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| **Folder Title:** | President Wolfensohn - Briefing Book for President's Meetings and Events - Victor Chernomyrdin - Prime Minister of Russia - March 10, 1998 |
| **Folder ID:** | 30489773 |
| **Series:** | Meeting and event briefing materials |
| **Dates:** | 03/06/1998 - 03/25/1998 |
| **Subfonds:** | Records of President James D. Wolfensohn |
| **Fonds:** | Records of the Office of the President |
| **ISAD Reference Code:** | WB IBRD/IDA EXC-13-10 |
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Meeting: Mr. Victor Chernomyrdin
Prime Minister of Rusia
Blair House

Tuesday, March 10, 1998
6:00 - 6:30 p.m.

# Archive Management for the President's Office

## Document Log

## *Reference # : Archive-02074* 1 of 8

Edit Print

### A. CLASSIFICATION

- [x] Meeting Material
- [ ] Trips
- [ ] Speeches
- [ ] Annual Meetings
- [ ] Corporate Management
- [ ] Communications with Staff
- [ ] Phone Logs
- [ ] Calendar
- [ ] Press Clippings/Photos
- [ ] JDW Transcripts
- [ ] Social Events
- [ ] Other

**B. SUBJECT:** MEETING: MR. VICTOR CHERNOMYRDIN, PRIME MINISTER OF RUSSIA (B) (N) <VENUE: BLAIR HOUSE> VENUE: BLAIR HOUSE TIME: 6:00 - 6:30 P.M. CONTACT: MR. BUGROV @ 87080 // CHRISTINE HATHAWAY @ 647-4073 / FAX: 647-3980 // IN ATTENDANCE: JDW, LINN, LINDBAEK (IFC), CAROLINE (B) BY LINN/LINDBAEK / DUE MONDAY, MARCH 9 (M) BY ECAVP // DUE TUESDAY, MARCH 17 EXC: LP // LFG (2/25)
Brief includes:
--- Minutes
---Background Info on Russia
---Basic Facts and Figures
---IFC's Activities in Russia
---Briefing Note to JDW from Jeffrey Katz
---Proposed Two-Year Lending Program, CY97-98
---Minutes of 3/10 Meeting with Prime Minister Victor Chernomyrdin of the Russian Federation at Blair House, D.C.

**DATE:** 03/10/98

### C. VPU

**Corporate**
- [ ] CTR
- [ ] EXT
- [ ] LEG
- [ ] MPS
- [ ] OED
- [ ] SEC/Board
- [ ] TRE

**Regional**
- [ ] AFR
- [ ] EAP
- [ ] ECA
- [ ] LAC
- [ ] MNA
- [ ] SAS

**Central**
- [ ] CFS
- [ ] DEC
- [ ] ESD
- [ ] FPD
- [ ] FPR
- [ ] HRO

**Affiliates**
- [ ] GEF
- [ ] ICSID
- [ ] IFC
- [ ] Inspection Panel
- [ ] Kennedy Center
- [ ] MIGA

### D. EXTERNAL PARTNER

- [ ] IMF
- [ ] UN
- [ ] MDB/Other IO
- [ ] NGO
- [ ] Private Sector
- [ ] Part I
- [ ] Part II
- [ ] Other

### E. COMMENTS:

THE WORLD BANK/IFC/M.I.G.A.

# OFFICE MEMORANDUM

DATE: March 25, 1998

TO: Files

FROM: Johannes F. Linn, ECAVP

EXTENSION: 80602

SUBJECT: **Minutes of Meeting of Mr. James D. Wolfensohn with Prime Minister Victor Chernomyrdin of the Russian Federation, on Tuesday, March 10, 1998, Blair House, Washington, D.C.**

The Prime Minister warmly welcomed Mr. Wolfensohn and asked him when he planned to visit Moscow. Mr. Wolfensohn suggested May/June. The PM promised to check his schedule.

The PM expressed his warm appreciation for the World Bank's support during the preceding months, while the unexpected East Asia crisis unfolded and hit Russia too. He asked Mr. Wolfensohn for his views on the Asia crisis and its causes.

Mr. Wolfensohn commented on the tenuous situation in Indonesia, the improved but still uncertain situation in Thailand and Korea, and the weakness of Japanese banks. As to causes, he referred to the devaluation in China 3-4 years ago which had affected the competitiveness of other East Asian exporters, to the lack of supervision and control of the banking systems which permitted large, $-denominated short term borrowings and "connected" lending to poor credit risks. In response to the PM's question, Mr. Wolfensohn commented that while Brazil was "on edge," she was likely to "make it."

The PM then turned to Russia and expressed his concern about Russia's economic situation. He and his government are "working at it," recognizing the seriousness of the situation. They have now finalized the budget and had it approved by the Duma. He insisted that with the Bank's help the government will get and stay on top of the situation. Mr. Wolfensohn commented on the importance of the social sector, with which the PM wholeheartedly agreed.

Mr. Wolfensohn then commented on the Bank's readiness to support Russia in efforts to preserve its cultural heritage and indicated that the Bank was ready to assist in establishing a sense of priorities among many competing claims for possible support. The PM highly welcomed this initiative and indicated that he would personally follow up and instruct Mr. Chubais to respond to the Bank on this matter.

The Minister of Health of the Russian Federation then commented on the need for support in the areas of tuberculosis and AIDS. Mr. Wolfensohn indicated that the Bank had experience especially in the latter area.

The meeting concluded with a very cordial exchange of greetings and appreciation.

cc: Messrs./Mmes. Wolfensohn, Passamonti, Anstey, Montoliu Munoz (EXC);
Koch-Weser (MDOMD); Jabre (CPOVP); Carter (ECCRU);
Pearce (ECCA1)

JLinn:pc

Russia
Background Information

*NOTE*

*Jeffrey Katz*
*HIPC Unit*

March 9, 1998

TO: Mr. Sven Sandström

Sven:

**Re: Mr. Wolfensohn's Meeting with Prime Minister Chernomyrdyn**

Attached is the briefing note for Mr. Wolfensohn's meeting with Prime Minister Chernomyrdyn. We have shared it with Tony Boote, but not heard any reaction yet. There is a Camdessus/Chernomyrdyn meeting scheduled for Wednesday.

We are still hoping to hear from the Russians tomorrow.

Please let me know if you need any further information.

Jeff

cc: P. Isenman, P. Pomerantz, A. van Trotsenburg, C. Madavo, J-L. Sarbib

**Mr. Wolfensohn's Meeting with Prime Minister Chernomyrdyn**

**Mozambique HIPC**

**<u>Reason for Raising Mozambique HIPC in this Meeting</u>**

- Last week, the Mozambique Government gave us post-cutoff debt figures for Russia which are radically different than the figures which Russia presented in the Paris Club and which we had been using. If the new figures stand, the financing gap for the Mozambique package - which through extraordinary measures by the Paris Club had narrowed to US$100 million - would rise to roughly US$200 million. We have been making good progress in filling the US$100 million gap with the expectation of getting Mozambique to the decision point before the Spring Meetings. A larger gap at this late stage would significantly delay the Mozambique package. This, in turn, would trigger renewed criticism of the overall HIPC Initiative from a variety of quarters.

**<u>Key Messages</u>**

- Express ***appreciation for the Russian contribution to the Mozambique HIPC deal.*** The Mozambique deal will be the largest HIPC deal (US$1.5 billion) and will involve the steepest debt reduction so far. It is requiring extraordinary efforts from all creditors. Russia, as the largest single creditor of Mozambique, is making a major contribution and should be given due credit. This is particularly noteworthy since Mozambique has not paid any debt service to the Russians for some years.

- **Most importantly -- *<u>stress the urgency of resolving the remaining issue of Russia's "post-cutoff date" claims on Mozambique -- this week.</u>*** The issue arose just last week when the Mozambican authorities informed us that the Russian figures for post-cutoff debt (not normally subject to concessional rescheduling) were some US$900 million, compared with the US$260 million figure that has been used consistently by the Paris Club, *<u>based on figures provided by Russia</u>* at the time it joined in September. The financing of the Mozambique HIPC deal has been subject to intensive G-7 discussions, all of which have taken place on the basis of the earlier numbers. If the "new" figures were to be used, the gap would increase by roughly US$100 million and would be unmanageable (given the difficulty we have had in filling the current US$100 million gap).

- ***Our preferred option for resolving the issue would be to use the US$260 million figure that has been the basis of discussions so far.*** Another viable option would be to use the higher US$900 million figure for post-cutoff debt, but, in addition to the initial 80% discount applied to all Russia claims, subject these claims to concessional treatment under Naples terms. (Pre-cutoff debt will be subject to an 86% reduction on top of the initial 80% discount). This option would bring the financing gap back near the original figures. Unless this issue is satisfactorily resolved by the end of this week, we will have a large remaining financing gap. Consequently, we will be unable to circulate the final HIPC document to the Board and have a decision prior to the Spring Meetings.

## Background

### The Problem: Size of the Post-cutoff Debt to Russia

- Mozambican authorities informed us last Wednesday that their estimate of post-cutoff debt to Russia was about US$900 million.

- The new estimate of post-cutoff debt is US$900 million, $640 million more than the US$260 million figure we and the Paris Club have been using as the basis for determining HIPC relief requirements and the bilateral gap. We have asked for clarification through the Russian ED's office. They indicated they would try and get back to us by Tuesday, March 10.

- *Implications: The new figures would mean that the bilateral financing gap would rise by roughly US$100 million.* This is because post-cutoff debt is subject only to the 80% upfront discount and not automatically to further concessional treatment such as Naples terms.

### Why Didn't We Learn This Earlier?

- An agreement between Russia and Mozambique was apparently reached in January 1998, but despite requests, no information was provided to us about this post cut-off debt.

- At the Paris Club discussions of Mozambique over the past five months, the Russians never raised objections to the US$260 million figure used by the Secretariat which were based on data provided by the Russians as part of the agreement to join the Paris Club. *On this basis, the Paris Club decided to apply Lyon terms and provide the additional US$170 million in relief above Lyon terms.*

- The Paris Club Secretariat has also sought clarification, but has made clear that, in its view, there is no scope for increasing the financing gap at this late stage.

### Options to Bring the Gap Back to Manageable Levels

- The Russians agree/are convinced that they need to stick to the original numbers on which Paris Club decisions were based. **OR** the Russians agree/are convinced that they should apply Naples terms (i.e.67% NPV reduction) to their post-cutoff debt --- which is a possibility under the Russian-Paris Club agreement and was anticipated for Mozambique in a side letter by Mr. Noyer to Mr. Chubais on the implementation of their memorandum of understanding.

Jeffrey A. Katz
03/05/98 11:50 AM

Extn: 80534 AFTK1

Sent by: Maria L. Estrella

Subject: Your inquiry re Mozambique/Russia

Sven,

On your first question, the second option, i.e. to apply Naples terms to the "new" Russian post-cutoff debt would leave $60 million outstanding, compared with the $52 million under the first option of going back to the numbers we have been using. This would raise the gap by $8 million, but this should be manageable. The $60 million comes through $900 million in post cutoff claims less 80% initial discount ($900x.20 =$180m) less the 67% Naples ( $180x.33=$60m). Option 1 would have simply been the $260 million in debt less the 80% initial discount ($260x.20=$52m), without any further concessional treatment.

Regarding the chronology, Axel, Phyllis and I are of the view that it would be OK to share it, as a "working chronology prepared by staff", if it be useful for the Russians. You should know that Phyllis has asked the Mozambicans today to provide us with a chronology of their own.

Jeff and Axel

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To: Sven Sandstrom
Madavo&Sarbib@Worldbank.Org
Phyllis R. Pomerantz
Pisenman@Worldbank.Org
Mahmed@Worldbank.Org
cc: Axel Van Trotsenburg
Marc T. Stephens
Rocio Castro

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LP

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OFFICE OF THE PRESIDENT

JOHANNES F. LINN
Vice President
Europe and Central Asia
Tel: (202) 458-0602
Fax: (202) 477-1942

March 6, 1998

Mr. James D. Wolfensohn

Jim,

Re: Recent Visit to Russia, Western Europe and Japan

I thought you might find the following notes about my recent trip of interest. I visited Finland, Russia, Austria and the European Commission in Brussels, from February 10 through March 4.

Finland

The Finnish government had invited me to Helsinki to attend, and present a keynote speech for the Bank at a seminar organized in celebration of the 50th Anniversary of Finland's membership in the Bank. It was a good opportunity to express the Bank's appreciation for many years of excellent Finnish support in the form of technical expertise and financing. During my visit my many counterparts in Government, Parliament and the private sector were very complimentary about the Bank's role and our collaboration. We work closely together in the Baltics, in Russia and increasingly in Central Asia. Finnish interest and expertise is particularly notable in the energy, forestry and environmental areas. I also met the Finnish President and conveyed your greetings. He was well informed about and very interested in the Bank, and especially in our views on Russia and Central Asia. He asked me to convey to you his best wishes and his hope to welcome you soon in Helsinki. A meeting with Finnish NGOs showed that while they remain skeptical about the Bank's capacity to do the right things in the environmental and forestry areas (they are as skeptical, incidentally, about their own government), the discussions were constructive and we expect to continue to stay in contact with them.

Russia

You will have seen Michael Carter's and my earlier note, which we sent you at the end of my visit, hence I will only add a few relevant observations.

I was struck by the sense of appreciation and partnership which pervaded our discussions with our counterparts, including Messrs. Chubais, Nemtsov, Yasin, Susuyev, Urinson and Kudrin. It appears that the progress we have made during the last year in improving the health of our portfolio, the support we gave them during the crisis last December, the enhanced role and quality of dialogue and support through our office in Moscow (and in particular Michael Carter's substantially strengthened mandate as Country Director, which is much appreciated by his counterparts) -- all have been important factors in building trust among the current economic team. Messrs. Chubais and Nemtsov seem, once again, firm in their positions and in control of policy formulation and implementation. We are a bit concerned about the role and attitude of the new Minister of Finance, Mr. Mikhail Zadornov, who may be delaying the start-up of Bank projects by throwing legal obstacles into the process of declaring new projects effective on the Russian side (after our Board has approved them). We are pressing the Ministry for early removal of these obstacles.

The macroeconomic and financial situation is stable for now, but much will depend on the Government's ability during the next few months to implement the fiscal actions agreed with the Fund and the Bank. If the Fund can proceed with putting the Russian program to their Board in May, and East Asia continues to settle down, then the financial outlook is reasonable, although domestic interest rates remain very high and will delay the much needed economic recovery. If, on the other hand, the Government runs into trouble with the implementation of its fiscal program during the next few months, and hence a delay occurs in the IMF's approval of its program, the Russians could be in for a rough summer, especially if the financial markets remain jittery. One positive factor appears to be that Mr. Chernomyrdin has come around to support strongly the need for financial discipline. During Mr. Camdessus' meeting with the Prime Minister, to which I was kindly invited by Mr. Camdessus, I was struck by the PM's apparent seriousness in this regard.

While the Bank's portfolio of projects that are currently effective and under implementation is doing well (84% are rated satisfactory), Michael Carter and I are concerned about difficulties which we have been having in developing a clear sense of priorities with our Russian counterparts as regards the preparation of future projects. The financial crisis late last year and early this year, the ups and downs in ministerial fortunes, the continuing focus on macro and structural reform issues and the inherent tensions between different ministries and their interests -- and a continuing lack of strong coordination on the Russian side -- have made it difficult to develop a firm program of loans and advisory services, especially investment loan and guarantee operations, for the next two years. In my meetings I stressed the importance of setting effective priorities if we are to develop a strong pipeline. Since my departure, Michael has reached an understanding on the likely content of the 1998 lending program. He will also follow up with the Government on the longer term program in coming weeks, as we prepare the CAS update. Our current expectation is that lending in each of calendar years 1998 and 1999 will likely be around $2 billion (a little less in 1998). In view of the Japanese willingness to add $1.5 billion in quick disbursing loans, cofinanced with our adjustments loans, I believe this is a suitable position on our part, considering also Russia's continuing constraints in absorbing official assistance effectively and its need to manage foreign indebtedness with care. After the rapid expansion in our new commitments to Russia last calendar year ($3.4 billion) and continued uncertainty regarding Russia's financial stability a somewhat lower lending level on our part is also appropriate from the point of view of country risk management. I understand this position is acceptable to our Russian counterparts.

During my stay in Russia I also visited the cities of St. Petersburg, Novgorod and Tver to meet with regional and local government officials, project implementation units and representatives of the local communities. The need and potential for strengthening subnational governments in a large and diverse country like Russia is essential and much of our operational work in the foreseeable future will focus in this area. These city visits also reinforced the impression that there is much (perhaps too much!) opportunity for working with the Russians on preserving their cultural heritage. There is much interest in this everywhere one turns at the local level. We have proposed to our counterparts in the central government that we should carry out a review of how the Bank can best help in this area, given the vast needs and the potential for dissipating our limited capacity. So far, despite several efforts on our part, we have not yet received a clear go ahead from the Government but Michael Carter will pursue this in the next few weeks; if there is time, you may also want to raise this with Mr. Chernomyrdin on Tuesday.

Japan

In Tokyo, too, I was struck by the positive and warm reception. My visit was unexpectedly timely, since the Japanese Government's intention to provide $1.5 billion in J-EXIM Bank loans to Russia in 1998 and 1999 (strictly cofinanced with Bank adjustment loans), was made public just as I arrived in Tokyo. We discussed modalities for cooperation in Russia and elsewhere in the ECA Region and I expressed my appreciation for the trust in the Bank reflected in the Russia cofinancing proposal (which still needs to be discussed also with the Russians) and to the close collaboration with Japan especially in Central Asia, Bosnia and the Caucasus, and noted in this connection the importance of donor support for IDA in assuring our continued role in these important countries. I also asked for Japanese support in Tajikistan where Japanese involvement has so far been limited and used the opportunity to inform our counterparts about our close collaboration with the European Commission in the preparation of our Central European clients for EU accession.

One area where our Japanese counterparts expressed concern was in regard to the possible difficulties in communications between our new decentralized country directors in the field, Washington headquarters staff, and key bilateral counterparts. They stressed the need for consistent and effective communications. I noted that by all accounts our communications had worked smoothly in the preparation of the J-EXIM-Bank cofinancing proposal for Russia, but also acknowledged the need for vigilance in this regard as we decentralize our operational decision-making to the field.

Finally, we had an excellent exchange of views with about twenty Japanese business representatives who are active in Ukraine, Russia, the Caucasus and Central Asia and a very informative dinner engagement with senior managers of MITSUI. There was lots of interest in our activities to help improve the business environment in the countries concerned, and in our guarantee instrument.

Austria

As might be expected, Austria has a special interest in the ECA Region. Since it will take over the EU Presidency on July 1, 1998 for the remainder of the year, and given the imminent start-up of membership negotiations between the EU and Central European accession candidates, my visit was timely and warmly welcomed by our counterparts. I met with some 30 business representatives in the Austrian Chamber of Commerce and briefed them about the economic outlook of the ECA Region, especially in the wake of the East Asia crisis, and about our activities in the Region. Of particular interest are our support for a more favorable business environment and our expending use of guarantees.

In our meeting with government counterparts, I provided an overview of our concerns in Russia, Ukraine and Turkey and of our close collaboration with the European Commission as regards EU accession. Of particular interest to our counterparts was what they perceive as a threat to Western European stability from possible large-scale migration and resulting labor market and social pressures with open boundaries within the Union and possible difficulties of the new members to close their hitherto porous borders with countries further East. Our work on labor markets may provide useful analytical insights on this issue, but I stressed that this is not a matter in which we will be able to offer much policy advice. We agreed, in any case, to strengthen our relations with an important Austrian research institute which does wide-ranging and quality work on the economic and institutional development of Central and Eastern Europe.

In sum, also a useful and encouraging visit and a good opportunity to build a solid working relationship with Ms. Ruth Bachmayer who will take over as ED for the Austria/Belgium/Eastern Europe constituency at the Board later this year.

European Union

As a final stop, I visited Brussels principally to put the finishing touches on a Memorandum of Understanding (MOU) between the European Commission (and EIB as a financial arm of the EU), EBRD and the World Bank which is to form the basis for our collaboration in supporting the accession of the 10 Central European candidate countries. While we already have good working relations with all of these institutions, we had supported the preparation of this MOU, since it will facilitate and clarify our role in the coming years as a major partner in the accession effort. We expect that the

MOU will facilitate parallel and cofinancing, especially with the sizable grant funding from the EU through its Phare-Program, and will make it possible for the Bank to rely on Phare funds also for upstream project preparation and economic and sector work.

We also had a useful tour d'horizon with the Commissioner, Mr. van den Broek, which underlined more generally our excellent working relations with the European Commission. He noted that EU-Russian relations are currently strained by selective protectionist measures recently adopted by Russia. He also shared our concerns about the evolving political unrest in Kosovo. I stressed the need for donor support for Tajikistan at the Consultative Group meeting planned for May in Paris.

We also met with the UK ambassador to the EU, since the UK currently holds the Presidency of the EU. Our briefing on the current status of cooperation between the Bank and Commission (as well as EBRD and EIB) was evidently welcome, especially since the intergovernmental conference of all EU members and accession candidates (later this month in tandem) will be an opportunity for a formal announcement of the enhanced collaboration between our four agencies as reflected in the MOU.

Conclusion

Like you, from your recent trips, I came away from these visits with the impression of strong support for the Bank among our partners and clients. Much credit goes to our offices in the field (Jacob Kolster from our Paris office for Finland, Michael Carter and his team in Russia, Satoru Miyamura and his team in Tokyo, and Spiros Voyadzis and his team in Brussels). I also found that our managers and staff are getting increasingly sensitized and responsive to the need for close working relationships with our key partners, and I should note that having a full-time partnership advisor position in my front office for the ECA Region, very ably filled by Franz Kaps, has been invaluable to ensure systematic and intensive partnerships. These efforts are not without costs, of course, but I believe the cumulative payoff is substantial and well worth the effort.

Johannes F. Linn

cc: Messrs. Koch-Weser (MDOMD), Sandstrom (MDCMD), Zhang (MDS), Malloch Brown (EXTVP), El-Maaroufi, Kolster (EXTEO), Pakulski (EXTRO)
ECA Regional Leadership Team

Meeting with
Mr. Viktor S Chernomyrdin, Prime Minister
Government of the Russian Federation

Tuesday, March 10, 1998

*BACKGROUND*

***THE ECONOMY***: After falling sharply between November 1, 1997 and January 31, 1998, the central bank's gross foreign exchange reserves appear to have stabilized at $16 billion. However, this remains low in relation to the estimated $64 billion stock of ruble-denominated treasury bills and notes (GKOs and OFZs), even considering that about 50 percent of this is held by state-run banks (CBR and Sberbank). This unfavorable ratio makes Russia vulnerable to changes in market sentiment. Even a moderate exit from GKOs and OFZs could force a devaluation, which in turn would have negative consequences for the banks Not enough is known about bank portfolios or their exposures, although the central bank's chairman, Mr Dubinin, recently stated that 25 percent of banks were at risk. It is not clear what this means in terms of banking system assets, and limited access to information on banks is a matter of concern to both Bank and IMF staff. Recently, with contagion from the East Asian crisis waning and the 1998 budget having been passed (together with tough stipulations on expenditure control), Russia's immediate vulnerability has declined. This is reflected in the fall in one-year GKO yields In early December, these peaked at 42 percent and have remained volatile, falling and then rising to 36 percent at the end of January as investors once again left the GKO market. At the latest auction (March 4), these yields had dropped to less than 30 percent, coinciding with the passage of the 1998 budget and underlining that a credible and realistic fiscal stance is essential for restoring market confidence. Also helpful is the fact that Messrs Chubais and Nemtsov emerged unscathed from last week's Cabinet changes: none of the three Ministers who lost their positions was important to the reform camp.

***BANK OPERATIONS:*** The fourth Country Portfolio Performance Review (CPPR) was completed successfully two weeks ago. This time, we felt that the review was a genuinely joint effort, with fully shared ownership of the results. In this connection, 84% of effective loans are now considered to be performing satisfactorily, compared to 39% two years ago However, one major concern emerged: seven operations approved during 1997 (one last March) are yet to be made effective, six of which have experienced serious delays (including the Electricity Sector Reform technical assistance loan - which we put in place within two months of Mr. Nemtsov's request to you last April - and the Sea Launch Guarantee). The delays seem to be related to disputes within the Government over onlending arrangements (the Central Bank now wants all subloans to be denominated in rubles) and legal opinions.

When you were in Moscow last April, there was agreement with the Government that Bank lending could total as much as $6 billion over the next two years, of which up to $4 billion could be adjustment lending - provided Russia went forward with strong economic reforms. In calendar 1997, Bank commitments totaled $3.4 billion, of which $3 billion was adjustment lending and $443 million was project investment lending (including the Sea Launch Guarantee for $100 million). For calendar 1998, we have agreed with the Government that new commitments may total $1.7 billion, of which $600 million in adjusment loans, and the balance, $1.1 billion, for investment lending. Disbursements under adjustment loans totaled $1.95 billion in 1997, and may reach $1.65 billion in 1998 - if strong reforms are implemented to allow disbursement of all pending tranches. Disbursements under investment loans were $740 million in 1997 and are forecast at $750 million in 1998. The Government feels that these amounts meet the broad goals set last year, and it is particularly appreciative of the special efforts we made to provide quick support at a critical time at the end of 1997, when we went ahead with Coal SECAL-2 and SAL-2 in the absence of an agreement with the Fund.

Two weeks ago, the Japanese Government announced that it was to provide $1.5 billion to Russia over the next two years through the Japanese Export-Import Bank as cofinancing with Bank lending. During Johannes Linn's visit to Moscow last month, the Government indicated that it would seek further adjustment lending from the Bank, i.e. beyond the two-year framework you agreed with the Government last April. We are now doing a quick review of Russia's creditworthiness, particularly in relation to fiscal performance, which would help us to define better how far we could prudently go with additional adjustment lending.

***ISSUES FOR YOU TO RAISE:***

(a) You may wish to express satisfaction that the process for managing the portfolio and addressing implementation problems has continued to improve since you and Mr. Chernomyrdin jointly decided this was of critical importance when you met two and a half years ago; and also at the continued improvement in performance of effective loans. However, you should also express our hope that the major delays in loan effectiveness (noted above) be resolved quickly; otherwise, our ability to present new loans to our Board could be constrained.

(b) Mr. Chernomyrdin may express appreciation for the way in which the Bank responded to the situation in November/December 1997 created by the interruption of the Fund program and the ensuing turmoil in Russia's financial markets arising from the events in Asia. In reply, in addition to expressing our pleasure at being able to "deliver" as a strong partner for Russia, you may wish to say that we remain very concerned about the slippage in fiscal performance that was a key contributory factor to the problems at the end of last year. You should make clear that actual performance in improving fiscal management and in other key structural reform areas such as transparent privatization and demonopolisation will be very important to our ability to deliver further large amounts of adjustment lending. If Mr Chernomyrdin requests significant adjustment lending beyond 1998, you could reply that we would in principle be prepared to do this - providing we see continued strengthening of the reform effort. However, it would be premature to commit to specific amounts at this stage.

(c) If there is time, you may want to inquire what Bank role, if any, Mr. Chernomyrdin sees in supporting the restoration and preservation of Russia's cultural heritage. While the Government expressed some interest last year, recent attempts to initiate a dialogue have met with no response so far in the central government.

*ISSUES MR. CHERNOMYRDIN MAY RAISE*

(a) Mr. Chernomyrdin may emphasize the importance of Bank support for regional reform, and urge us to accelerate the processing of a large adjustment-type loan for approval in 1998. Please express our strong support for regional reform, and our willingness to move as quickly as possible with the proposed operation. However, please also indicate to Mr. Chernomyrdin that the issues involved are, in our view, very complex, and that a loan before early 1999 may not be possible. In fact, we believe it would be wrong to process in a hasty manner what should be a carefully prepared, high impact operation.

(b) Mr. Chernomyrdin may also underline the priority the Government attaches to the Bank supporting an operation to facilitate migration from the north of Russia. This came up in your discussions last year, and also in a meeting between Johannes Linn and Vladimir Potanin on March 6. Please inform Mr. Chernomyrdin that we agree that this is an important social issue, and that we are already working on this. We have agreed first to do a study by June 1998 to determine the nature and scope of the issue and, on that basis, to decide whether there would be any helpful role for Bank lending. It may be that the analysis - which should be completed before the end of June - will show that changes in government policy (for example, eliminating those subsidies still in place to encourage workers to move to the north) should be the main focus.

(c) Mr. Chernomyrdin may also express the view that the Bank should increase its focus on social sector issues. This is partly motivated by a concern that the Government be seen to be producing results in social areas before the Presidential elections in 2000. It is a direction we have been pressing for some time. You could respond that we would be very happy to look at ways we can do this. However, continued strong implementation of the social aspects of the Coal SECAL-2 loan and the Social Protection Adjustment Loan would be important criteria for expanded lending. A key part of the effort to strengthen reform at the regional level is to improve regional governments' capacity to deliver key social services. We will also be happy to consider further operations - including adjustment lending if appropriate - in health, pension and social safety net reform and, possibly, education.

(d) It is possible that Mr. Chernomyrdin will express a complaint about the introduction by the Bank of its Loan Administration Change Initiative (LACI), which the Government feels is being done with inadequate consultation, and with inadequate sensitivity to Russia's particular characteristics. We are currently reviewing this with the Loan Department to see if they can address Russia's concerns. You may wish to say that you will ask your staff to continue discussing this with the Government to ensure that a satisfactory solution is found.

(e) It is also possible, although unlikely, that Mr. Chernomyrdin may raise again the question of Bank support for the gas distribution project that he raised with you last year. Following the earlier discussion, we agreed to finance feasibility work for the project under the Portfolio Development Loan. However, it transpired that the study is being carried out by Stroitransgaz, a private company affiliated with GazProm (and headed by Mr. Chernomyrdin's son), which would also expect to be entrusted with implementation. We have told the Government that, if they wish to seek Bank financing for the implementation of the project, we would not be able to agree to the inclusion of Stroitransgaz as a bidder for implementation contracts.

(f) Mr. Chernomyrdin may ask you when you plan next to visit Russia. While we had tentatively proposed a brief visit for end-May/June, we now understand from your office that this will not be possible. You may wish to indicate a possible alternative date.

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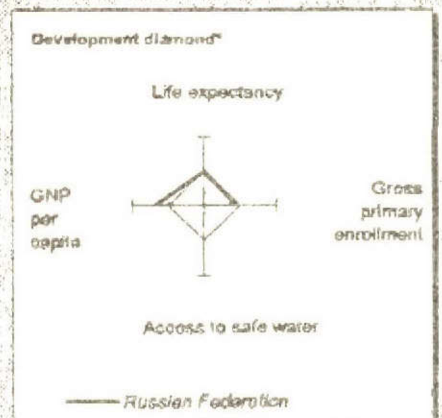
March 6, 1998 5:34 PM

# Russian Federation at a glance

3/9/98

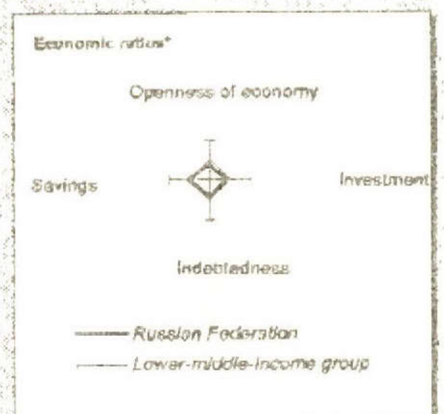
| POVERTY and SOCIAL | Russian Federation | Europe & Central Asia | Lower-middle-income |
|---|---|---|---|
| Population mid-1996 *(millions)* | 147.7 | 478 | 1,125 |
| GNP per capita 1996 *(US$, Atlas method)* | 2,400 | 2,180 | 1,750 |
| GNP 1996 *(billions US$, at Atlas conversion factor)* | 354.6 | 1,043 | 1,967 |
| **Average annual growth, 1990-96** | | | |
| Population (%) | -0.1 | 0.3 | 1.4 |
| Labor force (%, Russia: 1992-96) | -1.1 | 0.5 | 1.8 |
| **Most recent estimate** *(latest year available since 1989)* | | | |
| Poverty: headcount index *(% of population)* | 25 | .. | .. |
| Urban population *(% of total population)* | 73 | 65 | 56 |
| Life expectancy at birth *(years)* | 66 | 68 | 67 |
| Infant mortality *(per 1,000 live births)* | 18 | 25 | 41 |
| Child malnutrition *(% of children under 5)* | .. | .. | .. |
| Access to safe water *(% of population)* | .. | .. | 78 |
| Illiteracy *(% of population age 15+)* | 0.2 | .. | .. |
| Gross primary enrollment *(% of school-age population)* | 84 | 97 | 104 |
| *Male* | .. | 97 | 105 |
| *Female* | .. | 97 | 101 |




KEY ECONOMIC RATIOS and LONG-TERM TRENDS

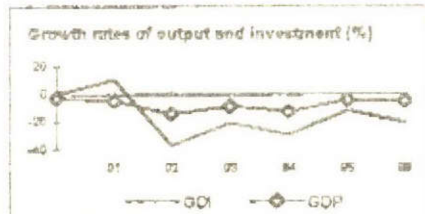
| | 1976 | 1986 | 1995 | 1996 |
|---|---|---|---|---|
| GDP *(billions US$)* | .. | .. | 357.3 | 440.2 |
| Gross domestic investment/GDP | .. | .. | 23.2 | 22.1 |
| Exports of goods and services/GDP | .. | .. | 25.6 | 22.5 |
| Gross domestic savings/GDP | .. | .. | 26.8 | 25.4 |
| Gross national savings/GDP | .. | .. | 24.8 | 24.5 |
| Current account balance/GDP | .. | .. | 1.8 | 1.4 |
| Interest payments paid/GDP | .. | .. | 0.9 | 1.1 |
| Total external debt/GDP | .. | .. | 33.7 | 28.0 |
| Total debt service paid/exports | .. | .. | 6.3 | 7.2 |
| Present value of debt/GDP | .. | .. | 31.2 | .. |
| Present value of debt/exports | .. | .. | 117.3 | .. |

| | 1976-86 | 1986-96 | 1995 | 1996 | 1997-05 |
|---|---|---|---|---|---|
| *(average annual growth)* | | | | | |
| GDP | .. | .. | -4.1 | -4.9 | 5.1 |
| GNP per capita | .. | .. | -4.0 | -4.8 | 5.3 |
| Exports of goods and services | .. | .. | 7.0 | -2.0 | 4.8 |

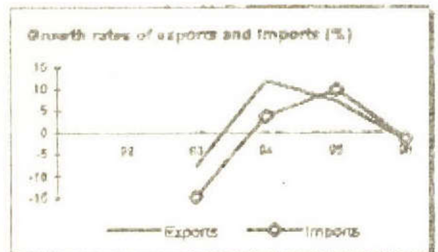



STRUCTURE of the ECONOMY

| | 1976 | 1986 | 1995 | 1996 |
|---|---|---|---|---|
| *(% of GDP)* | | | | |
| Agriculture | .. | .. | 7.4 | 7.3 |
| Industry | .. | .. | 42.1 | 39.1 |
| Manufacturing | .. | .. | .. | .. |
| Services | .. | .. | 50.5 | 53.6 |
| Private consumption | .. | .. | 59.0 | 63.4 |
| General government consumption | .. | .. | 14.1 | 11.2 |
| Imports of goods and services | .. | .. | 22.1 | 18.2 |




| | 1976-86 | 1986-96 | 1995 | 1996 |
|---|---|---|---|---|
| *(average annual growth)* | | | | |
| Agriculture[a] | .. | .. | -8.0 | -7.0 |
| Industry[a] | .. | .. | -4.5 | -4.0 |
| Manufacturing | .. | .. | .. | .. |
| Services[a] | .. | .. | -10.0 | -3.8 |
| Private consumption | .. | .. | -0.8 | 8.8 |
| General government consumption | .. | .. | 0.1 | -27.3 |
| Gross domestic investment | .. | .. | -12.0 | -21.1 |
| Imports of goods and services | .. | .. | 9.8 | -1.6 |
| Gross national product | .. | .. | -4.5 | -5.3 |



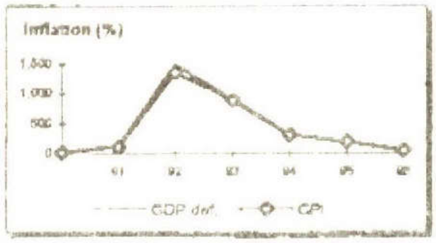

Note: 1996 data are preliminary estimates.

a. Sectoral GDP are estimated at factor cost.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

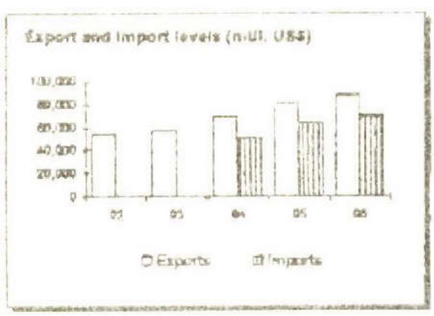
## PRICES and GOVERNMENT FINANCE

| | 1975 | 1985 | 1995 | 1996 |
|---|---|---|---|---|
| *Domestic prices* | | | | |
| *(% change)* | | | | |
| Consumer prices | .. | .. | 188.7 | 47.5 |
| Implicit GDP deflator | .. | .. | 178.7 | 45.4 |
| *Government finance* | | | | |
| *(% of GDP)* | | | | |
| Current revenue | .. | .. | 32.7 | 28.8 |
| Current budget balance | .. | .. | -0.5 | -3.7 |
| Overall surplus/deficit | .. | .. | -5.6 | -8.5 |



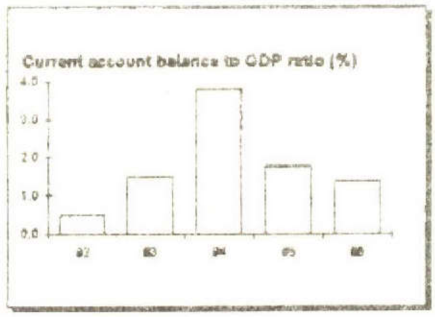

## TRADE

| | 1975 | 1985 | 1995 | 1996 |
|---|---|---|---|---|
| *(millions US$)* | | | | |
| Total exports (fob) | .. | .. | 81,552 | 88,463 |
| Crude oil | .. | .. | 12,741 | 15,724 |
| Natural gas | .. | .. | 13,291 | 15,487 |
| Machinery, equipment, vehicles | .. | .. | 8,240 | 8,218 |
| Total imports (cif) | .. | .. | 64,198 | 70,021 |
| Food | .. | .. | 13,041 | 11,500 |
| Fuel and energy | .. | .. | 1,584 | 1,848 |
| Machinery, equipment, vehicles | .. | .. | 15,700 | 14,400 |
| Export price index *(1987=100)* | .. | .. | .. | .. |
| Import price index *(1987=100)* | .. | .. | .. | .. |
| Terms of trade *(1987=100)* | .. | .. | .. | .. |



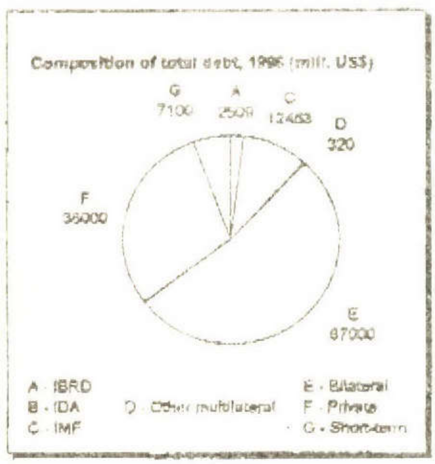

## BALANCE of PAYMENTS

| | 1975 | 1985 | 1995 | 1996 |
|---|---|---|---|---|
| *(millions US$)* | | | | |
| Exports of goods and services | .. | .. | 91,610 | 99,112 |
| Imports of goods and services | .. | .. | 78,885 | 84,728 |
| Resource balance | .. | .. | 12,725 | 14,384 |
| Net income | .. | .. | -6,331 | -8,171 |
| Net current transfers | .. | .. | 108 | 167 |
| Current account balance, before official capital transfers | .. | .. | 6,502 | 6,380 |
| Financing items (net) | .. | .. | -1,573 | -11,241 |
| Changes in net reserves | .. | .. | -4,929 | 4,861 |
| *Memo:* | | | | |
| Reserves including gold *(mill. US$)* | .. | .. | 17,207 | 15,324 |
| Conversion rate *(local/US$)* | .. | .. | 4,532 | 5,126 |




## EXTERNAL DEBT and RESOURCE FLOWS

| | 1975 | 1985 | 1995 | 1996 |
|---|---|---|---|---|
| *(millions US$)* | | | | |
| Total debt outstanding and disbursed | .. | .. | 120,461 | 127,397 |
| IBRD | .. | .. | 1,524 | 2,509 |
| IDA | .. | .. | 0 | 0 |
| Total debt service paid | .. | .. | 6,303 | 7,257 |
| IBRD | .. | .. | 57 | 121 |
| IDA | .. | .. | 0 | 0 |
| Composition of net resource flows | | | | |
| Capital transfers | .. | .. | -347 | -463 |
| Official creditors | .. | .. | 98 | .. |
| Private creditors | .. | .. | -1,043 | .. |
| Foreign direct investment | .. | .. | 2,017 | 2,000 |
| Portfolio equity | .. | .. | -1,434 | 2,000 |
| World Bank program | | | | |
| Commitments | .. | .. | 1,664 | 1,823 |
| Disbursements | .. | .. | 824 | 1,097 |
| Principal repayments | .. | .. | 0 | 0 |
| Net flows | .. | .. | 824 | 1,097 |
| Interest payments | .. | .. | 57 | 121 |
| Net transfers | .. | .. | 767 | 976 |






Note: Estimates for the former Soviet republics are subject to more than the usual range of uncertainty.

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| March 10, 1998 | Briefing Paper |

**Correspondents / Participants**

**Subject / Title**
Mr. Wolfensohn's Meeting with Prime Minister Chernomyrdin
Tuesday, March 10
Briefing Note on IFC's Activities in Russia

**Exception(s)**
Information Provided by Member Countries or Third Parties in Confidence

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March 6, 1998

Mr. James D. Wolfensohn

Jim,

Re: Recent Visit to Russia, Western Europe and Japan

I thought you might find the following notes about my recent trip of interest. I visited Finland, Russia, Austria and the European Commission in Brussels, from February 10 through March 4.

Finland

The Finnish government had invited me to Helsinki to attend, and present a keynote speech for the Bank at a seminar organized in celebration of the 50th Anniversary of Finland's membership in the Bank. It was a good opportunity to express the Bank's appreciation for many years of excellent Finnish support in the form of technical expertise and financing. During my visit my many counterparts in Government, Parliament and the private sector were very complimentary about the Bank's role and our collaboration. We work closely together in the Baltics, in Russia and increasingly in Central Asia. Finnish interest and expertise is particularly notable in the energy, forestry and environmental areas. I also met the Finnish President and conveyed your greetings. He was well informed about and very interested in the Bank, and especially in our views on Russia and Central Asia. He asked me to convey to you his best wishes and his hope to welcome you soon in Helsinki. A meeting with Finnish NGOs showed that while they remain skeptical about the Bank's capacity to do the right things in the environmental and forestry areas (they are as skeptical, incidentally, about their own government), the discussions were constructive and we expect to continue to stay in contact with them.

Russia

You will have seen Michael Carter's and my earlier note, which we sent you at the end of my visit, hence I will only add a few relevant observations.

I was struck by the sense of appreciation and partnership which pervaded our discussions with our counterparts, including Messrs. Chubais, Nemtsov, Yasin, Susuyev, Urinson and Kudrin. It appears that the progress we have made during the last year in improving the health of our portfolio, the support we gave them during the crisis last December, the enhanced role and quality of dialogue and support through our office in Moscow (and in particular Michael Carter's substantially strengthened mandate as Country Director, which is much appreciated by his counterparts) -- all have been important factors in building trust among the current economic team. Messrs. Chubais and Nemtsov seem, once again, firm in their positions and in control of policy formulation and implementation. We are a bit concerned about the role and attitude of the new Minister of Finance, Mr. Mikhail Zadornov, who may be delaying the start-up of Bank projects by throwing legal obstacles into the process of declaring new projects effective on the Russian side (after our Board has approved them). We are pressing the Ministry for early removal of these obstacles.

The macroeconomic and financial situation is stable for now, but much will depend on the Government's ability during the next few months to implement the fiscal actions agreed with the Fund and the Bank. If the Fund can proceed with putting the Russian program to their Board in May, and East Asia continues to settle down, then the financial outlook is reasonable, although domestic interest rates remain very high and will delay the much needed economic recovery. If, on the other hand, the Government runs into trouble with the implementation of its fiscal program during the next few months, and hence a delay occurs in the IMF's approval of its program, the Russians could be in for a rough summer, especially if the financial markets remain jittery. One positive factor appears to be that Mr. Chernomyrdin has come around to support strongly the need for financial discipline. During Mr. Camdessus' meeting with the Prime Minister, to which I was kindly invited by Mr. Camdessus, I was struck by the PM's apparent seriousness in this regard.

While the Bank's portfolio of projects that are currently effective and under implementation is doing well (84% are rated satisfactory), Michael Carter and I are concerned about difficulties which we have been having in developing a clear sense of priorities with our Russian counterparts as regards the preparation of future projects. The financial crisis late last year and early this year, the ups and downs in ministerial fortunes, the continuing focus on macro and structural reform issues and the inherent tensions between different ministries and their interests -- and a continuing lack of strong coordination on the Russian side -- have made it difficult to develop a firm program of loans and advisory services, especially investment loan and guarantee operations, for the next two years. In my meetings I stressed the importance of setting effective priorities if we are to develop a strong pipeline. Since my departure, Michael has reached an understanding on the likely content of the 1998 lending program. He will also follow up with the Government on the longer term program in coming weeks, as we prepare the CAS update. Our current expectation is that lending in each of calendar years 1998 and 1999 will likely be around $2 billion (a little less in 1998). In view of the Japanese willingness to add $1.5 billion in quick disbursing loans, cofinanced with our adjustments loans, I believe this is a suitable position on our part, considering also Russia's continuing constraints in absorbing official assistance effectively and its need to manage foreign indebtedness with care. After the rapid expansion in our new commitments to Russia last calendar year ($3.4 billion) and continued uncertainty regarding Russia's financial stability a somewhat lower lending level on our part is also appropriate from the point of view of country risk management. I understand this position is acceptable to our Russian counterparts.

During my stay in Russia I also visited the cities of St. Petersburg, Novgorod and Tver to meet with regional and local government officials, project implementation units and representatives of the local communities. The need and potential for strengthening subnational governments in a large and diverse country like Russia is essential and much of our operational work in the foreseeable future will focus in this area. These city visits also reinforced the impression that there is much (perhaps too much!) opportunity for working with the Russians on preserving their cultural heritage. There is much interest in this everywhere one turns at the local level. We have proposed to our counterparts in the central government that we should carry out a review of how the Bank can best help in this area, given the vast needs and the potential for dissipating our limited capacity. So far, despite several efforts on our part, we have not yet received a clear go ahead from the Government but Michael Carter will pursue this in the next few weeks; if there is time, you may also want to raise this with Mr. Chernomyrdin on Tuesday.

Japan

In Tokyo, too, I was struck by the positive and warm reception. My visit was unexpectedly timely, since the Japanese Government's intention to provide $1.5 billion in J-EXIM Bank loans to Russia in 1998 and 1999 (strictly cofinanced with Bank adjustment loans), was made public just as I arrived in Tokyo. We discussed modalities for cooperation in Russia and elsewhere in the ECA Region and I expressed my appreciation for the trust in the Bank reflected in the Russia cofinancing proposal (which still needs to be discussed also with the Russians) and to the close collaboration with Japan especially in Central Asia, Bosnia and the Caucasus, and noted in this connection the importance of donor support for IDA in assuring our continued role in these important countries. I also asked for Japanese support in Tajikistan where Japanese involvement has so far been limited and used the opportunity to inform our counterparts about our close collaboration with the European Commission in the preparation of our Central European clients for EU accession.

One area where our Japanese counterparts expressed concern was in regard to the possible difficulties in communications between our new decentralized country directors in the field, Washington headquarters staff, and key bilateral counterparts. They stressed the need for consistent and effective communications. I noted that by all accounts our communications had worked smoothly in the preparation of the J-EXIM-Bank cofinancing proposal for Russia, but also acknowledged the need for vigilance in this regard as we decentralize our operational decision-making to the field.

Finally, we had an excellent exchange of views with about twenty Japanese business representatives who are active in Ukraine, Russia, the Caucasus and Central Asia and a very informative dinner engagement with senior managers of MITSUI. There was lots of interest in our activities to help improve the business environment in the countries concerned, and in our guarantee instrument.

Austria

As might be expected, Austria has a special interest in the ECA Region. Since it will take over the EU Presidency on July 1, 1998 for the remainder of the year, and given the imminent start-up of membership negotiations between the EU and Central European accession candidates, my visit was timely and warmly welcomed by our counterparts. I met with some 30 business representatives in the Austrian Chamber of Commerce and briefed them about the economic outlook of the ECA Region, especially in the wake of the East Asia crisis, and about our activities in the Region. Of particular interest are our support for a more favorable business environment and our expending use of guarantees.

In our meeting with government counterparts, I provided an overview of our concerns in Russia, Ukraine and Turkey and of our close collaboration with the European Commission as regards EU accession. Of particular interest to our counterparts was what they perceive as a threat to Western European stability from possible large-scale migration and resulting labor market and social pressures with open boundaries within the Union and possible difficulties of the new members to close their hitherto porous borders with countries further East. Our work on labor markets may provide useful analytical insights on this issue, but I stressed that this is not a matter in which we will be able to offer much policy advice. We agreed, in any case, to strengthen our relations with an important Austrian research institute which does wide-ranging and quality work on the economic and institutional development of Central and Eastern Europe.

In sum, also a useful and encouraging visit and a good opportunity to build a solid working relationship with Ms. Ruth Bachmayer who will take over as ED for the Austria/Belgium/Eastern Europe constituency at the Board later this year.

European Union

As a final stop, I visited Brussels principally to put the finishing touches on a Memorandum of Understanding (MOU) between the European Commission (and EIB as a financial arm of the EU), EBRD and the World Bank which is to form the basis for our collaboration in supporting the accession of the 10 Central European candidate countries. While we already have good working relations with all of these institutions, we had supported the preparation of this MOU, since it will facilitate and clarify our role in the coming years as a major partner in the accession effort. We expect that the

MOU will facilitate parallel and cofinancing, especially with the sizable grant funding from the EU through its Phare-Program, and will make it possible for the Bank to rely on Phare funds also for upstream project preparation and economic and sector work.

We also had a useful tour d'horizon with the Commissioner, Mr. van den Broek, which underlined more generally our excellent working relations with the European Commission. He noted that EU-Russian relations are currently strained by selective protectionist measures recently adopted by Russia. He also shared our concerns about the evolving political unrest in Kosovo. I stressed the need for donor support for Tajikistan at the Consultative Group meeting planned for May in Paris.

We also met with the UK ambassador to the EU, since the UK currently holds the Presidency of the EU. Our briefing on the current status of cooperation between the Bank and Commission (as well as EBRD and EIB) was evidently welcome, especially since the intergovernmental conference of all EU members and accession candidates (later this month in tandem) will be an opportunity for a formal announcement of the enhanced collaboration between our four agencies as reflected in the MOU.

Conclusion

Like you, from your recent trips, I came away from these visits with the impression of strong support for the Bank among our partners and clients. Much credit goes to our offices in the field (Jacob Kolster from our Paris office for Finland, Michael Carter and his team in Russia, Satoru Miyamura and his team in Tokyo, and Spiros Voyadzis and his team in Brussels). I also found that our managers and staff are getting increasingly sensitized and responsive to the need for close working relationships with our key partners, and I should note that having a full-time partnership advisor position in my front office for the ECA Region, very ably filled by Franz Kaps, has been invaluable to ensure systematic and intensive partnerships. These efforts are not without costs, of course, but I believe the cumulative payoff is substantial and well worth the effort.

Johannes F. Linn

cc: Messrs. Koch-Weser (MDOMD), Sandstrom (MDCMD), Zhang (MDS),
Malloch Brown (EXTVP), El-Maaroufi, Kolster (EXTEO), Pakulski (EXTRO)
ECA Regional Leadership Team

Meeting with
Mr. Viktor S. Chernomyrdin, Prime Minister
Government of the Russian Federation

Tuesday, March 10, 1998

***BACKGROUND***

***THE ECONOMY***: After falling sharply between November 1, 1997 and January 31, 1998, the central bank's gross foreign exchange reserves appear to have stabilized at $16 billion. However, this remains low in relation to the estimated $64 billion stock of ruble-denominated treasury bills and notes (GKOs and OFZs), even considering that about 50 percent of this is held by state-run banks (CBR and Sberbank). This unfavorable ratio makes Russia vulnerable to changes in market sentiment. Even a moderate exit from GKOs and OFZs could force a devaluation, which in turn would have negative consequences for the banks. Not enough is known about bank portfolios or their exposures, although the central bank's chairman, Mr. Dubinin, recently stated that 25 percent of banks were at risk. It is not clear what this means in terms of banking system assets, and limited access to information on banks is a matter of concern to both Bank and IMF staff. Recently, with contagion from the East Asian crisis waning and the 1998 budget having been passed (together with tough stipulations on expenditure control), Russia's immediate vulnerability has declined. This is reflected in the fall in one-year GKO yields. In early December, these peaked at 42 percent and have remained volatile, falling and then rising to 36 percent at the end of January as investors once again left the GKO market. At the latest auction (March 4), these yields had dropped to less than 30 percent, coinciding with the passage of the 1998 budget and underlining that a credible and realistic fiscal stance is essential for restoring market confidence. Also helpful is the fact that Messrs. Chubais and Nemtsov emerged unscathed from last week's Cabinet changes:- none of the three Ministers who lost their positions was important to the reform camp.

***BANK OPERATIONS:*** The fourth Country Portfolio Performance Review (CPPR) was completed successfully two weeks ago. This time, we felt that the review was a genuinely joint effort, with fully shared ownership of the results. In this connection, 84% of effective loans are now considered to be performing satisfactorily, compared to 39% two years ago. However, one major concern emerged: seven operations approved during 1997 (one last March) are yet to be made effective, six of which have experienced serious delays (including the Electricity Sector Reform technical assistance loan - which we put in place within two months of Mr. Nemtsov's request to you last April - and the Sea Launch Guarantee). The delays seem to be related to disputes within the Government over onlending arrangements (the Central Bank now wants all subloans to be denominated in rubles) and legal opinions.

When you were in Moscow last April, there was agreement with the Government that Bank lending could total as much as $6 billion over the next two years, of which up to $4 billion could be adjustment lending - provided Russia went forward with strong economic reforms. In calendar 1997, Bank commitments totaled $3.4 billion, of which $3 billion was adjustment lending and $443 million was project investment lending (including the Sea Launch Guarantee for $100 million). For calendar 1998, we have agreed with the Government that new commitments may total $1.7 billion, of which $600 million in adjustment loans, and the balance, $1.1 billion, for investment lending. Disbursements under adjustment loans totaled $1.95 billion in 1997, and may reach $1.65 billion in 1998 - if strong reforms are implemented to allow disbursement of all pending tranches. Disbursements under investment loans were $740 million in 1997 and are forecast at $750 million in 1998. The Government feels that these amounts meet the broad goals set last year, and it is particularly appreciative of the special efforts we made to provide quick support at a critical time at the end of 1997, when we went ahead with Coal SECAL-2 and SAL-2 in the absence of an agreement with the Fund.

Two weeks ago, the Japanese Government announced that it was to provide $1.5 billion to Russia over the next two years through the Japanese Export-Import Bank as cofinancing with Bank lending. During Johannes Linn's visit to Moscow last month, the Government indicated that it would seek further adjustment lending from the Bank, i.e. beyond the two-year framework you agreed with the Government last April. We are now doing a quick review of Russia's creditworthiness, particularly in relation to fiscal performance, which would help us to define better how far we could prudently go with additional adjustment lending.

***ISSUES FOR YOU TO RAISE***:

(a) You may wish to express satisfaction that the process for managing the portfolio and addressing implementation problems has continued to improve since you and Mr. Chernomyrdin jointly decided this was of critical importance when you met two and a half years ago; and also at the continued improvement in performance of effective loans. However, you should also express our hope that the major delays in loan effectiveness (noted above) be resolved quickly; otherwise, our ability to present new loans to our Board could be constrained.

(b) Mr. Chernomyrdin may express appreciation for the way in which the Bank responded to the situation in November/December 1997 created by the interruption of the Fund program and the ensuing turmoil in Russia's financial markets arising from the events in Asia. In reply, in addition to expressing our pleasure at being able to "deliver" as a strong partner for Russia, you may wish to say that we remain very concerned about the slippage in fiscal performance that was a key contributory factor to the problems at the end of last year. You should make clear that actual performance in improving fiscal management and in other key structural reform areas such as transparent privatization and demonopolisation will be very important to our ability to deliver further large amounts of adjustment lending. If Mr. Chernomyrdin requests significant adjustment lending beyond 1998, you could reply that we would in principle be prepared to do this - providing we see continued strengthening of the reform effort. However, it would be premature to commit to specific amounts at this stage.

(c) If there is time, you may want to inquire what Bank role, if any, Mr. Chernomyrdin sees in supporting the restoration and preservation of Russia's cultural heritage. While the Government expressed some interest last year, recent attempts to initiate a dialogue have met with no response so far in the central government.

***ISSUES MR. CHERNOMYRDIN MAY RAISE***

(a) Mr. Chernomyrdin may emphasize the importance of Bank support for regional reform, and urge us to accelerate the processing of a large adjustment-type loan for approval in 1998. Please express our strong support for regional reform, and our willingness to move as quickly as possible with the proposed operation. However, please also indicate to Mr. Chernomyrdin that the issues involved are, in our view, very complex, and that a loan before early 1999 may not be possible. In fact, we believe it would be wrong to process in a hasty manner what should be a carefully prepared, high impact operation.

(b) Mr. Chernomyrdin may also underline the priority the Government attaches to the Bank supporting an operation to facilitate migration from the north of Russia. This came up in your discussions last year, and also in a meeting between Johannes Linn and Vladimir Potanin on March 6. Please inform Mr. Chernomyrdin that we agree that this is an important social issue, and that we are already working on this. We have agreed first to do a study by June 1998 to determine the nature and scope of the issue and, on that basis, to decide whether there would be any helpful role for Bank lending. It may be that the analysis - which should be completed before the end of June - will show that changes in government policy (for example, eliminating those subsidies still in place to encourage workers to move to the north) should be the main focus.

(c) Mr. Chernomyrdin may also express the view that the Bank should increase its focus on social sector issues. This is partly motivated by a concern that the Government be seen to be producing results in social areas before the Presidential elections in 2000. It is a direction we have been pressing for some time. You could respond that we would be very happy to look at ways we can do this. However, continued strong implementation of the social aspects of the Coal SECAL-2 loan and the Social Protection Adjustment Loan would be important criteria for expanded lending. A key part of the effort to strengthen reform at the regional level is to improve regional governments' capacity to deliver key social services. We will also be happy to consider further operations - including adjustment lending if appropriate - in health, pension and social safety net reform and, possibly, education.

(d) It is possible that Mr. Chernomyrdin will express a complaint about the introduction by the Bank of its Loan Administration Change Initiative (LACI), which the Government feels is being done with inadequate consultation, and with inadequate sensitivity to Russia's particular characteristics. We are currently reviewing this with the Loan Department to see if they can address Russia's concerns. You may wish to say that you will ask your staff to continue discussing this with the Government to ensure that a satisfactory solution is found.

(e) It is also possible, although unlikely, that Mr. Chernomyrdin may raise again the question of Bank support for the gas distribution project that he raised with you last year. Following the earlier discussion, we agreed to finance feasibility work for the project under the Portfolio Development Loan. However, it transpired that the study is being carried out by Stroitransgaz, a private company affiliated with GazProm (and headed by Mr. Chernomyrdin's son), which would also expect to be entrusted with implementation. We have told the Government that, if they wish to seek Bank financing for the implementation of the project, we would not be able to agree to the inclusion of Stroitransgaz as a bidder for implementation contracts.

(f) Mr. Chernomyrdin may ask you when you plan next to visit Russia. While we had tentatively proposed a brief visit for end-May/June, we now understand from your office that this will not be possible. You may wish to indicate a possible alternative date.

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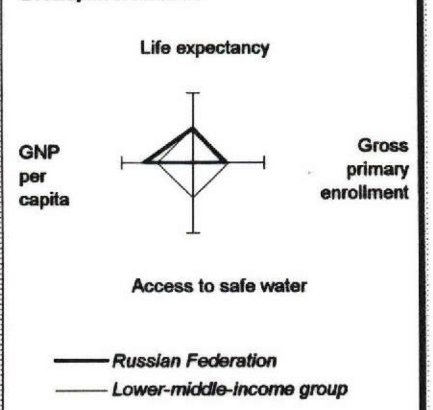
# Russian Federation at a glance

3/6/98

| POVERTY and SOCIAL | Russian Federation | Europe & Central Asia | Lower-middle-income |
|---|---|---|---|
| Population mid-1996 *(millions)* | 147.7 | 479 | 1,125 |
| GNP per capita 1996 *(US$, Atlas method)* | 2,400 | 2,180 | 1,750 |
| GNP 1996 *(billions US$, at Atlas conversion factor)* | 354.6 | 1,043 | 1,967 |
| **Average annual growth, 1990-96** | | | |
| Population *(%)* | -0.1 | 0.3 | 1.4 |
| Labor force *(%, Russia: 1992-96)* | -1.1 | 0.5 | 1.8 |
| **Most recent estimate** *(latest year available since 1989)* | | | |
| Poverty: headcount index *(% of population)* | 25 | .. | .. |
| Urban population *(% of total population)* | 73 | 65 | 56 |
| Life expectancy at birth *(years)* | 66 | 68 | 67 |
| Infant mortality *(per 1,000 live births)* | 18 | 26 | 41 |
| Child malnutrition *(% of children under 5)* | .. | .. | .. |
| Access to safe water *(% of population)* | .. | .. | 78 |
| Illiteracy *(% of population age 15+)* | 0.2 | .. | .. |
| Gross primary enrollment *(% of school-age population)* | 94 | 97 | 104 |
| Male | .. | 97 | 105 |
| Female | .. | 97 | 101 |

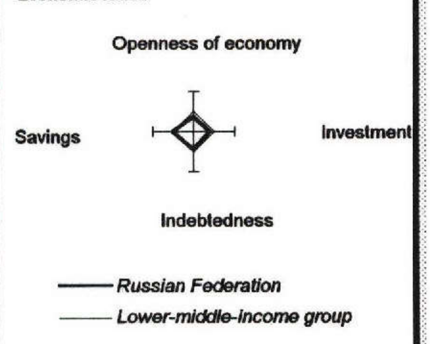
**Development diamond***




| KEY ECONOMIC RATIOS and LONG-TERM TRENDS | 1975 | 1985 | 1995 | 1996 |
|---|---|---|---|---|
| GDP *(billions US$)* | .. | .. | 357.3 | 440.2 |
| Gross domestic investment/GDP | .. | .. | 23.2 | 22.1 |
| Exports of goods and services/GDP | .. | .. | 25.6 | 22.5 |
| Gross domestic savings/GDP | .. | .. | 26.8 | 25.4 |
| Gross national savings/GDP | .. | .. | 24.8 | 24.5 |
| Current account balance/GDP | .. | .. | 1.8 | 1.4 |
| Interest payments paid/GDP | .. | .. | 0.9 | 1.1 |
| Total external debt/GDP | .. | .. | 33.7 | 28.9 |
| Total debt service paid/exports | .. | .. | 6.8 | 7.2 |
| Present value of debt/GDP | .. | .. | 31.2 | .. |
| Present value of debt/exports | .. | .. | 117.3 | .. |

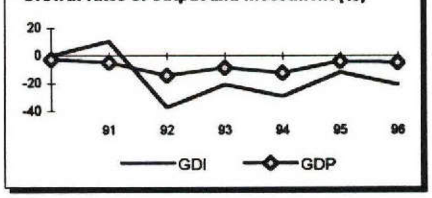
| *(average annual growth)* | 1975-85 | 1986-96 | 1995 | 1996 | 1997-06 |
|---|---|---|---|---|---|
| GDP | .. | .. | -4.1 | -4.9 | 5.1 |
| GNP per capita | .. | .. | -4.0 | -4.8 | 5.3 |
| Exports of goods and services | .. | .. | 7.0 | -2.0 | 4.8 |

**Economic ratios***



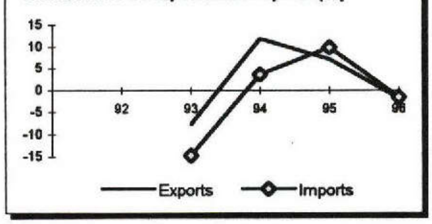

| STRUCTURE of the ECONOMY | 1975 | 1985 | 1995 | 1996 |
|---|---|---|---|---|
| *(% of GDP)* | | | | |
| Agriculture | .. | .. | 7.4 | 7.3 |
| Industry | .. | .. | 42.1 | 39.1 |
| Manufacturing | .. | .. | .. | .. |
| Services | .. | .. | 50.5 | 53.6 |
| Private consumption | .. | .. | 59.0 | 63.4 |
| General government consumption | .. | .. | 14.1 | 11.2 |
| Imports of goods and services | .. | .. | 22.1 | 19.2 |

**Growth rates of output and investment (%)**



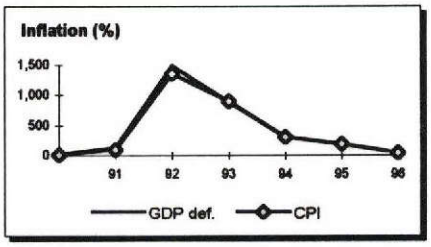

| *(average annual growth)* | 1975-85 | 1986-96 | 1995 | 1996 |
|---|---|---|---|---|
| Agriculture[a] | .. | .. | -8.0 | -7.0 |
| Industry[a] | .. | .. | -4.5 | -4.0 |
| Manufacturing[a] | .. | .. | .. | .. |
| Services[a] | .. | .. | -10.0 | -3.8 |
| Private consumption | .. | .. | -0.9 | 8.8 |
| General government consumption | .. | .. | 0.1 | -27.3 |
| Gross domestic investment | .. | .. | -12.0 | -21.1 |
| Imports of goods and services | .. | .. | 9.8 | -1.6 |
| Gross national product | .. | .. | -4.5 | -5.3 |

**Growth rates of exports and imports (%)**

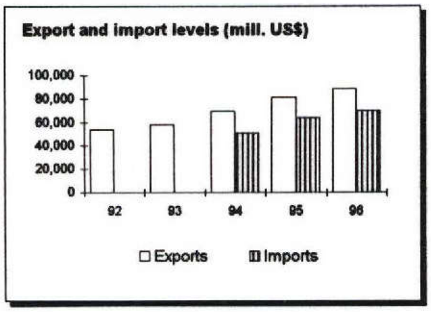



Note: 1996 data are preliminary estimates.
a. Sectoral GDP are estimated at factor cost.
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

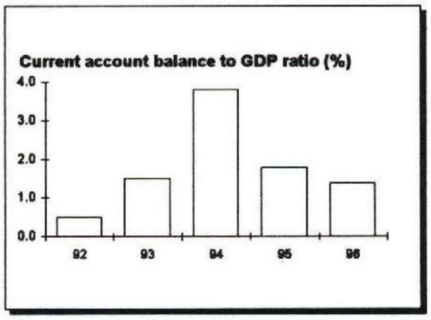
| **PRICES and GOVERNMENT FINANCE** | 1975 | 1985 | 1995 | 1996 |
|---|---|---|---|---|
| ***Domestic prices*** | | | | |
| *(% change)* | | | | |
| Consumer prices | .. | .. | 188.7 | 47.5 |
| Implicit GDP deflator | .. | .. | 178.7 | 45.4 |
| ***Government finance*** | | | | |
| *(% of GDP)* | | | | |
| Current revenue | .. | .. | 32.7 | 28.8 |
| Current budget balance | .. | .. | -0.5 | -3.7 |
| Overall surplus/deficit | .. | .. | -5.6 | -8.5 |



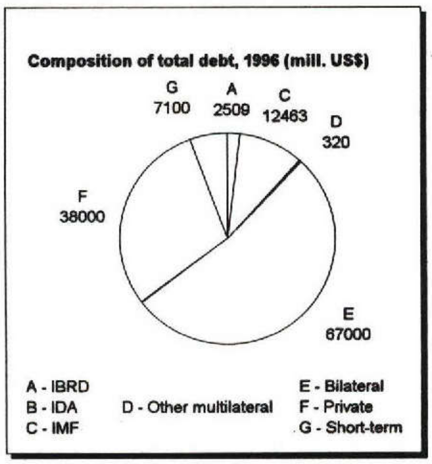

| **TRADE** | 1975 | 1985 | 1995 | 1996 |
|---|---|---|---|---|
| *(millions US$)* | | | | |
| Total exports (fob) | .. | .. | 81,552 | 88,463 |
| Crude oil | .. | .. | 12,741 | 15,724 |
| Natural gas | .. | .. | 13,391 | 15,487 |
| Machinery, equipment, vehicles | .. | .. | 6,240 | 6,216 |
| Total imports (cif) | .. | .. | 64,198 | 70,021 |
| Food | .. | .. | 13,041 | 11,500 |
| Fuel and energy | .. | .. | 1,584 | 1,848 |
| Machinery, equipment, vehicles | .. | .. | 15,700 | 14,400 |
| Export price index *(1987=100)* | .. | .. | .. | .. |
| Import price index *(1987=100)* | .. | .. | .. | .. |
| Terms of trade *(1987=100)* | .. | .. | .. | .. |




| **BALANCE of PAYMENTS** | 1975 | 1985 | 1995 | 1996 |
|---|---|---|---|---|
| *(millions US$)* | | | | |
| Exports of goods and services | .. | .. | 91,610 | 99,112 |
| Imports of goods and services | .. | .. | 78,885 | 84,728 |
| Resource balance | .. | .. | 12,725 | 14,384 |
| Net income | .. | .. | -6,331 | -8,171 |
| Net current transfers | .. | .. | 108 | 167 |
| Current account balance, before official capital transfers | .. | .. | 6,502 | 6,380 |
| Financing items (net) | .. | .. | -1,573 | -11,241 |
| Changes in net reserves | .. | .. | -4,929 | 4,861 |
| ***Memo:*** | | | | |
| Reserves including gold *(mill. US$)* | .. | .. | 17,207 | 15,324 |
| Conversion rate *(local/US$)* | .. | .. | 4,562 | 5,126 |




| **EXTERNAL DEBT and RESOURCE FLOWS** | 1975 | 1985 | 1995 | 1996 |
|---|---|---|---|---|
| *(millions US$)* | | | | |
| Total debt outstanding and disbursed | .. | .. | 120,461 | 127,392 |
| IBRD | .. | .. | 1,524 | 2,509 |
| IDA | .. | .. | 0 | 0 |
| Total debt service paid | .. | .. | 6,303 | 7,257 |
| IBRD | .. | .. | 57 | 121 |
| IDA | .. | .. | 0 | 0 |
| Composition of net resource flows | | | | |
| Capital transfers | .. | .. | -347 | -463 |
| Official creditors | .. | .. | 98 | .. |
| Private creditors | .. | .. | -1,043 | .. |
| Foreign direct investment | .. | .. | 2,017 | 2,000 |
| Portfolio equity | .. | .. | -1,434 | 2,000 |
| World Bank program | | | | |
| Commitments | .. | .. | 1,664 | 1,923 |
| Disbursements | .. | .. | 824 | 1,097 |
| Principal repayments | .. | .. | 0 | 0 |
| Net flows | .. | .. | 824 | 1,097 |
| Interest payments | .. | .. | 57 | 121 |
| Net transfers | .. | .. | 767 | 976 |






Note: Estimates for the former Soviet republics are subject to more than the usual range of uncertainty.

# Status of Bank Group Operations in Russian Federation
# IBRD Loans and IDA Credits in the Operations Portfolio

| Project ID | Loan or Credit No. | Fiscal Year | Borrower | Purpose | Original Amount in US$ Millions | | | | Difference Between expected and actual disbursements a/ | | Last ARPP Supervision Rating b/ | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | IBRD | IDA | Cancellations | Undisbursed | Orig | Frm Rev'd | Dev Obj | Imp Prog |
| Number of Closed Loans/credits: 10 | | | | | | | | | | | | |
| Active Loans | | | | | | | | | | | | |
| RU-PE-8809 | IBRD 36233 | 1993 | RUSSIAN FEDERATION | OIL REHAB. | 10.00 | 0.00 | 0.00 | 7.33 | 209.53 | 25.78 | U | S |
| RU-PE-8809 | IBRD 36232 | 1993 | RUSSIAN FEDERATION | OIL REHAB. | 170.00 | 0.00 | 0.00 | 13.64 | 209.53 | 25.78 | U | S |
| RU-PE-8809 | IBRD 36231 | 1993 | RUSSIAN FEDERATION | OIL REHAB. | 158.00 | 0.00 | 41.60 | 2.24 | 209.53 | 25.78 | U | S |
| RU-PE-8809 | IBRD 36230 | 1993 | RUSSIAN FEDERATION | OIL REHAB. | 272.00 | 0.00 | 142.15 | 2.58 | 209.53 | 25.78 | U | S |
| RU-PE-8810 | IBRD 35460 | 1993 | GOVT OF RUSSIA | PRIVATIZATION | 90.00 | 0.00 | 0.00 | 22.85 | 22.85 | 22.85 | S | S |
| RU-PE-8822 | IBRD 35320 | 1993 | GOVERNMENT OF RUSSIA | EMPLOYMENT SERV. & SOCIAL PROT | 70.00 | 0.00 | 10.00 | 28.96 | 38.95 | 2.87 | S | S |
| RU-PE-8805 | IBRD 37682 | 1994 | RUSSIAN FEDERATION | OIL REHAB. II | 90.40 | 0.00 | 0.00 | 3.07 | 265.10 | 255.30 | U | S |
| RU-PE-8805 | IBRD 37681 | 1994 | RUSSIAN FEDERATION | OIL REHAB. II | 51.10 | 0.00 | 4.72 | 4.87 | 265.10 | 255.30 | U | S |
| RU-PE-8805 | IBRD 37680 | 1994 | RUSSIAN FEDERATION | OIL REHAB. II | 24.70 | 0.00 | 0.00 | 5.07 | 265.10 | 255.30 | U | S |
| RU-PE-8805 | IBRD 3768C | 1994 | RUSSIAN FEDERATION | OIL REHAB. II | 99.60 | 0.00 | 0.00 | 55.61 | 265.10 | 255.30 | U | S |
| RU-PE-8805 | IBRD 3768B | 1994 | RUSSIAN FEDERATION | OIL REHAB. II | 108.90 | 0.00 | 0.00 | 78.44 | 265.10 | 255.30 | U | S |
| RU-PE-8805 | IBRD 3768A | 1994 | RUSSIAN FEDERATION | OIL REHAB. II | 125.30 | 0.00 | 0.00 | 113.32 | 265.10 | 255.30 | U | S |
| RU-PE-8839 | IBRD 3763A | 1994 | GOVT. OF RUSSIA | ENTERPRISE SUPPORT | 196.00 | 0.00 | 0.00 | 185.25 | 122.59 | 0.00 | S | S |
| RU-PE-8811 | IBRD 37570 | 1994 | REP.OF RUSSIAN FED. | AGRIC. REFORM IMPL. | 240.00 | 0.00 | 80.00 | 131.33 | 174.66 | 24.80 | U | U |
| RU-PE-34579 | IBRD 37560 | 1994 | REP OF RUSSIAN FED | LAND REFORM IMPL. SU | 80.00 | 0.00 | 0.00 | 61.79 | 46.79 | 0.00 | U | S |
| RU-PE-8828 | IBRD 3734A | 1994 | MOF | FINANCIAL INSTITUTIONAL DEV. | 187.62 | 0.00 | 0.00 | 155.09 | 150.94 | 26.51 | S | S |
| RU-PE-8808 | IBRD 37060 | 1994 | RUSSIAN FEDERATION | HIGHWAY REHAB & MAIN | 300.00 | 0.00 | 0.00 | 60.45 | -12.19 | 0.00 | HS | S |
| RU-PE-8806 | IBRD 38850 | 1995 | RUSSIAN FEDERATION | URBAN TRANSPORT | 329.00 | 0.00 | 0.00 | 120.67 | 34.84 | 0.00 | S | S |
| RU-PE-8803 | IBRD 38760 | 1995 | RUSSIAN FEDERATION | RUSSIA ENERGY EFFICY | 106.50 | 0.00 | 36.50 | 69.39 | 71.22 | 17.07 | U | S |
| RU-PE-40409 | IBRD 38726 | 1995 | RUSSIAN FEDERATION | EMERG. OIL SPILL MIT | 29.60 | 0.00 | 0.00 | 22.82 | 22.80 | 0.00 | S | HS |
| RU-PE-38572 | IBRD 38530 | 1995 | GOVT. OF RUSSIA | TAX ADMINISTRATION | 16.80 | 0.00 | 0.00 | 14.41 | 13.84 | 3.99 | S | S |
| RU-PE-8827 | IBRD 3850A | 1995 | RUSSIAN FEDERATION | HOUSING | 363.72 | 0.00 | 0.00 | 292.23 | 159.78 | 0.00 | S | S |
| RU-PE-8823 | IBRD 38440 | 1995 | GOVERNMENT OF RUSSIA | PORTFOLIO DEVELOPMEN | 40.00 | 0.00 | 0.00 | 34.26 | 32.58 | 9.51 | S | S |
| RU-PE-8826 | IBRD 38240 | 1995 | RUSSIAN FEDERATION | MANAGEMENT AND FINAN | 40.00 | 0.00 | 0.00 | 19.84 | 4.56 | 0.00 | S | S |
| RU-PE-8821 | IBRD 38060 | 1995 | RUSSIAN FEDERATION | ENVIRONMENT MANAGEME | 110.00 | 0.00 | 0.00 | 79.90 | -2.86 | 0.00 | S | S |
| RU-PE-45622 | IBRD 40590 | 1996 | RUSSIAN FEDERATION | COAL IAP | 25.00 | 0.00 | 0.00 | 21.75 | 3.29 | 0.00 | S | S |
| RU-PE-8831 | IBRD 40350 | 1996 | GOVT. OF RUSSIA | LEGAL REFORM PROJECT | 58.00 | 0.00 | 0.00 | 54.91 | 12.75 | 0.00 | S | S |
| RU-PE-38571 | IBRD 40330 | 1996 | GOVERNMENT OF RUSSIA | MEDICAL EQUIPMENT | 270.00 | 0.00 | 0.00 | 166.98 | -36.35 | 0.00 | S | S |
| RU-PE-42622 | IBRD 40290 | 1996 | GOVT. OF RUSSIAN FEDERATI | CAPITAL MARKET DEV. | 89.00 | 0.00 | 0.00 | 87.44 | 11.11 | 0.00 | S | U |
| RU-PE-36973 | IBRD 40120 | 1996 | RUSSIAN FEDERATION | ENTP.HOUSING DIVESTI | 300.00 | 0.00 | 0.00 | 293.21 | 8.71 | 0.00 | S | S |
| RU-PE-35761 | IBRD 40090 | 1996 | GOVT. OF RUSSIA | COMMUNITY SOCIAL INF | 200.00 | 0.00 | 0.00 | 191.66 | 10.16 | 0.00 | S | S |
| RU-PE-35764 | IBRD 39900 | 1996 | RUSSIAN FEDERATION | BRIDGE REHABILITATIO | 350.00 | 0.00 | 0.00 | 338.59 | 221.19 | 0.00 | S | S |
| RU-PE-8837 | IBRD 39610 | 1996 | GOVT OF RUSSIA | STANDARDS DEVELOP. | 24.00 | 0.00 | 0.00 | 22.46 | 6.14 | 0.00 | S | S |
| RU-PE-38573 | IBRD 42030 | 1997 | RUSSIAN FEDERATION | SOC. PROTECT. ADJ. | 800.00 | 0.00 | 0.00 | 250.00 | 0.00 | 0.00 | S | S |
| RU-PE-44200 | IBRD 41850 | 1997 | RUSSIAN FEDERATION | BUREAU OF ECON.POLIC | 22.60 | 0.00 | 0.00 | 22.10 | -.36 | 0.00 | S | S |
| RU-PE-46448 | IBRD 41840 | 1997 | MINISTRY OF FINANCE | ENTERPRISE RES.SERVS | 85.00 | 0.00 | 0.00 | 85.00 | 1.90 | 0.00 | S | S |
| RU-PE-8825 | IBRD 41830 | 1997 | GOVT. OF RUSSIA | EDUCATION INNOVATION | 71.00 | 0.00 | 0.00 | 71.00 | .50 | 0.00 | S | S |
| RU-PE-8814 | IBRD 41820 | 1997 | GOVERNMENT OF RUSSIA | HEALTH REFORM PILOT | 66.00 | 0.00 | 0.00 | 66.00 | 2.05 | 0.00 | S | S |
| RU-PE-50891 | IBRD 41810 | 1997 | RUSSIAN FEDERATION | ELECTR. SECTOR REFOR | 40.00 | 0.00 | 0.00 | 40.00 | 4.50 | 0.00 | S | S |
| RU-PE-42720 | IBRD 41440 | 1997 | RUSSIAN FEDERATION | ST. PETERSBURG REHAB | 31.00 | 0.00 | 0.00 | 31.00 | 2.14 | 0.00 | HS | S |
| RU-PE-50486 | IBRD 42620 | 1998 | RUSSIAN FEDERATION | COAL SECAL II | 800.00 | 0.00 | 0.00 | 400.00 | 0.00 | 0.00 | | |
| RU-PE-46496 | IBRD 42340 | 1998 | GOVERNMENT OF RUSSIA | SOC. PROTECT. IMPL. | 28.60 | 0.00 | 0.00 | 28.60 | 1.34 | 0.00 | S | S |
| Total | | | | | 6,569.44 | 0.00 | 314.97 | 3,756.11 | 3,559.14 | 1,742.52 | | |

| Project ID | Loan or Credit No. | Fiscal Year | Borrower | Purpose | Original Amount in US$ Millions | | | | Difference Between expected and actual disbursements a/ | | Last ARPP Supervision Rating b/ | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | IBRD | IDA | Cancellations | Undisbursed | Orig | Frm Rev'd | Dev Obj | Imp Prog |

| | Active Loans | Closed Loans | Total |
|---|---|---|---|
| Total Disbursed (IBRD and IDA): | 2,498.40 | 3,222.05 | 5,720.45 |
| of which has been repaid: | 0.00 | 0.00 | 0.00 |
| Total now held by IBRD and IDA: | 6,254.46 | 3,222.05 | 9,476.51 |
| Amount sold : | 0.00 | 0.00 | 0.00 |
| Of which repaid : | 0.00 | 0.00 | 0.00 |
| Total Undisbursed : | 3,756.11 | 0.00 | 3,756.11 |

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.
b. Following the FY94 Annual Review of Portfolio performance (ARPP), a letter based system was introduced (HS = highly Satisfactory, S = satisfactory, U = unsatisfactory, HU = highly unsatisfactory): see proposed Improvements in Project and Portfolio Performance Rating Methodology (SecM94-901), August 23, 1994.

Note:
Disbursement data is updated at the end of the first week of the month.

**Russian Federation**
**STATEMENT OF IFC's**
**Committed and Disbursed Portfolio**
As of 31-Jan-98
(In US Dollar Millions)

| | | Committed | | | | Disbursed | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | IFC | | | | IFC | | | |
| **FY Approval** | **Company** | **Loan** | **Equity** | **Quasi** | **Partic** | **Loan** | **Equity** | **Quasi** | **Partic** |
| 1993 | Polar Lights | 22.38 | 0.00 | 0.00 | 0.00 | 22.38 | 0.00 | 0.00 | 0.00 |
| 1993 | Vasyugan | 3.38 | 0.00 | 1.50 | 0.00 | 3.38 | 0.00 | 1.50 | 0.00 |
| 1994 | Framlington Fund | 0.00 | 8.00 | 0.00 | 0.00 | 0.00 | 8.00 | 0.00 | 0.00 |
| 1994 | Russia Registry | 0.00 | 1.50 | 0.00 | 0.00 | 0.00 | 1.50 | 0.00 | 0.00 |
| 1994 | RTDC | 0.00 | 7.50 | 0.00 | 0.00 | 0.00 | 7.50 | 0.00 | 0.00 |
| 1995 | A.O. Volga | 30.00 | 11.00 | 0.00 | 39.38 | 30.00 | 11.00 | 0.00 | 39.38 |
| 1995 | Depsona Z.A.O. | 5.30 | 1.50 | 0.00 | 0.00 | 0.00 | 1.50 | 0.00 | 0.00 |
| 1995 | First NIS Fund | 0.00 | 15.00 | 0.00 | 0.00 | 0.00 | 15.00 | 0.00 | 0.00 |
| 1995 | Russ Tech Fnd | 0.00 | 2.00 | 0.00 | 0.00 | 0.00 | 1.00 | 0.00 | 0.00 |
| 1995 | SCF | 0.00 | 4.53 | 0.00 | 0.00 | 0.00 | 2.05 | 0.00 | 0.00 |
| 1996 | Alpha Cement | 0.00 | 13.49 | 0.00 | 0.00 | 0.00 | 13.49 | 0.00 | 0.00 |
| 1996 | Pioneer First | 0.00 | 4.00 | 0.00 | 0.00 | 0.00 | 4.00 | 0.00 | 0.00 |
| 1996 | UNEXIM Bank | 15.00 | 0.00 | 0.00 | 0.00 | 7.50 | 0.00 | 0.00 | 0.00 |
| 1997 | Aminex RUS | 17.00 | 5.49 | 0.00 | 0.00 | 0.00 | 5.49 | 0.00 | 0.00 |
| 1997 | Intl. Bottlers | 35.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 1997 | PBCM | 0.00 | 5.50 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 1998 | Borsteklo | 0.00 | 15.00 | 0.00 | 0.00 | 0.00 | 15.00 | 0.00 | 0.00 |
| | Total Portfolio: | 128.06 | 94.51 | 1.50 | 39.38 | 63.26 | 85.53 | 1.50 | 39.38 |

Approvals Pending Commitment

| | | Loan | Equity | Quasi | Partic |
|---|---|---|---|---|---|
| 1998 | ALFA - RI | 0.00 | 0.00 | 2.10 | 0.00 |
| 1996 | ALPHA CEMENT | 20.00 | 0.00 | 0.00 | 0.00 |
| 1997 | DEPSONA B LOAN | 0.00 | 0.00 | 0.00 | 5.20 |
| 1998 | GARANTI MOSCOW | 5.00 | 3.00 | 0.00 | 0.00 |
| 1997 | INTL. BOTTLERS | 0.00 | 5.00 | 0.00 | 0.00 |
| 1998 | MOSENERGO | 32.00 | 0.00 | 0.00 | 0.00 |
| 1997 | NIKITAS BROKER. | 7.00 | .01 | 0.00 | 0.00 |
| 1997 | PLM | 25.00 | 0.00 | 0.00 | 15.00 |
| 1997 | POKROVSKIY MINE | 16.00 | 0.00 | 0.00 | 32.30 |
| 1997 | RUSSIAN IT FUND | 0.00 | 15.00 | 0.00 | 0.00 |
| 1998 | TORIBANK | 0.00 | 13.50 | 0.00 | 0.00 |
| 1997 | TROIKA DIALOG | 0.00 | 0.00 | 2.99 | 0.00 |
| 1997 | ZOLOTO MINING | 0.00 | 4.00 | 0.00 | 0.00 |
| | Total Pending Commitment: | 105.00 | 40.51 | 5.09 | 52.50 |

# Russian Federation - Selected Indicators of Bank Portfolio Performance and Management

| Indicator | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|
| *Portfolio Assessment* | | | | |
| Number of Projects under implementation[a] | 19 | 27 | 34 | 35 |
| Average implementation period (years)[b] | 1.01 | 1.33 | 1.81 | 2.35 |
| Percent of problem projects[a, c] | | | | |
| by number | 47.37 | 37.04 | 17.65 | 17.14 |
| by amount | 44.73 | 35.12 | 20.46 | 18.40 |
| Percent of projects at risk[a, d] | | | | |
| by number | 50.00 | 65.38 | 34.38 | 26.47 |
| by amount | 51.41 | 68.27 | 41.79 | 29.49 |
| Disbursement ratio (%)[e] | 5.23 | 11.58 | 16.24 | 13.19 |
| *Portfolio Management* | | | | |
| CPPR during the year (yes/no) | | | | |
| Supervision resources (total US$ thousands) | 2,585.91 | 2,957.81 | 4,488.43 | 2,687.33 |
| Average Supervision (US$/project) | 136.10 | 109.55 | 132.01 | 83.98 |

| Memorandum item | Since FY80 | Last five FYs |
|---|---|---|
| Projects evaluated by OED | | |
| by number | | |
| by amount (US$ millions) | | |
| Percent rated U or HU | | |
| by number | | |
| by amount | | |

a. As shown in the Annual Report on Portfolio Performance (except for current FY)
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: investment projects only.

# Russian Federation - IBRD/IDA Lending Program

| Category | *Past* 1995 | 1996 | 1997 | *Current* 1998 | *Planned*[a] 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|---|
| Commitments (US$m) | 1741.3 | 1816.0 | 1715.6 | 1928.6 | 4240.0 | 2670.0 | 1720.0 |
| Sector (%)[b] | | | | | | | |
| Agriculture | 0.0 | 0.0 | 0.0 | 0.0 | 11.8 | 11.2 | 0.0 |
| Education | 2.3 | 0.0 | 4.1 | 0.0 | 0.0 | 0.0 | 30.2 |
| Electric Pwr & Engy. | 0.0 | 0.0 | 2.3 | 0.0 | 0.0 | 0.0 | 29.1 |
| Environment | 6.3 | 0.0 | 0.0 | 0.0 | 6.1 | 0.0 | 0.0 |
| Finance | 0.0 | 21.4 | 0.0 | 0.0 | 7.1 | 0.0 | 5.8 |
| Industry | 0.0 | 0.0 | 5.0 | 0.0 | 11.8 | 7.5 | 0.0 |
| Mining | 0.0 | 28.9 | 0.0 | 41.5 | 0.0 | 0.0 | 0.0 |
| Multisector | 36.8 | 1.3 | 35.0 | 41.5 | 25.9 | 0.0 | 0.0 |
| Oil & Gas | 11.8 | 0.0 | 0.0 | 0.0 | 14.2 | 16.9 | 0.0 |
| Popultn, Hlth & Nutn | 0.0 | 14.9 | 3.8 | 0.0 | 0.0 | 19.5 | 0.0 |
| Public Sector Mgmt. | 1.0 | 3.2 | 1.3 | 0.0 | .7 | 3.7 | 0.0 |
| Soc Protection, etc. | 0.0 | 11.0 | 46.6 | 1.5 | 1.2 | 22.5 | 0.0 |
| Transportation | 18.9 | 19.3 | 0.0 | 0.0 | 14.2 | 0.0 | 17.4 |
| Urban Development | 23.0 | 0.0 | 1.8 | 0.0 | 7.1 | 18.7 | 17.4 |
| Water Supply & Santn | 0.0 | 0.0 | 0.0 | 15.6 | 0.0 | 0.0 | 0.0 |
| TOTAL | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Lending instrument (%) | | | | | | | |
| Adjustment loans[c] | 34.5 | 27.5 | 81.6 | 83.0 | 37.7 | 38.2 | 0.0 |
| Specific investment loans and others | 65.5 | 72.5 | 18.4 | 17.0 | 62.3 | 61.8 | 100.0 |
| TOTAL | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Disbursements (US$m) | | | | | | | |
| Adjustment loans[c] | 23.0 | 600.0 | 1400.0 | 1450.0 | 0.0 | 0.0 | 0.0 |
| Specific investment loans and others | 119.2 | 380.6 | 685.5 | 475.4 | 1458.3 | 1488.3 | 1614.8 |
| Repayments (US$m) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest (US$m) | 48.4 | 88.2 | 144.5 | 119.8 | 0.0 | 0.0 | 0.0 |

[a] Ranges that reflect the base-case (i.e., most likely) Scenario. for IDA countries, planned commitments are not presented by FY but as a three-year-total range; the figures are shown in brackets. A footnote indicates if the pattern of IDA lending has unusual characteristics (e.g., a high degree of frontloading, backloading, or lumpiness). For blend countries, planned IBRD and IDA commitments are presented for each year as a combined total.

[b] For future lending, rounded to the nearest 0 or 5%. To convey the thrust of country strategy more clearly, staff may aggregate sectors.

[c] Structural adjustment loans, sector adjustment loans, and debt service reduction loans.

Note:
Disbursement data is updated at the end of the first week of the month.

## Russian Federation - IFC and MIGA Program, FY95-98

| Category | Past 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|
| IFC approvals (US$m) [a] | 0.00 | 0.00 | 0.00 | 70.60 |
| Sector (%) | | | | |
| | 0.00 | 0.00 | 0.00 | 0.00 |
| Cement & Construction | 0.00 | 0.00 | 0.00 | 3.00 |
| Financial Services | 0.00 | 0.00 | 0.00 | 30.00 |
| Infrastructure | 0.00 | 0.00 | 0.00 | 45.00 |
| Manufacturing | 0.00 | 0.00 | 0.00 | 21.00 |
| TOTAL | 100.00 | 100.00 | 100.00 | 100.00 |
| Investment instrument (%) | | | | |
| Loans | 0.00 | 0.00 | 0.00 | 52.00 |
| Equity | 0.00 | 0.00 | 0.00 | 45.00 |
| Quasi-Equity [b] | 0.00 | 0.00 | 0.00 | 3.00 |
| Other | 0.00 | 0.00 | 0.00 | 0.00 |
| TOTAL | 100.00 | 100.00 | 100.00 | 100.00 |
| MIGA guarantees (US$m) | 0.00 | 0.00 | 0.00 | 0.00 |
| MIGA commitments (US$m) | 0.00 | 0.00 | 0.00 | 0.00 |

[a]Excludes AEF projects.
[b]Includes quasi-equity types of both loan and equity instruments.

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# Record Removal Notice



| File Title | Barcode No. |
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| Document Date | Document Type |
|---|---|
| March 10, 1998 | Briefing Paper |

**Correspondents / Participants**

**Subject / Title**
Mr. Wolfensohn's Meeting with Prime Minister Chernomyrdin
Tuesday, March 10
Briefing Note on IFC's Activities in Russia

**Exception(s)**
Information Provided by Member Countries or Third Parties in Confidence

**Additional Comments**

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

| Withdrawn by | Date |
|---|---|
| S. Thompson | August 11, 2025 |