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THE WORLD BANK

Washington, D.C.

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The World Bank

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Washington DC 20433

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Meeting: Vice President Al Gore

Thursday, August 1, 1996
10:00 - 10:15 am

White House (VP's West Wing Lobby)

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R2002-036 Other #: 22 Box #: 186472B

President Wolfensohn - Briefings Books for Presidents Meetings - Meeting Materials
Vice President Al Gore - August 1, 1996

• Coordination - For Dismissal
• Private foreign direct investment
→ IFC - world economy

• Guarantee for investment in Russia

• Over all level of support

Approved
for
signature
for
signature

Grant
154
3-4
D. Wolfensohn

Archive Management for the President's Office

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1/15

Edit

Print

A. CLASSIFICATION

- ☒ 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: VICE PRESIDENT AL GORE

VENUE: VICE PRESIDENT'S WEST WING LOBBY AT THE WHITE HOUSE (JOHN NORRIS, SENIOR ADVISOR FOR INTERNATIONAL AFFAIRS, OFFICE OF THE VICE PRESIDENT WILL BE WAITING AT THE WEST WING LOBBY)

CONTACT: MICHAEL MAREK OR SANDRA @ 80110

IN ATTENDANCE:

VICE PRESIDENT'S OFFICE:

VICE PRESIDENT AL GORE

LARRY SUMMERS, DEPUTY SEC. OF THE TREASURY

BILL WISE, DEPUTY NATL SECURITY ADVISOR TO THE PRESIDENT

CARLOS PASCUAL, NATL SECURITY COUNCIL, RUSSIA

DIRECTORATE

JOHN NORRIS, SENIOR ADVISOR FOR INTERNATIONAL AFFAIRS,

OFFICE OF THE VICE PRESIDENT

ONE MORE PERSON - TO BE ADVISED

WORLD BANK ATTENDEES:

MR. WOLFENSOHN

JAN PIERCY

YUKON HUANG

AGENDA: TO DISCUSS RUSSIA

DATE: 08/01/96

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

OFFICE MEMORANDUM

Jul. 2013

DATE: July 24, 1996

TO: Mr. James D. Wolfensohn, EXC

THROUGH: Mr. Caio Koch-Weser, EXC

FROM: Yukon Huang, Acting Vice President, ECA

EXTENSION: 35357

SUBJECT: **Russia/Ukraine -- Commercial Space Guarantee Project (Sea Launch)**
Technical Briefing for Executive Directors

This seems like a
✓ good project
When will the
decision be
made?

hi
7/25

91 5 24 100

1. During the ECA region's Technical Briefing on the above mentioned project, Messrs. Chneiweiss and Kanda raised questions about the structure of the project and its relationship to Bank strategy in each country. In case the issues are raised with you, this memo briefs you on the background to the Sea Launch project and the region's response to the major issues raised by the Executive Directors.

I. Background

2. The World Bank agreed to support the Sea Launch project only after it received letters last autumn requesting Bank involvement from Mr. Chubais, then the First Deputy Prime Minister of Russia and Mr. Shpek, then the Deputy Prime Minister of Ukraine. The project was reviewed and approved by the Bank's Operations Committee in March 1996.

3. World Bank participation in the Sea Launch project is designed to support the production and export of launch vehicles and launch systems from Russia and Ukraine. These launch vehicles (the Zenit rocket produced by Yuzhnoye in Ukraine and the Block DM third stage booster produced by Energia in Russia) and launch systems (also produced in Russia) would be sold to the Sea Launch joint venture which would use them during the life of the project to launch commercial earth orbiting commercial satellites from an offshore platform located near the equator in the Pacific Ocean. The Sea Launch joint venture is expected to provide a long term, stable market for launch vehicles produced by Yuzhnoye and Energia, generating just under \$2 billion of incremental exports during the life of the project. With the creation of a stable, long term market, Yuzhnoye and Energia would be able to preserve between 20,000 and 30,000 high wage, high skilled jobs. Additional jobs would be preserved and created in the Russian and Ukrainian subcontractors supplying Energia and Yuzhnoye.

4. The World Bank guarantee does not support or finance any off-shore, launch related activities. Nevertheless, the Project Agreements between the Bank and Sea Launch will give the Bank the right to cancel the guarantee if Sea Launch's rocket launching activities violate stringent military usage and environmental safeguards. The project falls under the auspices of the Missile Technology Control Regime (MTCR), a 30 nation accord designed to ensure that launch vehicles and launch systems are not diverted to military use. Continuous on-site monitoring will be performed by US, Ukrainian, and Russian inspectors. Sea Launch will be permitted to launch only commercial satellites. The launch activities will be governed by an Environmental Management Plan submitted to the Bank by Sea Launch and a Launch Operators License that is expected to be issued in the next 18 to 24 months by the US Department of Transportation. Compliance with the environmental provisions of the launch operator's license will be monitored by the US Government. The Bank would have the right to withdraw the guarantee if Sea Launch failed to comply with the Environmental Management Plan or the environmental provisions of the launch operator's license.

II. Executive Directors' Comments and ECA Region Response

5. **The launch operations conflicts with the 1967 Space Treaty and the 1982 Convention on the Law of the Seas.** The Legal Department's preliminary analysis indicates the project does not appear to violate provisions of these treaties. Legal is reviewing further on an urgent basis.

6. **The Bank does not have any comparative advantage or technical expertise in the commercial space sector.** Although the Bank has no expertise in rocket science or the commercial space sector, these technical skills are not critical since the Bank guarantee does not cover any of the Sea Launch venture's commercial or technological risks. However, the Bank does have a comparative advantage and technical expertise in two critical areas -- governmental relationships and knowledge of the policy regime affecting the covered risks. The Bank has familiarized both Governments with the package of legal agreements that constitute a typical political risk package as well as with the institutional arrangements required to implement a political risk guarantee program. Bank staff have worked with the sponsors and Government officials to ensure that the covered risks conform to Bank policies and do not carve out any special policy regime or privileges that would favor this particular venture over other private investments. Finally, and perhaps most importantly, the Bank is the only institution with the capacity to backstop government contractual commitments.

7. **The project is not consistent with the overall Bank strategy for Ukraine and Russia.** The CAS for both countries highlights the importance of restoring employment, production, and exports and attracting private investment for

commercially viable activities. The Sea Launch project is entirely consistent with these objectives. It will generate incremental exports and 30,000 jobs. It is consistent with the Bank's strategy of allowing the private sector to pick winners and losers, to provide the working capital needed to restore production in existing production facilities, and to bear the commercial risk of individual transactions. The project allows the government to fulfill its pledge to restore production and employment and to do so in a way that does not upset the recent macro-stabilization gains.

8. At a time when the Bank is perceived by some as supporting the deindustrialization of the former Soviet Union and the closure of production facilities, the Bank's strategy is to demonstrate that it is willing to support privately financed production in economically viable production units where Russia and Ukraine have a comparative advantage.

9. **Bank participation crowds out the private sector and precludes other official agencies from supporting the project.** Bank participation is not crowding out private funds. On the contrary, Boeing, Kvaerner, and the commercial lenders have declared that they will not finance the project unless the proposed IBRD guarantee are available to stabilize the policy environment and deter both governments from actions that would prevent the timely production and export of launch vehicles and components. Their decision reflects the perceived risks of attempting to do business concurrently in Russia and Ukraine as well as the perceived "halo" or "deterrent" value of IBRD guarantees backed by sovereign counter-guarantees. The Norwegian export credit agency and UK Ship Mortgage Financing Corporation are also supporting the project with a total of \$161 million of loan guarantees. Discussions are also currently underway between the EBRD, Sea Launch, Yuzhnoye, and Energia regarding the terms and conditions of an approximately \$100 million EBRD line of credit, backed by a sovereign counter-guarantee, to finance Energia and Yuzhnoye's working capital requirements during the project's early years of operation. Finally, before turning to the Bank for support, Sea Launch explored the possibility of obtaining loans and/or guarantees from U.S. Ex-Im, OPIC, MIGA, and IFC. None were able to support for reasons related to the availability of their instruments, not due to problems with the project itself.

10. **The proposed guarantee does not conform to the guidelines established in the 1994 Mainstreaming Paper.**

The project conforms to the basic operational guidelines specified in the Mainstreaming Paper in the sense that the guarantee is backstopping a specific set of political risks or government commitments to pay damages if a covered event

occurs. In addition, in conformity with the Mainstreaming Paper, the guarantee pertains only to debt service payments on commercial loans; it does not cover returns to equity. The project deviates from the Mainstreaming Paper in the sense that it is not an infrastructure concession. However, at this stage in the transformation process in the Former Soviet Union, the market demand for guarantees seems to be focussed primarily on pre-export guarantee projects (as in Moldova and Ukraine) or projects like Sea Launch. These project all share one common element -- foreign investors and lenders are providing working capital financing required to restore production, maintain employment, and more fully utilize existing production facilities.

cc: Messrs. R. Frank, G. Kaji, o/r, I. Shihata, H. Fukui

AWatkins:
o:\al\sea\jdw796d.mem

A L L - I N - 1 N O T E

DATE: 01-Aug-1996 05:58pm

TO: See Distribution Below

FROM: Yukon Huang, EC3DR

(YUKON HUANG)

EXT.: 35357

SUBJECT: Gore - Wolfensohn Meeting

Mr. Wolfensohn met today with Vice-President Gore and senior officials from Treasury and the White House (including Larry Summers, David Lipton and Carlos Pascual). Jan Piercy and I also attended.

Gore briefed Wolfensohn on his recent trip to Moscow. His message was clear - that with the reappointment of Chernomyrdin and Chubais as Chief of Staff, we (US and the Bank) had a historic opportunity to support Russia at this critical juncture. He emphasized the strong messages that he had received in Moscow on the Government's commitment to move forward with reforms. At this time, it would appear that the Bank should now play the key role in supporting the reform effort with the Fund gradually scaling back.

Larry Summers then emphasized three points: (1) During their visit, they sensed a major improvement in Bank-Government working relations at all levels supported by the strong ties between Wolfensohn and the Prime Minister; (2) There is a need for a more ambitious program of fast-disbursing assistance which the G-7 would favor; and (3) Yeltsin would welcome more assistance in improving the policy framework for attracting private investment for which a more aggressive use of guarantess could be very helpful. He concluded that the Bank should aim at disbursing \$3-4 billion annually over the next few years.

Mr. Wolfensohn agreed that the Bank's program in Russia was much stronger today compared with a year ago and that a system was in place to strengthen relations and accelerate implementation. We had been thinking about making available as much as \$3 billion annually if performance improved but we had to be sure that there was a strong program to support. The Bank could not be seen as treating Russia differently than say Ukraine. He was awaiting a letter from the Prime Minister spelling out the Government's priorities. On our part, we were prepared to move forward with major adjustment operations in the social and financial sectors. In his discussions with the Prime Minister and President Yeltsin, it was agreed that the problems in the rural economy also needed to be addressed. The Bank also was willing to support improvements in the private sector regulatory and legal framework and public sector management. In sum, there was broad agreement between the Bank and the US Government on the key structural

needs. The Bank was prepared to move forward quickly provided the Government did its share.

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OFFICE MEMORANDUM

DATE: July 30, 1996

TO: Mr. James D. Wolfensohn

THROUGH: Mr. Caio K. Koch-Weser, EXC

FROM: Yukon Huang, Director, EC3

EXTENSION: 80523

SUBJECT: Your meeting with US Vice President Gore on Thursday, August 1, 1996

I will accompany you to your meeting with Mr. Gore on Thursday, August 1 to discuss, *inter alia*, the Bank's Russia program. He is expected to highlight the importance of mobilizing foreign investment to Russia and that the Bank should play an increasingly important role in the post-election period relative to the IMF. The attached memorandum to Mr. Koch-Weser describes planning for a more pro-active as well as collaborative process by the Bank if the Government is serious about advancing structural reforms and can maintain macro stability. It indicates that the Bank is ready to move forward with a number of fast-disbursing SECALs of US\$500 million (or even US\$1 billion) depending on the strength of the reform package and emerging financing needs: last tab

- The first category of SECALs includes the Social Protection Adjustment Loan (SPAL), which is an agreed high priority operation on both sides, and a post-election request for a Financial Sector Adjustment Loan (FSAL). Both Mr. Yeltsin and Mr. Chernomyrdin have confirmed to you that the Government wants the Bank to accord high priority to the SPAL. At Mr. Yeltsin's request, Mr. Chernomyrdin has established a commission to prepare a social sector reform program by October. Financial sector adjustment is a new potential area for support since the Government is only now trying to come to grips with the possibility of a banking crisis. On July 17, we received a joint letter from the Central Bank and Ministry of Finance asking for US\$1 billion to support bank restructuring and a deposit insurance scheme.
- The second category is the Agriculture Sector Adjustment Loan where we have had an ongoing dialogue and developed a reform agenda, but where Government commitment has been in doubt. You have suggested to Mr. Yeltsin that a joint working group be formed after the elections.
- The third category covers issues that are less developed in terms of collaborative analytical work, but where we could gear up quickly if the Government indicated interest. Examples are public sector management and private sector development, including more aggressive use of the guarantee instrument.

In addition, a key objective over the next year is to maintain progress in implementing existing projects. We currently have US\$ 4.7 billion undisbursed in 26 projects, with US\$1.3 billion currently under contract compared with US\$ 425 million a year ago. If Government is responsive on both the policy and implementation side, and there is limited disruption from changes in Government structure and personnel, it is possible that we could disburse US\$1 billion or more for investment projects in CY97, complemented by US\$1-2 billion in adjustment loans (i.e., a total of US\$2-3 billion). Russia's past track record in following through, however, has not been encouraging. We must be realistic in our expectations, but at the same time, make clear the offer is there if the Government wants to act on it.

The attached CAS tables reflect the intermediate scenario that was considered most likely a year ago. The forthcoming CAS will develop the possible enhanced lending program described above.

July 31, 1996

JDW

- This brief was prepared by Yukon Huang for your quick meeting with Vice President Gore. According to Mike Marek (US Alternate ED), the Vice President asked to see you to talk about Russia -- particularly speeding aid and private sector flows. (Gore recently returned from a trip to Russia where he met with Yeltsin and Chernomyrdin.)
- Yukon and Jan Piercy will be accompanying you to the meeting.
- With the Vice President will be:

Larry Summers, Deputy Secretary Of The Treasury

Bill Wise, Deputy National Security Advisor To The President

Carlos Pascual, National Security Council, Russia Directorate

John Norris, Senior Advisor For International Affairs, Office Of The Vice President

Josie

Russian Federation at a glance

POVERTY and SOCIAL

	Russian Federation	Europe & Central Asia	Lower-middle-income
Population mid-1995 (millions)	148.2	488	1,154
GNP per capita 1995 (US\$, Atlas method)	2,230	2,240	1,700
GNP 1995 (billions US\$, at Atlas conversion factor)	330.5	1,093	1,962

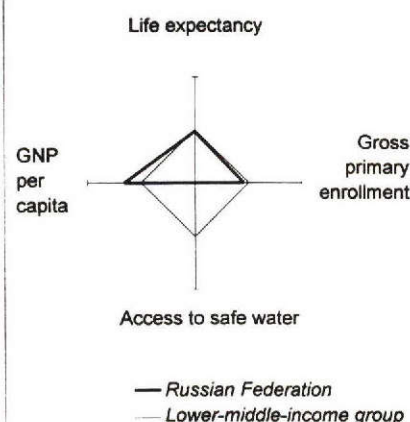
Average annual growth, 1990-95

Population (%)	0.0	0.4	1.4
Labor force (% Russia: 1992-95)	-0.9	0.6	1.7

Most recent estimate (latest year available since 1989)

Poverty: headcount index (% of population)	32	..	..
Urban population (% of total population)	73	65	56
Life expectancy at birth (years)	65	68	67
Infant mortality (per 1,000 live births)	18	23	36
Child malnutrition (% of children under 5)	..	..	..
Access to safe water (% of population)	..	..	73
Illiteracy (% of population age 15+)	0	..	..
Gross primary enrollment (% of school-age population)	94	97	104
Male	..	97	105
Female	..	97	101

Development diamond*

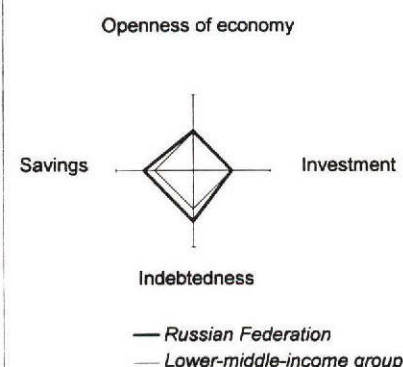


KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1975	1985	1994	1995
GDP (billions US\$)	..	..	277.1	363.7
Gross domestic investment/GDP	..	..	28.9	28.0
Exports of goods & non-factor services/GDP	..	..	27.7	25.8
Gross domestic savings/GDP	..	..	31.6	30.7
Gross national savings/GDP	..	..	30.1	29.5
Current account balance/GDP	..	..	1.1	1.5
Interest payments/GDP a)	..	..	1.8	1.7
Total debt/GDP	..	..	44.1	33.1
Total debt service/exports a) b)	..	..	26.2	19.5
Present value of debt/GDP	..	..	..	..
Present value of debt/exports	..	..	..	..

	1975-84	1985-95	1994	1995	1996-04
(average annual growth)					
GDP	..	..	-12.6	-4.0	5.1
GNP per capita	..	..	-12.6	-4.1	5.4
Exports of goods and nfs	..	..	11.8	3.6	4.8

Economic ratios*

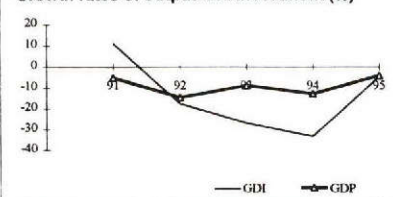


STRUCTURE of the ECONOMY

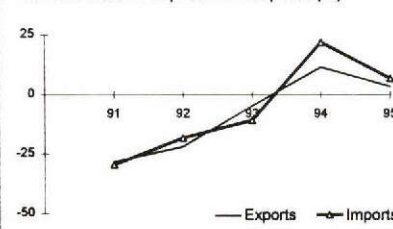
	1975	1985	1994	1995
(% of GDP)				
Agriculture	..	..	7.8	9.4
Industry	..	..	34.8	33.9
Manufacturing	..	..	..	..
Services	..	..	57.4	56.7
Private consumption	..	..	47.5	..
General government consumption	..	..	20.9	..
Imports of goods and non-factor services	..	..	25.0	23.1

	1975-84	1985-95	1994	1995
(average annual growth)				
Agriculture	..	..	-6.0	-6.0
Industry	..	..	-25.1	-4.7
Manufacturing	..	..	..	..
Services	..	..	-2.9	-4.0
Private consumption	..	..	..	..
Total consumption	..	..	2.2	-2.8
Gross domestic investment	..	..	-33.1	-4.5
Imports of goods and non-factor services	..	..	22.0	7.1
Gross national product	..	..	-12.7	-4.2

Growth rates of output and investment (%)



Growth rates of exports and imports (%)



Note: 1995 data are preliminary estimates.

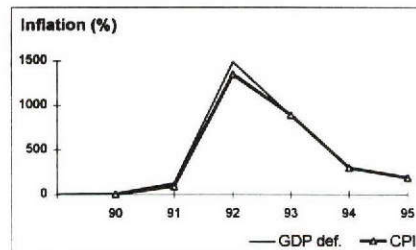
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

a) Scheduled payments before debt relief.

b) Exports of goods and services.

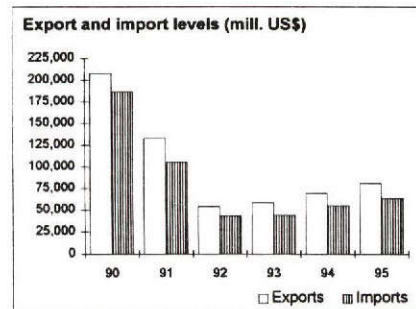
PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	..	..	303.2	189.2
Implicit GDP deflator	..	..	307.6	182.8
Government finance				
(% of GDP)				
Current revenue	..	..	37.7	29.8
Current budget balance	..	..	..	..
Overall surplus/deficit	..	..	-10.0	-4.8



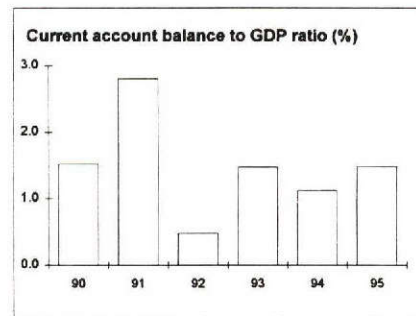
TRADE

	1975	1985	1994	1995
(millions US\$)				
Total exports (fob)	..	..	69,400	81,400
Petroleum, crude and processed	..	..	16,454	18,162
Natural gas	..	..	12,632	13,834
Manufactures	..	..	..	..
Total imports (fob)	..	..	55,200	63,500
Food	..	..	..	..
Fuel and energy	..	..	..	..
Capital goods	..	..	..	..
Export price index (1987=100)	..	..	..	..
Import price index (1987=100)	..	..	..	..
Terms of trade (1987=100)	..	..	..	..



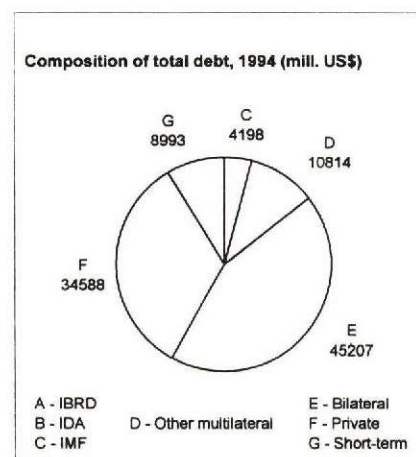
BALANCE of PAYMENTS

	1975	1985	1994	1995
(millions US\$)				
Exports of goods and non-factor services	..	..	76,900	93,800
Imports of goods and non-factor services	..	..	69,400	84,000
Resource balance	..	..	7,500	9,800
Net factor income	..	..	-4,300	-4,900
Net current transfers	..	..	-100	500
Current account balance, before capital transfers	..	..	3,100	5,400
Financing items (net)	..	..	-7,000	0
Changes in net reserves	..	..	3,900	-5,400
Memo:				
Reserves including gold (mill. US\$)	..	..	6,475	17,275
Market exchange rate (local/US\$)	..	..	2,205	4,562



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US\$)				
Total debt outstanding and disbursed c)	..	..	94,232	103,800
IBRD	..	..	684	..
IDA	..	..	0	0
Total debt service paid	..	..	3,661	..
IBRD	..	..	38	..
IDA	..	..	0	0
Composition of net resource flows	..	..		
Capital transfers, net	..	..	800	-600
Official creditors	..	..	..	..
Private creditors	..	..	..	..
Foreign direct investment	..	..	600	1,956
Portfolio equity	..	..	-200	-1,434
World Bank program	..	..		
Commitments	..	..	1,590	..
Disbursements	..	..	283	..
Principal repayments	..	..	0	..
Net flows	..	..	283	..
Interest payments	..	..	38	..
Net transfers	..	..	245	..



Status of Bank Group Operations in Russia **IBRD Loans and IDA Credits in the Operations Portfolio**

(AS OF JULY 04, 1996)

Project ID	Loan or Credit No.	Fiscal Year	Borrower	Purpose	Original amount in US\$ millions		Undisbursed	1996 ARPP Supervision Rating ^a		
					Cancelled	Disbursed		Develop. Obj.	Impl. Prog.	
					Number of Closed Loans/Credits: 2					
RU-PA-8822	L35320	1993	GOVERNMENT OF RUSSIA	EMPLOYMENT SERV. & S	70.00	10.00	14.19	45.81	S	U
RU-PA-8810	L35460	1993	GOVT OF RUSSIA	PRIVATIZATION	90.00		28.37	61.63	S	S
RU-PA-8809	L36230	1993	RUSSIAN FEDERATION	OIL REHAB.	610.00	5.23	224.85	379.92	U	U
RU-PA-8808	L37060	1994	RUSSIAN FEDERATION	HIGHWAY REHAB & MAIN	300.00		72.83	227.17	HS	S
RU-PA-8828	L37340	1994	MOF	FINANCIAL INSTITUTIO	200.00		6.10	193.90	S	U
RU-PA-34579	L37560	1994	REP OF RUSSIAN FED	LAND REFORM IMPL. SU	80.00		2.60	77.40	U	U
RU-PA-8811	L37570	1994	REP. OF RUSSIAN FED.	AGRIC. REFORM IMPL.	240.00		1.32	238.68	U	U
RU-PA-8839	L37630	1994	GOVT. OF RUSSIA	ENTERPRISE SUPPORT	200.00		4.00	196.00	S	U
RU-PA-8805	L37680	1994	RUSSIAN FEDERATION	OIL REHAB. II	500.00		64.34	435.66	U	S
RU-PA-8821	L38060	1995	RUSSIAN FEDERATION	ENVIRONMENT MANAGEME	110.00		6.32	103.68	S	S
RU-PA-8826	L38240	1995	RUSSIAN FEDERATION	MANAGEMENT AND FINAN	40.00		3.84	36.16	S	S
RU-PA-8823	L38440	1995	GOVERNMENT OF RUSSIA	PORTFOLIO DEVELOPMEN	40.00		1.90	38.10	U	U
RU-PA-8827	L38500	1995	RUSSIAN FEDERATION	HOUSING	400.00		10.09	389.91	S	S
RU-PA-38572	L38530	1995	GOVT. OF RUSSIA	TAX ADMINISTRATION	16.80		0.44	16.36	U	U
RU-PA-40409	L38720	1995	RUSSIAN FEDERATION	EMERG. OIL SPILL MIT	99.00		63.23	35.77	S	HS
RU-PA-8803	L38760	1995	RUSSIAN FEDERATION	RUSSIA ENERGY EFFICY	106.50			106.50	U	U
RU-PA-8806	L38850	1995	RUSSIAN FEDERATION	URBAN TRANSPORT	329.00		6.16	322.84	S	S
RU-PA-8837	L39610	1996	GOVT OF RUSSIA	STANDARDS DEVELOP.	24.00			24.00	S	S
RU-PA-35764	L39900	1996	RUSSIAN FEDERATION	BRIDGE REHABILITATIO	350.00			350.00	S	S
RU-PA-35761	L40090	1996	GOVT. OF RUSSIA	COMMUNITY SOCIAL INF	200.00			200.00	S	S
RU-PA-36973	L40120	1996	RUSSIAN FEDERATION	ENTP. HOUSING DIVESTI	300.00			300.00	S	S
RU-PA-42622	L40290	1996	GOVT. OF RUSSIAN FEDERATI	CAPITAL MARKET DEV.	89.00			89.00	S	S
RU-PA-38571	L40330	1996	GOVERNMENT OF RUSSIA	MEDICAL EQUIPMENT	270.00			270.00	S	S
RU-PA-8831	L40350	1996	GOVT. OF RUSSIA	LEGAL REFORM PROJECT	58.00			58.00	S	S
RU-PA-38550	L40580	1996	RUSSIAN FEDERATION	COAL SECTOR RESTRUC.	500.00			500.00	S	S
RU-PA-45622	L40590	1996	RUSSIAN FEDERATION	COAL SECT. REST. IMP	25.00			25.00	S	S

Active Loans

TOTAL	5247.30	15.23	510.58	4721.49
	Active Loans	Closed Loans	Total	
Total disbursed (IBRD and IDA)	510.58	1200.00	1710.58	
Of which repaid	0.00	0.00	0.00	
Total now held by IBRD and IDA	5232.07	1200.00	6432.07	
Amount sold	0.00	0.00	0.00	
Of which repaid	0.00	0.00	0.00	
Total undisbursed	4721.49	0.00	4721.49	

a. 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.

1-3 Bill Controll
26 P-pts.

1.5 - 3.00

Expenditure - Tax Policy

For - Review
For - Review
Agreement
Pursue Review against
Kobusov



Record Removal Notice

File Title President Wolfensohn - Briefing Book for President's Meetings - Meeting Material - Vice President Al Gore - August 1, 1996		Barcode No. 30485620		
Document Date July 30, 1996	Document Type Chart / Table / Diagram			
Correspondents / Participants				
Subject / Title Russia - Statement of IFC Investments				
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. <table border="1"><tr><td>Withdrawn by Diego Hernández</td><td>Date March 13, 2025</td></tr></table>	Withdrawn by Diego Hernández	Date March 13, 2025
Withdrawn by Diego Hernández	Date March 13, 2025			

Russia - Selected Indicators of Bank Portfolio Performance and Management

<i>Indicator</i>	FY94	FY95	FY96	FY97
<i>Portfolio Performance</i>				
Number of projects under implementation	10.00	19.00	27.00	0.00
Average implementation period (years) ^a	0.67	1.03	1.35	0.00
Percent of problem projects rated U or HU ^b (for past years, rated 3 or 4)				
Development objectives ^c	0.00	0.00	25.93	0.00
Implementation progress (or overall status for past years) ^d	40.00	47.37	33.33	0.00
Canceled during FY in US\$m	0.00	15.23	0.00	0.00
Disbursement ratio (%) ^e	1.26	5.23	11.58	0.00
Disbursement lag (%) ^f	43.01	56.61	40.90	0.00
Memorandum item: % completed projects rated unsatisfactory by OED ^g	0.00	0.00	0.00	0.00
<i>Portfolio Management</i>				
Supervision resources (total US\$ thousands)	839.90	2106.60	2671.23	0.00
Average supervision (US\$ thousands/project)	83.99	110.87	98.93	0.00
Supervision resources by location (in %)				
Percent headquarters	69.09	71.15	84.90	0.00
Percent resident mission	30.91	28.85	15.10	0.00
Supervision resources by rating category (US\$ thousands/project)				
Projects rated HS or S	64.43	62.26	93.38	0.00
Projects rated U or HU	113.33	164.89	116.71	0.00
Memorandum item: date of last/next CPPR				0.00

a. Average age of projects in the Bank's country portfolio.

b. Rating scale: "HS" denotes "Highly Satisfactory", "S" denotes "Satisfactory", "U" denotes "Unsatisfactory", and "HU" denotes "Highly Unsatisfactory".

c. Extent to which the project will meet its development objectives (see OD 13.05, Annex D2, *Preparation of Implementation Summary [Form 590]*).

d. Assessment of overall performance of the project based on the ratings given to individual aspects of project implementation (e.g., management, availability of funds, compliance with legal covenants) and to development objectives (see OD 13.05, Annex D2, *Preparation of Implementation Summary [Form 590]*). The overall status is not given a better rating than that given to project development objectives.

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.

f. For all projects comprising the Bank's country portfolio, the percentage difference between actual cumulative disbursements and the cumulative disbursement estimates as given in the "Original SAR/PR Forecast" or, if the loan amounts have been modified, in the "Revised Forecast." The country portfolio disbursement lag is effectively the weighted average of disbursement lags for projects comprising the Bank's country portfolio, where the weights used are the respective project shares in the total cumulative disbursement estimates.

g. OED data, available in the statistical appendix to the most recent ARPP reports.

Note:

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

Supervision resources include Salaries, Benefits, and Travel for "BB" source of funds but excludes FAO staff and PCR task costs.

Russia - Bank Group Fact Sheet FY 1994-2000

IBRD/IDA Lending Program, FY 1994-2000

Category	Past		Current		Planned ^a		FY00
	FY94	FY95	FY96	FY97	FY98	FY99	
Commitments (US\$m)	1520.0	1741.3	1816.0	1255.0	2320.0	1020.0	
Sector (%) ^b							
Agriculture	21.1	0.0	0.0	0.0	21.6	0.0	
Education	0.0	2.3	0.0	0.0	8.6	0.0	
Elec.power,oth.Engy.	0.0	0.0	0.0	39.8	0.0	0.0	
Environment	0.0	6.3	0.0	0.0	0.0	0.0	
Finance	13.2	0.0	21.4	0.0	2.2	0.0	
Industry	13.2	0.0	0.0	9.6	0.0	0.0	
Mining & Other Extra	0.0	0.0	28.9	0.0	0.0	0.0	
Multi Sector	0.0	36.8	1.3	0.0	0.0	0.0	
Oil & Gas	32.9	11.8	0.0	0.0	17.2	39.2	
Pop/health/nutrition	0.0	0.0	14.9	5.6	0.9	9.8	
Public Sector Mgmt	0.0	1.0	3.2	1.6	0.0	21.6	
Social Sector	0.0	0.0	0.0	41.4	0.0	0.0	
Transportation	19.7	18.9	19.3	0.0	28.0	0.0	
Urban Development	0.0	23.0	0.0	2.0	8.6	29.4	
Water Supply & Sanit	0.0	0.0	11.0	0.0	12.9	0.0	
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans ^c	0.0	34.5	27.5	39.8	21.6	0.0	
Specific investment loans and others	100.0	65.5	72.5	60.2	78.4	100.0	
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disbursements (US\$m)							
Adjustment loans ^c							
Specific investment loans and others							
Repayments (US\$m)							
Interest (US\$m)	25.4	48.4	88.2	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 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.



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OFFICE MEMORANDUM

DATE: July 19, 1996

TO: Mr. Caio K. Koch-Weser, Managing Director

FROM: Yukon Huang, Acting Vice President, ECA 

EXTENSION: 35357

SUBJECT: RUSSIA: Preparatory Work for Program and Policy Initiatives

1. President Yeltsin's re-election offers a fresh opportunity to fine-tune the Bank's strategy in Russia in collaboration with the new Government. During the Annual Meetings and your proposed visit to Russia, we can deepen the policy dialogue in high-priority areas where assistance is either under development or may be requested. We are also aware that several G-7 countries expect the Bank to transfer more significant resources to Russia in the near-term, provided the policy environment is acceptable. For these reasons, the Bank needs to prepare a clear statement of its vision for Russia based on a candid assessment of issues, opportunities and risks in high-priority sectors.

2. This note outlines our approach for developing a policy dialogue with the new Government on major issues of structural reform, leading to the preparation of a CAS in early 1997. A summary of outputs and a timetable are at Attachment I.

3. The current FY97-99 lending program is expected to be modified significantly in light of our discussions with Government. By the fall we may have to consider whether the Bank needs to shift to some kind of "High Case" scenario if Government really moves. Thus for FY97 lending could be in the range of US\$1.5-\$3.0 billion. For this reason, the note highlights policy-based initiatives with the greatest probability of success if conditions are right, but not investment lending, to which we continue to give high priority.

Recent Developments

4. While the new Government will not be formed until the second half of August, the President's statement that he will nominate Mr. Chernomyrdin as the new Prime Minister and the appointment of Mr. Chubais as chief of the Presidential Administration send a positive signal of continuity in market-oriented reforms. Moreover, Mr. Chernomyrdin and his senior ministers have recently stressed that the Government's top priority is to get the stabilization program back on track.

5. The fiscal side of the stabilization program has come under severe pressure from continued poor revenue performance and pre-election spending promises. The Government recognizes that it will have to absorb the costs of these promises by raising revenues to finance some and by not delivering on others. Partly due to this work-out process, the Fund does not expect to reach agreement on modification of fiscal targets in time for the fourth drawing under the EFF, which would then be combined with the fifth. To help consolidate the fiscal situation and put the stabilization program on a sustainable footing,

the Government is eager to get the structural reform agenda back on track. With the Bank's participation, the Fund and Government will begin revising the structural benchmarks in the EFF in August. Based on this background and on Mr. Wolfensohn's recent meetings with President Yeltsin and Prime Minister Chernomyrdin, we can identify priority areas where the new Government may request or welcome a Bank role in supporting urgently needed structural reforms, possibly through policy-based lending.

Strategy Notes

6. We plan to lay the basis for the CAS and a longer-term collaborative process while preparing for increased activity on near-term operational priorities. For this purpose, five strategy notes will be prepared prior to the Annual Meetings. Preparatory work is more advanced in some areas than others. Each could potentially become a framework for significant Bank lending depending upon economic developments and political will. The papers would be short (3 pages) and would describe the nature and significance of the problem and a strategy to deal with it, including a possible Bank role. The primary audience would differ depending on the paper, but in most cases would be senior Government officials.

7. ***Social Sectors.*** Both Messrs. Yeltsin and Chernomyrdin confirmed to Mr. Wolfensohn in May 1996 that increased support for social sector reforms should be a high priority for Bank policy advice and lending. Mr. Chernomyrdin has been asked by the President to prepare a social policy reform program by October, so we might anticipate a request by late August to accelerate preparations on the Social Protection Adjustment Loan. This paper would describe our already well-developed lending program in social protection, health and education. Circulating the paper to Government would facilitate the consultation process on the Social Protection Adjustment Loan by introducing the Bank's strategy in poverty reduction to what we expect will be new appointees with social sector responsibilities. The paper would also be useful for G-7 countries, the EU and other donors.

8. ***Banking Sector.*** While hard evidence is difficult to obtain, indications are that a large part of Russia's banking system faces serious problems and that many banks are insolvent. On July 17, we received a joint request from the Central Bank and Ministry of Finance for up to US\$1 billion to support the restructuring of problem banks and establishment of a deposit insurance scheme. Given the urgency of the situation, we will begin diagnostic work, to assess the extent of problems in the banking sector, and at the same time, formulate a strategy on dealing with both the most important banks in distress and a systemic banking crisis. To undertake more extensive diagnostic work may require reallocation of resources from the Financial Institutions Development Loan (FIDP). The paper will outline, inter alia, criteria for differentiating the systemic importance of banks in distress and the institutional requirements for bank restructuring.

9. ***Fiscal Policies and Management.*** As the highest immediate priority for the Government is deficit reduction, we may be asked to assist in improving revenue performance and restructuring expenditures to accommodate increased social spending. While the Fund would take the lead in near-term fiscal adjustments, the paper would propose medium-term fiscal reforms and Bank lending to support: (i) a major restructuring of the tax system (linked to the implementation of the new tax code) and tax policies (lowering the rates, broadening the base, drastically reducing exemptions, increasing the

contribution of the energy sector, increasing the role of personal income taxes at the expense of taxes on enterprises); (ii) a reallocation of state expenditures to eliminate subsidies and reduce the weight of the public sector; (iii) reforms in budget preparation, execution, and evaluation to rationalize and improve the efficiency of public sector expenditures; and (iv) improvements in the system of intergovernmental transfers to promote transparency, accountability and regional-level reforms. Depending on the sequencing of actions, these reforms may be packaged as an adjustment operation.

10. **Agriculture.** Mr. Yeltsin asked Mr. Wolfensohn in May 1996 for the Bank to play a greater role in supporting agriculture sector reforms. They agreed to set up a joint task force to examine issues in agriculture and rural industry as a basis for expanded Bank activity. In preparation for this process, the paper would outline a game plan for significant reforms drawing upon our considerable sector work and knowledge from project experience. Earlier, we had judged the prospects for success in reaching closure on an agriculture sector adjustment loan to be low. Prospects now appear better given the presidential imprimatur on the process. Moreover, if the present pro-reform Minister of Agriculture remains in office, it would help drive the agenda. However, there could be significant constraints to reform from the political attitudes of rural stakeholders. We will need to make a candid assessment of the feasibility of reform implementation before committing to an adjustment operation.

11. **Private Sector Development.** Rapid development of the private sector will be critical for putting the stabilization program on a sustainable basis and for restoring growth. The electoral season and controversies over the loans-for-shares schemes slowed the privatization process and related structural reforms over the past year. The process now needs to be rejuvenated. The paper would propose a strategy for deepening the privatization process and accelerating reforms to promote private sector development, including competition policy and the regulatory framework. We have several instruments in place or under development to support these objectives and do not envision any policy-based lending at this time.

CAS Preparation

12. These strategy notes will form the substantive background for preparation of the CAS. We will prepare an Initiating Memorandum in mid-September to provide background for exploratory talks during the Annual Meetings. It would be revised prior to your proposed visit to Moscow in October and developed subsequently into a focused document for presentation to the Board in February 1997. As Russia has been nominated by ECA to pilot a partnership with EDI during CAS preparation, we will engage them fully in this process.

Attachment: Outputs and Timetable

cc: Messrs.\Ms. Blanc (o/r), Michalopoulos, Rashid (EC3DR); Mitra (o/r), EC3C2 HL; Brown (EC3IV); Gould (EC3AI); Liebenthal (EC3HR); Carter, Holt, Konovolov (EC3MO); Division Chron/Files

RUSSIA
PREPARATORY WORK FOR POLICY AND PROGRAM INITIATIVES

Outputs and Timetable

	<u>Strategy Note</u>	<u>Audience</u>	<u>Available</u>
1.	Social Sectors	Government, donors	August 1, 1996
2.	Fiscal Management	Government, donors	Sept. 16, 1996
3.	Banking Sector	a. Internal Bank b. Government	August 1, 1996 Sept. 1, 1996
4.	Agriculture	a. Internal Bank b. Government	August 1, 1996 Sept. 16, 1996
5.	Private Sector	Government	Sept. 16, 1996

CAS Preparation

Initiating Memorandum/EXC Review	Sept. 16, 1996
Trip of Managing Director to Russia	Late October
CAS Mission	Mid-November
Final EXC Review	Dec. 16, 1996
Presentation of CAS to Board	Feb. 4, 1997