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A. CLASSIFICATION Speeches

B. SUBJECT	<p>SPEAKING ENGAGEMENT: US-RUSSIA BUSINESS COUNCIL // JDW TO MAKE SPEECH // <CONFIRMED> VENUE: FOUR SEASONS HOTEL // TIME: 9:15 - 9:45 A.M. CONTACT: MR. EUGENE K. LAWSON // NOTES: ITEM INDICATED AS CONVEYED BY CAROLINE'S EMAIL 1/23 // JDW HAS AGREED TO DO ON STRONG RECOMMENDATION OF LINN & MMB // (2/6) ON TRAVEL CALENDAR (B)</p> <p>SPEAKING POINTS EXC: CA // ALI (1/28)</p> <p>Brief includes: --Cover note by CA --Agenda --Invitation letter to JDW dated March 12, 1998 from Eugene Lawson, President - U.S.-Russia Business Council --Talking Points prepared by The ECA Region --Keynote Speech prepared by Carter/Pearce --Background notes on WB's role in Russia --Basic Facts and Figures --Results on the ground --IFC's Investment Portfolio as of March 31, 1998 --IFC's Programs for Reform in Strategic markets --IFC's Projects FY 1998 (not included)</p>
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THE WORLD BANK

U.S.-RUSSIA BUSINESS COUNCIL

Wednesday, April 1, 1998

[TRANSCRIPT PREPARED FROM A TAPE RECORDING.]

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P R O C E E D I N G S

MR. LAWSON: Good morning, and welcome to the U.S.-Russia Business Council's sixth annual forecast conference. I'm Gene Lawson, the CEO and President of the Council.

We have a terrific program today of speakers, and quite a distinguished audience, I might say, of business and government and press and academia and not-for-profits.

A great deal has been written and said in the last nine days as President Yeltsin has shocked everyone in Russia and the entire world by dismissing Mr. Chernomyrdin and his entire government. I will leave the speculation of the meaning of those events to others and focus this morning on what we know and what it means for U.S. business.

Here is what we know: After serving as acting Prime Minister for four days, Sergei Kiriyenko, the 35-year-old Minister of Fuels and Energy, with approximately a year of central government experience, was nominated by President

Yeltsin to serve as Prime Minister. Duma members who must confirm the President's choice made the predictable negative noises, but we can expect that the lower house will confirm him, perhaps not on the first vote on Friday, the day after tomorrow, and maybe not even on the second vote as a symbolic protest, but ultimately this young reformist technocrat will lead a yet-to-be-named cabinet in an attempt to jump-start the economic reform process that has, indeed, been lagging.

In his brief tenure as the Energy Minister, Mr. Kiriyenko demonstrated that these technocrat skills can serve him very well in a number of ways, proving an ability for negotiating between diverse groups in the Russian bureaucracy and the managerial prowess to balance competing interests for a positive outcome.

He has built up an impressive track record in a very short time, and the U.S. official and the U.S. private sector reviews from his trip here three weeks ago in connection as part of the Gore-Chernomyrdin commission meetings was uniformly

positive.

Beyond the political aspects of the events last week for American business in Russia, the main question is: What will Mr. Kiriyenko and his cabinet do to move the trade and investment agenda forward? Does he have the political will and the political clout and less of the political baggage to make the hard choices?

For despite the very good macroeconomic news out of Russia over the past year or so, which includes the first GDP growth last year in eight years, the very low inflation rate, and the stability of the ruble, and a robust capital market, in spite of that, the performance at the same time on business laws and attracting foreign direct investment has been spotty, at best.

Here in April 1998, six years and three months after the breakup of the Soviet Union, there is as yet no viable tax code, no land code, and no bilateral investment treaty. The current draft foreign investment law which is now before the Duma, if passed, could do more to restrict what

little foreign investment is going into Russia than to encourage it.

While the Duma shares an equal if not greater share of the responsibility for the slow pace of reform in these specific areas, we believe that the Russian executive must go head to head and must engage with the legislative branch to achieve the desired results.

Is Mr. Kiriyenko the man to make this happen? I can say that the U.S. business community will be watching what happens very closely as the new Russian Government takes up this all-important commercial agenda over the next few months.

Now, let me tell you the main ground rule for today's meeting: Ask questions. We want this to be a real exchange of ideas, and we have provided, or we hope we have provided time at the end of each discussion presentation for questions and discussion. I urge you to participate fully. There are two standing mikes--you are not able to see them now, but there are two standing mikes, and there are two roving mikes for your use. Also,

members of the press are welcome to ask questions. I probably don't need to say that, do I?

Now, it is my very great pleasure to introduce the Chairman of the U.S.-Russia Business Council, Ambassador Robert S. Strauss. His extraordinary, absolutely extraordinary public and private career is well-known to all of you here. A founding partner of his law firm, Chairman of the Democratic National Committee, Special Trade Representative in the Carter Administration, and, of course, U.S. Ambassador to the Soviet Union and then Russia during the Bush Administration.

We are, indeed, very lucky to have Ambassador Strauss serve as Chairman of this Council, as he has so willingly done since we began five years ago.

If this sounds like extravagant praise, I just want you, Mr. Strauss, and everyone here to know that I mean every word and that it has nothing to do with the fact that he is currently writing his memoirs, and we all better be very darn nice to him.

Ladies and gentlemen, Bob Strauss.

[Applause.]

MR. STRAUSS: Well, that certainly wasn't a very extravagant introduction.

[Laughter.]

MR. STRAUSS: I don't think you have to worry about me fulfilling that introduction.

More seriously, I am delighted to be here, and I am appreciative, Gene, of what you and Blake and Kay and all the others do to make this organization function. I really have, as some of you know, quite little to do with it. I attend functions and meetings and meet with them from time to time, helped get it started, and they have taken over. And it has been--this has truly been a meaningful operation. I never dreamed that it would be when they suggested I chair it. I agreed to do it because I didn't know how to get out of it, and I got in it, and I've enjoyed it, and I've felt like I've made a contribution just by being its Chairman and being a part of it. And I thank you, and I thank all of you here for what you do to

make it work.

One of the pleasures I have is to introduce people from time to time, and it is always a special pleasure when I get a chance to introduce our distinguished speaker today, Yuli Vorontsov. Ambassador Vorontsov is--well, let me back up and say it is my judgment over a lot of years of watching relationships between great powers, there's a lot of fanfare and there's a lot written and a lot said, and a lot of experts, but there are always two or three, a handful, no more than two or three people, who really are directly responsible for effecting the relationship between those powers. And if ever there was an individual who fulfilled that role with respect to U.S.-Russia relations, it is Yuli Vorontsov, a marvelous, decent, intelligent, and dedicated man, dedicated to his country and, of more importance, even dedicated to society in general and peace in the world. I take great personal pleasure and pride in his friendship and great personal pleasure and pride in presenting to you today Ambassador

Vorontsov.

[Applause.]

AMBASSADOR VORONTSOV: Thank you,
Ambassador Strauss, Gene, ladies and gentlemen.

First of all, let me express my sincere gratitude for the invitation which has already become traditional to address your annual conference. It is a great honor and pleasure for me to participate in such an important forum of businessmen, government officials, and academic representatives, united by the interest in Russia and by a desire to contribute to the development of our bilateral relations.

The principal attention in my address I wanted to devote to the issues of current conditions of the Russian economy and the Russian-American economic relations. But the developments of the past week a little bit altered my plans, and knowing that you are very much interested in details of the situation now on the political scene in Russia, I would like to touch upon this subject from the very beginning.

In this connection, I believe it is very important from the very outset to emphasize the following: the resignation of the Russian Government of Prime Minister Chernomyrdin which President Yeltsin has announced more than a week ago by no means implies any change in our political course. It is not a change of a flight plan. It is a change of the crew in the cockpit. And the huge plane called Russia is continuing the flight, staying the course, and gaining the altitude.

The decision of the President was governed by the desire to enhance the economic reforms in Russia, and the President was very blunt about this in his address to the nation on the television, to give them more energy and make them more effective and dynamic, to add a new impulse to the reforms. And the President stressed that it is necessary to pay more attention to the social set of problems, to strictly supervise the implementation of decisions made earlier, to strengthen the discipline in all echelons of government.

The need is ripe to streamline and

downsize the administration, the bureaucratic machinery, and the structure of the entire government is asking for a change.

Yes, some personalities are being changed, first of all, the personality of the Prime Minister. Prime Minister Chernomyrdin was assigned by the President a special task, a task of preparing new presidential elections in the year 2000. It is not far away. It is only two years away from us. And he accepted this task. He said it in his television interviews and his statements.

Moreover, he accepted the task with such an eagerness that he suggested that he is going to put his candidacy for the presidential elections in the year 2000. And here immediately President Yeltsin supported this candidacy wholeheartedly, and he said he does not think that there is anyone better than Chernomyrdin to be a continuator of his political line, Presidential Yeltsin's political line, in the future.

So everything is clear about this element, and the next is the designation by the President of

the new Prime Minister, Sergei Kiriyenko. Yes, he is 35 years old. He is--he was, currently, until the end of the last week, Minister of Energy. Before that, he radiated(?) as a shipbuilding engineer, worked at the shipyards in Nizhni Novgorod in this capacity, shipbuilding engineer, and later formed his own private bank dealing with oil and oil refineries. And then he was whisked to Moscow a year ago absolutely naturally by the advice of First Vice Prime Minister Nemtsov, because only Nemtsov knew the young Sergei Kiriyenko from their common work in Nizhni Novgorod, and received this post of Minister of Energy.

As Gene mentioned here, the American side got acquainted with Kiriyenko during the last session of the Chernomyrdin-Gore commission, and I can tell you, Americans were impressed by this young, diligent, capable, disciplined man. So I think that those are qualities that are going to be very needed for him as Prime Minister of a huge country.

The President already announced, though the whole government has not been announced yet, the new government, that he wants to keep the Finance Minister, Mikhail Zadornov(?), in his present position. Zadornov represents the Yablica (?) faction in the Duma and was mobilized by the President to the post of Finance Minister. He is a very good specialist in finances. So he is the man who was working on the new budget, which was just signed into law by President Yeltsin, and he will be governing now the implementation of this budget, which is good. That's continuation.

The same thing about two other Ministers. The President broadly hinted that he wants to keep the Minister of Defense, Marshal Sergeyev, and the Foreign Minister, Yevgeni Primakov, in their posts. Yevgeni Primakov's continuation of his job means there will be no adverse changes in the Russian foreign policy. He will continue to policy of President Yeltsin, and there will be no adverse changes in the Russian-American relations, which is very important. And he already pledged this in his

congratulatory telegram to Vice President Albert Gore on his 50th anniversary yesterday. That was a firm pledge that the Foreign Minister will continue this line of cooperation and friendship with the United States. So that is good.

There are strong indications that the First Vice Premier, Nemtsov, will keep his post. What assignment he will get in the new government is not quite clear, but he is going to continue to be the First Vice Prime Minister. That is sure. But the other First Vice Prime Minister, Anatoli Chubais, is out, definitely out. The President signed a special decree saying that he is out from the government now.

Well, Chubais already stated that he is going into private business, that the offers are numerous, and that now he is choosing among all these offers. So he is not going to be lost in the economic life of Russia.

But there are serious indications also that many other Ministers of the Chernomyrdin government will keep their posts. Though there is

a possibility, and a rather strong one, indication to that effect already we have that there the new government will be a smaller government. Now we have about 45 or something ministries and ministers. The idea is to downsize it, and downsize it seriously. Maybe not in half, but seriously.

So the new Prime Minister designate is now consulting in Duma with all the factions, several times sitting with them, including Communists, Zhirinovsky and the others, consulting not so much on the composition of his new government. He is consulting on the ideas, what kind of remedies for the shortcomings and problems that exist this faction can suggest to him.

On Thursday, tomorrow, there will be a meeting of four-partite--whatever the proper name is--a committee, that is, the President, the Speaker of the Duma, the President of the Senate, and the Prime Minister. They will be discussing the program of the work of the new government. And on Friday, the new Prime Minister will stand before

the whole of Duma and will outline his ideas how to perform better on this course of reforms.

Former Prime Minister Chernomyrdin just remarked not so long ago, he said, Well, there is not much to discuss about the course of work of the new government because all the benchmarks already are here. The budget has been adopted. They cannot just invent a new budget or something. It has been adopted and signed by the President. The program of the work exists, and that has been approved by the President and by Duma. So he said only some technical means of remedying the ill spots in the economy are for the new government to suggest.

Not great ideas, but nobody knows yet. Consultations continue, and what the new Prime Minister suggests as his priorities in continuing the course of reforms, we will know only on Friday.

One thing I would like immediately after that to reject, I would like to reject the notion that the developments in the Russian Government are signaling instability in the political structure in

Russia. That is not correct. To me, what it signals is exactly the stability, political stability in the country, in performing the Constitution of the country, because nothing is being done unconstitutionally at this time. The Duma is not doing anything unconstitutional as well, though our position there is strong and brewing and all that, but everyone is working according to the constitutional laws.

The country is now quiet, tranquil, while people are still suggesting that something should be done about non-payment of salaries of theirs, like the coal miners, teachers, and the others. Yes, that is a problem. And, by the way, the answer to this problem will be expected from the new Prime Minister, what suggestions he will give in this respect. But that is not something out of the ordinary. It is ordinary in the past several years.

So stability exists, and we are very proud of that. Stability, democratic process, elections of the Duma that will be coming next June,

elections of the President in 2000. Everybody adheres to these rules. That is good.

So the renewed government team must make decisive efforts to consolidate and make irreversible the very tangible transition towards normalization of the country's economic situation which became evident in late 1997 and early 1998 after a long period of recession. I will illustrate this by just a few examples.

Today, for the first time in the entire 1990s, we do not have a decline of the GDP. Almost half of large industries are showing an increase in the output. The rate of inflation has decreased about 10, 12 percent yearly; whereas, the real monetary income of the population has somewhat increased. We are witnessing a revival of the internal investment activities.

Over the past several months, important positive trends in the Russian economy have been solidified. In particular, an effective model of response to storms and upheavals in the world markets, financial markets, has been established.

We can say with full authority now that the Russian financial and credit system has a sufficient endurance capacity.

If the last year marked a turning point for the Russian economy, this year we can expect the beginning of GDP growth by 1.5, 2 percent. This growth could be even higher if the economic situation had not been seriously affected by the Asian crisis, financial crisis, and continuous fall in world prices on raw materials, especially oil.

The guarantee of success lies here in the economic policy of the Russian leadership aimed at normalization of public finances, at adoption of a new tax code which is pending before the Duma, and the government here has done everything possible-- maybe not quite everything. Maybe the President should go with the tax code personally to Duma. Maybe he will do that later on.

Implementation of structural reforms, effective regulation of national monopolies, the protection of property rights, including intellectual property, consistent active

integration into world trade and financial system-- these policies create additional preconditions for the increase of foreign investments in the Russian economy. We believe it to be quite a real task to bring in the year of 2000 into the Russian economy about \$20 billion of the United States investments.

Perhaps at this moment, when we started talking about investments, it is the right time to pass to the analysis of our bilateral relations in the economic sphere in general, since its investment component is the most complex and at the same time is a most promising one.

We have several achievements in this area, but also many possibilities which have not yet been used.

By the beginning of the year 1998, approximately 3,000 Russian-American joint ventures have been registered in Russia. The amount of accumulated American investments in Russia was around \$5 billion, which is almost one-third of all foreign investments in Russia. But at the same time, the work on stimulating American investments

in Russia has not yet reached a necessary intensity. And our particular interest is not only in the increase of the overall volume of investments or investments in the oil industry, but also in the diversification of the structural investments.

I would like to draw the attention of U.S. investors, including those who possibly are present in this audience, to a need to modernize the Russian manufacturing industry as well. And we set our great hopes on a regional investment initiative.

As you well know, this initiative was born in the creative laboratory of the Gore-Chernomyrdin commission to the activities of which we have a good reason to relate the cardinal changes in the trade, economic, and technological cooperation between Russia and the United States during the last five years. The commission can be also credited for a good many other successfully implemented ideas. It would be a wise thing to look through a detailed joint report on its work

which has been recently prepared by the co-chairmen of the commission for the 10th Jubilee session this March.

Speaking before such a prominent audience, I cannot avoid the subject which most probably is of interest to many of those present: the future of the commission in the light of changes in its leadership, particularly the replacement of one of its co-chairmen. The Russian leadership has already indicated to the American side that we want the commission to continue. It is a highly valuable--its work is highly valuable, and has planned, the next meeting to be in Moscow at the end of this coming summer. The commission is on.

It is important to ensure uninterrupted manner and continuity of the commission's work also because its activities extend beyond the framework of purely economic benefits and bring many political dividends. Over the past years, the commission became an essential stabilizer of the Russian-American relationship, communicating to the necessary steadiness and predictability. The

reigning principles of mutual confidence and openness have so far allowed us to discuss any issues in a calm and constructive spirit without unnecessary rhetorics and confrontations. This should continue in the future.

Ladies and gentlemen, we are well aware of the enormous collective intellectual, business, and financial potential of your Council, as well as of how sincerely and ardently its members are working for expansion of our bilateral ties and cooperation. Allow me to wish success to this conference, fruitful and constructive discussion, new accomplishments in your noble endeavors.

Thank you very much.

[Applause.]

AMBASSADOR STRAUSS: We might have time for a couple of questions if any of you have any.

AMBASSADOR VORONTSOV: But some of the answers I would expect Kiriyenko to give to you on Friday.

AMBASSADOR STRAUSS: Well, we will skip the questions. I see our next speaker has arrived.

AMBASSADOR VORONTSOV: Great.

AMBASSADOR STRAUSS: I was going to use your questions for filler.

[Laughter.]

AMBASSADOR VORONTSOV: Thank you.

AMBASSADOR STRAUSS: As a matter of fact, your answers for fillers, not the questions.

Thank you very much, Mr. Ambassador. It is always a treat to be with you. As I said, it is a special pleasure for us to have you here.

Now it is my pleasure to present another old friend, one I knew long before he was rich and famous, and, believe me--I'm started to say I liked him better than, but that wouldn't be nice. I can't say that, Wolfensohn.

[Laughter.]

AMBASSADOR STRAUSS: I guess you treated me better then when you were poor. But it is marvelous to have you here.

I remember Justice Potter, some of you remember many years ago when he was asked to describe obscenity, and he said, "Well, I can't

describe it, but I know it when I see it." If you wonder what that has to do with Jim Wolfensohn, I will quickly tell you that I always have difficulty describing a renaissance man. I know it's good, and I know it when I see it. And when you see Jim Wolfensohn, you are seeing a truly renaissance man, a fellow who can do anything, does everything, has done just about a bit of everything, and all successfully. He has, as you know, chaired Carnegie Hall, the Kennedy Center. He built a splendid, marvelous investment banking firm. He was a successful investment banker on his own before he built his own firm. And, indeed, everyone was fortunate when he accepted the job as head of the World Bank.

Jim Wolfensohn brings experience and he brings energy and he brings creativity and dedication, and he brings intelligence and many other things that are all desperately needed by the World Bank and the world community in these turbulent times. And we are very fortunate today that he took the time out to join us.

Jim?

[Applause.]

MR. WOLFENSOHN: Thanks, Bob.

Well, Bob and Gene, after that introduction, I'm going to treat Bob very much better now. I'd actually thought that I'd always treated you very well, Ambassador, but from now on, I will call you weekly and just check in that everything is fine.

We are, of course, greatly privileged to have Ambassador Strauss himself make such a single contribution to the relations between our country and Russia, and I'd like to add my tribute to the remarkable commitment that he brought to that job.

I am extremely happy that Ambassador Vorontsov spoke before me because he has, I think, laid out the course that I would have liked to portray to you, but done it with enormous knowledge and background and great strength. And I would like to really endorse very much of what he said.

We at the Bank, as you know, have been active in Russia since they joined the Bank in

1991. We've done our first programs there in 1993 and are now in full flight in terms of our work with the government and with the people.

Last year I announced a \$6 billion program with Prime Minister Chernomyrdin to help in terms of structural reform and in meeting certain pressing needs. We have already spent \$4 billion of that \$6 billion, and the International Finance Corporation, which, as all of you know, relates to the area of private investment, has already put \$400 million-plus into Russia in projects that have been stimulated at well over \$1 billion, and a broad range of projects.

So we are not only positive, but we are supporting our positive view with real financial resources and real commitment.

Like all of you, when the change in government was announced, we immediately had pause. I guess it took us as much by surprise as it took everybody but the Ambassador, who no doubt knew all about it for months before. But we were surprised, and, of course, we have had a period since the

change to try and assess the situation. And we know the new Prime Minister. We had negotiated with him a major coal loan and had formed a very fine opinion of him. We know the Finance Minister in equally good terms.

And the one thing that we do know is that there is--as Anders Aslin(?) was telling me before and as we were talking, there is a tremendous group of younger vice ministers and people who are deeply committed in the government of Russia to reform and who, I believe and Anders believes, will very certainly be part of this continuing program to make the reforms real.

Why do I say that? I say that because it's necessary to have the energy and the commitment to really push these things through. And I believe the signal of appointing a 35-year-old Prime Minister, who himself is free of the political machines, is a very strong technocrat, as the Ambassador said, came from working at an oil refinery and had projected through into government, and who has the capacity to get things done, is, I

think, an extremely strong message which I hope will be confirmed by the Duma with the appointment of the new cabinet and the deputy cabinet that will follow. So we are very positive.

We also think it is very necessary, because we have been working, as have many of you, been waiting for the reforms that have long been promised, and it really is a follow-up year to the year of 1997 when we saw many things put in place. As the Ambassador said, we saw a new tax code brought forward. We saw a new budget that was properly prepared and was focused on priorities and on reduction of spending.

As my colleague Michel Camdessus will speak at greater length today, the issue of fiscal management has become extraordinarily important because we all know that the pressure that the Russian Government puts in terms of borrowing, in terms of the markets, pushes up the rates for the private sector, and the high real interest rate is a clear dampener in terms of their market performance and the capacity of the private sector

to invest.

More important, or at least as important as that, are the sort of structural reforms that have been going on. We've been working with the government for a very long time in terms of financial sector reform, the work of the banking sector, the work of bank supervisors, the twinning of Russian banks with banks overseas to ensure that they should have an opportunity to benefit from the methodologies and the technologies of foreign banks in terms of developing the domestic system.

We have also been putting money into the banks so that they can lend to small and medium size enterprises. We've been working on the creation and the deepening of the leasing markets. We've been working with the equivalent of the SEC, the FSC, in terms of trying to develop greater openness and transparency in terms of the domestic markets.

All these things you may wonder, you know, why has it taken so long. The thing that is remarkable is that all this has been done in the

last seven years. And while many of us get impatient that it should be there tomorrow, the remarkable thing is the pace at which a lot of this has happened. And since many of you know very well Russia, the Russian Federation, you will know that there is a group in the administration and there are groups there who are really keen to get this thing done, but to move the machine and to change the culture is not done by presidential fiat. It has to be done by movement, by change, by push, by a pressure here, by a pressure there. And although sometimes it gets frustrating--and it certainly gets frustrating for us and it gets frustrating for functionaries in the government as well--the fact is that there is movement forward.

And we felt that last year was a year of real achievement. It was a year, as the Ambassador commented, where for the first time we had positive GNP growth. That's a very important and significant thing.

Inflation rates came down to just above 10 percent. In fact, we're operating at a rate of

less than 10 percent. And we are projecting growth this year which probably will be in the 1 to 2 percent range. Prior to the Asian crisis, it might have been more. Indeed, we were projecting something a little bit more.

But the real test is this year. The real test is to implement many of the things that we have done. And we are very constructive in terms of what we have seen up to now and what we expect from the Kiriyenko government. So we're positive about it.

But you must recognize that the changes that are going on will not be fixed by overnight presidential fiat. You have to take a view of Russia that here is a country composed of extraordinary natural resources, very talented and dedicated people who are making a change. But that change is a committed change, in our judgment. It's a change which President Yeltsin has been leading with total integrity and with total straightforwardness. He has not departed from his course. And I think that the way we have to read

this recent change is that we are bringing in a group of younger technocrats who are going to get the job done. And certainly the approach that we are taking at the Bank is to take that at face value and move forward with it in that manner.

We have a lot riding on the Russian development, a lot riding not only in terms of money but in terms of efforts on the part of our institution. And in one particular area, we are especially active, and that is in the social area, an area which doesn't often hit the headlines but which is also fundamental to what is likely to happen for investment. Because unless you have a strong social area, unless you have stability with the people, there is not much sense making investments, because you have disruption politically and you have disruption socially.

And so what we have been doing with the government is taking a look very especially at issues like pension reform, at issues of paying back wages. We, in fact, came through with \$1.4 billion at the end of last year because we needed

to meet urgent needs. But the spending of the money was less important than the commitment that we got from the government in terms of the type of social underpinnings which are necessary.

The issue is very simple, by the way. If you have state-owned companies that are inefficient, and are inefficient for a number of reasons, one of which is that they employ too many people, that they provide too many benefits, that the social benefits are provided, and that your whole social system is geared around your job, if you change it and you say let's privatize and make them efficient, the people that get out of jobs drop off the edge. That is true in the coal industry. It is true in the industrial sector. And they're dropped off the edge initially by saying, well, let the local governments take care of it. It soon became very clear that the local governments couldn't take care of it because they don't have income.

And so what is necessary is a reform of that system, first in terms of pensions, and second

in terms of a social package and a social system which can provide the underpinning for the people that are out of work, need retraining and re-employment.

That transition is difficult. It is something which many people missed in terms of the pace at which social transition could take place and the pace at which movement to a market system could take place. And so we are now coming in very heavily in that area, trying to work with the Russian Government in terms of the establishment of appropriate social sector reforms that will provide in Russia the social stability which is required. That is a process which is ongoing with us. It's a process which, again, is not instantly achieved, but a process which is highly important and which we are engaged in.

The other things, let me just read to you some of the types of things that we've got in our structural adjustment loans, just to indicate to you the extent and comprehensiveness of the agreements we have with the government.

In terms of our last structural adjustment loans, accelerated, open, competitive, and transparent privatization of the remaining firms on a case-by-case basis, I think you know that that is proceeding.

Reducing institutional and administrative barriers to entry for entrepreneurs. That's entrepreneurs locally, international investors, but also local investors. And there, by the way, is another extraordinarily important aspect, which is that when we talk about cleaning up access to entry and property rights and the judicial systems and bankruptcy laws, it's not just for foreign investors. Foreign investors constitute \$10 or \$15 billion since 1991, I guess is the number, but \$100 billion has flown out of Russia. The important thing is to make sure that the money stays in Russia. And so all that we are doing will be increased not just by foreign investors but by domestic investors in terms of their reinvestment.

We are working on fostering reorganization of the enterprise law, opening up access to land

and real estate, improving policy and legal framework for more effective corporate governance, strengthening competition policy, bringing the policy and legal regime governing foreign direct investment into line with international best practice.

These are things which are ongoing. This is not just a wish list. These are things on which work is currently proceeding. And I can match that with the type of social underpinnings that we are engaged in currently in terms of pension reform, social reform, provision of health services and medical supplies.

One thing I can tell you in terms of our activities: We now have 39 projects in Russia, and as I told you, there are close to \$10 billion committed. Three or four years ago, less than 40 percent of those projects were satisfactory. Today, after discussions I had with Prime Minister Chernomyrdin just two years ago, we have improved that to over 85 percent. It is now one of the best performing portfolios in the Bank. And we did that

not by sending experts from here. We did it by taking Russians who were then given the opportunity and the project management and held accountable.

Our experience--and we're not a private sector enterprise--has been that if you give the responsibility to the Russians, you have clear and delineated authority and accountability. We have had fantastic performance in terms of the management of our own projects. I can only guess that that can apply in the private sector as well.

[Blank spot on tape.]

-- portfolio of projects. If you do it on a private sector basis, there are some fantastic young Russians who are able to rise to the occasion and, in fact, take it on, and our results in terms of the performance of our own portfolio reflect a dramatic improvement in two years' time.

I am positive about Russia. I believe that it is important that we be positive. I believe it's important that we be positive from the point of view of politics, from the point of view of the Russian people. But I'm not just saying

that to you, a business audience, on the basis of social and moral and political responsibility, although I think even for American businessmen the most important thing that we can have is a strong and effective Russia. I believe that there are real opportunities in Russia. Certainly as a bank we are doing everything that we can to try and support those opportunities. We have IFC ready and anxious to work with you should you find that the assistance of IFC is important, and I look forward to coming back years from now and commenting on the remarkable achievements that started in 1998.

Thank you so much.

[Applause.]

AMBASSADOR STRAUSS: Thank you very much, Jim Wolfensohn, for a marvelous, substantive presentation. I know you can tell by the attention of the people in this room that everyone listened to every word you had to say.

Now, I think it's time for a break, so we will have a coffee break and see you later.

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