue of how best to divide production into competitive units to avoid the consequences of adverse monopolistic behavior. Loss making large enterprises require selective government support for restructuring to downsize, shift production, and in some cases liquidate assets. Public utilities, on the other hand, require an appropriate regulatory environment, and policy reform to encourage divestiture of competitive businesses. Government interventions should be limited to extending privatization in these remaining areas, financial discipline through reducing subsidies and making them transparent in the budget, encouraging restructuring by support for displaced workers and divestiture of social assets, and by strengthening the regulatory framework. Regional and local authorities will have a major influence on the future pace of privatization and enterprise restructuring.

12. Trade policy. Following removal of all import subsidies at the end of 1993, major steps were taken to eliminate export quotas in 1994. Export quotas were removed as of July 1, with the important exception of oil, for which quotas were also lifted as of end-December. At the same time, the Government introduced an export contract registration system for the same 'strategic' exports, ostensibly aimed at preventing under-invoicing of export contracts. Simultaneously, export duties were lowered on some key exports (eg. aluminum and oil) and eliminated for some commodities. The Government has explicitly stated it will not use import tariffs for domestic protection despite increasing pressures from Russian suppliers. However, revision of the import tariff schedule did involve upward revision of rates, with average import duties raised from 8 to 12.5 percent as of July, 1994. By end-1995 all export taxes are to be eliminated. The Government has indicated its intent to further rationalize tariffs over the coming year. However, at the local level some oblast governments continue to interfere in price formation, including by restricting trade across internal boundaries. The challenge facing the government in the next few years will be to resist pressures for protectionist measures by export industries. These industries are caught between growing import competition (from exchange rate appreciation) and rising production costs following the removal of export quotas. The Government's decision to join the GATT will help in resisting such pressures.

13. Financial sector. There are over 2000 independent commercial banks in Russia today, almost all created within the last few years. Among the new banks, there are as many as 100 that appear to be evolving into real banking institutions. While the volume of their operations is still small, they are growing at an unprecedented rate and are involved in profitable and genuine banking activities. As the privatization program has removed restrictions on the participation of financial institutions in privatization, the investment activity of banks has grown.

14. These rapid developments place greater priority on strengthening the capacity of the Central Bank of Russia to monitor commercial banks and ensure prudential regulations are enforced. The government has established a commission on securities and capital markets, although capacity to monitor capital markets remains quite limited. Government support of technical assistance to commercial banks will help enhance banking skills and application of prudential regulations. Supporting linkages between capital market development and enterprise privatization will be another priority policy area for

government. A key element of this is improving information disclosure, shareholder registration, accounting and audit standards, etc. where foreign technical assistance will likely be needed to enable enforcement of new regulatory and legal standards. The agenda for financial reform should also cover privatization of several large commercial banks that remain under state ownership, including the formerly specialized Soviet agriculture and industrial banks (Agroprom and Promstroi banks).

15. Agriculture. There have been substantial changes in the agricultural sector as a result of price and trade liberalization, reductions in subsidies and directed credits, privatization of agro-industrial enterprises, and partial progress with enhancing private land rights for farmers. Further reforms are now needed to complete price, trade, and subsidy elimination and to address the second stage of liberalization. The key remaining issues include de-monopolization of agricultural distribution and marketing, implementation of land privatization legislation, improvement of agricultural credit markets and a strengthening of agricultural institutions to better serve a market-based agricultural sector. This is a massive agenda, which may best begin through "demonstration programs" that target selected regions, drawing on international support.

16. Social Protection. The benefits financed by social extra-budgetary funds set up in 1991/92, including pensions, unemployment insurance, alongside cash transfers targeted to mothers and children, continue to be the main social safety nets for the population. In addition, local governments maintain modest social assistance programs to alleviate poverty. There were no major changes to these programs during 1994, despite growing unemployment and evidence that about one-fifth of the poor receive no form of public assistance. Real benefit levels continued to be eroded by inflation due to inadequate indexation. At the end of 1994 the minimum pension (received by roughly one fourth of all pensioners) was equal to just 60 percent of the minimum subsistence income level for the elderly. Due to rapid inflation, the average unemployment benefit had declined to about 10 percent of the minimum adult subsistence income by end-1994.

17. The Government has appeared reluctant to introduce fundamental changes in social benefit programs because of the fiscal cost of raising low benefits and political sensitivity of reducing benefits which are poorly targeted. As minimum benefit levels are eroded, the need to restructure social

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.

20. To regain creditworthiness Russia will need to make a determined effort to implement sound macroeconomic and structural reform policies. Foremost is the need to undertake a fiscal adjustment to reduce the budget deficit. Reform of associated structural policies should help staunch capital flight and strengthen the balance of payments. This would provide the basis for debt rescheduling agreements, that should, over the longer term, lead to a more permanent solution for Russia's debt servicing difficulties.

Annexes - Banque mondiale : Appendice 2

Filière des prêts de la Banque mondiale en Fédération de Russie

1. Le texte qui suit est directement tiré de l'État mensuel des projets de la Banque mondiale pour la Fédération de Russie daté d'août 1995 et est présenté en langue originelle.

Agriculture

* **Agriculture Research**

--The project will support implementation of agriculture reforms and finance selected investments and imports to improve the efficiency of the agriculture sector, with a particular emphasis on agriculture-technology generation, transfer, and utilization. Project preparation is under way. About US\$100.0 (IBRD). Consultant services to be determined.

Ministry of Agriculture and Food • Orlikov per., 1/11 •
Moscow • Russian Federation

Agriculture

* **Agricultural Sector Adjustment**

--The project will support the agriculture sector policy reform program and finance imports of critical agricultural inputs and/or provide balance of payments support. Project is being identified. Environmental assessment category to be determined.

US\$500.0 (IBRD). Consultant services to be determined.
Implementing agency to be determined.

Agriculture

* **Regional Agriculture Area Development**

--The project will: (a) accelerate land privatization and farm reorganization and finance institutional capacity building and (b) establish a recapitalization fund to provide one time long-term loans to private farms and finance small-scale rural infrastructure. Environmental assessment category B. Project preparation is under way. PID: RUPA08819.

About US\$150.0 (IBRD). Consultant services have been selected for project preparation.

Ministry of Food and Agriculture • Orkilov Per, 1/11 •
Moscow 107139 • Russian Federation • Telex: 411021 • Tel:
(7-095) 207-8391 • Fax: (7-095) 288-9580; Ministry of Trade

and Material Resources • Orkilov Per. 5 • Moscow 107801 • Russian Federation • Telex: 871-411656 GOSSN SU • Tel: (7-095) 204-0365 • Fax: (7-095) 975-3273

Education/Training

* Education

--This project will support (a) government reforms to restructure textbook and materials finance, (b) targeted support for testing and assessment and performance monitoring and systems, and (c) higher education reforms. Project is being identified. Environmental assessment category to be determined.

US\$200.0 (IBRD). Consultant services to be determined. Implementing agency to be determined.

Finance

* Portfolio Development (Ln. 3844-RU)

--The project will provide a flexible source of project preparation funds and strengthen external resource management capacity. Approved by the Executive Directors on February 16, 1995. Loan was signed on July 7, 1995. PID: RUPA08823.

US\$40.0 (IBRD). Consultant services will be required for (a) technical, sector, and feasibility studies related to the preparation of Bank projects; (b) capacity building in the Center and core implementing ministries relating to procurement, disbursement, accounting, auditing, and project management; (c) business outreach and training programs under the Business Opportunities Bureau which will provide direct assistance to potential bidders as well as for the design and implementation of training materials, public information brochures, and marketing programs; and (d) the design of effective business opportunities seminars.

Federal Center for Project Finance and Technical Assistance • Smolensky Boulevard 3-5 • Moscow • Russia • Tel: (7-095) 205-5019 • Fax: (7-095) 205-4532 • Contact: Mr. Andrei Nikolayev, Director

Finance

* Rural Credit

--The project will (a) promote market-oriented financial intermediation; (b) assist in restructuring and development of existing and new financial institutions; and (c) support restructuring and commercialization of agriculture and agro-industry. Project preparation is under way.

US\$100.0 (IBRD). Consultants will be required. Implementing agency is to be determined.

Infrastructure

* **Community Social Infrastructure**

--The project will support selected oblasts in: (a) rehabilitation and upgrading of selected health and education facilities; (b) advisory services and training; (c) budget planning and social sector management; (d) water supply and sanitation; and (d) designing monitoring and evaluation procedures. Appraisal mission is in the field. PID: RUPA35761.

US\$150.0 (IBRD). Consultants are currently assisting in preparing the components of the project.

Implementing agency is to be determined.

Population, Health, and Nutrition

* **Essential Medical Equipment**

--The project will provide medical equipment and related consumables to stem the decline in provision of health care services to the population. Procurement advisory services will also be provided. Project preparation is under way.

Environmental assessment category C. Retroactive financing may be required.

US\$300.0 (IBRD). Consultant services will be required.

Ministry of Finance • Ul Ilinka 9 • 103097 Moscow • Russian Federation • Tel: (7-095) 298-9372 • Fax: (7-095) 298-3519

Population, Health, and Nutrition

* **Health**

--The project will support (a) the implementation in selected regions, of the operational and financial management of the mandatory Health Insurance System; (b) the rationalization of in-patient and out-patient care facilities; (c) improvement of maternal and child health and family planning services; (d) promotion of healthy lifestyles and prevention of cardiovascular disease; and (e) the national training program for family medicine practice. Project preparation is under way. PID: RUPA08814.

US\$100.0 (IBRD). Consultants will be required.

Ministry of Health • 101431 Moscow • Russian Federation • Telex: 411407 • Fax: (7-095) 925-0128

Power

* **Gas Distribution and Energy Efficiency (Ln. 3876-RU)**

--The project will increase the amount of gas available for export and domestic use by decreasing consumption and losses. Meters will be purchased along with cathodic-protection equipment, leak-detection equipment, remote monitoring equipment, and the existing piping and equipment to monitor consumption, like burners and related controls, temperature controls, and instrumentation, will be procured. Possible financing from the GEF. Approved by the Executive

Directors on May 2, 1995. PID: RUPA08803.

US\$106.5 (IBRD). Consultant services will be required for technical assistance.

Volgograd Gorgas • 38 Kommunisticheskaya St. • Volgograd • Russian Federation • Tel: (7-844) 36-1819; Ryazan Gorgas • 18 Semajko St. • Ryazan • Russian Federation • Fax: (7-091) 76-4003; Saratov Gorgas • 26 Ordzhonikidze St. • Saratov 410720 • Russian Federation • Tel: (7-845) 24-2153

Power

* **Gas Injection Demonstration**

--The project will support a gas injection pilot scheme to increase oil recovery and reduce air pollution, and provide technical assistance and training to strengthen project implementation. Appraisal report is being prepared.

Retroactive financing may be required. Environmental Assessment Category B. PID: RUPA35779.

US\$57.0 (IBRD). Consultant services will be required for training in various activities of oil field development and for services relating to tracers monitoring.

Purneftegas Project Procurement Office • 15, Kosygina, Block A • 117586 Moscow • Russian Federation • Tel: (7-095) 135-7485; 956-1152 • Fax: (7-095) 956-1150; 956-1131; 956-1152 • Contact: Mr. I. Dostoinov

Power

* **Krasnodar Power Generation**

--The project consists of 1,350 MW of combined cycle generation in the Krasnodar region. Project preparation is under way. PID: RUPA08802.

US\$400.0 (IBRD). Consultants will be required.

Implementing agency to be determined.

Power

* **Petroleum Joint Venture**

--The project will support a major joint venture (international/domestic) for a major new oil field development project in Western Siberia via a partial risk guarantee to commercial lenders. Project preparation is under way. PID: RUPA08807.

About US\$500.0 (IBRD). Consultant services to be determined.

Implementing agency is to be determined.

Private Sector Development

* **Enterprise Support II**

--The project will provide (a) restructuring advisory services to private enterprises and (b) support for capital market development. Project preparation is under way.

About US\$200.0 (IBRD). Consultants will be required.
Implementing agency is to be determined.

Public Sector Management

*** Enterprise Housing Divestiture**

--The project will support the transfer of housing and the related infrastructure from enterprises in order to ensure the sustainability of the divestiture process and encourage enterprise restructuring. Project preparation is under way. Environmental assessment category B.

US\$300.0 (IBRD). Consultants will be required to assist with project preparation, engineering design, and supervision. Implementing agency to be determined.

Public Sector Management

*** Standards Development**

--The project will support the development of standards and certification infrastructure through (a) helping to set up a standards enquiry point as required by GATT; (b) improving metrology and certification capacity; and (c) rewriting standards in conformity with international standards. Project preparation is under way.

US\$25.0 (IBRD). Consultant services to be determined.

Ministry of Finance • ul. Ilinka 9 • 103097 Moscow • Russian Federation • Tel: (7-095) 298-9372 • Fax: (7-095) 298-3519, 206-3927; Ministry of Foreign Economic Relations • Smelenskaya • Sennaya Place, 32/34 • Moscow 12200 • Russian Federation • Telex: 412479 LENA SU • Fax: (7-095) 230-2634

Social Sector

*** Sector Adjustment Loan**

--The project will support social sector reform, including improvements in federal social transfers, the social safety net, and the health and education systems. Project preparation is under way. Environmental assessment category C.

US\$300.0 (IBRD). Consultant services to be determined.

Ministry of Finance • Ul Ilinka 9 • 103097 Moscow • Russian Federation • Tel: (7-095) 298-9372 • Fax: (7-095) 298-3519

Structural Adjustment

*** Rehabilitation II (Ln. 3898-RU)**

--Foreign exchange will be provided to finance imports in support of the government's program of stabilization and structural reform. Approved by the Executive Directors on June 6, 1995. Loan was signed on July 7, 1995. PID: RUPA08838.

US\$600.0 (IBRD). Consultants will not be required.

Ministry of Finance • ul. Ilinka 9 • 103097 Moscow • Russian

Federation • Tel: (7-095) 298-9372 • Fax: (7-095) 298-3519,
206-3927; Central Bank of Russia • ul. Neglinnaja 12 •
103016 Moscow • Russian Federation • Tel: (7-095) 928-8328
• Fax: (7-095) 925-6118

Transport

*** Bridge Rehabilitation**

--The project will help improve the Russian public road network by rehabilitating or reconstructing high priority bridges. Appraisal mission is in the field. PID: RUPA35764. US\$300.0 (IBRD). Consultants will be required to assist with project preparation, engineering design, and supervision. Federal Highway Department • Ministry of Transport • 10 Sadovaya Samotechnaya • Moscow 101433 • Russian Federation • Tel: (7-095) 200-1485 • Fax: (7-095) 299-3990

Transport

*** Urban Transport (Ln. 3885-RU)**

--This project seeks to (a) increase bus, trolley, and tram service capacities, (b) assist in developing selected public transport systems on a financially sustainable basis, and (c) provide restructuring advice for domestic bus manufacturing industry. Approved by the Executive Directors on May 16, 1995. PID: RUPA08806.

US\$329.0 (IBRD). Consultants will be required for project management support, policy support, institutional development, and training.

Urban Transport Project • Implementation Directorate • Ministry of Transport of the Russian Federation • Sadovaya-Samotechnaya, 10 • Moscow, 101438, GSP-4, Russian Federation • Tel: (7-095) 200-0736 • Fax: (7-095) 200-6658 • Contact: Mr. Sokolov, Head of the Implementation Directorate

Annexes - Banque mondiale : Appendice 3

État des projets de la Banque mondiale exécutés en Fédération de Russie

1. Le texte qui suit est directement tiré de la publication de septembre 1994 de la Banque mondiale intitulée *Status of Projects in Execution* (la Banque mondiale avait alors sept projets en voie d'exécution en Fédération de Russie); le texte est présenté en langue originelle.

Ln 3734-RU Financial Institutions Development Project:
US\$200 Million: Loan of June 22, 1994; Not Yet Effective;
Closing Date: December 31, 1998; Executing Agency:
Ministry of Finance (MOF)/ Central Bank of Russia (CBR).
Diagnostic audits of banks by international firms have been completed for 13 banks and another eight audits should be completed by late October. Bid packages for twinning have been issued for six banks. For these six banks, negotiations with the selected foreign banks should be initiated within one month. Joint procurement procedures are being finalized with EBRD for bank automation procurement packages, and a mission is in the field to assist in the preparation of bank-specific packages. A sample subsidiary loan agreement is being finalized, and the signing process will be initiated by mid-October for all participating banks already identified. Issues currently discussed relate to developing arrangements for on-the-job training, and developing programs for off-site inspection. While much progress was achieved during project preparation on the conceptual framework for bank accounting, much remains to be done on the setting up of an actual implementation program. This is also true for enterprise accounting, where in addition the identification of proper counterparts (MOF, Parliament) is an issue. Satisfactory progress has been achieved towards the establishment of the PIU, following earlier difficulties. A consultant has been selected, and negotiations will begin shortly. The consulting team should be in place by November. Effectiveness date has been extended to December 20, 1994.

Ln. 3756-RU . Land Reform Implementation Support Project: US\$80 Million: Loan of June 22, 1994: Effective Date: Not Yet Effective; Closing Date: June 30, 2000; Executing Agency: Russian Federation Committee on Land Resources and Land Management (Roskomzem). The deadline for satisfying conditions of effectiveness was recently extended from September 20, 1994 to November 21, 1994. Failure to meet these conditions has stemmed primarily from a lack of adequate staffing of the Project Development Unit and continued uncertainty over the legal foundations for carrying out land registration work in Russia. A plan has been developed with the Government to satisfy these conditions within the extended timeframe. Letters of invitation are being prepared for; (a) a procurement agent, and (b) consultant services for the Project Development Unit and technical specialists. These are expected to be issued by November. Work on preparation of bidding documents for the procurement of goods is also well underway.

Ln. 3757-RUS Agricultural Reform Implementation Support (ARIS) Project: US\$240 Million: Loan of June 22, 1994; Effective Date: Not Yet Effective; Closing Date: June 30, 2000; Executing Agency: Ministry of Agriculture and Food (MOAF). This is the first loan in support of agricultural reform in Russia. The main objective is to improve the efficiency of the agricultural sector based on market principles by creating and strengthening market infrastructure for fruits and vegetables, farmer information and advisory services and private seed industry for hybrid corn and sunflower. The loan is expected to become effective by November 21, 1994. However, project implementation has begun. The Project Development Unit (PDU), which will be responsible for project implementation, has been established and staffed. The Project Launch Workshop is planned for November 1994. The Government has initiated the process for hiring international consulting firm to assist in project implementation. PDU staff is currently being trained in procurement procedures, with a particular focus on World Bank Procurement Guidelines. Despite lack of experience, training and appropriate incentives for the PDU staff, project implementation is making progress.

Ln. 36230 to Ln 36233 Oil Rehabilitation Loan: US\$610 Million: Loan of August 12, 1993; Effective Date: November 15, 1993; Closing Date: December 31, 1995; Executing Agencies: Ministry of Fuel and Power; Varyeganneftegas Producing Association (VNG); Purneftegas Producing Association (PNG); Kogalymneftegas Producing Association (KNG). Satisfactory progress was achieved under the project including progress towards the establishment of a satisfactory

legal/fiscal and regulatory environment to attract private capital and create a competitive domestic industry. The initial year of project implementation was not fully satisfactory due to delays in equipment delivery, largely resulting from political disruptions in the fall of 1994 and disputes over payment of import duties and VAT. While project economic returns are still expected to be achieved, production increases have been delayed by at least nine months. Initial procurement activities have been satisfactory and contracts for the first year program are largely in place. US\$23.5 million has been disbursed.

Ln 3706-RU Highway Rehabilitation and Maintenance Loan: US\$300 Million: Loan of June 22, 1994; Effective Date: Not Yet Effective; Closing Date: June 30, 1998; Executing Agency: Ministry of Transportation, Federal Highway Department. The Project Implementation Unit, which benefits from twinning arrangements with U. S. and Finnish highway agencies, has been established and is performing well. Contracts have been awarded for the first year (1994) which consists primarily of pilot road works under competitive bidding. Execution of road works began in August 1994 and is still in progress. Consultants are being selected to assist the Ministry of Transportation in developing a legal framework for the transport sector. No disbursements have yet been made.

Ln 3768-RU Second Oil Rehabilitation Loan: US\$500 Million: Loan of September 27, 1994; Not Yet Effective; Closing Date: June 30, 1997; Executing Agencies: Megionneftegas, Tomskneft, and Yuganskneftegas Producer Associations. This loan was signed on September 27, 1994. Draft bid documents are under preparation by all three Producer Associations and are expected to be provided to the Bank shortly. Bids for external procurement and technical advisors are under evaluation. Local procurement advisors have been engaged for four months. All Project Implementation Units have been established. External technical advisors are being placed. This project is not yet effective. No disbursements have yet been made.

Ln 3763-RU Enterprise Support Project: US\$200 Million Loan of September 27, 1994; Not Yet Effective; Closing Date: June 30, 2000; Executing Agency: Private commercial banks, Ministry of Finance. The loan will provide market-based medium-term finance to private enterprises for incremental capital investment. The funds will be intermediated through some twenty private commercial banks. Audits for twenty one banks have been completed and several

commercial banks are close to accreditation. This work is carried out under the Bank's Financial Institutions Development Project. The consulting firm to manage the Project Implementation Unit is in the process of being selected and contract negotiations should begin shortly.

Notes

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Department of Foreign Affairs
and International Trade

Ministère des Affaires étrangères
et du Commerce international

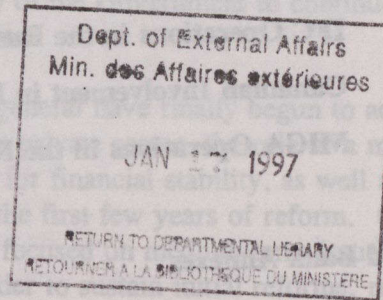
**World Bank Group Operations in
the Russian Federation:
A Canadian Business Guide**

Canada

IBRD/IDA Operations
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A Canadian Business Guide:

**World Bank Group
Operations in the
Russian Federation**



Prepared September, 1995 by the

Office of Liaison with
International Financial Institutions

The Canadian Embassy
Washington, D.C.

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IBRD/IDA Operations

Introduction

The Russian Federation has undergone a number of major transformations since the disintegration of the former Soviet Union and the subsequent undertaking of market reforms in 1991. The largest privatization program in World Bank history has served to accomplish much in terms of the liberalization of prices and foreign exchange, as well as import and most export controls. In addition, the last four years have borne much progress towards the financial stabilization of the Russian economy and towards the establishment of the basic institutions of a democratic society.

Despite the encouraging progress, however, there are major challenges which remain to be overcome in upcoming years. The resumption of the financial stabilization program hinges on difficult political decisions regarding revenues and expenditures, as well as on key structural reforms which will severely test the ability of the Government to continue implementing its policies.

Russian authorities in general have finally begun to accept the importance of a vibrant private sector, the role of a market economy and the need for financial stability, as well as various other key concepts of the first few years of reform. Greater attention must now be focused on medium-term issues which must be resolved in order to sustain initial reforms, restore economic growth and begin to cope with the social costs of the transition process. The Bank's assistance program during the past three years emphasized the role of the newly-emerging private sector. While much more needs to be accomplished in this area, priorities will slowly shift towards impact assessment of reforms on socially vulnerable groups, and other agendas which have shown less progress or have been neglected.

Country Assistance Strategy

Working with Russian government officials, the World Bank has outlined four specific objectives which will serve as the cornerstone of its Country Assistance Strategy over the next three years. The priorities that have been identified are as follows:

- (1) Continuing to support the development of a market economy based on private sector initiatives;
- (2) Developing public sector institutions and procedures supportive of open and competitive markets and oriented towards the provision of physical, social, legal and institutional infrastructure;
- (3) Moderating the impact of the transition on socially vulnerable groups by supporting the development of a viable social safety net, maintaining social services and the infrastructure while improving the efficiency of social expenditures, and promoting more flexible labour markets; and
- (4) Establishing the Bank as a trusted and reliable development partner through the financing of high priority public sector investments and through policy advice on key economic and sectoral issues.

The Bank will endeavor to meet these objectives by adopting specific sectoral lending policies. These policies and strategies are outlined below by sector:

- (1) **Infrastructure**

Attempts will be made to promote sound investment decisions by ensuring adequate maintenance for existing infrastructure, encouraging cost recovery practices and developing institutional capacity of key institutions responsible for managing infrastructure programs.

- (2) **Transportation**

Projects currently under preparation in this sector include the rehabilitation of bridges on the national highway network and essential improvements in port facilities. The Government is considering a second highway rehabilitation loan for Siberia and the far East, as well as projects aimed at the improvement of transport infrastructure and at the rehabilitation of the system of regional airports.

- (3) **Environment**

The Russian Federation has inherited an enormously costly environmental legacy resulting from decades of inefficient economic development. The "Environmental Management Project" will address priority investments in targeted industrialized cities and regions, including the development of

an innovative funding mechanism for commercially-viable pollution control projects. The Bank also plans to demonstrate technology which will hopefully achieve significant reductions in greenhouse gas emissions as well as improve oil recovery rates.

(4) Institutional Development

Institutional and legal reforms have been given high priority by the Government. Due to the high costs involved in designing and supervising technical assistance, the Bank is encouraging the Russian Government to target use of Bank funds for technical assistance in areas directly related to on-going Bank lending activities.

(5) Energy

This sector is important to the stabilization program in order to generate additional tax revenues and attract foreign investment, as well as to achieve a relatively quick supply response through carefully chosen investments. The Bank's involvement will shift increasingly towards projects managed by public utility-type entities, with emphasis on issues such as pricing, cost recovery and institutional development. Proposals for Bank operations range in the areas of natural gas, power, oil and coal.

(6) Financial Sector

The key elements of this program are i) loans to enterprises through commercial banks, ii) regionally-based equity venture funds, and iii) technical assistance to enterprises through regionally based local Privatization Centres. The Government has also shown interest in strengthening non-bank financial institutions as well as promoting exports of non-traditional goods.

(7) Agriculture

The key agricultural reform issues are: i) accelerating farm restructuring, ii) liberalizing marketing and distribution channels, iii) improving agricultural and rural credit, and iv) reorienting Government assistance to the agriculture sector to support newly emerging private farmers. However, the political feasibility of agreeing on an agricultural reform program will be very difficult to accomplish in the current environment.

(8) Social Sector

The Bank has developed several approaches to project design which it is discussing with the Government: i) institution-building projects, ii) demonstration projects at the regional level, iii) projects to develop federal/local systems of financial transfers, and iv) social sector reform programs.

Lending Priorities

As of August, 1995, the World Bank lending pipeline for the Russian Federation totalled US\$4.7575 billion, and can be broken down sectorally as follows:

- (1) Agriculture - US\$750 million (15.8%);
- (2) Education - US\$200 million (4.2%);
- (3) Energy - No Projects in Pipeline;
- (4) Environment - No Projects in Pipeline;
- (5) Finance - US\$140 million (2.9%);
- (6) Industry - No Projects in Pipeline;
- (7) Infrastructure - US\$150 million (3.2%);
- (8) Population, Health and Nutrition - US\$400 million (8.4%);
- (9) Power - US\$1.0635 billion (22.4%);
- (10) Private Sector Development - US\$200 million (4.2%);
- (11) Public Sector Management - US\$325 million (6.8%);
- (12) Social Sector - US\$300 million (6.3%);
- (13) Structural Adjustment - US\$600 million (12.6%);
- (14) Transport - US\$629 million (13.2%);
- (15) Urban Development - No Projects in Pipeline;
- (16) Telecommunications - No Projects in Pipeline; and
- (17) Water Supply and Sanitation - No Projects in Pipeline.

Contract Awards Data for Canadian Firms

The following prior review contracts were awarded to Canadian firms in the Russian Federation between fiscal years 1990 and 1994 (value of contracts in equivalent of US dollars):

FY 1994

C / L NUMBER	NAME OF PROJECT	DESCRIPTION OF CONTRACT	SUPPLIER NAME	VALUE OF CONTRACT
T28647	RUS.-GEF BIODIVERSITY	CONSULTANT SERVICES - LAKE BAIKAL	DR. PAUL GRIGORIEV	\$70,200
				\$70,200

FY 1993

C / L NUMBER	NAME OF PROJECT	DESCRIPTION OF CONTRACT	SUPPLIER NAME	VALUE OF CONTRACT
LP1870	EMPLOYMENT SERV. & S.	DEVELOPING MASS LAY-OFF RECOMMENDATIONS	ANNE HEMSWORTH	\$7,622
LP1870	EMPLOYMENT SERV. & S.	DEVELOPING MASS LAY-OFF RECOMMENDATIONS	KEN JOHNSON	\$13,518
				\$21,140

FY 1992

C / L NUMBER	NAME OF PROJECT	DESCRIPTION OF CONTRACT	SUPPLIER NAME	VALUE OF CONTRACT
NO PRIOR REVIEW CONTRACTS WERE AWARDED TO CANADA IN THE RUSSIAN FEDERATION FOR FY 1992				

FY 1991

C / L NUMBER	NAME OF PROJECT	DESCRIPTION OF CONTRACT	SUPPLIER NAME	VALUE OF CONTRACT
NO PRIOR REVIEW CONTRACTS WERE AWARDED TO CANADA IN THE RUSSIAN FEDERATION FOR FY 1991				

FY 1990

C / L NUMBER	NAME OF PROJECT	DESCRIPTION OF CONTRACT	SUPPLIER NAME	VALUE OF CONTRACT
NO PRIOR REVIEW CONTRACTS WERE AWARDED TO CANADA IN THE RUSSIAN FEDERATION FOR FY 1990				

IFC and MIGA Operations

Introduction

1994 was an active year in the Europe and Central Asia Region for the IFC, as three more of the former Soviet Republics joined the Corporation: Estonia, Latvia and Ukraine. The former Yugoslav Republic of Macedonia also fulfilled the requirements for membership bringing the number of member countries in the region eligible for IFC investments to 17 - 16 of the 22 former centrally planned economies, in addition to Turkey.

In Europe and Central Asia, the IFC concentrates on suitable projects that are deemed to be profitable while contributing to the development of the private sector. The IFC has continued to be active in the privatization of public enterprises in the former Soviet Union. It has also participated in several investments in the telecommunications, manufacturing, agribusiness sectors.

The expansion of small and medium enterprise has been identified as essential to the continued development in the emerging economies of Europe. The lack of available capital is now widely recognized as a bottleneck holding back private sector growth. Accordingly, capital market development has been given a high priority for the IFC. The most significant of the capital market development programs saw the creation of markets and financial institutions in Russia, that became necessary following the voucher-based privatization of large enterprises.

The IFC has continued to foster the development of small business in Poland through the Polish Business Advisory Service (PAS), which provides advice to entrepreneurs. The IFC also provides technical assistance to many private firms and government agencies in the region. The IFC was particularly active in several key areas: helping governments to design and implement pilot privatization, helping privatized companies to identify strategic partners and attract capital, and developing capital markets.

Cooperation between the World Bank and the IFC continues in a number of areas, notably in a private sector assessment begun for Hungary and a survey of private firms carried out in Belarus.

IFC Operations in the Russian Federation

The IFC's program in Russia has been highly complementary in a number of aspects to World Bank efforts in expanding the role of private sector organizations in the Russian economy. In the area of small scale privatization, the IFC began to provide technical assistance as early as 1991, supported by Canadian Government finances, the British Know-How Fund and USAID.

The first official small scale privatization took place in April, 1992, in Nizhny Novgorod, which was an early leader in economic reforms. The IFC helped to organize the first round of voucher auctions that established expertise that was later used in the implementation of the World Bank's Privatization Implementation Assistance Loan. The IFC has also aided in the area of land privatization through its demonstration of a model of farm restructuring in Nizhny Novgorod oblast, which upon its completion in 1994, was endorsed by Prime Minister Chernomyrdin as the basis for a national program.

During fiscal year 1995 at the request of the G-7, the World Bank took over responsibility for coordinating efforts to develop financial institutions throughout Russia that would be capable of providing loan and equity financing to newly privatized and emerging private enterprises. The World Bank's focus is on the development of the commercial banking sector.

The IFC and the EBRD have concentrated their efforts on the development of regionally based equity development funds. The IFC's first such intervention was the Framlington Volga Fund in Nizhny Novgorod. The IFC has also been concentrating its efforts on the development of a business training program that would train managers of newly privatized companies. The program would be modelled after a similar undertaking in Poland that offered post-privatization technical support.

The advisory work of the IFC and the EBRD on the establishment of a securities market in Russia could provide a model for a larger World Bank financed capital market development operation. To date, the IFC has focused its efforts on the introduction of a legal framework and institutional structure necessary for share ownership and transfer, and improved corporate governance.

Presently, the IFC is shifting its efforts in Russia away from technical assistance towards development of a multi-sector

investment program. As of the end of February, 1995, the IFC had approved 14 projects in Russia and it is expected that there will be more approvals before the end of fiscal year 1995. Projects approved as of February, 1995, include US\$75.6 million in equity investments and US\$185.9 million in loans. The IFC's largest project to date was in an integrated newsprint paper mill, where the IFC's exposure is approximately US\$86 million.

Over the longer term, IFC investment strategy aims to develop joint venture investments in various sectors of the Russian economy. Sectors where project proposals are being considered include manufacturing, private sector infrastructure, oil and gas and agribusiness. Further capital markets investments such as private equity funds, institution building, investments in commercial banks and special facilities for trade enhancement are being considered by the IFC.

All of the above opportunities will be undertaken with the aim to develop the private sector through the success of investment ventures or through the improvement of the business environment in Russia.

Canadian Involvement in IFC Projects in the Russian Federation (FY 1989 to 1995)

Of the 14 total projects approved by the IFC in Russia, none of them include any Canadian involvement. However, there have been many inquiries to the Russian investment division of the IFC from Canadian firms in the past year, and it is expected that there may be proposals from Canadian firms within the next few years.

MIGA Operations in the Russian Federation

MIGA has concluded legal protection and *Use of Local Currency* agreements with the Government of Russia. It has also secured an agreement aimed at facilitating approval of MIGA guarantees for Russia. As of May 31, 1995, MIGA had one contract of guarantee outstanding in Russia for a maximum aggregate liability of US\$9.9 million to a Belgian company against war and civil disturbance for a metals processing project. Applications for coverage, which total over 160 since the inception of MIGA of which approximately 100 are still active, are being reviewed for projects in the manufacturing, financial services and petroleum sectors. The current applications are primarily from U.S. and European companies and together represent more than US\$10.8 billion

in potential investments. Many of these projects will not proceed with MIGA or will be insured by an alternative political insurance carrier. To date, there has been only one request from a Canadian firm for the services of MIGA. This application is currently pending.

In addition to the concerns raised for investors in Russia by the country's poor institutional, legal and regulatory framework, the major consideration faced by investors applying for MIGA's coverage relates to the possibility of restrictions on the foreign exchange regime. These concerns appear to be particularly important in the oil and gas, and the real estate sectors, where there is a large capital outlay required. While many of the projects in these sectors are over the limit for MIGA qualification of US\$50 million, MIGA may expand to include itself in these projects along with other suppliers of political risk insurance.

World Bank Macro-Economic and Fiscal Overview for the Russian Federation

1. The following has been taken from the World Bank Country Brief on the Russian Federation dated April, 1995.

Recent developments

2. Economic developments during 1994 were dominated by the continuing decline in official GDP and changing inflationary expectations as single digit inflation mid-year gave way to a sharp increase in prices by year's end. GDP registered a further 15 percent decline in 1994, bringing the total fall in production to almost 40 percent since 1991. However, other indicators suggest that the fall in output has not been as sharp or impacted so severely on living standards as the GDP estimates suggest. Unregistered economic activity appears to be expanding at a robust pace, both in services such as retail trade and banking, and also through informal manufacturing activity. Real industrial output has shown modest gains since mid-1994. Personal incomes and consumption increased during 1994 as relative price changes and restructuring continued the shift in GDP share towards private consumption at the expense of investment.

3. Monthly inflation averaged just under 10 percent during 1994, well below the 21 percent average monthly rate of 1993 but far above official inflation targets. Early tightening of monetary policy helped reduce monthly inflation to 4.6 percent by August, but political pressure to expand credit led to a resurgence of double-digit monthly inflation during the last quarter. Financing of the fiscal deficit and credit to agriculture and the Northern territories were sources of growth in the broad money supply. The consolidated government deficit (including extra-budgetary funds and interest due) for the year was near 12 percent, a dramatic reduction from 30 percent experienced two years earlier. However, with limited recourse to foreign or domestic borrowing, the government resorted to monetization of the deficit, in turn fuelling inflationary expectations and reducing willingness to hold

ruble-denominated balances. Lack of confidence in government policies also lay behind the October plunge in the ruble exchange rate, necessitating heavy intervention to restore stability in the market.

4. The drop-in trade that accompanied the break-up of the FSU and CMEA trade system has been reversed. Exports to all countries (both FSU and non-FSU) grew by 13 percent to reach \$66 billion in 1994. There was an even healthier growth in total imports, which reached \$54 billion. Over three-quarters of total trade in value terms is with non-FSU countries. Moreover, growth in trade with non-FSU countries continues to expand as Russia's trade is increasingly directed to Western Europe. The shift in trade patterns is particularly noticeable for raw materials such as oil and gas. Exports of crude oil to non-FSU countries increased from 47 percent of the total in 1992 to 74 percent in the first half of 1994. Similar shifts occurred in manufactured products such as processed timber and pulp and paper.

5. Throughout the year, unemployment continued to worsen as enterprise restructuring led to labor shedding. Open unemployment rose from about 5 percent at the end of 1993 to 7 percent by the end of 1994, although registered unemployment amounted to only one-third of this. The rise in unemployment is smaller than earlier expected, apparently due to the continued retention of labor, while real wages have been reduced and arrears have expanded, as well as resort to involuntary unpaid leave and part time employment. Including workers affected by these adjustments would raise the unemployment figure to around 13 percent by end-1994.

6. Social indicators reflect mixed patterns of adjustment during 1993 and 1994. Population data shows a sharp increase in morbidity rates in 1993, contributing to the decline in male life expectancy by 4.9 years between 1990 and 1993. Many households have been seriously affected by the inflation-induced erosion of real transfers (especially minimum pensions and unemployment benefits), the decline in wage-earning opportunities, and distinct widening of income distribution. The incidence of poverty has increased significantly since the onset of transition. Moreover, regional variation in incidence of poverty and unemployment is widening, with the greatest concentration in regions dependent on declining industries. At the same time, some indicators show improvements in average household consumption and average real income levels, consistent with expansion of income from informal economic activity. But indirect evidence suggests opportunities in the informal sector are also skewed,

and may contribute to the observation of worsened income distribution.

7. In April 1994, the IMF approved Russia's purchase of the second tranche under the Systemic Transformation Facility (STF). The basis for the purchase was the Government economic program for the remainder of 1994. In early March, 1995 negotiations over an IMF Standby Loan were under way and an agreed program was anticipated later that month. This program will help to form the basis for fiscal and monetary policy in support of macroeconomic stabilization.

Progress on structural reforms and medium-term outlook

8. Following the major structural reforms introduced in 1991-1993, the past year was a period of general consolidation. By mid-1994 private retail trade already accounted for over 60 percent of total turnover, and domestic prices of traded goods moved closer to world levels (the main exception was energy). Greater progress was made in specific areas. The privatization program continued strongly through mid-year, moving onto the next phase of cash purchases following completion of the mass voucher privatization launched earlier. As far as trade policy is concerned, further steps were taken to reduce trade barriers, particularly the removal of export quotas. Few new policies were introduced in social protection, but the social programs established after 1991 continued to support large segments of the population. On land reform, little progress was made. The rights of land owners to lease or rent land were reiterated in late 1993 and the moratorium on land sales was lifted, but only 6 to 7 percent of arable land is thought to be cultivated by individual farmers.

9. Further structural reform will need to be made within the context of the government's top policy priority: adherence to a realistic macroeconomic stabilization program. The stabilization program, adopted by the government in early 1995 as the basis for a \$6.25 billion standby loan from the IMF, will require significant fiscal tightening and more stringent monetary measures to reel in inflation. With elections scheduled for end-1995 and mid-1996, resisting political pressures to relax credit constraints will pose a challenge to authorities. If these pressures can be resisted, a gradual resumption of positive growth and investment trend during 1995 is expected, with inflation reduced to moderate levels by 1996. The structural reform objectives outlined below are consistent with stabilization measures to reduce fiscal outlays and streamline government operations.

10. Privatization. Progress in privatization has been the centerpiece of the Government's achievements in structural reform of the economy. The Russian privatization program has been impressive; by end-1994, 84 percent of the industrial workforce was employed in enterprises with majority private ownership. The voucher program for divesting ownership was completed in October, with over two-thirds of large and medium enterprises, and over 80 percent of small enterprises privatized, or a majority interest auctioned for vouchers. The new phase, based on cash auctions and investment tenders, began in July 1994 under new regulations clarifying land transfer and limiting concessional shares for employees. Other legislation has strengthened the role of the bankruptcy agency in handling insolvent enterprises. However, legislation on collateral, property rights, and accounting have not made rapid progress. Many state and collective farms have been technically privatized, though often they remain under collective management and most have not been significantly restructured. Land privatization should accelerate following the Prime Minister's announced commitment in March 1994 to expand a pilot model of farm privatization carried out in Nizhny Novgorod. By the end of 1993 some 25 percent of eligible housing units had been transferred to occupants under a nationwide framework of housing privatization on a giveaway basis. In 1994 housing privatization has continued but the pace slowed as fewer occupants perceived private ownership as advantageous.

11. Further progress on privatization remains encouraging, although difficult tasks lie ahead. The core of remaining state enterprises has shrunk to (i) extraordinarily large and profitable enterprises, (ii) large and particularly poor performers, and (iii) public utilities. The first group of enterprises, particularly in the energy sector, raise the issue of how best to divide production into competitive units to avoid the consequences of adverse monopolistic behavior. Loss making large enterprises require selective government support for restructuring to downsize, shift production, and in some cases liquidate assets. Public utilities, on the other hand, require an appropriate regulatory environment, and policy reform to encourage divestiture of competitive businesses. Government interventions should be limited to extending privatization in these remaining areas, financial discipline through reducing subsidies and making them transparent in the budget, encouraging restructuring by support for displaced workers and divestiture of social assets, and by strengthening the regulatory framework. Regional and local authorities will have a major influence on the future pace of privatization and enterprise restructuring.

12. Trade policy. Following removal of all import subsidies at the end of 1993, major steps were taken to eliminate export quotas in 1994. Export quotas were removed as of July 1, with the important exception of oil, for which quotas were also lifted as of end-December. At the same time, the Government introduced an export contract registration system for the same 'strategic' exports, ostensibly aimed at preventing under-invoicing of export contracts. Simultaneously, export duties were lowered on some key exports (eg. aluminum and oil) and eliminated for some commodities. The Government has explicitly stated it will not use import tariffs for domestic protection despite increasing pressures from Russian suppliers. However, revision of the import tariff schedule did involve upward revision of rates, with average import duties raised from 8 to 12.5 percent as of July, 1994. By end-1995 all export taxes are to be eliminated. The Government has indicated its intent to further rationalize tariffs over the coming year. However, at the local level some oblast governments continue to interfere in price formation, including by restricting trade across internal boundaries. The challenge facing the government in the next few years will be to resist pressures for protectionist measures by export industries. These industries are caught between growing import competition (from exchange rate appreciation) and rising production costs following the removal of export quotas. The Government's decision to join the GATT will help in resisting such pressures.

13. Financial sector. There are over 2000 independent commercial banks in Russia today, almost all created within the last few years. Among the new banks, there are as many as 100 that appear to be evolving into real banking institutions. While the volume of their operations is still small, they are growing at an unprecedented rate and are involved in profitable and genuine banking activities. As the privatization program has removed restrictions on the participation of financial institutions in privatization, the investment activity of banks has grown.

14. These rapid developments place greater priority on strengthening the capacity of the Central Bank of Russia to monitor commercial banks and ensure prudential regulations are enforced. The government has established a commission on securities and capital markets, although capacity to monitor capital markets remains quite limited. Government support of technical assistance to commercial banks will help enhance banking skills and application of prudential regulations. Supporting linkages between capital market development and enterprise privatization will be another priority policy area for

government. A key element of this is improving information disclosure, shareholder registration, accounting and audit standards, etc. where foreign technical assistance will likely be needed to enable enforcement of new regulatory and legal standards. The agenda for financial reform should also cover privatization of several large commercial banks that remain under state ownership, including the formerly specialized Soviet agriculture and industrial banks (Agroprom and Promstroibanks).

15. Agriculture. There have been substantial changes in the agricultural sector as a result of price and trade liberalization, reductions in subsidies and directed credits, privatization of agro-industrial enterprises, and partial progress with enhancing private land rights for farmers. Further reforms are now needed to complete price, trade, and subsidy elimination and to address the second stage of liberalization. The key remaining issues include de-monopolization of agricultural distribution and marketing, implementation of land privatization legislation, improvement of agricultural credit markets and a strengthening of agricultural institutions to better serve a market-based agricultural sector. This is a massive agenda, which may best begin through "demonstration programs" that target selected regions, drawing on international support.

16. Social Protection. The benefits financed by social extra-budgetary funds set up in 1991/92, including pensions, unemployment insurance, alongside cash transfers targeted to mothers and children, continue to be the main social safety nets for the population. In addition, local governments maintain modest social assistance programs to alleviate poverty. There were no major changes to these programs during 1994, despite growing unemployment and evidence that about one-fifth of the poor receive no form of public assistance. Real benefit levels continued to be eroded by inflation due to inadequate indexation. At the end of 1994 the minimum pension (received by roughly one fourth of all pensioners) was equal to just 60 percent of the minimum subsistence income level for the elderly. Due to rapid inflation, the average unemployment benefit had declined to about 13 percent of the minimum adult subsistence income by end-1994.

17. The Government has appeared reluctant to introduce fundamental changes in social benefit programs because of the fiscal cost of raising low benefits and political sensitivity of reducing benefits which are poorly targeted. As minimum benefit levels are eroded, the need to restructure social

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.

20. To regain creditworthiness Russia will need to make a determined effort to implement sound macroeconomic and structural reform policies. Foremost is the need to undertake a fiscal adjustment to reduce the budget deficit. Reform of associated structural policies should help staunch capital flight and strengthen the balance of payments. This would provide the basis for debt rescheduling agreements, that should, over the longer term, lead to a more permanent solution for Russia's debt servicing difficulties.

World Bank Annexes: Appendix 2

World Bank Lending Pipeline for the Russian Federation

1. The following has been taken from the World Bank Monthly Operational Summary for the Russian Federation dated August, 1995.

Agriculture

* **Agriculture Research**

--The project will support implementation of agriculture reforms and finance selected investments and imports to improve the efficiency of the agriculture sector, with a particular emphasis on agriculture-technology generation, transfer, and utilization. Project preparation is under way. About US\$100.0 (IBRD). Consultant services to be determined.

Ministry of Agriculture and Food • Orlikov per., 1/11 •
Moscow • Russian Federation

Agriculture

* **Agricultural Sector Adjustment**

--The project will support the agriculture sector policy reform program and finance imports of critical agricultural inputs and/or provide balance of payments support. Project is being identified. Environmental assessment category to be determined.

US\$500.0 (IBRD). Consultant services to be determined.
Implementing agency to be determined.

Agriculture

* **Regional Agriculture Area Development**

--The project will: (a) accelerate land privatization and farm reorganization and finance institutional capacity building and (b) establish a recapitalization fund to provide one time long-term loans to private farms and finance small-scale rural infrastructure. Environmental assessment category B. Project preparation is under way. PID: RUPA08819.

About US\$150.0 (IBRD). Consultant services have been selected for project preparation.

Ministry of Food and Agriculture • Orkilov Per, 1/11 •
Moscow 107139 • Russian Federation • Telex: 411021 • Tel:
(7-095) 207-8391 • Fax: (7-095) 288-9580; Ministry of Trade

and Material Resources • Orkilov Per. 5 • Moscow 107801 • Russian Federation • Telex: 871-411656 GOSSN SU • Tel: (7-095) 204-0365 • Fax: (7-095) 975-3273

Education/Training

* Education

--This project will support (a) government reforms to restructure textbook and materials finance, (b) targeted support for testing and assessment and performance monitoring and systems, and (c) higher education reforms. Project is being identified. Environmental assessment category to be determined.

US\$200.0 (IBRD). Consultant services to be determined. Implementing agency to be determined.

Finance

* Portfolio Development (Ln. 3844-RU)

--The project will provide a flexible source of project preparation funds and strengthen external resource management capacity. Approved by the Executive Directors on February 16, 1995. Loan was signed on July 7, 1995. PID: RUPA08823.

US\$40.0 (IBRD). Consultant services will be required for (a) technical, sector, and feasibility studies related to the preparation of Bank projects; (b) capacity building in the Center and core implementing ministries relating to procurement, disbursement, accounting, auditing, and project management; (c) business outreach and training programs under the Business Opportunities Bureau which will provide direct assistance to potential bidders as well as for the design and implementation of training materials, public information brochures, and marketing programs; and (d) the design of effective business opportunities seminars.

Federal Center for Project Finance and Technical Assistance • Smolensky Boulevard 3-5 • Moscow • Russia • Tel: (7-095) 205-5019 • Fax: (7-095) 205-4532 • Contact: Mr. Andrei Nikolayev, Director

Finance

* Rural Credit

--The project will (a) promote market-oriented financial intermediation; (b) assist in restructuring and development of existing and new financial institutions; and (c) support restructuring and commercialization of agriculture and agro-industry. Project preparation is under way.

US\$100.0 (IBRD). Consultants will be required.

Implementing agency is to be determined.

Infrastructure

*** Community Social Infrastructure**

--The project will support selected oblasts in: (a) rehabilitation and upgrading of selected health and education facilities; (b) advisory services and training; (c) budget planning and social sector management; (d) water supply and sanitation; and (d) designing monitoring and evaluation procedures. Appraisal mission is in the field. PID: RUPA35761.

US\$150.0 (IBRD). Consultants are currently assisting in preparing the components of the project.

Implementing agency is to be determined.

Population, Health, and Nutrition

*** Essential Medical Equipment**

--The project will provide medical equipment and related consumables to stem the decline in provision of health care services to the population. Procurement advisory services will also be provided. Project preparation is under way.

Environmental assessment category C. Retroactive financing may be required.

US\$300.0 (IBRD). Consultant services will be required.

Ministry of Finance • Ul Ilinka 9 • 103097 Moscow • Russian Federation • Tel: (7-095) 298-9372 • Fax: (7-095) 298-3519

Population, Health, and Nutrition

*** Health**

--The project will support (a) the implementation in selected regions, of the operational and financial management of the mandatory Health Insurance System; (b) the rationalization of in-patient and out-patient care facilities; (c) improvement of maternal and child health and family planning services; (d) promotion of healthy lifestyles and prevention of cardiovascular disease; and (e) the national training program for family medicine practice. Project preparation is under way. PID: RUPA08814.

US\$100.0 (IBRD). Consultants will be required.

Ministry of Health • 101431 Moscow • Russian Federation • Telex: 411407 • Fax: (7-095) 925-0128

Power

*** Gas Distribution and Energy Efficiency (Ln. 3876-RU)**

--The project will increase the amount of gas available for export and domestic use by decreasing consumption and losses. Meters will be purchased along with cathodic-protection equipment, leak-detection equipment, remote monitoring equipment, and the existing piping and equipment to monitor consumption, like burners and related controls, temperature controls, and instrumentation, will be procured. Possible financing from the GEF. Approved by the Executive

Directors on May 2, 1995. PID: RUPA08803.

US\$106.5 (IBRD). Consultant services will be required for technical assistance.

Volgograd Gorgas • 38 Kommunisticheskaya St. • Volgograd • Russian Federation • Tel: (7-844) 36-1819; Ryazan Gorgas • 18 Semajko St. • Ryazan • Russian Federation • Fax: (7-091) 76-4003; Saratov Gorgas • 26 Ordzhonikidze St. • Saratov 410720 • Russian Federation • Tel: (7-845) 24-2153

Power

*** Gas Injection Demonstration**

--The project will support a gas injection pilot scheme to increase oil recovery and reduce air pollution, and provide technical assistance and training to strengthen project implementation. Appraisal report is being prepared.

Retroactive financing may be required. Environmental Assessment Category B. PID: RUPA35779.

US\$57.0 (IBRD). Consultant services will be required for training in various activities of oil field development and for services relating to tracers monitoring.

Purneftegas Project Procurement Office • 15, Kosygina, Block A • 117586 Moscow • Russian Federation • Tel: (7-095) 135-7485; 956-1152 • Fax: (7-095) 956-1150; 956-1131; 956-1152 • Contact: Mr. I. Dostoinov

Power

*** Krasnodar Power Generation**

--The project consists of 1,350 MW of combined cycle generation in the Krasnodar region. Project preparation is under way. PID: RUPA08802.

US\$400.0 (IBRD). Consultants will be required.

Implementing agency to be determined.

Power

*** Petroleum Joint Venture**

--The project will support a major joint venture (international/domestic) for a major new oil field development project in Western Siberia via a partial risk guarantee to commercial lenders. Project preparation is under way. PID: RUPA08807.

About US\$500.0 (IBRD). Consultant services to be determined.

Implementing agency is to be determined.

Private Sector Development

*** Enterprise Support II**

--The project will provide (a) restructuring advisory services to private enterprises and (b) support for capital market development. Project preparation is under way.

About US\$200.0 (IBRD). Consultants will be required.
Implementing agency is to be determined.

Public Sector Management

*** Enterprise Housing Divestiture**

--The project will support the transfer of housing and the related infrastructure from enterprises in order to ensure the sustainability of the divestiture process and encourage enterprise restructuring. Project preparation is under way. Environmental assessment category B.

US\$300.0 (IBRD). Consultants will be required to assist with project preparation, engineering design, and supervision. Implementing agency to be determined.

Public Sector Management

*** Standards Development**

--The project will support the development of standards and certification infrastructure through (a) helping to set up a standards enquiry point as required by GATT; (b) improving metrology and certification capacity; and (c) rewriting standards in conformity with international standards. Project preparation is under way.

US\$25.0 (IBRD). Consultant services to be determined.
Ministry of Finance • ul. Ilinka 9 • 103097 Moscow • Russian Federation • Tel: (7-095) 298-9372 • Fax: (7-095) 298-3519, 206-3927; Ministry of Foreign Economic Relations • Smelenskaya • Sennaya Place, 32/34 • Moscow 12200 • Russian Federation • Telex: 412479 LENA SU • Fax: (7-095) 230-2634

Social Sector

*** Sector Adjustment Loan**

--The project will support social sector reform, including improvements in federal social transfers, the social safety net, and the health and education systems. Project preparation is under way. Environmental assessment category C.

US\$300.0 (IBRD). Consultant services to be determined.
Ministry of Finance • Ul Ilinka 9 • 103097 Moscow • Russian Federation • Tel: (7-095) 298-9372 • Fax: (7-095) 298-3519

Structural Adjustment

*** Rehabilitation II (Ln. 3898-RU)**

--Foreign exchange will be provided to finance imports in support of the government's program of stabilization and structural reform. Approved by the Executive Directors on June 6, 1995. Loan was signed on July 7, 1995. PID: RUPA08838.

US\$600.0 (IBRD). Consultants will not be required.
Ministry of Finance • ul. Ilinka 9 • 103097 Moscow • Russian

Federation • Tel: (7-095) 298-9372 • Fax: (7-095) 298-3519,
206-3927; Central Bank of Russia • ul. Neglinnaja 12 •
103016 Moscow • Russian Federation • Tel: (7-095) 928-8328
• Fax: (7-095) 925-6118

Transport

*** Bridge Rehabilitation**

--The project will help improve the Russian public road network by rehabilitating or reconstructing high priority bridges. Appraisal mission is in the field. PID: RUPA35764. US\$300.0 (IBRD). Consultants will be required to assist with project preparation, engineering design, and supervision. Federal Highway Department • Ministry of Transport • 10 Sadovaya Samotechnaya • Moscow 101433 • Russian Federation • Tel: (7-095) 200-1485 • Fax: (7-095) 299-3990

Transport

*** Urban Transport (Ln. 3885-RU)**

--This project seeks to (a) increase bus, trolley, and tram service capacities, (b) assist in developing selected public transport systems on a financially sustainable basis, and (c) provide restructuring advice for domestic bus manufacturing industry. Approved by the Executive Directors on May 16, 1995. PID: RUPA08806.

US\$329.0 (IBRD). Consultants will be required for project management support, policy support, institutional development, and training.

Urban Transport Project • Implementation Directorate • Ministry of Transport of the Russian Federation • Sadovaya-Samotechnaya, 10 • Moscow, 101438, GSP-4, Russian Federation • Tel: (7-095) 200-0736 • Fax: (7-095) 200-6658 • Contact: Mr. Sokolov, Head of the Implementation Directorate

World Bank Annexes: Appendix 3

Status of World Bank Projects in Execution for the Russian Federation

1. The following has been taken from the World Bank Status of Projects in Execution dated September, 1994, at which point there were a total of 7 World Bank projects in execution in the Russian Federation.

Ln 3734-RU Financial Institutions Development Project:
US\$200 Million: Loan of June 22, 1994; Not Yet Effective; Closing Date: December 31, 1998; Executing Agency: Ministry of Finance (MOF)/ Central Bank of Russia (CBR). Diagnostic audits of banks by international firms have been completed for 13 banks and another eight audits should be completed by late October. Bid packages for twinning have been issued for six banks. For these six banks, negotiations with the selected foreign banks should be initiated within one month. Joint procurement procedures are being finalized with EBRD for bank automation procurement packages, and a mission is in the field to assist in the preparation of bank-specific packages. A sample subsidiary loan agreement is being finalized, and the signing process will be initiated by mid-October for all participating banks already identified. Issues currently discussed relate to developing arrangements for on-the-job training, and developing programs for off-site inspection. While much progress was achieved during project preparation on the conceptual framework for bank accounting, much remains to be done on the setting up of an actual implementation program. This is also true for enterprise accounting, where in addition the identification of proper counterparts (MOF, Parliament) is an issue. Satisfactory progress has been achieved towards the establishment of the PIU, following earlier difficulties. A consultant has been selected, and negotiations will begin shortly. The consulting team should be in place by November. Effectiveness date has been extended to December 20, 1994.

Ln. 3756-RU . Land Reform Implementation Support Project:
US\$80 Million: Loan of June 22, 1994: Effective Date: Not Yet Effective; Closing Date: June 30, 2000; Executing

Agency: Russian Federation Committee on Land Resources and Land Management (Roskomzem). The deadline for satisfying conditions of effectiveness was recently extended from September 20, 1994 to November 21, 1994. Failure to meet these conditions has stemmed primarily from a lack of adequate staffing of the Project Development Unit and continued uncertainty over the legal foundations for carrying out land registration work in Russia. A plan has been developed with the Government to satisfy these conditions within the extended timeframe. Letters of invitation are being prepared for; (a) a procurement agent, and (b) consultant services for the Project Development Unit and technical specialists. These are expected to be issued by November. Work on preparation of bidding documents for the procurement of goods is also well underway.

Ln. 3757-RUS Agricultural Reform Implementation Support (ARIS) Project: US\$240 Million: Loan of June 22, 1994; Effective Date: Not Yet Effective; Closing Date: June 30, 2000; Executing Agency: Ministry of Agriculture and Food (MOAF). This is the first loan in support of agricultural reform in Russia. The main objective is to improve the efficiency of the agricultural sector based on market principles by creating and strengthening market infrastructure for fruits and vegetables, farmer information and advisory services and private seed industry for hybrid corn and sunflower. The loan is expected to become effective by November 21, 1994. However, project implementation has begun. The Project Development Unit (PDU), which will be responsible for project implementation, has been established and staffed. The Project Launch Workshop is planned for November 1994. The Government has initiated the process for hiring international consulting firm to assist in project implementation. PDU staff is currently being trained in procurement procedures, with a particular focus on World Bank Procurement Guidelines. Despite lack of experience, training and appropriate incentives for the PDU staff, project implementation is making progress.

Ln. 36230 to Ln 36233 Oil Rehabilitation Loan: US\$610 Million: Loan of August 12, 1993; Effective Date: November 15, 1993; Closing Date: December 31, 1995; Executing Agencies: Ministry of Fuel and Power; Varyeganeftegas Producing Association (VNG); Purneftegas Producing Association (PNG); Kogalymneftegas Producing Association (KNG). Satisfactory progress was achieved under the project including progress towards the establishment of a satisfactory legal/fiscal and regulatory environment to attract private capital and create a competitive domestic industry. The initial year of project implementation was not fully satisfactory due

to delays in equipment delivery, largely resulting from political disruptions in the fall of 1994 and disputes over payment of import duties and VAT. While project economic returns are still expected to be achieved, production increases have been delayed by at least nine months. Initial procurement activities have been satisfactory and contracts for the first year program are largely in place. US\$23.5 million has been disbursed.

Ln 3706-RU Highway Rehabilitation and Maintenance Loan: US\$300 Million: Loan of June 22, 1994; Effective Date: Not Yet Effective; Closing Date: June 30, 1998; Executing Agency: Ministry of Transportation, Federal Highway Department. The Project Implementation Unit, which benefits from twinning arrangements with U. S. and Finnish highway agencies, has been established and is performing well. Contracts have been awarded for the first year (1994) which consists primarily of pilot road works under competitive bidding. Execution of road works began in August 1994 and is still in progress. Consultants are being selected to assist the Ministry of Transportation in developing a legal framework for the transport sector. No disbursements have yet been made.

Ln 3768-RU Second Oil Rehabilitation Loan: US\$500 Million: Loan of September 27, 1994; Not Yet Effective; Closing Date: June 30, 1997; Executing Agencies: Megionneftegas, Tomskneft, and Yuganskneftegas Producer Associations. This loan was signed on September 27, 1994. Draft bid documents are under preparation by all three Producer Associations and are expected to be provided to the Bank shortly. Bids for external procurement and technical advisors are under evaluation. Local procurement advisors have been engaged for four months. All Project Implementation Units have been established. External technical advisors are being placed. This project is not yet effective. No disbursements have yet been made.

Ln 3763-RU Enterprise Support Project: US\$200 Million Loan of September 27, 1994; Not Yet Effective; Closing Date: June 30, 2000; Executing Agency: Private commercial banks, Ministry of Finance. The loan will provide market-based medium-term finance to private enterprises for incremental capital investment. The funds will be intermediated through some twenty private commercial banks. Audits for twenty one banks have been completed and several commercial banks are close to accreditation. This work is carried out under the Bank's Financial Institutions Development Project. The consulting firm to manage the

Project Implementation Unit is in the process of being selected and contract negotiations should begin shortly.

Notes

to proceed with the process of project implementation. The project implementation unit is in the process of preparing the project implementation plan for 1994 and disputes over the project implementation plan are being resolved. While project economic indicators are not expected to be achieved, production increases have been observed by at least some projects. Initial procurement and contract award were satisfactory and contracts for the first year amounting to roughly to 1994: 5 million has been awarded.

La 3700-RU Highway Rehabilitation and Maintenance Loan: US\$200 Million. Loan of June 22, 1994; Effective Date: Not Yet Effective; Closing Date: June 30, 1997; Executing Agency: Ministry of Transportation, Federal Highway Department. The Project Implementation Unit, which benefits from consulting arrangements with U.S. and Finnish highway agencies, has been established and is performing well. Contracts have been awarded for the first year (1994) which contain provision of other road works under competitive bidding. Execution of road works began in August 1994 and is well in progress. Consultants are being selected to assist the Ministry of Transportation in developing a legal framework for the transport sector. No disbursements have yet been made.

La 3755-RU Sugar Cane Rehabilitation Loan: US\$250 Million. Loan of September 27, 1994; Not Yet Effective; Closing Date: June 30, 1997; Executing Agencies: Magisteriofegas, Tomacruz, and Yaguajayfegas Producer Associations. This loan was signed on September 27, 1994. Draft bid documents are under preparation by all three Producer Associations and are expected to be provided to the Bank shortly. Bids for external procurement and technical advisors are under evaluation. Local procurement advisors have been engaged for four months. All Project Implementation Units have been established. External technical advisors are being placed. This project is not yet effective. No disbursements have yet been made.

La 3763-RU Enterprise Support Project: US\$200 Million. Loan of September 27, 1994; Not Yet Effective; Closing Date: June 30, 2000; Executing Agency: Private commercial banks, Ministry of Finance. The loan will provide market-based medium-term finance to private enterprises for incremental capital investment. The funds will be intermediated through some twenty private commercial banks. Audits for twenty one banks have been completed and several commercial banks are close to execution. This work is carried out under the Bank's Financial Institutions Development Project. The consulting firm to manage the