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**STRATEGY**  
**FOR**  
**THE RUSSIAN FEDERATION**

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## **PRESIDENT'S REPORT AND RECOMMENDATION**

I submit to the Board of Directors, for its consideration and approval, the following memorandum for a proposed strategy for the Russian Federation. The strategy provides a general framework for the European Bank's operations in the country during the next two to three years, giving special emphasis to actions to be taken in the short term. The strategy has drawn on a series of consultations with the Russian central and local authorities during recent months and on experiences gained through the process of implementation of the Action Plan originally set up for the former USSR last September. It has also relied on the continued coordination of our activities with other international financial and economic organisations assisting the Russian Federation.

The present process of democratisation and market reforms, besides reflecting the unambiguous adherence of the Russian Federation to the principles set out in Article 1 of the Agreement Establishing the Bank, are of paramount and historical significance. The reforms will have far-reaching political and economic consequences for the entire world. In particular, they will be a powerful influence on the transition of the Central and Eastern European countries, including the other former Soviet republics to a free, market-based society.

These enormous stakes have prompted leading industrial countries and international financial organisations to embark on urgent and concerted assistance to the Russian Federation. However, this is only an initial step in helping the country's reform process. External assistance cannot be confined to balance of payments support but also has to address longer term restructuring and modernisation of Russia's economy, so as to enhance the foreign exchange earning capacity of the country, to build new institutions and to pave the way for a massive inflow of foreign direct investment.

The European Bank intends to play an active and catalytic role in contributing to the success of the Russian reforms.

### **Recommendation**

The European Bank's operations in the Russian Federation should focus on the following main priority areas:

- privatisation and enterprise promotion
- military conversion
- financial sector development
- energy sector
- nuclear safety
- agriculture and agro-business

Beside the above priority areas, the Bank's operations should extend to the transport, telecommunication and social sectors, as well as to urban and municipal development and environmental protection.

I am satisfied that the proposed Strategy for the Russian Federation complies with the Agreement Establishing the Bank, and recommend that the Board approve it.

**Jacques Attali**

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## **SECTION 1: POLITICAL OVERVIEW**

The Russian Federation, in its current form, appeared on the world's political map after the dissolution of the USSR in December 1991. The history of the territory which comprises the Federation is deeply rooted in the history of pre-revolutionary Russia.

When the Russian Federation was a member of the USSR, political and governmental structures duplicated work done at union level. The Russian Government was largely subordinated to central government and Parliament (the Supreme Soviet) played a nominal role. The Communist Party of the Soviet Union was the dominating force on the internal political scene. No other political parties existed .

Under the perestroika policy initiated by the Gorbachev government in 1985, popular democratic movements and associations in Russia revived. At the same time the independent role of both the Russian Parliament and government became more evident and revealed a potential willingness to advance democracy and the transition to a market economy more radically than the central authorities seemed to envisage. However, the practical effect of those efforts was considerably constrained by indecision and lack of clarity in central government policy.

Nevertheless, as general disenchantment with Gorbachev's policies and with the inability of central government to embark on radical economic reform grew stronger all over the former Soviet Union, it became obvious that Russia's opposition to the preservation of the union was fuelled by similar forces in other republics. This brought efforts to create a new economic and political union of the former members of the USSR to a virtual halt .

### **(i) Democratic Progress**

Democratic developments in Russia generally followed the course of events in the USSR.

The election of the Congress of People's Deputies in March 1990 was organised through the Communist Party apparatus. Local elections to regional and local councils were more open, free and fair. In several places they brought to power radical, anti-communist leaders. In the Russian Federation general elections, radical communist and non-communist candidates campaigned together in a coalition group known as Democratic Russia. They won big majorities in the Moscow and Leningrad city councils and Gavriil Popov and Anatoly Sobchak, reform-minded radicals, were re-elected mayors of Moscow and St Petersburg respectively.

On 13 March 1990, Article 6 of the USSR Constitution establishing the supremacy of the Communist Party of the Soviet Union in the Soviet political system, was abolished, opening the way for a transition to multi-party democracy. A dozen or

so small political parties, sprouting up almost daily, came into existence, including Constitutional Democrats, Social Democrats, Liberal Democrats, Liberal Conservatives, Socialists, Anarcho-Syndicalists, etc.

Basic legislation for the transition to a market economy began to be adopted in early 1990, including laws covering legislation on property, leasing, land, privatisation, joint stock companies and foreign investments.

A key moment was the landslide political victory for Boris Yeltsin in the first democratic presidential elections on 12 June 1991. This election legitimised Yeltsin's radical anti-centre position and made it possible for democratic forces to unite around him thus counter balancing the role and influence of Gorbachev.

Then came the failed coup d'etat in August 1991, which brought about dramatic change and started the process of disintegration of the USSR.

#### **(ii) Political Scene in 1992**

The current political situation in Russia remains unclear. The country lacks a structured civil society and political parties which represent the interests of large social groups. As a result, there is no one party in power. Prominent political figures appear somewhat spontaneously in the forefront of political life. They do not usually have a well detailed programme of action and hence their social base of support depends on their personal appeal.

The reform process in Russia has nonetheless resulted in a substantial regrouping of political forces to date. There are currently three main orientations, although the strength of each is constantly changing: support for market reforms undertaken by government; loyal opposition, which supports the reforms but not the government, and conservative opposition, which rejects the government and its policies and emphasises nationalistic patriotic values and pro-communist ideas.

At the beginning of 1992 there were 16 **political parties** in Russia officially registered with the Ministry of Justice. However, all are in embryonic form and essentially Moscow-based, without roots in the countryside.

Pro-government and pro-democracy parties continue to be in crisis. Attempts to consolidate the various democratic factions have so far produced few results. During the first months of 1992 the Democratic Party of Russia, the Social Democratic Party of Russia and movements such as "Democratic Russia" and "Democratic Reforms" continued to lose support at local level and became involved in rivalry, searching for a role model for constructive opposition to the present government.

The development of a new type of communist movement continued in 1992. Its core is the new Russian Communist Workers' Party, which claims to have local party cells in all major industrial centres. The long-term objective of the movement is to restore the socio-political system which existed before the August 1991 coup.

Methods employed include a variety of anti-government rallies and campaigns which serve to maintain tension in society.

Nationalist parties are on the increase. Among them the Russian party is notable for its extremist position in favour of creating an ethnically pure "Republic of Rus".

The situation in the ex Soviet **army** seems stable, although this is a difficult judgement to make and the ability to manage the troops is considered to be lower than normal. General uncertainty and economic difficulties have led to pilfering of arms and ammunition. Russian armed forces are to be created in the near future, consisting of about 1.5 million volunteer servicemen rather than conscripts.

There has been an increase in **criminal activity**. The number of crimes are estimated to have increased by almost 25% in the first two months of 1992 in comparison with the equivalent period in 1991. Theft of state and personal property increased by 50% using the same comparison. The number of young people committing criminal offences is on the increase. There are believed to be some one million unregistered firearms.

**The biggest danger now is the prospect of further dissolution and the break up of the Russian Federation.**

In an attempt to avert such a crisis, a Federal Treaty was signed in Moscow on 31st March 1992 by 18 of the 20 republics of the Russian Federation (Tatarstan and the Chechen-Ingoush Republic did not sign). The Congress of the Russian Parliament, which took place in April 1992, approved the Treaty which has become part of the Constitution. The treaty does not envisage that individual Republics will be independent subjects of international law.

President Yeltsin will certainly be expected, by his supporters and the opposition, to stand firm in defence of Russia's statehood, by supporting both the integrity of Russia and the ability of local elites to influence central government policy.

As the gap widens between the efforts of Yeltsin's team to cope with tremendous economic difficulties on the one hand and popular sentiment increasingly alienated from these reforms on the other, the government has stressed the need for massive financial and political support from the West in order to achieve its democratic and market-oriented objectives. The G-7 countries recently gave a positive response to this appeal in welcoming Russia into the IMF and World Bank and giving the green light to a multi-billion dollar financial package to support, and conditional upon, ongoing economic reform.

There is **freedom of speech and the media** in the Russian Federation and these rights were exercised to an unprecedented degree in 1991 and 1992, albeit, as elsewhere in the region, constrained by economic circumstances.

Recently however there has been criticism in the press about the policy of the government towards the mass media. Under the new market conditions, many

journals and newspapers had to close. Former pro-communist newspapers started to experience difficulties with supply of paper or necessary equipment and they claimed pro-government magazines and newspapers were enjoying preferential treatment. This has led to speculation that the government has started to exercise control over the press under the cloak of economic difficulties. There is not enough evidence so far to substantiate these allegations.

Academic life was in flux in 1991 and early 1992. The banning of the old USSR Communist Party activities nationwide affected all institutions of higher learning, with all curricula coming under thorough review and revision. While full access to archives continued to be difficult, access to Western-produced books, magazines, journals and other educational materials increased dramatically.

There has been considerable progress in the field of **human rights**. Despite serious social and political problems, the Russian Parliament recently passed a number of legal acts on human rights. It approved the Declaration of Rights and Freedoms of Individuals and Citizens which establishes all fundamental rights and notes the need to bring Russian legislation into line with generally recognised international standards. In particular, the declaration emphasises the wish of the Russian state to abolish capital punishment, to provide for an alternative to military service and the individual's right to compensation for the violation of their human rights. The organisation of parliamentary supervision over human rights and freedoms is under consideration and the Parliament plans to establish a post of Parliamentary Commissioner (Ombudsman) for this purpose. A draft law for such a Commissioner is being prepared.

The Constitutional Court of Russia has been formed with broad powers to abrogate laws inconsistent with the Constitution and to supervise the practical implementation of existing laws. The first case taken up by the Court early this year was the Presidential Decree on the Amalgamation of Law Enforcement and State Security Organs. This was declared unconstitutional by the Court.

Parliament has adopted legislative acts on states of emergency, on the rehabilitation of victims of political repression and on the rehabilitation of repressed peoples. It has also discussed and adopted the principles of judicial reform, introduced changes to the old Constitution and continues work on a new Constitution.

However, the latest Congress of the People's Deputies was unable to adopt the new Constitution because of political disputes between different parliamentary factions. This was considered a major drawback to the work of the Congress, which was only able to approve "the general concept and basic proposals" of the new Constitution, as drafted by a special parliamentary commission. It is expected that work will continue throughout 1992 on the basis of proposals submitted during the session of Congress.



The country also faces serious difficulties with the practical implementation of numerous legal provisions, the threat of authoritarianism and the temptation to sidestep the law in search of economic or political stability at the expense of human rights.

In fact, in many ways the human rights situation in Russia remains far from satisfactory. Of particular concern is the situation in the army where inhuman treatment and disregard of soldiers' rights sometimes have tragic consequences. To date there is also no legislative protection for the rights of refugees forced to leave their homes as a result of inter-ethnic or other conflicts in the territory of the former Soviet Union. The deplorable situation in Russian prisons and inadequate implementation of the rights of people under investigation and those convicted still exist, as does the requirement for people to register their domicile with the police, despite numerous proposals to remove this obligation.

There are many other problems caused by the aggravation of inter-ethnic relations in some regions of the country as a result of the ignorance of the population and public authorities of legal norms and the general lack of understanding and experience of the values of individual human rights and dignity.

In **foreign policy**, Russia preserved its membership in all international organisations of which the USSR was a member and strictly observed all international treaties signed by the USSR. It is pursuing disarmament policy and the integration of the Russian economy into international trade and financial systems. Russia is active in the CSCE and has special guest status at the Council of Europe.

The greatest foreign policy challenge is relations with ex-USSR republics, particularly with Ukraine and Moldova. Disputes over the fate of the Black Sea fleet, Crimea, the self proclaimed Dniester Republic and the sharing of the ex-USSR's foreign debt and assets abroad continue to threaten these relationships.

The country is entering a second, crucial phase of economic and political reform. The scope and abruptness of economic change has, inevitably, serious political implications. De-industrialisation during the transition process will result in mass unemployment and there is a lack of government funds for unemployment benefits and social protection. This in turn may speed up the ongoing process of regionalisation of economic reforms and endanger the existing, federal fiscal system. This process may lead to the division of the Federation into relatively autonomous regions with authoritarian administrations and may revive separatist tendencies.

Since Russia has fairly weak institutions, one of the main challenges is to install a strong hierarchy of executive power supported by political structures, in order to ensure the implementation of federal laws and regulations throughout the country. The speedy adoption of a new Constitution is a priority so as to provide a definite legal foundation for Russia's integrity and for further development of democratic institutions.

## **SECTION 2: MACROECONOMIC OVERVIEW**

In the second half of 1991, the Russian Federation gradually assumed authority over the central institutions and means of economic policy-making of the Soviet Union, and embarked from early 1992 on a harsh shock therapy, forcing the other former Soviet republics to follow suit. On 27 February, the Russian government adopted a new comprehensive programme of stabilisation and market reform for the next three quarters of 1992. The G7 countries pledged \$24 billion in financial assistance during 1992, to back the Russian reform process. Although the originally planned austerity measures have, in the meantime, been somewhat eased, or delayed, the fundamentals of the new governmental programme essentially remained intact despite the severe challenges during the Congress of the People's Deputies held in April.

### **2.1 STRUCTURAL REFORMS**

The transition to a free market-based democratic society in the Russian Federation has started from particularly unfavourable conditions judging even by East European standards. The inherent difficulties of the transition process have been aggravated by a number of factors: (i) the collapse of an empire into 15 ethnically heterogeneous countries; (ii) the political, economic and socio-psychological legacies of a more than seven decade-long existence of the Soviet system; (iii) the additional complexity of the transformation stemming from the mere size of the country, and (iv) the special burdens and hurdles connected with the conversion of the huge military industrial complex. Both scale and degree of the required structural transformation are unprecedented. The exceptional endowment of the country with natural resources could not ease the burden of adjustment as yet.

#### **(i) The process of price and trade liberalisation**

The cornerstone of the original stabilisation and reform package was the large-scale price liberalisation effective on 2 January 1992. About 90% of the consumer prices and 80% of the producer prices have been freed from administrative controls and major rises were implemented for prices which are still regulated. The new governmental programme envisages lifting all remaining price controls on consumer goods and services (except on housing rents, communal services and public transport) by the end of the first quarter. An even more important change will, be the increase, presumably from June 1992, of the producer price for crude oil from the present R 350 per tonne (excl. VAT) - representing a mere 3% of the world market price - to R 2000 - 2600 per tonne (to one third of the world market level, assuming an exchange rate of 50 roubles per US\$). After a further hike to about two-thirds of the world market price on 1 January 1993, the oil price is to be deregulated by the end of 1993. The gradual but major corrections in relative energy prices are to play a key role in the restructuring of the Russian economy and in the increase of its hard currency earning capacity.

The price liberalisation was coupled by similar changes to foreign trade and currency regulations. From early 1992 imports also were almost fully liberalized while about 70% of exports remained subject to quantitative restrictions. The removal of export quotas and licences is scheduled by 1 July 1992 except for restrictions on the export of fuels and arms. The ruble has been drastically devalued against the convertible currencies. From the beginning of 1992 a new official exchange rate of 110 rubles per US\$ and a special commercial rate of 55 roubles per US\$ replaced the previous commercial rate of 1.7 roubles per US\$. Beside these rates, however, numerous other market and official exchange rates are also functioning, resulting in a highly segmented and increasingly confused multiple-exchange rate system. One of the crucial objectives of the new governmental programme is the unification of exchange rate and its use as a nominal anchor for the stabilisation policy. As a first step in this direction, the programme envisaged the adoption of a dual exchange rate system by 20 April. However, the Russian government has finally decided to introduce a unified exchange rate following the liberalisation of oil prices. Numerous restrictions resulting in strong segmentation of the currency market will be abolished. The foreign currency surrender requirements for exporter enterprises will be gradually increased to 100%.

Important steps of liberalisation have also taken place in the field of domestic trade. A presidential decree of 29 January 1992 dismantled the restrictions on trade inside the Russian Federation with the exception of some specifically prohibited trading activities.

A controversial element of the liberalisation process has been the deregulation of the wage system from November last year. It is in striking contrast to the earlier shock therapy programmes of the other East European countries and represents a serious danger to the anti-inflationary policy in view of the still rather soft budget constraint of state enterprises. To limit the risk of a wage-price spiral, the implementation of a progressive wage tax scheme is envisaged to be implemented if excessive wage increases occur.

Despite the liberalisation process, competition in the Russian economy is still in its infancy. Several administrative controls have been retained or reintroduced (mainly in the regulation of monopolistic enterprises) because of the overwhelming weight of the state sector, the widespread monopolistic positions of state enterprises, the need to halt the fall in production and trade, and lack of import competition. The government intends to phase out these temporary controls by mid 1992 and eliminate all remaining elements of centralised distribution by the end of the year.

#### **(ii) Tax reform and tax collection**

As an integral part of the reform process of the financial sector, the Russian tax system has undergone major changes since late 1991. The Russian Parliament and Government undertook a comprehensive programme, in order to replace the former state financing structure with a market based one. The tax reform package consists of a framework law on taxation and a series of laws on particular taxes. The framework law lays down general taxation rules, tax-payers rights and duties,

penalties and tax administration powers, and specifies the division of tax incomes between different levels of governments. Contrary to previous practice, the new law generally treats the granting of tax exemptions and privileges as a prerogative of the legislative powers.

By March 1992, the laws on value-added, individual income, enterprise profits, enterprise property and excise, taxes had already been passed while other laws on particular taxes are still awaiting finalisation and/or presidential approval.

The State Tax Service was established in December 1991 with ministerial status. It is a centralised agency in charge of collecting all government revenues at all levels of government (except custom duties), and is in the process of restructuring and modernisation. At present both the number and the qualification of the tax officers are unsatisfactory.

Despite the undertaken reform measures, the functioning and macroeconomic impact of the Russian tax system is fraught with major problems. The height of the tax burden, and the frequent changes in tax regulations, have had several adverse effects on the investment climate, export activity and tax compliance. The present lack of adequate coordination of the fiscal policies inside the Ruble Zone threatens to undermine the common economic space. The protracted recession erodes the tax base. Tax collection is hindered by a number of serious factors, mainly by the traditionally low level of tax discipline of both the enterprises and the individuals, and by the limited enforcement capabilities of the tax authorities.

Substantial improvements in the efficiency of the tax system and, in particular, that of the tax collection are major preconditions of the stabilisation of the Russian economy.

### **(iii) Private sector development and privatisation**

A significant erosion of the traditional Soviet-type ownership structure crept in during the perestroika period. New, previously unknown ownership and entrepreneurship forms have emerged. The overall share of joint stock companies, leased enterprises, economic associations, joint ventures, industrial cooperatives and private and individual accounted for more than 15% of employment and GNP by the end of 1991, up from virtually nothing in the mid 1980s. This figure cannot be interpreted, however, as an indicator of the actual role of the private sector in the Russian economy, since the bulk of these enterprises are owned directly or indirectly by the state. Over 80% of industrial cooperatives, too, were controlled by state firms.

The profitability of some activities of the so-called alternative sector was based on regulation, in particular the difference between officially regulated and market prices. Following the price liberalisation, the number of opportunities for this kind of operation has been reduced.

A real breakthrough in Russian private sector development can be expected from the implementation of the State Privatisation Programme set forth in a presidential decree of 29 December 1991.

Under this programme, 25% of the Russian state-owned sector is to be placed into private hands during 1992. The privatisation plan emphasizes speed and simplicity.

Despite its crucial macroeconomic role in the structural transformation of the Russian economy, in improving efficiency, encouraging competition and attracting foreign investment, the government had to recognise the absence of an overall framework for privatisation. During the first few months of 1992, numerous regulations have been prepared to govern the process, to finalise the State Privatisation Programme and adopt it by the Supreme Soviet. The government is only now proceeding with its implementation. Most of the privatisations already taking place are spontaneous transactions initiated by enterprises. Some of these are regarded as so called *nomenklatura* privatisations.

According to the new governmental stabilisation and reform programme, and a new privatisation scheme under preparation, the privatisation process has to be speeded up mainly from the fourth quarter of 1992. To this end the conversion of all enterprises with over 200 employees into corporations has to be carried out by 1 September, and a detailed plan for a massive ownership transfer (based on the free distribution of coupons) has to be worked out and implemented by this autumn<sup>1</sup>.

#### (iv) Foreign direct investment

Despite the doubling of their numbers in the course of last year, the role of joint ventures remains marginal in the Russian economy. The statutory capital of the 2,600 JVs registered by the beginning of 1992 totals about R 6 bn, of which just R 2 bn cover foreign participation. In certain sectors, however, JVs account for a sizeable part of output (10 and 7% in the telephone and the computer technology industries, respectively). Their spillover effect on the fledgling Russian free market sector is also not negligible. The remarkable growth in output and exports by joint ventures (an increase by factors of 2.7 and 2, respectively, last year) was partly due to favourable legislative and regulatory changes. A liberal Law on Foreign Investment in the RSFSR was adopted in July 1991 and joint ventures enjoyed significant advantages as regards tax, trade and currency regulations.

In 1992, however, the investment climate for foreign investors has considerably deteriorated. The advantages have been strongly curtailed under the new regulations. Joint ventures are no longer entitled to a tax holiday. A tax is now levied on reinvestment in corporate development. The present system of export taxes also has several disincentives for joint ventures.

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<sup>1</sup> For detailed objectives, methods and implementation problems of the Russian privatisation process see chapter 3.2.

Foreign investors face tough restrictions on their participation in the privatisation process. They are encouraged to acquire (i) enterprises in the construction and food processing industries, (ii) enterprises suffering from shortages of imported inputs, and (iii) loss-making enterprises. In other areas JVs are as a rule subject to separate limitations or have to receive special permission. In addition, because of the unrealistically undervalued official and free market exchange rates of foreign currencies against the rouble, foreign investors have been in practice temporarily excluded by the government from the privatisation process until the new exchange rate regime and the revision of the enterprises' book value are put in place.

A favourable development is that the Law on Mineral Resources adopted in February 1992, allows concessions and production sharing. A recent presidential edict "On the sale of land to citizens and legal persons in connection with the privatisation of state and municipal enterprises" allows non-farm land to be bought by foreign investors as well. Previously, joint ventures had been permitted only to lease land.

The new governmental programme stipulates that with the introduction of the new exchange rate, foreign investors will have free access to foreign currency for dividend and profit repatriation. Measures will be taken to unify economic regulations of national enterprises and joint ventures. Most of the restrictions on participation of foreign investors in privatisation are to be removed by the end of this year.

**(v) Economic relations with other former Soviet Republics**

One of the most powerful factors influencing both the Russian reform process and macroeconomic economic developments is the transformation of interrepublican trade from domestic to external and from primarily administrative distribution to market-based economic relationships.

In an attempt to prevent further disintegration, the former Soviet republics, other than the Baltic states and Georgia, established or joined the Commonwealth of Independent States (CIS) last December. The original Economic Pact of the CIS envisaged - along the lines of previously rejected treaties on economic union/community - the maintenance of the rouble as a common currency, the creation of a banking union, the preservation of common economic space and close coordination of the economic reforms. Despite these agreements in principle, export controls and monetary conflicts intensified, especially after the price liberalisation.

Beside the Baltic states and Ukraine, Moldova and more recently Armenia officially declared their intention to introduce a separate national currency. A number of other states are also considering the option of leaving the Ruble zone.

From early 1992 the Central Bank of Russia (CBR), in order to prevent the spillover of rouble balances, created a new clearing system and payments mechanism for Russia's relations with other former Soviet republics by introducing a system of

correspondent accounts. Through this payment system any former republic to increase its ruble stock in circulation must either run a balance of payments surplus with Russia or has to pay interest (currently set at 20%) for obtaining additional rubles. Numerous important details of the clearing arrangements, including the specification of possible credit limits have not as yet been decided.

The bulk of trade relations with the other former republics are mainly covered by annual bilateral interstate agreements comprising the planned volumes of mutual trade flows and an indicative list of goods to be exchanged. The implementation of these agreements in the case of Russia has been based on non-mandatory state orders and the issue of quotas and licences.

Regarding the concrete trade mechanism important changes were decided during a CIS meeting in Minsk on 14 February 1992. An agreement was reached about the application of free market prices between enterprises and organisations of the CIS states. Exceptions to this rule are possible in the case of some basic products and products of monopolist enterprises if the Parties decide so. The CIS states were also given the right to impose payment restrictions if imbalances in trade were to occur. The states also decided to establish a consultative Customs Council to prepare and implement a common customs policy.

The new Russian stabilisation and reform programme represents a turning point with respect to interstate relations as well. The Programme envisages the elimination of export quotas and licenses for non-energy products, parallel with those applied to trade with third countries, by July 1992. Quantitative restrictions on shipments of energy products will remain until the complete deregulation of their prices. In the meantime Russia will only charge domestic prices for these products (net of export taxes) implying a gradual phasing out of implicit price subsidies. The Russian government is committed to preserve the common economic space, promote direct enterprise to enterprise trade and reduce the direct involvement of Government in trade relations. At the same time it is committed also to honour existing bilateral agreements covering trade in 1992.

The programme invites the other former republics to reach agreement on the coordination of monetary policy in the ruble zone, including equitable arrangements on credit targets, interest rates, reserve requirements, the integration of currency markets and procedures for currency issue within the Ruble Zone. It also seeks to conclude agreements on the orderly withdrawal of rubles in those states that choose to introduce their own national currencies.

The prospects of such mutually respected agreements continue to remain rather uncertain.

## **2.2 MACROECONOMIC DEVELOPMENT**

### **(i) Output and employment**

The disintegration during 1991 of the Soviet economic system, coupled with a sharp contraction of the foreign trade turnover, resulted in a decline in real Russian NMP of 11% and a fall in industrial production of 8%. The downturn affected the Russian economy across the board, including such vital sectors as energy and agriculture.

The recession was aggravated at the beginning of this year by the combined effects of a further dislocation of the traditional economic links with former Soviet republics and the acute shortage of imported production inputs. Industrial production fell by 13,5% and output of oil by 12% in January-February 1992, over the same period of the last year. The output contraction was especially serious in the food processing industries, and in several sub-branches of metallurgy and machine-building industry (above 20% in January-February). Real NMP is projected to fall by 15-20% in 1992 as a whole.

Registered unemployment at the beginning of this year was barely 60,000, an artificially low figure in view of the sharp decline in production. With the actual take-off of the restructuring process and further strengthening of the financial and monetary squeeze, around 6-8 million people (or 8-10% of the work force) could be unemployed in Russia at the end of this year - even according to official projections.

### **(ii) Financial sector**

Russia inherited (or more precisely unilaterally took over) a fiscal and monetary system in total disarray. The consolidated budget deficit last year exceeded 20% of GNP. The deficit was almost completely monetized for lack of other, non-inflationary financing facilities. The monetary expansion was out of control: the total domestic credit of the banking system and cash in circulation grew by 93% and 106% respectively. The imminent danger of hyperinflation was further increased by the lack of any clear rules for monetary cooperation among the 15 newly created independent states still using the rouble as a common currency.

It is against this background that the Russian stabilisation attempt has been embarked upon from early 1992. The government targeted a reduction in the budget deficit from over 20% to 1% of GNP during the first quarter. Military procurement has been cut by about 80-85%. A drastic reduction has taken place in investments from centralized sources as well as in price and enterprise subsidies. On the revenue side, a steep 28% VAT, a new system of export taxes and a highly progressive personal income tax are to secure the overwhelming part of the needed funding. In the meantime, however, the government (under mounting pressure of different social groups) has taken some steps away from its original objectives by (i) increasing coal miners' wages and pensions and (ii) allowing VAT reduction on some basic items. The tax collection system also encountered significant difficulties; especially the VAT and export tax revenues lagged behind the planned



amounts. Nevertheless the budget deficit, as a result of the severe sequestering mechanism introduced in January and the concomittant severe expenditure cuts, reached only 1,5% of the GNP over the first quarter, well below the earlier expectations<sup>1</sup>.

Against initial odds, monetary policy has been tightened significantly. While at the end of last year the stock of broad money was about 60% of the GNP, by the end of March 1992, that ratio had fallen to well below a quarter. Inevitably, money became very short, particularly cash, the demand for which significantly surpassed the capacity of the printing facilities. A 15% overall credit ceiling was set for the first quarter of 1992. Beside that, the annual rate of interest for the Central Bank's refinancing credits to commercial banks was raised from 2-9% in 1991, to 20% at the beginning of 1992, and was further increased to 50% in April. Reserve requirements have also been gradually enhanced and reached 20% in April. As an adverse reaction to the tough monetary squeeze, but well known from previous and current East European experiences, inter-enterprise payments arrears have surged from a Rbs 38bn level, at the beginning of this year, to about Rbs 900bn by mid-April, to a fifth of the GNP. This phenomenon is partly attributable to the traditional lack of a credible bankruptcy threat for the Russian enterprises. A presidential decree on bankruptcy is expected to be issued in the near future which will allow the government to force numerous enterprises into liquidation and to improve the general financial discipline through the demonstration effects.

### **(iii) Inflation and stabilisation attempts**

As a result of the price liberalisation on 2 January, a substantial part of the repressed component of Russian inflation was translated into open price increases leading to an estimated 350% hike in consumer prices and a 500% increase in wholesale prices in the course of January. In February, inflation reportedly slowed down to a monthly rate of 25%. The rouble auction exchange rate against the dollar gradually fell from its peak 230 Rbs/\$ level at the end of January to about 140Rbs/\$ by March, providing the most encouraging sign so far of recovery of the financial system. Due to the major price rises, the monetary overhang has also become less of a policy issue.

Due to the extreme fragility of the initial stabilisation achievements, the Russian government has firmly committed itself to additional measures of stabilisation in its new IMF backed programme for the last three quarters of 1992. By further cutting enterprise and consumer subsidies, strictly restricting expenditures in line with the receipt of revenues, reducing different tax exemptions and preferences, increasing tax revenues and limiting the right of local authorities to finance budget deficits through bank borrowing, the government intended to eliminate the budget deficit by the fourth quarter of 1992. This target, however, had to be revised upwards (to about 5% of the GNP) as a consequence of new commitments made by the Russian government in early April in the field of tax reductions and increased budget

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<sup>1</sup>. The budget deficit, according to the Russian methodology, is calculated on a cash basis. On the basis of commitments, this data would be about 4% higher.

expenditures. The monetary policy for the remainder of the year aims to keep monetary growth in line with the targeted inflation rate. Ceilings on the Central Bank of Russia's credit expansion to the commercial banks will continue to remain the main instrument of credit control for the foreseeable future. At the same time the Central Bank has committed itself to moving its refinancing rate to a positive real level as soon as possible. Nevertheless, the monetary policy remains the most vulnerable element of the Russian stabilisation efforts. On the one hand, because of the data difficulties and uncertainties about monetary linkages, a quantified credit and monetary programme cannot be elaborated for the time being. On the other hand, the Russian government, besides revising upwards the planned budget deficit for 1992, has decided to expand credit emission to the economy by Rbs 200bn, which is expected to generate a total increase of Rbs 400-500bn, a rise of about a quarter. This credit package aims, primarily, to counteract the still deepening recession of the economy in selected areas, including agriculture and the oil industry.

Following the liberalisation of oil prices, it is officially expected that the general price level will increase by an additional 50-75%. The government originally planned to curb the monthly level of inflation to between 1 and 3% by the last quarter of 1992, and, even after easing financial policies, aims to curb it to 3% by the end of the year. One of the basic preconditions is a lasting strengthening of the exchange rate of the rouble. The government now suggests a crawling peg (an adjustable exchange rate) to be backed by a requested currency stabilisation fund contrary to its earlier commitment to a pegged exchange rate. Given the uncertainties and the recent easing of the monetary policy, a pegged exchange rate could result in a substantial overvaluation of the currency. Under these circumstances, the option of a crawling peg as a transitory policy device backed by the rouble stabilisation fund, may be justified.

#### **(iv) External trade and debt**

Particularly turbulent changes have been taking place in the area of foreign trade. Last year Russian exports fell by 29% while imports plummeted 46%<sup>1</sup>. The trade collapse was concentrated mainly on ex-CMEA countries. The sharp compression in imports led to a marked improvement in Russia's notional trade balances, reaching a surplus of \$11.8 bn in the total balance and a surplus of \$7.3 bn in convertible currency trade in 1991. These surpluses, however, were almost fully used up to cover the financing needs of the other republics of the USSR.

In 1991, the USSR's current account showed a deficit of \$5.8 bn in all currencies and of \$4.2 bn in convertible currencies. The USSR was effectively denied access to the international capital market since early 1990 and Western banks have dramatically reduced their exposure to the Soviet market. This tendency was counterbalanced by continued access to official credits last year. At the same time

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<sup>1</sup> Interrepublican trade according to rough estimates fell by about 15% last year.

Soviet gold and foreign exchange reserves have fallen steeply and were nearly depleted by the end of 1991<sup>1</sup>.

In any case by the latter months of 1991, a liquidity crisis developed which has persisted ever since, despite a series of debt deferral agreements reached between the eight former Soviet republics assuming joint and several responsibility for the USSR's debt and both the official and the private creditors. On 4 December 1991, most of the former Soviet republics had reached an agreement, in principle, on questions relating to the allocation of assets and liabilities of the ex-USSR. Russia's share in the total amount of the debts and the assets is 61,34%. However, much of this agreement has not been implemented as yet. By the beginning of March 1992, significant arrears had built up in servicing the debt, which amounted to \$62 bn (not counting debt owed to ex-CMEA member countries). Obviously new and more viable agreements are needed regarding both the size and mechanism of the implementation of debt servicing.

The projections for Russia's foreign trade this year (in all currencies), predict a deficit of about \$1 bn. Exports are projected to fall from \$57 bn in 1991 to \$49 bn in 1992, while imports are assumed to rise from \$45 bn in 1991 to \$50 bn this year (offsetting only a small fraction of the huge fall of \$37 bn during last year)<sup>2</sup>. The balance of payments' forecasts indicate alternative financing gaps of \$12,3 bn, or of \$17 bn depending on whether the Russian Federation will honour only 61,34% of 100% of the debt service obligations of the ex-USSR.

In early April, the G7 countries unveiled a \$24 bn aid programme for the Russian Federation. The package consists of \$18 bn in credits and credit guarantees, and of a \$6 bn ruble stabilisation fund. This sizeable and timely Western financial assistance can certainly help to increase Russian imports and reduce the degree of recession, to strengthen and stabilise the ruble at a unified exchange rate and can substantially contribute to the survival of the Russian stabilisation and reform process. But it will not reduce the need for such assistance in 1993. The scheduled debt service obligations for the former USSR territory are close to \$20 bn in 1993, exceeding by more than \$4 bn the original debt service burden for 1992. Given the special responsibilities of the Russian Federation for servicing the debt, and supplying the other Independent States with energy at still heavily subsidised prices, as well as the initial adverse effects of the reform process on the production and export, a financing gap of similar magnitude to that of 1992 could be expected for 1993.

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<sup>1</sup> Together with these developments, a sizeable capital flight must have been carried out from the USSR in 1991. Estimates by various sources about its possible amount are extremely contradictory, ranging from \$2-3 bn to \$20 bn.

<sup>2</sup> It is an encouraging sign that during the first quarter of 1992, the import collapse of last year has been halted, while exports, after declining to a monthly \$2,2 bn in January, have increased to \$3,8 bn in February and to \$4,8 bn in March.

**SECTION 3:**  
**BANK STRATEGY: PRIORITIES AND INITIATIVES**

Resources available for the CIS region, following the resolution of the Board of Governors, that the limitation on the Bank's financing and operations applicable to the former USSR is no longer appropriate, are still limited to 40% of the Bank's total lending until the end of 1994. The allocation among the CIS countries will be carefully examined based on the financial needs and economic environment for project implementation, and commitment to economic reform. Available resources are scarce in comparison with the huge financial need of these countries. In such circumstances, Bank operations in Russia should focus on a limited number of carefully selected priority areas, avoiding overlapping, and closely coordinating with, other multilateral institutions and bilateral donors. Also, the Bank is expected to play a catalytic role to attract additional private and official resources.

**3.1 GENERAL ORIENTATIONS AND ISSUES**

This strategy identifies medium-term policy orientations and the Bank's priority activities in the next two to three years, with more precise short-term focuses, based on the current economic environment and constraints.

The Bank has been actively involved in assistance to the Russian Federation based on the Action Plan approved by the Board last September. Main areas of focus were (i) privatisation, (ii) financial sector, (iii) agricultural distribution, and (iv) energy sector. Initial activities were mainly in the form of technical assistance, as the ceiling for lending and investments to the former USSR was in force. The Bank made progress in privatisation advice, training in the financial sector, and a study of the agricultural distribution system. The total commitment for technical assistance was ECU 17 million by the end of March 1992. In addition, two commercial loan projects were approved by the Board.

The strategy for the Russian Federation is based on these experiences, and will also take advantage of the Board's decision referred to above. The Bank needs to establish quickly a solid pipeline for lending and investment projects, and consequently technical assistance will focus on project preparation. However, the Bank will continue to provide stand-alone technical assistance in the priority areas which are specified in this strategy.

The main thrust of the strategy for the Russian Federation is to support its economic stabilisation and institutional reforms. Its success will have a significant favourable impact on reform efforts of other CIS and CEE countries. Its failure will have grave implications for the world's economic and political stability. The Bank, with other international organisations and the world community, should provide urgent and coordinated assistance to support the programme.

The Bank's role will be twofold. During the most critical period of the next several months, when the Russian economy will suffer from a further disruption of internal

and external trade links, and, also from the initial impact of the tight fiscal and monetary policies, the Bank will provide urgent financing to satisfy the critical investment needs in the agricultural and energy sectors.

Secondly, the Bank will strengthen its effort to assist Russia in its transition to a market economy, in the areas of privatisation, creation of small and medium-sized businesses, military conversion and nuclear safety, and strengthening of the financial, energy and agriculture sectors. Military conversion especially requires urgent attention because of the severe cut in the military procurement budget and the industry's significance.

Financial and technical assistance needs for these areas are so large that the limited resources of the international community should be used in the most efficient and systematic manner. The basic approach of the Bank for the creation of a market economy, is focused on the following five areas:

**(i) Legal and regulatory infrastructure**

The Russian government has made significant progress in this field especially in recent months. However there are still serious deficiencies and contradictions in the overall legislative framework for the transition to and functioning of a market economy. Enforcement of laws, particularly at the regional and local government levels should be strengthened. An administrative mechanism to evaluate and execute external borrowing should be developed. The Bank will continue to provide legislative and regulatory advice on areas closely related to Bank activities: privatisation, foreign investment, energy, agriculture, financial sector.

**(ii) Entrepreneurial Development**

Creation of the private market economy is crucially dependent on entrepreneurs who will take responsibility and bear risks in the new business environment. As is evident from the massive creation of cooperatives in trading, service and handicrafts, entrepreneurship in Russia seems to be abundant. However, in the manufacturing sector, especially consumer goods and machine-tools, there has been little response from the private sector. The main reasons for this are a lack of marketing information, technological, financial and managerial know-how, and, difficulty in securing logistical support in acquiring buildings, labour and supplies. Deregulation and price liberalisation are not sufficient to create a market economy. Some kind of positive industrial policy and institutional building to promote private business is necessary. This strategy paper proposes assistance to develop business incubators, technology parks and business advisory centres for specific priority sectors. Training of managers is also an important element of the strategy.

**(iii) Development of a Market Infrastructure**

Development of a market infrastructure is also an important prerequisite for the private sector economy to develop. There is no systematic price and demand information which, in Western countries, is usually provided by the market of

trading intermediaries. Also lacking are quality standards. Trade financing for private wholesalers is not developed. Commodity exchanges developed spontaneously, but a regulatory framework is non-existent. The Bank has been working to create agricultural wholesale markets.

**(iv) Financial Infrastructure**

The financial infrastructure plays a vital role in private sector development by mobilising and allocating investment resources. The number of financial institutions has increased significantly in Russia: 1900 commercial banks, around 40 stock exchanges, several dozen insurance companies have been established. However, all suffer from lack of expertise, insufficient regulation and supervision. One of the Bank's priorities is to assist the relevant authorities in strengthening their capabilities in these areas. Another priority is to strengthen a number of key financial intermediaries, and to provide a credit-line to assist small and medium sized businesses.

**(v) Public Infrastructure**

The need for finance for developing public infrastructure is vast, as investments have been neglected for many years. However, in the short-term, the Bank's priority is development of an efficient management system, tariff policies, and removing severe bottlenecks in areas related to private business development. Clearly, as the reform process proceeds, investment in the public infrastructure will receive a higher priority. The Bank will prepare a comprehensive survey, in co-ordination with other international organisations, to identify priority investment needs.

Coordination among international organisations is essential. So far, the Bank has conducted joint activities with the World Bank and EC in the privatisation, financial sector, and agricultural areas. Also, the Bank is coordinating immediate and medium-term activities closely with other international organisations through coordination meetings and information exchanges.

In addition the Bank will explore with the Russian government possible ways of supporting institution building, mainly through technical assistance, to foster democratic progress to a market economy.

### **3.2 PRIVATISATION AND ENTERPRISE PROMOTION**

**(i) Present Situation**

Reportedly more than approximately 50,000 medium/large-scale enterprises and several hundreds of thousands of small-scale enterprises currently operate in the Russian Federation. State ownership remains the dominant form of enterprise ownership, currently accounting for approximately 80% of national income, fixed productive capital and the work force. The average size of enterprises as measured

by the number of employees is significantly larger than in Western industrial countries, with over three quarters of employees working in firms that employ more than 1,000 workers. Production in most sectors also tends to be highly concentrated in one or a few enterprises, with 30% to 40% of Russian industrial output produced on single sites. Even sectors where more than one enterprise exists exhibit a high degree of monopoly power that is protected by generally poor communications and transportation and by administered marketing channels working through the branch ministries. At the same time, the need for Russian enterprises to secure their input sources, and to supply goods to their workers has led to uneconomic vertical integration of production.

The private sector remains small and limited largely to small, service sector enterprises. Fewer than 3000 joint ventures have been registered in the past five years, and many of those registered have not been successfully launched.

#### (ii) Recent Reforms

Since 1987 the Government has introduced a series of **enterprise reforms** to improve the operations of state enterprises in parallel with the liberalisation of constraints on the establishment new types of private businesses. Legislation has been passed to delegate many decision making powers to management, including decisions regarding the purchase of inputs and outputs and regarding wages, investments and disposition of profits. Despite these reforms, competition remains limited and the continued subsidisation of many enterprises has meant that the reform programme has had relatively little impact on the efficiency of these enterprises.

Partly in response to this lack of success in enterprise reform, the Government has moved rapidly to introduce a wide-ranging and ambitious **privatisation programme**. In June 1991, a law was passed on Privatisation of State and Municipal Enterprises, and in December 1991 President Yeltsin issued a decree covering the Government's privatisation plans for 1992 ("Fundamental Provisions of the Program for Privatisation of State-owned and Municipal Enterprises"). In April 1992, a joint government and parliament commission amended and added specific components to the privatisation programme contained in the December 1991 Presidential Decree. These documents provide the framework for a three year privatisation programme, which is certainly the largest of its kind to ever be attempted by any country. The major features of the programme as follows:

(a) **scope:** for 1992 targets have been set for the privatisation of 50-60% of the following sectors: light industry, food-processing, construction, building materials manufacture, agro-processing enterprises, automobile transport and repair outlets, retail shops, wholesale companies, public catering and consumer services. All state enterprises must be transformed into commercial units by 1 September 1992. Approximately 20% of unfinished construction projects will also be privatised during the year. Targets for the second and third years of the privatisation programme are not set at this stage.

**(b) methods:** broad guidelines are also provided as to the methods of privatisation to be used, with enterprises at the smaller end of the scale being sold by auction or tender, and larger enterprises being sold primarily through share offers, following transformation into joint stock companies. Small-scale privatisation has now commenced throughout the Russian Federation, particularly in the larger cities, such as Moscow and St Petersburg. Managers of enterprises will be responsible for drafting privatisation plans for their enterprises by September 1, 1992. Employees will be able to buy a percentage of shares at face value. In addition, free distribution of shares via vouchers is envisaged to the population at large.

**(c) discounts and distribution of proceeds:** The Government intends to raise nearly Rb72 billion from its privatisation programme in 1992, only 10-15% of which is expected to be in the form of cash (compared to Rb 2 billion in 1991), and has issued clear guide-lines for the allocation of proceeds to various levels of Government and for specific purposes, such as a social safety net.

**(d) implementation:** the privatisation programme will be implemented by privatisation officials at three levels: a central committee will be responsible for overall supervision and for certain strategic industries and privatisation in the larger cities, and regional and municipal committees will be responsible for privatisations of assets under their jurisdiction.

The government's privatisation programme is being constrained by a number of factors:

(a) the legislative environment remains unclear or inconsistent in many areas (eg. property rights, dispute settlement, the role of foreign investment, the role of workers and employees in the decision making process);

(b) there is a fundamental lack of investment resources (both foreign and local) to fuel a major privatisation programme, depending on the success of the planned voucher scheme, which are proving difficult to implement in East European countries from both a political and technical point of view;

(c) the government's ability to carry through a major privatisation programme is severely limited by a lack of knowledge of the privatisation process, staffing shortages and inadequate administrative structure (for example, conflicts between different authorities are evident at several levels of the privatisation administration).

The Government has yet to develop a concrete programme or policies to promote the growth of **new and small-scale enterprises**, and this is reflected in the continued unimportance in relative terms of the sector. A major issue facing this sector is the lack of marketing and managerial know-how to produce a good business plan and limited availability of long-term finance. Loans are generally available for a duration of less than one year and the lack of clearly defined property rights often makes it difficult for such enterprises to find needed loan collateral. Other constraints to this sector include the difficulties in obtaining



machinery and other logistical support and bureaucratic obstacles to obtaining operating and other licences.

**(iii) Initiatives of the European Bank**

Privatisation has, and continues to be, one of the key priorities of the Bank's assistance programme to the Russian Federation, and to date the Bank's efforts have targeted both the municipal and national levels.

(a) **municipal privatisation programmes:** at the municipal level, the Bank has agreements with the Cities of Moscow and St Petersburg to act as the lead privatisation adviser for these cities. Under a technical assistance programme totalling about ECU1.2 million, the Bank has provided assistance in the following areas: (i) advice on developing privatisation legislation and documentation, (ii) pilot privatisation projects, and (iii) preparation of a strategy for privatisation and for implementation aspects of the programmes. In the case of Moscow, the Bank's initial programme of assistance has been completed and a report and detailed set of recommendations for further reforms needed has recently been submitted to the municipal and national authorities. The Bank is awaiting a response from the authorities and, upon receipt of this, will consider launching a further and more substantial programme of technical assistance.

(b) **the national privatisation programme:** at the national level, the Bank is also undertaking an extensive programme of assistance (in conjunction with the World Bank). This programme which is being funded by approximately ECU5 million in grant technical assistance covers the following areas: (i) overall advice on privatisation policies, (ii) the drafting of laws and decrees relating to privatisation, (iii) advice on enterprise restructuring, and mass privatisation, (iv) the creation of a privatisation resource center for the Government, (v) advice on implementation aspects of the programme (including provision of equipment and training). Privatisation training is being provided both through ad hoc seminars for Government officials and through the International Center for Business, Management and Privatisation, which will start courses in September 1992 in St Petersburg.

The Bank's activities in the promotion of **new and small-scale enterprises** has been limited to date to the provision of a training course for enterprise managers.

To date **assistance from other international institutions and bilateral agencies** in the areas of enterprise promotion and privatisation has been very limited. The International Finance Corporation began a programme of assistance in small-scale privatisation for the city of Nizhnii Novgorod in December 1991. In addition, at the invitation of the Bank, the IBRD has joined in the programme of assistance to the Russian Government. Privatisation advice on a very limited scale has been provided by the UK Know-how Fund and through private initiatives such as the Soros Fund.

**(iv) Future Priorities**

The Bank's future priorities in the area of privatisation and enterprise promotion, will emphasise the following areas:

As regards **privatisation**, at the *national level* the Bank will continue its two-pronged strategy of providing technical assistance to improve the policy framework and implementation capacity of the privatisation authorities and assisting in the privatisation of specific enterprises to provide models for privatisation on a wider scale. The current Bank assistance programme to the Russian Government will be completed in mid-1993, at which time a review will be undertaken to determine the merits of further assistance at this level. At the *local level*, the Bank will continue to focus on the cities of Moscow and St Petersburg. In the former case, further work will depend on a favourable response to the detailed recommendations for reform which have been submitted to the Government for consideration. In the case of St Petersburg, the Bank's assistance programme will continue until early 1993, at which time consideration will be given to extending the programme, particularly in the area of pilot privatisations. A continuing emphasis of the Bank's efforts in all of the above areas, and at all levels will be human resource developments through training seminars and through the International Center for Business, Management and Privatisation.

The Bank will assist in the **commercialisation and restructuring of state enterprises** through the provision of technical assistance to improve the overall environment (particularly legislation) in this area. Although the ultimate goal of ownership reform should be to privatise almost all enterprises, commercialisation and restructuring appear necessary for most large firms since it is difficult to privatize large state enterprises immediately, due to price distortions, a lack of investors and entrepreneurs and a proper asset valuation methodology. Technical assistance and, in some cases, financial support, will therefore also be provided to specific state enterprises to assist them in the process of restructuring and changing ownership form. One area of importance will be the defence industry.

The Bank will seek to support the development of **new and small-scale enterprises** in specific industrial or service sectors, giving assistance to new or existing business incubators, science parks and business advisory centres in key regions.

The Bank will also seek to advise the relevant authorities of the Russian government, and to strengthen the financial infrastructure for the small and medium-sized enterprise sector.

### 3.3 MILITARY CONVERSION

#### (i) Current situation and main issues

Contrary to early expectations, military conversion has not been the panacea for modernising and revitalizing the economies of the former Soviet Union. While there is consensus regarding the favourable long-term effects of cutting defence budgets and redirecting resources from military production to civilian production, in the short-run there are tremendous economic and social costs. People with highly specialised skills are having to face the prospect that their skills are obsolete. And firms that had produced with little concern for cost are also facing a different culture. They must learn to find markets. Many firms are facing 100 per cent conversion: the need for new goods, new equipment, and new economics.

There are estimated to be between 2,000 and 3,000 military related plants in the former Soviet Union. Estimates of personnel employed in these plants are from 5 to 7.5 million. If one includes all those indirectly employed by the military industrial complex (MIC), the figure may be as high as 12 million. The concentration of the MIC is greatest in Russia where up to 50% of industrial output is defence related. Best estimates are that slightly over 75% of MIC production and R&D capacity is located in Russia. Ukraine ranks second with 14.5%, the remainder being split mainly between Belarus (2.5%), the Baltic States (2.9%), Kazakhstan and Uzbekistan.

From the late 1920s to the end of the 1980s, the military sector had a unique position in the Soviet economy and social structure. It enjoyed privileged access to inputs, high salaries and high prestige. As the principal beneficiary of the command economy's allocation of resources, the military sector became without question the most scientifically capable part of the Soviet economy. Its scale, priority and dominance also gave it powerful political influence. However, those who were once the country's well paid and honoured elite, have since 1988 been facing an ever increasing loss of security and status.

During the Gorbachev years, some of the enterprises and industries faced with declining defence contracts were able to diversify part of their activity into civilian production, but only two factories fully converted. There were many impediments to conversion. Among them was uncertainty about continued defence procurements, management conservatism and a desire to protect the workforce, a management culture that long divorced production from practical needs, too little market information for decisions on what goods are demanded in domestic and foreign markets, and the fact that conversion itself takes money. The original expectation in 1988 was that conversion could provide a means of enhancing civilian capabilities with a minimum of investment. It has since been realised that it would be a costly process requiring substantial capital outlays to purchase new equipment, retrain employees, search for markets and to create new enterprises when old ones would have to be shut down.

**(ii) Recent Developments**

In the first quarter of 1992, Russia cut the defence procurement budget by approximately 85%, a far greater cut-back than expected and planned for by firms. Reduced procurement budgets have imposed urgent demands for alternative work not only for those engaged in weapons production, but also at research, design and development organisations.

Without large state subsidies - which the state is no longer willing or able to give - some entire sectors will disappear. By contrast, some firms will find foreign interest in parts of their production lines and parts of their R&D capabilities - with other parts being scrapped and with large reductions in employment. It is highly unlikely that large vertically integrated facilities will stay intact. In some cases firms will face bankruptcy and in others individual production or design units will survive owing to successfully exploiting their technological advantages in niche markets or specific technologies will be 'cherry-picked' by foreign firms. Without credit to purchase new production equipment, most firms will be unable to convert to civilian production.

With the further deterioration of the economy, firms are facing greater and greater difficulties. They do not have the budgets to purchase new production lines or to convert old ones, they do not have finance or knowledge of where and how to obtain finance, and they do not have information about their production possibilities for sub-contracting, for exports, and even for the domestic market. The breakdown of production infrastructure throughout the economy has made it even more difficult for military firms to convert. Components and raw materials needed to produce new products are often available only at world prices, beyond the means of industries which are already suffering from severe budget cuts.

Some firms are striving to sell to Western markets or to form joint ventures in an effort to survive. Because of inefficient production, obsolete 'rust belt' factories, environmental liabilities, and poor marketing, most will face difficulties. (According to fragmented evidence from Western industrialists, the productivity of the most modern military industries corresponds to about 30%-40%, at best, of similar Western industries. Very low salary levels compared to the West often do not compensate for low productivity.) At the same time, because of recessions in the West, many Western firms are interested only in small sections of production capacities and often their interest is limited to selling equipment to local firms rather than infusing capital. Perceptions of an unstable economic environment are also undermining investments in conversion.

If the labour force cannot be absorbed into new activities, conversion will result in mass unemployment rather than the redirection of activities to civilian production. However, if firms are able to re-equip for production of new goods and if production organisation is improved through quality control, better management of financial and material resources, and greater market responsiveness, then the scientific excellence of the former military industrial complex can be transformed into efficient civilian production. It will also be necessary to find mechanisms

through which production and scientific research capabilities, which have long been divorced in the old system, can be joined so that industrial capabilities are enhanced by the interaction between the designers of technology and equipment and the users.

**(iii) The Bank's Initiatives**

The Bank will take a two-pronged approach to conversion:

- (a) Firstly, the Bank will provide financial and technical support for conversion plans demonstrating a strong chance of success for long-term commercial viability. The main focus will be on the creation of small and medium sized spin-off firms from the military complex. These new enterprises will play an important role in demonopolising the economy and in absorbing former employees of military production enterprises and research and development organisations.
- (b) Secondly, the Bank will assist firms to assess projects, formulate business plans, manage production and acquire marketing skills through business incubators, technology parks and regional centres specializing in military conversion. While the military industrial sector has always possessed technological skills, management expertise and entrepreneurial skills to commercialize technologies and produce for the market continue to be fundamental weaknesses. Incubators, technology parks and regional conversion centres can provide business assistance that firms on their own would not have access to because of prohibitive cost. They can also provide a mechanism to combine production and research capabilities.

The Bank is also planning to undertake industrial strategy missions to areas with high concentrations of military industry and research facilities. Specific recommendations will be made by sector specialists and assistance on regional industrial policy will also be given.

### **3.4 FINANCIAL SECTOR**

**(i) Present conditions of the banking and financial sector.**

The Russian banking system consists of a Central Bank in charge of licensing, controlling and refinancing the banking sector, issuing the currency and financing the Treasury. Financing of enterprises is the task of 1,900 commercial banks: 90% of them are joint stock companies either private or jointly owned by private and public entities; 10% of them are cooperatives. All of these banks can lend at short, medium and long term.

This structure has many functional shortcomings. The Central Bank cannot effectively implement banking supervision because it lacks an adequate corpus of regulations, especially on bank accounting, external auditing, on-site inspection, licensing policy, and concentration of assets. Central Bank refinancing of

commercial banks is hampered by the lack of financial assets which typically constitute the collateral for these operations (commercial bills, securities); refinancing is then mostly based on administrative measures (credit ceilings). At the same time, the absence of a Government Securities market makes systematically inflationary budget financing by the Central Bank. There is no real payment and settlement system, which increases the segmentation of the banking system and prevents the birth of an efficient money market.

Commercial banks, in the current highly inflationary climate, concentrate their activity in the short term which, coupled with the absence of a market for industrial bonds and a very limited market for equity shares, leaves largely uncovered the area of long term financial intermediation.

This imperfect system is now bearing the weight of a restrictive monetary policy implemented mostly through administrative instruments (lower refinancing ceilings and higher reserve requirements for commercial banks; credit rationing for the Treasury).

After the abolition, in January 1991, of the 25% ceiling on commercial bank lending rates, these rates soared to 40% at the end of February and to 50% at the end of March. At the same time other negative phenomena are appearing: the banking system is being increasingly disintermediated and inter-enterprise credit operations are growing. "Good" customers are starting to develop arrears and this will lead to a further deterioration in the quality of commercial bank portfolios. These symptoms show that the current banking system does not yet represent an efficient "chain of transmission" to the economy of the impulses coming from the monetary authorities.

## **(ii) A global strategy for financial reforms**

In order to raise the Russian banking/financial system to an adequate level of efficiency within a reasonable time span, a complex series of measures must be undertaken. These measures can be listed under two main headings:

a) initiatives at the **macro level**; they concern the banking/financial sector as a whole, with the aim of improving its global reliability and efficiency; they should cover the following areas:

- strengthening of the analytical and operational potential of the Central Bank in:
  - monetary operations
  - banking supervision,
  - accounting,
  - payment/settlement system,
  - public debt management,
  - foreign exchange operations,
  - balance of payments accounting
  - monetary research and analysis.

- Improvement of the efficiency of the commercial banking sector (as a whole) through extensive training on basic banking and financial skills.
- Development of financial markets (issuing and trading government securities, Stock Exchange, Insurance, Leasing, etc.).

b) initiatives at the **micro level**; they concern individual financial intermediaries, taking, essentially, the form of technical and financial assistance, both in the creation of new intermediaries and in the restructuring/upgrading of existing intermediaries. The purpose of this activity is not only improving the quality of banking and financial intermediation in the country, but also establishing business contacts with the intermediaries that, following assistance, have reached an acceptable level of efficiency. In the case of banks, projects may imply equity participation and/or lending for future on-lending to small and medium Russian enterprises. In the case of other intermediaries, business contacts might imply equity participation, if the reinforcement of a specific company is considered useful for the attainment of some specific Bank's goals (for example: reinforcement of one or more Stock Exchanges in order to help the privatisation process).

All International Institutions (IMF, World Bank, EEC, OECD, BIS) have agreed to provide substantial amounts of technical assistance to help the implementation of the vast programme outlined above. For the Institutions (IMF, WB, EBRD) this technical assistance will be additional to, or connected with, their credit operations. The International Institutions also agreed on the principle that an efficient coordination of their efforts is an indispensable condition for the success of the endeavour. It has been recently possible to elaborate the following broad division of tasks for technical assistance activities:

At the **macro level**, activities related to Central Banking will be performed by the IMF and by central banks of Western countries under the coordination of the IMF. Also the EBRD, the World Bank, and other Institutions, will have to play a relevant role in Central banking matters; this role will be defined in relation to the concrete needs that will emerge from the activities of IMF and Western Central Banks.

Activities related to the commercial banking system (as a whole) will be shared among all the International Institutions.

Activities related to development of financial markets, are mostly the responsibility of EBRD.

Action at the **micro level** will be shared by EBRD, EEC and World Bank; at this stage this means concentrating joint efforts towards a mutually agreed - initially limited - number of relevant intermediaries (in the short-medium term these intermediaries will be mostly commercial banks).

**(iii) The European Bank's past action and future plans**

**MACRO LEVEL**

a) Commercial Banking: for the banking sector, training was our first area of intervention and the International Centre for Banking and Finance was established in Moscow. It will become operational in the next months. Nevertheless, without waiting for the beginning of the Centre's activity, an urgent training programme for Senior commercial bankers has already started, and will be completed before the end of summer. The Bank will actively participate in the banking sector reforms; establishing accounting and auditing standards, prudential regulations and management restructuring, based on the experience gained by the micro level operations described below.

b) Government Securities: policy advice on the problems connected with their issue and negotiation was provided to the Russian Monetary Authorities in October 1991. Courses on these problems for 60 officers from the Central Bank and from the Ministry of Finance of Russia have started in February 1992 and will be completed in July.

c) Stock Exchanges: Priority will be given to training: a series of three courses for a global number of 90 Stock Exchange trainees will start in May. The final goals of the whole exercise are: (a) to introduce a global qualitative improvement in the operations of Stock Exchanges; (b) to become able to concentrate assistance on a limited number of Stock Exchanges in view of the positive role that they might play in assisting the privatisation process.

d) Insurance: the present conditions of the Insurance Market and the needs for Technical Assistance will be assessed. Further action will be carried out in order to reinforce individual companies and to increase competition among them; these companies could play an important role in the development of money markets (as net providers of funds) and of financial markets (as institutional investors). In later stages of the reform, other financial institutions, such as venture capital and leasing companies might deserve EBRD's attention. Venture capital companies can provide an effective channel for foreign equity investment in the economy; leasing has some advantages over normal credit operations in an environment in which debt recovery procedures are weak, due to inadequate legislation or inefficient court procedures.

**MICRO LEVEL**

a) Upgrading existing banks: the Russian Central Bank has agreed with our plan to start operating with a limited number of banks with a view to improve their overall efficiency and business potential. Preliminary contacts have been made with commercial banks, whose top management reacted positively to the proposal of letting their bank go through an upgrading procedure that might lead to business contacts with EBRD.



b) Establishment of new banks: together with the EEC, World Bank and IFC, the EBRD has participated in discussions concerning the creation of a Russian Development Bank. The project - sponsored by the Russian Monetary authorities - should lead to the establishment of a financial intermediary specialising in long term financing and also acting as an intermediary for funds lent by the IFIs. Discussions will continue among the International agencies, with the aim of reaching a conclusion before the end of this year.

Action at the micro and the macro level must be carried out on a contemporary basis, with the intent of encouraging a parallel growth of the individual intermediaries and of the global framework in which they have to operate.

### 3.5 ENERGY SECTOR

#### (i) Background and Issues

Russia's proven reserves of gas and coal represent 35% and 45% respectively of the world's total reserves of these fuels. Proven oil reserves already stand at 6% of the world's total and much of the country remains to be explored. Energy production peaked in 1988 at 1785 million tonnes coal equivalent (mtce). Production declined 2% by 1990 to 1750 mtce, a further 6% in 1991 to 1650 mtce and is certain to fall further in 1992. Net exports of energy (to other former republics and abroad) amount to approximately 30% of total energy production. However, Russia has been an importer of coal.

Production declines have been led by falling oil output. After peaking at 570 million tons in 1987, output fell to 460 million tons in 1991. The government anticipates that output will fall a further 7.5% in 1992, but even this may prove optimistic. Oil exports, which halved in 1991 to a little over 100 million tons, seem likely to halve again in 1992 and to continue to decline through 1993. Coal production has also declined. Output in 1991 was 357 million tons, 16% lower than the peak in 1988. In addition, gas production has stagnated and now looks set to fall. Production in 1991 was 645 billion cubic metres, of which 105 billion cubic metres were exported, about the same as in 1990. Electricity generation has also stagnated, at about 1100 TWh.

The decline in energy production has primarily resulted from the disintegration of administrative arrangements for production following the break-up of the Soviet Union. As well as dislocating the supply of spare parts and other materials needed for operations, the disintegration has left energy production dependent upon a framework of fiscal incentives which provide relatively meagre returns to energy producers. It seems evident that this has added to the decline in production. Equally, it seems clear that energy production (particularly of oil and gas) will be used as a lever in regions' discussions with Moscow to secure improved political and economic autonomy. This makes prospects for a recovery of production uncertain. Sharp cutbacks in sector investments since 1989 have added to present production difficulties. For oil and gas, this seems likely to dislocate long-term

growth in supply, which will depend upon new fields coming into production. Acute shortages of resources, coupled with the level of general economic disorganisation and inadequate incentives to stimulate direct foreign investment will make this difficult to reverse. A final factor affecting production has been labour unrest, particularly in the coal industry.

It is clear that Russia uses energy highly inefficiently. Approximate comparisons suggest the economy uses more than double the energy per unit of output than either Japan or the European Community. While economic reform has the potential to lower the economy's energy intensity dramatically, the short term effect of declining output has been to increase energy intensity (by about 10%). Total consumption of energy, which peaked at 1280 mtce in 1989, then declined 2% in 1990 and 3% in 1991, seems certain to continue to fall. Moreover, impending sharp price increases will accelerate demand contractions. It seems that demand is likely to fall more quickly than supply and this could lead to some improvement in energy exports in 1993. Although government's present policy is to restrict energy exports to safeguard domestic supplies, this policy almost certainly will change as supply deficits are eliminated.

#### **(ii) Activities of other IFIs**

The World Bank has commenced the preparation of an operation which will assist with the repair of oil wells and oil pipelines. In coordination with the EEC, the operation will also assist the government to prepare new natural resources legislation.

#### **(iii) Objectives and Strategies**

Bank operations will promote reorganisation of the energy sector in ways that lower barriers to private sector investment and make public utilities more autonomous and more accountable for their performance. Initiatives to establish appropriate legal and regulatory frameworks will be central features of such operations. Operations will also emphasise human resource development, to develop financial management and commercial skills, and to foster development of market-based energy trading with other former republics and with Western Europe. Twinning arrangements with foreign utilities are expected to play a key role.

Specific operational priorities will be to assist with efforts to:

- \* reverse the decline in oil production and oil exports;
- \* increase exports of gas;
- \* improve the efficiency of existing energy supply facilities; and
- \* promote energy saving, throughout industry and in residences.

As regards oil production, Bank assistance in the long run will focus on exploration and the development of new fields, since several of the major reservoirs have already passed their peak production. In the near term, however, operations will focus on supporting efforts to bring existing fields back into production. In

parallel, the Bank will support efforts to design the legal and regulatory frameworks needed to stimulate private investment. Operations to promote oil exports will focus on repairing and upgrading oil pipelines and establishing additional export points. These operations will also assist government to establish commercial transit arrangements with Eastern and Central European countries.

Operations involving gas will focus on the repair of main transmission pipelines and compressor stations, particularly those which provide supplies for export; and projects to reduce the amount of gas which is flared. As with oil, operations will also seek to establish commercial transit agreements for exports.

Operations to improve the efficiency of existing energy supply facilities will focus on reducing losses in refineries and lightening product yields, and improving the efficiencies of power supply and district heating systems. Initial operations will seek efficiency improvements through changes in operations, improvements in maintenance and preparing combustion equipment. In the longer term, operations will involve comprehensive rehabilitation of refineries, power stations, district heating stations and power and heat distribution systems. Special emphasis will be given to operations which achieve supply economies through strengthening regional interconnections of power systems. The majority of these operations will involve public utilities. All operations will include components to strengthen management systems and financial planning.

The coal industry will not be a priority for the Bank.

Operations to promote energy saving will involve both major energy consumers and energy utilities. Operations with consumers will seek to provide support for investments in energy-efficient technologies, and for the manufacture of insulation materials. Operations with energy utilities, will focus on pricing reform, improving consumer metering and improving awareness in industry and amongst residential consumers of opportunities for energy saving. Operations are expected to involve energy audits in industry, and investment support for conservation programmes in large industries which will remain in the public sector.

### **3.6 AGRICULTURE AND AGRO-BUSINESS**

#### **(i) Present situation**

Agriculture is one of the key economic sectors in Russia, accounting for 20 percent of Net Material Product, 13 percent of the labour force and using over 215 million hectares of land. The main arable crops are grains and fodder and livestock, the latter accounting for half of total agricultural production.

Russian agriculture is dominated by two main organizational structures, state farms (sovkhoz) and collective farms (kolkhoz) which together produce 75 percent of total agricultural output.

Apart from these two state run structures, there are a number of individual plots which are either allotted to sovkhoz workers and kolhoz farmers, or rented out to city dwellers. All production from subsidiary farms belongs to individual workers but the land is still owned by the state. Users of personal plots can only work after normal working hours and on weekends, and have very limited inputs and machinery to work the land. Production by these units accounts for over 25 percent of total agricultural output.

The agricultural distribution network is dominated by the state, and is highly centralized, although on its fringe there is a growing market oriented sector. Some green markets exist in rural areas and they are supplied by private farmers at market prices.

Agricultural inputs production is state-owned. Prices are controlled. Agricultural machinery production geared to large-scale agriculture. There is, however, a shortage of equipment and spare parts; the average period of use for a Russian tractor is about 7 years, half the average in the US. Russian statistics show that at any time 25% of farm machinery is under repair and 20% of the usable equipment stands idle during harvest time for technical reasons. Machinery suitable for work on small plots is also in short supply.

Russia is a net exporter of mineral fertilizers, but over 20 percent of output is lost in transport or due to inadequate storage facilities.

Storage facilities for agricultural inputs, machinery and final products are large and located near consumers rather than producers, which partly accounts for large losses (grain over 25 percent and potato up to 50 percent of total production).

The food processing industry is characterised by outdated technology and the lack of packaging supplies and a distribution network inadequate for efficient access to the market.

The price liberalisation of January 1992, covering most of the industrial and a narrower range of agricultural prices, aggravated the traditional disparity between industrial and agricultural prices. The prices of agricultural machinery, energy and agricultural inputs have risen about twenty-fold while the agricultural output prices have increased only seven times.

The government has initiated a land reform program. In 1990, the USSR government passed laws on land, leasing and property under which it becomes possible to work the land under lifetime and inheritable tenure. The same year similar laws were passed by the Russian government which acknowledge the right to private ownership of land. A State Land Reform Committee has been formed with the task of mapping and developing a legal framework for the reform process and organizing land valuation, by the end of 1995. The Russian government is working closely together with the World Bank on reforming the agricultural sector.

The government has declared that 1/3 of total agricultural land will be privatized by the end of 1992 but, at present, only 3% has been given over for private ownership to 14 million families. In addition there are 75,000 private farms, whose number is expected to double by the end of 1992.

However, on 17 April 1992, the Russian Congress of People's Deputies failed to adopt a constitutional amendment aimed at allowing the peasant to freely buy and sell land. This has led to a considerable confusion over the near-term prospect of land reform and the privatisation process in this field.

**(ii) Initiatives of the Bank**

The transformation of Russian agriculture towards an efficient and privately-owned sector will be a long and painful process. The reform process will need to be supported by a substantial programme of technical assistance and investment in the field of production, input supply, food-processing, marketing, transport and credit.

The Bank intends to launch a number of initiatives in these areas. This effort will require close coordination with other international institutions (especially the EC, World Bank and several bilateral agencies). This coordination has already begun through joint discussions at the Food Conference convened in Washington on 22/23 January 1992 by the US Government and the EC and in Moscow between 2 and 4 April 1992 at a conference organised by the Russian Federation and the World Bank on food sector strategies. The Bank has also coordinated directly with the EC on the Community's programme for the CIS. Contacts will also be established with selected bilateral agencies.

Medium-term activities will be focused on four particular sub-sectors which at present experience severe bottle-necks and which act as an impediment to the improvement and growth of the Sector.

**(iii) Agricultural Inputs**

The Russian government has requested the Bank to provide a facility, for the financing of much-needed agricultural inputs (spare parts, animal feeds and agro-chemicals) in order to support production. This facility would be linked to a list of specific priority investments from approved agricultural organisations.

**(iv) Medium-Term Initiatives**

**(a) Land Reform and Privatisation:**

Land reform and privatisation are areas where a complete programme of legal and advisory technical assistance will be needed. The Bank will participate, together with other institutions, in the definition of a satisfactory legal framework and will help to implement land valuation and privatisation. Other land reform proposals will need to be undertaken within the context of specific integrated investment projects.

(b) Agricultural Input Industry:

The Bank will finance projects intended to remove bottlenecks in key sectors like agricultural machinery, animal feeds, seeds, agrochemicals and fertilizers. The rehabilitation of existing facilities will primarily be considered, especially the conversion of selected military plants to produce agricultural machinery or agro-chemicals. Emphasis will be given to import substitution projects or those which directly affect private farmers, such as the production of small farming equipment. In most sectors, and in particular within the seed sector, investment projects will require revision of the Government's policy and a legal framework to encourage foreign private investment.

(c) Food Processing Industry:

The Bank's efforts will be aimed at upgrading current facilities as technology is updated and the level of hygiene is poor. Most packaging and canning facilities are inefficient and under-capitalised. Common food-processing equipment and packaging materials are in short supply and their production needs to be expanded. The Bank will finance the restructuring of food processing facilities, if possible in conjunction with private partners, in order to prepare them for eventual privatisation. Priority will be given to the following subsectors: dairy products, baking, meat, fish, fruit and vegetables. As with the inputs industry, preference in this case will be given to the conversion of military plants.

(d) Food Distribution and Marketing:

This area is obviously essential for the improvement of the food situation in Russia. A free market system will not be viable without the establishment of a basic marketing and distribution infrastructure. Priorities include the creation of wholesale markets in principal cities and rural centres, agro-industrial parks, storage facilities and removal of bottlenecks in the transportation area.

In the first stage, wholesale markets will offer the farmers the possibility to sell their products, together with a few wholesalers, at a differentiated price depending on the quality. In time, however, wholesalers will take the lead. In the distribution sector, a key feature of the Bank's initiatives will be the privatisation of existing distribution facilities. The Bank will also finance agro-industrial parks in order to develop small and medium-sized enterprises in the food sector. In parallel with this, storage facilities in production areas will be rehabilitated and expanded with the aim of reducing the severe losses encountered between the farm gate and distribution area. A key condition for the Bank's initiatives will be the privatisation of existing distribution facilities.

On the transport front, the Bank will aim to finance the rehabilitation of facilities to link ports and intermediary distribution centres. Other projects will focus on intermodal links and the privatisation of selected parts of the trucking industry.

### **3.7 NUCLEAR SAFETY**

#### **(i) Current situation**

Nuclear reactors operating in Russia suffer a wide range of safety deficiencies. While some problems can be overcome by improving plant operations and maintenance, other problems are related to plant design and construction and so are more difficult to rectify. International nuclear experts agree that the safety of the older type of pressurised water reactor (PWR, type 230) cannot be improved to acceptable levels. There is a broad consensus that these stations should be closed as soon as possible, but also recognition that this is likely to take several years. Some investments are likely to be needed in the interim to contain the most critical risks. There is widespread belief as well that the graphite moderated RBMK reactors suffer design and construction limitations which do not render feasible safety improvements to acceptable levels. Although the physical condition of some of these reactors (for example, two of the four at St. Petersburg) makes clear that they should be closed, and the international debate is leaning heavily towards the view that all RBMK reactors should be closed, there is not yet a consensus on this. The main reason is that RBMK technology is less well understood in the west and, consequently, the reactors have been subject to less detailed investigation. It seems likely that a few existing reactors (the PWR type WER 1000) and some reactors under construction can be improved to acceptable safety levels, through changes to operating regimes and installing modern safety equipment. The safety on other reactors (PWR type 213 and 320) will have to be assessed case by case, to determine what safety investments would be economic over the remaining life of the reactor, and by how much the closure of the plant should be advanced.

The government of Russia shares many of the concerns of the international community over the safety of the country's reactors. However, investing in nuclear safety is nevertheless a rather unattractive option. In practical terms, it entails committing large amounts of (scarce) foreign exchange to obtain less electricity. Moreover, within Russia there is comparatively little pressure on utilities to improve safety, because of the weakness of nuclear regulatory agencies. It is clear that little improvement in safety is likely without financial support from the international community, and stronger plant-level incentives to act.

#### **(ii) The European Bank's Strategy**

Promoting improved safety standards in nuclear power stations will be a priority aspect of the Bank's country strategy. The Bank will pursue priority safety objectives through its technical assistance and lending operations in the energy sector and closely cooperate with other international organisations and countries assisting Russia in this area.

As regards the recent international nuclear safety initiative, the Bank has proposed that it should operate the financial mechanism to support safety investments on behalf of the international community, and that the Bank should participate in the initiative directly through an allocation of capital provided specifically for the purpose. Through helping to bring together the various sources of technical and financial expertise required, and through stimulating participation of the private sector in the initiative, the Bank believes its involvement could enhance the effectiveness of the initiative. The Bank has recommended that the three objectives of the initiative should be to:

- identify the most dangerous amongst existing reactors and provide appropriate financial support to ensure these are closed as soon as possible;
- identify reactors which are likely to be able to meet acceptable safety standards, and sponsor the necessary safety investments and changes in operations and maintenance; and
- put in place a mechanism to assess the safety of other reactors, on a case-by-case basis, and recommend appropriate actions and the required levels of financial support.

In addition, the Bank has recommended that in parallel, the initiative seeks to strengthen the technical capabilities of Russia's nuclear regulatory agencies and the legislative basis of their authority. This will promote improved compliance against existing safety standards and heighten utilities' awareness of the need for safety improvements.

The Bank's own activities, in the area of nuclear safety, will focus on assisting the government with financing urgently needed equipment to conduct safety inspections of reactors, pressure vessels and critical ancillary equipment. This equipment will be used to assess reactor safety levels and plan necessary safety upgrades. Technical assistance will train plant operators how to conduct such safety inspections to western standards. The Bank's other activities in the energy sector will complement the Bank's nuclear safety activities by strengthening the technical and financial management of energy utilities and the capabilities of regulatory agencies.

### **3.8 TRANSPORT SECTOR**

#### **(i) Current situation and main issues**

Despite thinly developed transport networks, the Russian Federation is the world's most freight-transport-intensive economy, despite recent drops in traffic. This stems partly from circumstances of geography and the presence of vast natural resources in some of the most remote regions of the earth, which constitute much of the nation's wealth. It also stems from government policies which over the years have favoured the development of resource-based heavy industries (which generate



huge volumes of low-valued bulk commodity shipments per unit value output) over lighter consumer goods industries (transport requirements for which are much more limited in quantitative terms, but much more demanding in qualitative terms).

Associated with these same circumstances is the high reliance on railways as a mode of transport. The former Soviet railways carried more than half the world's railway freight traffic, and the Russian railways today provide about half of the country's total freight transport, with water, air, and particularly road transport playing a far smaller role than in many modern economies - pipelines are the only other mode that has been heavily exploited, although Aeroflot, before its recent dissolution into multiple carriers was by several measures the world's largest single airline.

Major elements of the transport system are currently undergoing a serious erosion of capacity. Decreased availability of spare parts and new vehicles and handling equipment is a problem for all modes of transport, but is most acute in the road transport sector, which is critical both for the collection of the harvest from the farms and for the local distribution of foodstuffs in the cities, and in the maritime sector (both ports and shipping), which is the most important conduit for food imports.

The processes of political and economic reform have gone a long way toward destroying the established organization of the transport industry, but the new structures now emerging have not yet taken form, and there is concern that, if not redirected from their present course, they may not provide a more efficient or even viable substitute. For instance, the disruption of trading relationships with the former CMEA countries, of which the spare parts problem is but one manifestation, threatens to extend also within the former Soviet Union itself, potentially disrupting important inter-republican movements of food products. Railways have recently been divided along national boundaries, as ports and shipping were earlier, reducing the fungibility (and therefore efficiency) of assets and raising the spectre of costly border crossing formalities and redundant investments as each republic seeks to secure its own transport lifelines.

Underinvestment in transport has been a traditional problem, resulting in sellers' markets, chronic shortages, and on several occasions serious capacity bottlenecks which restrained growth of the economy. Deferred maintenance needs are now beginning to accumulate.

These are most evident in vehicle fleets (for all modes) and urban streets, but the evidence suggests a mounting problem also in ports, rural roads and railways. Neglect of technological modernization is also a reflection of underinvestment and the general economic isolation of the country for so long (the latter factor being particularly important in the field of computerisation and in marine transport and international trade more generally).

Economic organisation is another factor that has contributed to technological retardation and other problems. The organization of the sector has consisted of a collection of giant monopolies (railways, marine, and aviation each organized under

a single controlling authority, with separate authorities by republic in the case of roads and river transport), with little in the way of an economic safety valve to provide an alternative to the control of the monopolies (own-account road transport being the principal exception).

**(ii) Role of the European Bank**

**(a) Sector Studies:**

The uncertainties, political as well as economic, in Russia are now so numerous that commercial interests which might otherwise be engaged will be reluctant to venture much effort or capital. In these circumstances the assistance of the multilateral development banks - including the World Bank as well as the EBRD - can be particularly important. Within the transport sector four general areas merit special attention: (i) public policy analyses to assist in defining in detail those specific steps needed to move to a market system; (ii) technology surveys; (iii) investment priority surveys; and (iv) design of training programs.

An initial series of studies in these various areas has been launched by EBRD in each of the four major transport modes: rail, road, water, and air. The studies have three primary objectives: (i) to identify the likely future role of each mode in a future market economy; (ii) to delineate the measures (concerning policies, technology, institutional reform, and investments) needed to transition each from its present position to its prospective future role; and (iii) to identify a projects pipeline for the EBRD. In implementing these studies, close coordination is being maintained with the World Bank. As such, a combined EBRD-World Bank transport sector mission has recently visited Russia in order to monitor progress on the studies and review preliminary findings.

**(b) Project Focus:**

Following completion of the various transport sector studies, EBRD will establish a programme of lending in the sector which will be designed to support the policy measures outlined above. The specific focus of this programme is expected to be in the following areas:

(i) Rehabilitation of transport equipment including establishment of vehicle repair facilities and provision of inventories of spare parts for trucks, buses, railway traction and rolling stock;

(ii) Rehabilitation and selective upgrading of key inter-city road and rail routes, combined with the introduction of management systems to monitor traffic and network conditions and to optimise rehabilitation and maintenance programmes;

- (iii) Upgrading of airline information systems, airports, air navigation systems, infrastructure and equipment.
- (iv) Modernisation of existing port infrastructure to meet the needs of modern transport technologies including the provision of container and Ro-Ro handling equipment and computerised management information systems as well as grain handling facilities;
- (v) Support for the development of intermodal transport systems for long haul traffic through the creation of joint venture companies; and
- (vi) Improvement and maintenance of farm access roads in areas of high agricultural potential;

EBRD will play a major role in developing financing schemes for such projects through the introduction of proper pricing as well as through more innovative financing mechanisms involving private sector concessions and direct private sector investment in transport enterprises.

### 3.9 TELECOMMUNICATIONS

#### (i) Present Situation

The number of telephone main lines is estimated to be around 20 million - a density of 13 lines per 100 inhabitants. The OECD average is 41. The waiting list for telephones amounts to 10 million giving a poor demand satisfaction of 66%. The waiting time for telephone installation averages at least four years. Due to the fully centralised national trunk network structure the international traffic still passes through the analogue international gateway at Moscow, originally designed to meet the requirements of the 1980 Olympics. The capacity of 2,500 lines is heavily overloaded. Only 10% to 20% of all local, national long distance and international call attempts are successful, giving an extremely low grade service throughout the total network.

The telephone network is technologically outdated. The replacement of electro-mechanical telephone exchanges (dominating the network) with semi-electronic (Russian production) or fully electronic exchanges (to be imported) proceeds slowly. Shorthaul digital links with transmission speeds of 2 and 8 Mbps are being implemented in some of the major cities, and several lines with 34 and 144 Mbps are under construction. Russian scientists claim to be ready to produce components for optical fibre systems for the Trans-Siberian Link with a speed up to 565 Mbps to bypass COCOM restrictions applied presently.

The existing analogue network supports data transmission at low speed. Due to a lack of transmission systems and computers the number of users has remained small until now. The telex network is possibly the most developed and reliable system for

both national and international communications, even if equipped with old equipment. Cellular telephone networks exist in Moscow and St Petersburg.

The efficiency of the network operator is extremely low (20 telephone main stations per employee) compared to the OECD average of 120.

Despite recent increases, tariffs are extremely low, and, by a large margin, do not meet cost coverage. International call tariffs are set to allow for cross-subsidy of national and local calls.

The following development priorities have been defined by the Russian authorities:

- International network elements, which include several international telephone gateway exchanges, and long distance optical fibre systems linking e.g. Moscow to Sebastopol, Copenhagen and Frankfurt (Trans-European Link) as well as to Nakhodka with an extension to South Korea and Japan (Trans-Siberian Link).
- Modernisation of the inter-urban telephone switching and trunk network.
- Substantial increase of the telephone density in urban as well as in rural areas; the short term objective is a yearly telephone main station increment of 1.5 million to be extended to 2.5 million in 1995.

**(ii) The European Bank's initiative and priorities**

EBRD extended a loan to the Russian company Sovintel to build a new digital international telephone system in Moscow. This system, which has been in operation since December 1991, is independent of the public network and is utilising satellite transmission capacity. It provides hotel, business centres and offices with high quality telephone and fax services.

According to our present knowledge other IFIs are not involved in the sector development. However, in the meantime, the attention of the major telecommunications operators and manufacturers world-wide has been attracted. Approximately 20 Joint Ventures have been established during the last three years. They cover basic and enhanced telecommunications service operations as well as equipment manufacture, and concentrate on the major industrial areas and newly established Free Economic Zones.

The Bank's overall short term telecommunications sector objectives will be to:

- strengthen the public infrastructure for the provision of basic services such as telephone, fax and telex services (when appropriate);
- assist in the restructuring and commercial orientation of public operators;
- assist in the creation of a regulatory regime and licensing terms for private sector participation;
- promote the development of new and enhanced services.

The Bank's investment policy will favour capacity increase instead of modernisation and replacement, and will concentrate on user groups which contribute the most to the take-off of economic development (subscribers from the business community). In addition, the Bank will concentrate on telecommunications network elements which urgently need improvement in access and quality of service, and which, according to experience, will be used predominantly by the same user groups.

The sector priorities to be applied in the Russian Federation will follow these lines and will comprise physical investment through loans to the government and/or joint ventures and/or equity participation.

Given the economic situation and the huge investment requirement in the sector, the highest priority will be given to an improvement in international telephone (and fax) facilities (international gateways, transmission links to the gateways) in order to support business activities and generate hard currency revenues (by subscribers who usually pay in foreign currencies) for reinvestment.

The implementation of satellite links through EUTELSAT or INTELSAT satellite and the corresponding earth stations will be of the same importance; satellite links offer the potential of point-to-point high traffic flows between the Russian Federation and the rest of the world.

The national long distance network has to be developed in order to connect the most important business areas/centres of the country to the international network; this will be done by a digital overlay network which unloads the existing overloaded network and offers both reliable access and sufficient quality of service to the business community.

The Bank's sector priorities include upgrading of local networks (the lowest level of a network) only in case of supporting predominantly the business subscriber segment.

In parallel to investment operations, telecommunications policy advice and Technical Assistance Programmes financed by the Bank become necessary in all major fields of the sector. The initial emphasis will be on Institutional Reform Policy (legislation, regulation) and a commercial orientation of the sector.

### **3.10 URBAN AND MUNICIPAL DEVELOPMENT**

#### **(i) Current Situation and Main Issues**

Specific activities undertaken by the Bank in Moscow and St. Petersburg, and contacts with a number of other organizations working in the sector in Russia give the following general parameters of the problems faced by the urban sector:

The institutional and financial framework of local government within the context of the Russian Republic remains to be defined. Major reforms in intergovernmental

transfers and the definition of the decentralized functions of local governments have not been taken. The management of cities has in several cases become inward-oriented as resource flows from the centre have either disappeared or become highly uncertain.

There has been significant under-investment in the housing sector leading to a severe housing shortage and an increasing backlog. The current level of usable space per capita is estimated at about half that in Western Europe. In addition, low cost recovery in the rental market has also led to the deterioration of the existing housing stock. It is estimated that rents are equivalent to less than half minimal maintenance costs and would have to be adjusted by an order of magnitude of 6 to 8 to achieve full economic cost recovery.

Significant investments have been made in selected urban services. For example, public transport plays an important role in the functioning of large Russian cities due to their spatial spread (low density of land use) and low car ownership ratio. Most of these urban services have suffered however from delayed maintenance, insufficient rehabilitation and have not generally followed urban expansion. Water supply and district heating systems also suffer from similar problems. For example, the average system breakdown in St. Petersburg has increased from 0.55 breakdown per network kilometre in 1976 to 1.12 in 1990. The treatment of wastewater has in many areas not been properly addressed and has resulted in substantial water and land pollution problems.

Cost recovery ratios for most urban services remain low and social constraints on tariff adjustments have led to sustained and significant subsidization of these services. While city governments are generally aware of the need to increase efficiency of services and cost recovery, there is significant difficulty in undertaking these measures due to their employment and financial impact on strained household budgets.

Local government is in transition as elected city councils assume an increasingly active role and the existing city administration adjusts to a new institutional and political situation. The overlap between the previous administrative system and newly emerging structures and organization makes urban management very complex.

In the current situation of institutional, political and economic transformation, local governments are likely to play an increasingly important role in the transition to a market-based economic system and an open political system. The definition of a new institutional and financial framework of local government in the context of the current macro-economic reforms represents a major issue with crucial political, social and economic implications.

The urban sector plays an important role in the functioning of the economy and the direction of reforms. It has strong social implications particularly in the housing sector and is extremely visible in terms of public perception of the functioning and

impact of reforms. Interruptions in water supply, breakdowns of public transport systems and district heating systems have significant social and economic impacts.

**(ii) Other IFIs Activities**

The Coordinating Conference on Assistance to the New Independent States included a specific working group on shelter issues. This group focused particularly on the issue of housing for returning military officers but also addressed medium-term structural reform issues and the role of local governments.

The World Bank has focused its efforts on the definition of a sound reform framework for the housing sector. It has also undertaken studies on the structure of intergovernmental transfers in Russia and on urban financial management (case of Moscow).

**(iii) The European Bank's Activities**

In light of the uncertainty surrounding the evolution of the institutional and financial framework of local government in Russia, of the scale and geographic spread and of the current staffing level within this sector, the proposed approach in the urban sector during the coming year is built around the following points:

- a.* focus on resolution of specific issues in priority urban municipal services which can lead in time to the definition of a potential investment project. Activities should be well defined and their execution and outputs monitorable. The Bank is implementing two technical assistance activities in this respect in Moscow (solid waste management) and St. Petersburg (water supply and district heating);
- b.* through these activities, acquire an in-depth knowledge of specific financial, technical and institutional issues affecting the development and management of municipal services.
- c.* collaborate closely with other IFIs in the definition and implementation of a coherent work program in the sector. Significant reconnaissance and sector work will be necessary before precise priorities can be defined. The Bank is liaising with the World Bank on studies involving housing sector reform, intergovernmental transfers and municipal budget management in Moscow.

The pace of development in this sector should be prudent due to geographical dispersion, uncertainties in the current policy framework and its relative level of priority compared to other key economic issues in Russia. Focus on specific monitorable activities will allow to test the capacity to develop and implement technical assistance activities, working methods with local authorities and transition approaches to local government and municipal services. This will provide a basis upon which a more comprehensive and representative approach can be defined.

### **3.11 SOCIAL SECTOR**

#### **(i) Employment Sector**

There was officially no unemployment in the Soviet economy. The transition to a market economy will trigger mass unemployment. The existing employment offices are greatly understaffed and badly equipped. There will probably be difficulties of organisation and communication to solve.

#### **(ii) Social Security**

Most of the social security system has been separated from the central state in 1990-91. The Russian Social Security Fund now receives resources from enterprises (37% of payrolls), and distributes pensions and other cash benefits through its network of decentralised branch offices. The very depressed economic situation is resulting in a lack of income and a large deficit to be compensated by the Russian state budget. A formal reform of the whole system is necessary, with separation of various categories of risks, differentiation of contribution rates amongst risks and categories of population and sharing of contributions between employees and employees. The social security institutions would need a technical modernisation and reorganisation of management to be able to support such a reform.

#### **(iii) Health**

Due to cumulative shortfalls in investment and current expenditures, needs in this sector are enormous. According to top representatives of the Ministry of Health and Health Study Institute, the most serious problems are the severe lack of drugs and various types of medical equipment, which should be solved through reconstruction of efficient industries in this sector on Russian soil. A fundamental reorganisation of both hospital and outpatient care systems should be started as soon as possible. Hospital capacity is in excess compared to Western norms, but hospital infrastructures are in a poor state, quality of care is frequently low and management methods are outdated. The training and professionalism of GP's is in need of improvement, so as the quality of outpatient care can improve.

#### **(iv) Social Assistance**

A number of social groups will be hit by poverty and difficult living conditions during the transition period, which will necessitate the development of a network of efficient local welfare offices as soon as possible. These are necessary to provide subsistence means for vulnerable groups and help them to become reintegrated professionally and socially. Such a network barely exists today.



(v) **Activities of other international organisations in the social sector**

Information on this issue has not been gathered systematically as yet due to lack of time. Most of the international organisations within the social sector (ILO, WHO) only made initial contacts very recently to start a new generation of aid programmes. The World Bank started a small TA programme in January for the Russian Department of Employment (Employment offices). A World Bank "Former Soviet Union Social Sector " team was formed in January, and has started work on designing a "social safety net".

(vi) **Bank's priorities and initiatives**

Following initial discussions with the Russian authorities, EBRD medium-term priorities could be defined as follows:

- Joint development and modernisation of the networks of **employment and social welfare offices**, which will provide tools for development of a modern labour market and stimulation of social reintegration of vulnerable groups.
- Technical and financial assistance in the **development of a modern social security system**, allowing, as far as possible, the separation of the pension and cash benefit system from the state, reduction of the financial burden from the budget, transfer of social responsibilities from enterprises to specialised institutions, and increase in the global efficiency of the social security system.
- Health sector projects: modernisation or reconstruction of **drugs and medical equipment industries** (private sector), modernisation of infrastructure, techniques and management of hospitals, assistance for the development of a **new health insurance system** in connection with the modernisation of the existing social security system.

Initiation of Bank social sector projects in 1992 would be subject to the availability of corresponding resources. Potential initiatives for 1992 will have to be limited to a very small number of projects, which could be for example:

- Co-financing of additional components to World Bank starting programmes in the social sector
- Technical assistance for initial steps of development of a new Social Security system
- One or two Health sector projects in the Drugs and Medical equipments industries (eg reconversion of military equipment manufacturing units, if feasible) and/or in the Hospital sector.

### 3.12 THE ENVIRONMENT

#### (i) The Current State of the Environment

The limited reliable data available on the state of Russia's environment indicate particularly badly polluted conditions in areas which account for more than two million square kilometres and severe ecological conditions in areas inhabited by twenty per cent of Russia's population, sixty million people. There is evidence that, in the most polluted areas, environmental health risks are ten to one hundred times as great as those that would be acceptable in most western industrialised countries.

Two thirds of drinking water supplies are below accepted standards and underground water supplies are seriously contaminated. Deaths from respiratory diseases among men are nearly three times as high as in Germany. Ten per cent of food is unsafe for human consumption as a result of contamination from pesticides, heavy metals, and other pollutants. There are serious environmental problems associated with the past production and testing of nuclear and chemical weapons and some operating nuclear facilities.

Problems are especially severe in industrial centres, in areas where there is extensive utilisation of agricultural, forestry and mineral resources, and in other regions with a high population density. Among the most degraded areas are the Kuibishev, Kuzbass and Northern Urals industrial regions and mining centres within the Kola Peninsula, Northern Siberia and Norilsk regions.

Habitats of global importance are at risk because of the careless exploitation of natural resources. Steppes, tundras, forests, rivers and lakes, including Lake Baikal, the largest freshwater reserve in the world, and the Caspian and Aral Seas, are endangered or already dead as a result of the misguided economic policies of the past and erosion of arable and pasture land is a particular problem.

To date, there appears to be no effective environmental management system operating in Russia, even one using a command and control approach. The Russian Federation is charged with setting emission standards; these are generally based on World Health Organisation values for acceptable daily exposure. On paper, standards are comparable with those in the west, in practice, industrial emission standards are less stringent and are not enforced.

In the absence of polluter and user pays principles, environmental expenditure has been funded from central budgets. As very low priority has been given in the past to the environment, sums earmarked for environmental projects have not been fully utilised; such expenditures represent about two per cent of total state investment and have been mainly targeted at water treatment with air pollution and solid and toxic waste problems receiving few funds.

Those concerned with environmental improvement in Russia will need to recognise that the major cause of pollution and natural resource degradation is high energy and natural resource utilisation for a given volume of production. Moves towards realistic pricing and market competition will therefore generate great environmental

benefits without imposing additional costs. Industrial modernisation rather than "end of the line" one-off solutions will be the key to improved environmental quality. Investments in the short term should concentrate on the development of a country-wide environmental management system and should address sources of pollution which threaten human life and health.

**(ii) Bank Activities and Priorities**

To date, the Bank's environmental initiatives in Russia have concentrated mainly on the north west of the country and work on identification of needs and priorities in the country as a whole has still to be undertaken. Within the framework of the Baltic Sea Environmental Programme, requirements for waste water treatment facilities at a number of cities and industrial facilities and improvements in the management practices in the agricultural and livestock sectors have been identified. An assessment of the major pollution sources in the Karelia, St Petersburg and Kaliningrad areas has concluded that intervention in the pulp and paper industry will be a key factor in effecting environmental improvements and a detailed study of environmental management in the industry has been launched by the Bank.

Environmental control and upgrading within existing onshore oil and gas fields in Russia represents an important sector which is addressed by the Bank's procedure for environmental review of operations, which are designed to fulfil the Bank's mandate to promote environmentally sound and sustainable development are the full range of activities. Natural resource extraction in areas with vulnerable ecosystems will be assessed and appraised with particular care.

The Bank will contribute to the development of an efficient environmental management system in Russia by considering requests for assistance in aspects of institutional strengthening and in formulating least-cost environmental strategies and the development of short term investment programmes. Assistance may be offered in the design of economic incentive programmes aimed at rectifying polluting activities and financing schemes for environmental protection. Special attention will be given to ecologically important areas such as the Black and the Baltic Seas, and in regions where threats to human health are greatest.

- APPENDICES -

Section 4.1

STATISTICAL ATTACHMENTS

**TABLE 1****RUSSIAN FEDERATION:****Share of the Russian Federation in the Former USSR**  
Selected Indicators, 1985-90 (in percent)

	<u>1985</u>	<u>1990</u>
Population	51	51
Employment <u>1/</u>	57	57
Employment in industry	60	59
Employment in agriculture	40	38
Gross Output	60	59
Net Material Product (NMP)	61	61
NMP in industry	65	62
NMP in agriculture	44	52
Gross Domestic Product	...	62
Industrial Output:		
Oil (including condensed gas)	91	90
Natural gas	72	79
Coal	54	56
Rolled metal	58	57
Steel tubes	59	61
Trucks	84	86
Passenger cars	87	88
Agricultural machinery	58	60
Fertilizers	52	50
Polyethylene	68	65
Timber	92	92
Cement	60	60
Consumer goods	54	56
Shoes	46	46
Knitwear	40	40
Cotton fabrics	72	72
Meat	49	51
Vegetable oil	30	35
Sugar	31	30
State Procurement for Grain	54	50
Freight	52	54
Housing Investment	55	53
Retail Trade Turnover <u>2/</u>	58	57
Services	58	58

sources: Goskomstat of the Russian Federation: and Goskomstat of the USSR

1/ Average yearly number of blue and white collar workers

2/ State and cooperative trade, including public catering

**TABLE 2**

**RUSSIAN FEDERATION:**

**Selected Economic Indicators**

	<u>1989</u>	<u>1990</u>	<u>1991</u> Est.	<u>1992</u> Proj.
Nominal GDP	573	622	1,130	9,850
		(In billions of rubles)		
Real NMP	1.9	-3.6	-11	-15 to -20
Household Money Incomes	13.3	16.6	120 1/	...
Retail Prices (official index):				
Year average	2.4	5.2	90	1,000
End of year	...	...	152	900
Broad Money (end of year) 2/	14.6	19.4	77	...
Total Credit (end of year) 2/	9.8	21	93	...
		(In percent of GDP)		
Budget Balance of the General Government:				
Actual	...	...	-11	-0.9
Notional 3/	...	...	-20 4/	...
		(In millions of tons)		
Oil:				
Production	552	516	461	405
Shipments to former republics 5/	173	163	158	121
Exports to third countries 5/	185	156	91	90
		(In billions of cubic metres)		
Natural Gas:				
Production	616	641	643	654
Shipments to former republics	...	...	139	99
Exports to third countries	...	95	91	104
		(In billions of US dollars)		
Trade Balance 6/	...	-2	12	-1
Exports 6/	...	81	57	49
Imports 6/	...	83	45	50
Current Account (including gold sales) 6/	...	-5	9	-6
Change in External Reserves (- increase)	...	5	2	-2
Total Scheduled Debt Service 7/:				
Principal	...	5	5	6
Interest	...	2	2	3
Arrears (- increase)	...	-3	1	3

sources: Ministry of Finance; Union Goskomstat; Goskomstat of the Russian Federation; Gosbank; Central Bank of Russia; and IMF estimates.

1/ Including deposit compensation for the April 1991 price increases.

2/ For 1989 and 1990, the USSR figure is used.

3/ Includes Russia's assumed share of the union budget.

4/ Excluding deposit compensation and debt write-off.

5/ Includes crude oil and petroleum products.

6/ With third countries (all currencies).

7/ Assuming Russia services 61% of the debt of the former USSR

**TABLE 3****RUSSIAN FEDERATION:****The Consolidated Budget in 1992 1/**  
(In percent of GDP)

	January- March	April- December	Year
I. Revenue -	20.1	35.7	33.4
<i>Of which:</i>			
VAT (excl. on imports)	7.0	10.3	9.9
Domestic taxation of oil and gas	...	4.7	4.0
Profits tax	6.0	4.9	5.1
Household income tax	1.6	1.1	1.2
Export tax	2.8	9.1	8.2
Import tariffs	...	1.5	1.3
II. Expenditure -	34.3	31.2	31.7
<i>Of which:</i>			
Investment	2.3	2.5	2.4
Producer subsidies	2.6	0.6	0.9
Wage bill	4.7	6.3	6.1
Outlays on social safety net	6.5	8.8	8.5
Expenditure on foreign activities	9.7	4.5	5.2
III. Balance of Extrabudgetary Funds	...	-3.0	-2.6
<b>Overall Balance (I-II+III)</b>	<b>-14.2</b>	<b>1.4</b>	<b>-0.9</b>

source: Russian Federation - Memorandum of Economic Policies, IMF, 10 March 1992.

1/ The table represents estimates of the consolidated budget of the Russian Federation in 1992, including local government budgets and the extrabudgetary funds. It includes the budgetary effects of all the measures described in the Memorandum of Economic Policies. The underlying assumptions about the main economic variables (eg. wages, interest rates), are consistent with the program of the memorandum as a whole.

The estimates are based on the IMF's methodology for government financial statistics. This differs from that used by the government of the Russian Federation in several respects.

It is estimated that these differences amounted to a difference in the budget deficit of 4 percentage points of GDP in the first quarter of 1992.

**TABLE 4****RUSSIAN FEDERATION:****Inflation Indicators**

1985-91

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>		
	<u>1991</u>							
	(Annual percentage change)						<u>Average</u>	
	<u>Dec. over</u>							
	<u>Dec. 1990</u>							
Wholesale Industrial Prices	...	...	...	...	1.2	3.9	138.1	236.3
Consolidated Retail Prices	...	...	...	...	...	5.6	90.4	152.1
Food (excluding alcohol)	0.1	0.6	2.1	0.4	0.7	4.9	112.7	...
Alcoholic beverages	6.2	24.7	15.4	...	...	1.9	28.6	...
Nonfood products	-0.9	-0.9	-1.1	...	3.1	6.5	100.7	...
Retail Prices In:								
State and Cooperative trade	0.5	2.2	1.6	0.2	2.4	5.2	89.2	146.1
Cooperative trade	1.2	3.4	2.4	0.6	0.5	14.1	111.7	360.8
Kolkhoz markets	5.2	1.1	3.7	2.5	7.4	34.3	132.1	281.2

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sources: Goskomstat of the Russian Federation;  
and Statistical Committee of the CIS



**TABLE 5****RUSSIAN FEDERATION:****Summary Monetary Survey**  
1990-92 (in billions of rubles)

	1990	1991			1992		1992 Jan.	
	Dec.	Sept.	Oct.	Nov.	Dec.1/	Dec.1/		
Net Foreign Assets <sup>2/</sup>	-6	-8	-1	-1	...	...	-17	
Net Domestic Assets	516	749	799	840	904	904	1,583	
Domestic Credit	583	862	920	988	1,071	1,126	1,186	
Claims on government (net)	349	461	462	487	541	595	577	
Rest of the economy	234	401	458	501	531	531	609	
Inter-bank balances (net liabilities)	-19	-28	-44	-23	-38	16	94	
Other Items (net liabilities) o/w valuation adjustment	86	141	166	171	206	206	-491 -639	
Monetary Liabilities	510	741	799	839	904	904	1,566	
Currency outside banks	76	123	133	144	158	158	177	
Deposits	434	618	666	696	746	746	1,389	
Ordinary	322	429	470	501	544	544	577	
For long-term credit	104	179	186	185	192	192	218	
For. curr. deps. in comm. banks	8	10	10	10	10	10	594	
		(Percent change with respect to end previous year)						
Net Domestic Assets	...	45	55	63	75	75	75	
Domestic Credit	...	48	58	70	84	93	5	
Claims on government (net)	...	32	32	40	55	71	-3	
Rest of the economy	...	71	96	114	127	127	15	
Monetary Liabilities	...	45	57	65	77	77	73	
Currency outside banks	...	62	74	88	106	106	12	
Deposits	...	43	54	60	72	72	86	

source: Central Bank of Russia, Savings Bank of Russia, State Bank of the USSR and IMF estimates.

<sup>1/</sup> December 1991 figures are presented before and after adjustments for the assumption by Russia of union assets and liabilities. This assumption has not yet formally taken place and is subject to continuing negotiation between republics. However, since the union no longer exists, and its assets and liabilities on Russian territory are being handled by Russian monetary authorities, it is likely that the adjusted December 1991 figures represent a truer (more complete) picture of monetary aggregates in Russia. An exception to the above is the inclusion of Vneshekonombank, which has been attributed to Russia purely to facilitate the construction of consistent monetary surveys across republics.

<sup>2/</sup> This balance includes the net short-term position of Vneshekonombank. It also includes the net liability position in foreign currencies vis-a-vis residents.

**TABLE 6****RUSSIAN FEDERATION:****Interest Rate Structure**  
1991 - 1992 (February) 1/

	<u>1991</u> (%)	<u>1992</u> (%)
<b>Central Bank Lending to Commercial Banks</b>		
normal	6-9	20
preferential	1-5	20 <u>2/</u>
overdraft	...	35 <u>3/</u>
<b>Commercial Bank Interest Rates</b>		
loans:		no limit
interbank	dep. rate +1 -1.5	
ordinary	up to 25	
deposits:		no limit
business-related	10-15 (dep. on term)	
individuals	1-1.5 less than for business	
<b>Savings Bank Interest Rates (with government guarantee)</b>		
deposits:		
< 1 year	2	3
1-3 years	5	7
3-5 years	7	10
> 5 years	9	15
special	9	15
loans:		
to union	5	11
to CBR	8	15-18 <u>5/</u>
Interbank	12	22
Business-related		Interbank + 2-3
Individuals	17	...
Special	3-5	to cover costs <u>6/</u>

sources: Central Bank of Russia; Savings Bank of Russia.

1/ This table shows the institutionally-set interest rates. It appears that, in most cases, the regulated rates were adhered to.

2/ Central bank borrowing by banks which lend to preferred sectors may be subsidized through the budget. No information on preferential-rate lending is yet available.

3/ The authorities stated that this penal rate would be maintained at around double the normal lending rate.

4/ 25% was the legal limit. Nonetheless, annualized rates of up to 1000% were observed.

5/ Intention in January 1992

6/ Savings Bank lending to preferred sectors (farmers and housing in 1991) will be charged an interest rate of around the average deposit rate in 1992, or a budget subsidy will be allocated to the Savings Bank to cover the difference.

**TABLE 7****RUSSIAN FEDERATION:**

**Exchange Rate Developments**  
December 1991 - February 1992  
(Rubles per US dollar)

	Commercial Exchange Rate/ Special Commercial Exchange Rate	Quasi- Market Rate	Market Exchange Rates 1/		
			Interbank Market	Russian Bank Exchange	Tourist Exchange Rate 2/
<u>December 1991</u>					
1-6	1.7	...	110	132	...
7-14	1.7	...	170	172	101
15-20	1.7	...	170	144	115
21-31	1.7	...	169	144	108
<u>January 1991</u>					
2-6	55	110	150	144	109
7-14	55	110	180	178 3/	114
15-21	55	110	230	120	116
22-31	55	110	230	...	120
<u>February 1992</u>					
1-6	55	110	225	...	126
7-14	55	110	210	...	117
15-22	55	100	170	...	99
23-29	55	90	139	...	...

sources: USSR Gosbank; Central Bank of the Russian Federation; and Commerzant.

1/ The inter-enterprise exchange rates recorded by the banks are also market-determined rates, but are difficult to interpret because of side payments which imply that the exchange rate does not reflect the price of the transaction.

2/ Average midpoint of buying and selling rates in Moscow as published by Commerzant.

3/ During an "open auction" held on January 7 (ie. an auction in which the Russian Exchange Bank is the only seller), the average exchange rate was rubl 146 per US dollar. the exchange rates quoted in this table refer to the so-called "closed auctions" where all legal persons (both residents and non-residents) can participate as buyers and sellers of foreign exchange. The auctions were discontinued from the fourth week of January 1992.

**TABLE 8****RUSSIAN FEDERATION:****Balance of Payments for Russia and the USSR  
Territory in 1990 and 1991** (in billions of US dollars)

	In all Currencies			
	USSR territory		Russia	
	1990	1991	1990	1991
Trade Balance	-16.9	2.0	-2.0	11.8
Exports	103.8	70.2	80.9	56.5
Oil	27.1	11.1	27.1	11.1
Natural gas	11.1	11.8	9.6	10.3
Other	65.6	47.3	44.2	35.1
Imports	-120.7	-68.2	-82.9	-44.7
Services, net	-6.6	-7.8	-4.1	-4.7
Transportation and insurance	-0.2	0.2	-0.3	0.1
Travel	-0.5	-0.5	-0.3	-0.3
Interests, net	-3.5	-3.8	-2.1	-2.3
Receipts	1.2	0.6	0.7	0.4
Payments	-4.7	-4.4	-2.9	-2.7
Other	-2.4	-3.7	-1.4	-2.2
Current Account, excl. gold	-23.5	-5.8	-6.2	7.1
Gold sales, excl. swaps	2.5	3.4	1.6	2.1
Current Account, incl. gold grants	-21.0	-2.4	-4.6	9.2
Medium - and longterm cap	3.3	4.6	2.0	3.0
Disbursements	10.9	12.5	6.6	-7.8
Amortization	-8.1	-8.2	-4.9	-5.0
Repayments from abroad	0.5	0.3	0.3	0.2
Short-term capital	-	-	-	-
Foreign direct investments	-0.7	-0.2	-0.4	-0.1
Errors and omissions	-0.3	-1.7	-0.2	-1.0
Capital Account	2.3	5.3	1.4	3.5
Overall Balance	-18.7	2.9	-3.2	12.7
Financing	18.7	-2.9	3.2	-12.7
Net foreign assets	14.2	-2.4	9.2	-0.8
Gross VEB reserves	7.4	1.4	5.1	1.5
Official reserves	-	-	-	-
Short-term liabilities	6.8	-2.6	4.1	-1.6
Other banks	-	-1.2	-	-0.7
Arrears	4.5	-0.8	2.7	-0.5
Possible principal deferral <sup>2/</sup>	-	0.3	-	0.2
Interrepublican residual	-	-	-8.8	-11.6

sources: Goskomstat of the USSR and Goskomstat of the Russian Federation, Vneshekonombank, VNIKI, Ministry of Economy and Finance; and IMF estimates.

<sup>1/</sup> Between 1990 and 1991 changes took place in the country area which was considered as the convertible area. In 1991, the former GDR and Finland were included in the convertible currency area, while they were previously considered as part of the nonconvertible area.

<sup>2/</sup> Debt deferral on principal payments has only been agreed with external creditors through March 1992. The projections indicate the size of principal deferral if creditors agree to extend it through 1992.

**TABLE 9****RUSSIAN FEDERATION:****Balance of Payments for Russia and the USSR  
Territory in 1990 and 1991** (in billions of US dollars)

	In Convertible Currencies 1/			
	USSR territory		Russia	
	1990	1991	1990	1991
Trade Balance	-1.7	2.4	2.4	7.3
Exports	33.6	37.7	27.6	30.7
Oil	13.0	7.1	13.0	7.1
Natural gas	4.3	6.9	3.7	6.0
Other	16.3	23.7	10.9	17.6
Imports	-35.3	-35.3	-25.1	-23.3
Services, net	-5.6	-6.6	-3.6	-4.0
Transportation and insurance	-0.9	-0.7	-0.7	-0.4
Travel	0.2	0.2	0.1	0.1
Interests, net	-3.7	-3.6	-2.3	-2.2
Receipts	1.0	0.6	0.6	0.4
Payments	-4.7	-4.2	-2.9	-2.6
Other	-1.2	-2.5	-0.7	-1.5
Current Account, excl. gold	-7.3	-4.2	-1.1	3.4
Gold sales, excl. swaps	2.5	3.4	1.6	2.1
Current Account, incl. gold grants	-4.8	-0.8	0.5	5.5
Medium - and longterm cap	3.3	4.6	2.0	3.0
Disbursements	10.9	12.5	6.6	7.8
Amortization	-8.1	-8.2	-4.9	-5.0
Repayments from abroad	0.5	0.3	0.3	0.2
Short-term capital	-	-	-	-
Foreign direct investments	-	0.2	-	0.1
Errors and omissions	-0.3	-1.7	-0.2	-1.0
Capital Account	3.0	5.7	1.8	3.7
Overall Balance	-1.8	4.9	2.2	9.2
Financing	1.8	-4.9	-2.2	-9.2
Net foreign assets	-2.7	-4.4	-1.1	-2.0
Gross VEB reserves	7.4	1.4	5.1	1.5
Official reserves	-	-	-	-
Short-term liabilities	-10.1	-4.6	-6.2	-2.8
Other banks	-	-1.2	-	-0.7
Arrears	4.5	-0.8	2.7	-0.5
Possible principal deferral 2/	-	0.3	-	0.2
Interrepublican residual	-	-	-3.9	-7.1

sources: Goskomstat of the USSR and Goskomstat of the Russian Federation, Vneshekonombank, VNIKI, Ministry of Economy and Finance; and IMF estimates.

1/ Between 1990 and 1991 changes took place in the country area which was considered as the convertible area. In 1991, the former GDR and Finland were included in the convertible currency area, while they were previously considered as part of the nonconvertible area.

2/ Debt deferral on principal payments has only been agreed with external creditors through March 1992. The projections indicate the size of principal deferral if creditors agree to extend it through 1992.

**TABLE 10****RUSSIAN FEDERATION****Balance of Payments for Russia 1992 1/**  
(In billions of US dollars)

	<u>In All Currencies</u>	<u>In Convertible Currencies</u>
Trade Balance	-0.6	-1.6
Exports	49.4	27.0
Oil	10.4	6.7
Natural Gas	8.8	5.1
Other	30.1	15.2
Imports	-50.0	-28.6
Services, net	-0.6	-5.3
Transportation and insurance	0.1	-0.4
Travel	-0.3	0.1
Interest, net	-3.3	-3.0
Receipts	0.2	0.2
Payments	-3.6	-3.5
Other	-2.5	-1.8
Current Account, excl. gold	-6.6	-6.9
Gold sales, excl. swaps	1.0	1.0
Current Account, incl. gold	-5.6	-5.8
Grants	...	...
Medium and long-term capital	...	...
Disbursements	...	...
Amortization	-5.6	-5.6
Repayments from abroad	0.2	0.2
Short-term capital	...	...
Foreign direct investment	0.2	0.2
Errors and omissions	...	...
Capital Account	-5.4	-5.2
Overall Balance	-11.0	-11.0
Financing	11.0	11.0
Net foreign assets	-3.1	-3.1
Gross VEB reserves	-0.5	-0.5
Official reserves	-2.0	-2.0
Short-term liabilities	-0.3	-0.3
Other banks	-0.3	-0.3
Arrears	-2.6	-2.6
Possible principal deferral 2/	4.4	4.4
Financing gap (61% debt) 3/	12.3	12.3
Financing gap (100% debt) 3/	17.0	17.0

source: IMF projections

1/ Excluding transactions with the former republics.

2/ Debt deferral on principal payments has only been agreed with external creditors through March 1992. the projections indicate the size of principal deferral of creditors.

3/ Assuming that Russia would make payments on 61 % of the debt to the former USSR.

4/ Assuming that Russia would make payments on 100% of the debt of the former USSR.

**TABLE 11****RUSSIAN FEDERATION:****Summary Balance of Payments for Russia 1992**

(In billions of US dollars)

	<u>Interstate Trade 1/</u>		<u>Third Country Transactions</u>		TOTAL
	Full Energy Price 2/	One Third Energy Price 3/	Convertible 4/	Non-Convertible 4/	
Trade Balance	3.4	-8.6	-1.5	1.0	0.6
Exports	93.1	78.4	27.1	22.4	49.4
Imports	-89.7	-87.0	-28.6	-21.4	-50.0
Services, net	...	...	-5.3	-0.8	-6.0
Current Account, Excluding Gold	3.4	-8.6	-6.8	0.2	-6.6
Gold Sales	...	...	1.0	...	1.0
Current Account, Including Gold	3.4	-8.6	-5.8	0.2	-5.6
Capital Account	...	...	-5.2	-0.2	-5.4
Overall Balance	3.4	-8.6	-11.0	...	-11.0
Financing	-3.4	8.6	11.0	...	11.0
Net foreign assets 5/	-3.4	8.6	-3.1	...	-3.1
Arrears	...	...	-2.6	...	-2.6
Possible principal deferral 6/	...	...	4.4	...	4.4
Financing requirement					
61 % debt service 5/	...	...	12.3	...	12.3
100 % debt service 5/	...	...	17.0	...	17.0

source: Projections by the Russian authorities and the IMF staff.

1/ Based on the volume of trade included in the liberal agreements between the former republics and an estimated volume of trade outside the agreements.

2/ Assuming that world market prices are applied to all goods, including energy products.

3/ Assuming that energy prices for Russia's exports to and imports from the other states are one third of the world market level. Lower energy prices might also affect the prices of other traded goods and the volume of trade but this has not been assumed in this calculation.

4/ No changes in the country breakdown of the convertible and non-convertible area have been assumed to take place between 1991 and 1992.

5/ Excluding stabilisation fund.

6/ Debt deferral on principal payments has only been agreed with external creditors through March 1992. The projections indicate the size of principal deferral if creditors agree to extend it through 92.

TABLE 12

## RUSSIAN FEDERATION

**Debt Service Obligations**  
**USSR Territory for 1991-94 1/**  
(In billions of US dollars)

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Long-term Bank Credit	<u>4.3</u>	<u>6.2</u>	<u>6.4</u>	<u>5.0</u>
Principal	(3.1)	(4.7)	(5.0)	(3.9)
Interest	(1.2)	(1.5)	(1.4)	(1.1)
Commercial Credits	<u>4.1</u>	<u>2.4</u>	<u>2.2</u>	<u>1.3</u>
Principal	(3.5)	(1.9)	(1.8)	(1.1)
Interest	(0.6)	(0.5)	(0.4)	(0.2)
Medium-term fin. credits	<u>3.4</u>	<u>3.8</u>	<u>3.4</u>	<u>3.7</u>
Principal	(1.6)	(2.2)	(2.4)	(3.0)
Interest	(1.8)	(1.6)	(1.0)	(0.7)
Licensed Debt (non-VEB)	...	<u>0.3</u>	<u>0.2</u>	<u>0.2</u>
Principal	(...)	(0.3)	(0.2)	(0.2)
Interest	(...)	(...)	(...)	(...)
Short-term Credits	<u>5.2</u>	<u>0.7</u>	<u>0.2</u>	<u>0.2</u>
Principal	(4.6)	(0.5)	(...)	(...)
Interest	(0.6)	(0.2)	(0.2)	(0.2)
Debt After 1.1.1992	(...)	<u>1.2</u>	(...)	(...)
Principal	(...)	(...)	(...)	(...)
Interest	(...)	(1.2)	(1.2)	(1.2)
Interest on Arrears	...	0.7	...	...
Interest on Clearing Accounts	...	0.2	...	...
Payments of Principal Deferred	...	...	7.5	...
Total Scheduled Debt				
service obligations	<u>17.0</u>	<u>15.6</u>	<u>19.9</u>	<u>11.6</u>
Principal	(12.8)	(9.6)	(16.9)	(8.2)
Interest	(4.2)	(6.0)	(4.2)	(3.4)
Possible Debt Deferral	<u>0.3</u>	<u>7.2</u>	...	...
Principal	(0.3)	(7.2)	(...)	(...)
Actual Payments 2/	<u>16.7</u>	<u>8.4</u>	...	...
Principal	(12.5)	(2.4)	(...)	(...)
Interest	(4.2)	(6.0)	(...)	(...)
Arrears (plus: reduction)	0.8	4.2	...	...

sources: Vneshekonombank and IMF staff estimates.

1/ Based on external debt outstanding at the end of 1991 and projected disbursements in 1992. Debt service payments for projected disbursements for the USSR territory in 1993-94 have not been taken into account.

2/ Excluding arrears.



**TABLE 13****RUSSIAN FEDERATION:****Basic Social Indicators**

	<u>1990</u>	<u>1991</u>
<b>Population <u>1/</u>:</b>		
Total (in millions)	148.0	148.5
<i>As a share of total -</i>		
Urban	74.0	73.9
Rural	26.0	26.1
Ethnic Russian <u>2/</u>	81.5	
Births (per thousand)	13.4	12.2
Deaths (per thousand)	11.2	11.3
Natural rate of growth (p/thousand)	2.2	0.9
Migration (per thousand) <u>3/</u>	1.1	0.7
<b>Health and Education:</b>		
Child mortality (per thousand born)	17.4	...
Average life expectancy (years) -	69.3	...
Men	63.9	...
Women	74.3	...
Number of doctors (per 10,000 inhabitants)	47.0	...
Hospital beds (per 10,000 inhabitants)	138.0	...
Student:teacher ratio <u>4/</u>	13.8	...
Scientists (per 10,000 inhabitants)	70.0	...
<b>Standard of Living:</b>		
Housing (square metres per inhabitant)	16.4	--...
<i>Consumption (kilos per inhabitant) -</i>		
Meat	69	...
Fish	20	...
Vegetables	89	...
Fruit	35	...
<i>Household equipment (per thousand inhabitants) -</i>		
Televisions	364	...
Refrigerators	308	...
Washing machines	254	...
Private cars (per thousand inhabitants)	59	...

sources: Narkhoz RSFSR 1990, Statistical Committee of the CIS.

1/ Beginning of year.

2/ 1989.

3/ Net inflow.

4/ Secondary schools.

Section 4.2

**EBRD'S TECHNICAL ASSISTANCE AND LOAN PROJECTS**  
**FOR THE RUSSIAN FEDERATION**

## **EBRD'S TECHNICAL ASSISTANCE PROJECTS For The Russian Federation**

### **1.0 PRIVATISATION**

#### **1.1. Privatisation Advisory Assistance Programme for Russian Federation**

The EBRD has undertaken to set up a permanent high level privatisation advisory body, giving advice on major aspects of privatisation including legislation, strategy and techniques. A Privatisation Advisory Group is being established jointly with the World Bank, to act as main adviser to the Russian Government and cover the following areas: (a) definition of the privatisation programme's objectives, methods etc., (b) legal reforms, (c) implementation of corporatisation, (d) creation of a privatisation database, (e) assistance in pilot privatisation transactions, (f) assistance in overall portfolio management/restructuring programme for state enterprises.

#### **1.2. Moscow Municipality Privatisation Programme**

EBRD acts as the lead adviser on privatisation for the Moscow City Municipality to execute a pilot privatisation programme, with the aim of formulating advice on privatisation methods, based on pilot privatisation as well as identifying sectors and enterprises for early privatisation. The first phase of this programme (covering advice on small enterprise privatisation, legal aspects and assistance in specific pilot privatisations) has now been completed. Consideration is being given to launching a second phase, which will provide further support in areas such as pilot privatisations.

#### **1.3. St Petersburg Municipality Privatisation Programme**

EBRD is the principal adviser on privatisation for the St. Petersburg Municipality. Components of the programme of assistance include: (a) general advice on privatisation, (b) pilot privatisation transactions and (c) establishment of a privatisation database.

#### **1.4. Foreign Investors' Center**

As part of the St Petersburg Privatisation Advisory Programme, a Foreign Investors Center will be established with the following functions: (a) provision (through a database) of information on state enterprises available for foreign investment, (b) information on the investment climate in St Petersburg (including laws, government procedures etc), relevant government officials and agencies, (c) marketing of St Petersburg through overseas representatives.

#### **1.5. International School for Business Management and Privatisation**

A school will be established, and operated on commercial lines, with the objective of providing training in the areas of privatisation and enterprise management in the CIS. The technical assistance includes training of staff, curriculum design and logistical support in the establishment of the School. The Bank will have a 30 per cent shareholding stake in the School, which is expected to commence teaching in June 1992.

## **2.0. FINANCE**

### **2.1 International School of Finance and Banking**

A school will be established, and operated on commercial lines, with the objective of providing training in the areas of finance and banking in the CIS. The technical assistance will include the training of staff, curriculum design and logistical support in the establishment of the School.

### **2.2. Government Securities Programme**

The TA will focus the development of the government securities market, providing overall advice to the authorities and also training. The first training course was completed in January 1991 for 20 senior officials from the Russian Central Bank, and a second course scheduled for April 1992 will train another 20 from the same Bank. A third course is now under consideration for Central Asian States.

### **2.3. Commercial Bank Training**

The TA will provide intensive training to senior commercial bankers in the former Soviet Union. The first training course scheduled for April 1992 will train 25 bankers and two more courses are now being considered to train 50 senior bankers from the Far East of Russia and the Central Asiatic States.

### **2.4. Stock Exchange Development**

The TA will assist in the development of three main aspects of stock exchanges: (a) training, (b) regulations and rules for operations, and (c) information integration.

### **2.5. Insurance Industry Development**

The TA will assist in the development of the insurance industry in the areas of legislation and training.

## **3.0. AGRICULTURAL DISTRIBUTION**

### **3.1. Creation of a Wholesale Distribution Market**

A pre-feasibility study has been undertaken to examine the major constraints on agricultural distribution, marketing and pricing. A number of specific feasibility studies will follow in certain key areas. A feasibility study for pilot wholesale market and storage development for Moscow Municipality, Moscow Region and St. Petersburg (including training) has also been carried out.

## **4.0. ENERGY**

### **4.1. Energy Conservation**

A technical assistance is being provided to fund: (a) a comprehensive energy sector/energy conservation study for the Ukraine, and (b) a training programme for energy conservation in the Ukraine, Russian Federation and Belarus.

## **5.0. MUNICIPAL SERVICES**

### **5.1. Moscow City Solid Waste Disposal System**

Agreement has been reached with the Moscow City Government to conduct a feasibility study for improvements in the solid waste disposal system. The objective of the study is twofold: identification and evaluation of potential immediate improvements of the present system; and long term development possibilities of alternative solid waste management. The study will include a detailed marketing and financing study of the waste management technique finally selected by the Municipality.

### **5.2. St Petersburg Environment Programme**

Discussions have been finalised with the St Petersburg City authorities concerning technical assistance programme for the city's water supply systems, the energy efficiency of urban heating systems. The assignment will have a threefold aspect: the definition and implementation of an appropriate institutional framework for municipal services; an operational evaluation of the water supply sector; and an operational review of the urban heating system. Thus, the essence of the programme is to investigate management options and to pinpoint priority investment requirements.

## **6.0 . TRANSPORTATION**

### **6.1. Railways**

A railways sector survey will be carried out to assess policy issues, investment priorities and identify potential projects in this sector. The study will also provide a major instrument for defining the future role of the Soviet Railways, identifying the measures necessary to equip the railways for their future role, and pinpointing the measure needed to assist in the railway transition from past to future. All major aspects of the present railway operations will be reviewed.

### **6.2. Roads**

A roads and road transport sector survey will be carried out to assess policy issues, investment priorities and identify potential projects in this sector. The survey will review overall investment priorities and identify those most economically urgent projects for possible funding by the EBRD and other international institutions. The survey will consider design and maintenance standards, transport technology, intermodal transport, and institutional/operational/financing options.

### **6.3. Ports/Waterborne Transport**

A waterborne transport sector survey will be carried out to assess policy issues, investment priorities and identify potential projects in this sector. The survey will

review overall investment priorities and identify those most economically urgent projects for possible funding by the EBRD and other international institutions. The survey will consider shipping and handling technologies; waterborne transport vs. land transport; alternative technologies and international trends in ports; the current institutional/organisational weaknesses; and the pros and cons of total and partial privatisation of the waterborne transport sector.

#### **6.4. Aviation**

An aviation sector survey will be carried out to assess policy issues, investment priorities and identify potential projects in this sector. The survey will provide an initial diagnostic analysis of past and future traffic patterns, operational strengths and weaknesses, and the probable economic/financial position of aviation in a multi-modal transport system. The study will also outline broad strategic options and identify the most economically urgent projects for possible early funding from the EBRD and other international financial institutions.

### **7.0. OTHER TECHNICAL ASSISTANCE**

#### **7.1. Payments Union**

The EBRD will give advice on creating a payments union to include the Russian Federation and other former Soviet Republics, and eventually with the former CMEA countries.

#### **7.2. Foreign Trade/Foreign Investment**

EBRD may provide assistance in the following areas:

- (i) general strategies for attracting foreign investment and marketing of the RSFSR to the rest of the world
- (ii) improvements in foreign investment-related legislation
- (iii) strengthening of the Foreign Investment Committee's administrative capacity (this may also include assistance in the establishment of a Foreign Investment Agency which could provide information to foreign investors (database), legal information, and assistance on investment applications)
- (iv) advice on certain specific proposals for large foreign investments, particularly in the energy area.

#### **7.3. Bankruptcy Legislation**

The Bank is advising on bankruptcy legislation, taking into consideration the ownership structure, the financial markets of the Russian Federation and the experience of other ex-socialist countries.

<b>EBRD TECHNICAL ASSISTANCE PROJECTS: RUSSIAN FEDERATION</b>			
<b>Project Name and Processing Status</b>	<b>Sector</b>	<b>Total Cost</b>	<b>EBRD</b>
<b>I. OPERATIONS CTEE. APPROVED</b>			<b>16,555,000</b>
Government Securities Programme: Russian Federation	Financial Sector		420,000
International School of Finance and Banking	Education	9,700,000	2,200,000
International School of Management and Privatisation	Education		1,100,000
Privatisation Advisory Assistance Programme: St Petersburg	Privatisation		3,650,000
Privatisation Advisory Assistance Programme: Moscow	Privatisation		1,385,000
Wholesale Distribution Markets Study	Agriculture		300,000
Privatisation Advisory Assistance Programme: Russian Federation	Privatisation		7,500,000
<b>II. OPERATIONS CTEE. SCREENED (Initial Review)</b>			<b>255,000</b>
Insurance Industry Development: Russian Federation	Financial Sector		55,000
Stock Exchange Development: Russian Federation	Financial Sector		200,000
<b>III. POTENTIAL</b>			<b>12,230,000</b>
Aviation: Russian Federation	Aviation		600,000
Central Bank Training: Russian Federation	Financial Sector		30,000
Certified Seed Potato Project	Agriculture		NA
Chernobyl	Environment		10,000,000
Commercial Bank Training, Russian Federation/Central Asia	Financial Sector		NA
Energy Conservation Training Programme: Ukraine, RF, Belarus	Training		NA
Kolumna Whole Sale Market	Agriculture		NA
Moscow Wholesale Market	Agriculture		NA
Ports: Russian Federation	Ports		400,000
Railways: Russian Federation	Transport		800,000
Roads: Russian Federation	Transport		400,000
Solid Waste Disposal: Moscow	Municipal Services		NA
St Petersburg Wholesale Market	Agriculture		NA
Water Supply/Waste Disposal (etc): St Petersburg	Municipal Services		NA
<b>TOTAL TECHNICAL ASSISTANCE</b>			<b>29,040,000</b>

## **EBRD LOANS/INVESTMENT PROJECTS For the Russian Federation**

During 1991/2 the EBRD has funded one project for the Russian Federation: the **Enhanced Digital Network Project**. Under this project, the EBRD participated in a joint venture between GTE International and the Russian Federation Ministry of Posts and Telecommunications, to develop an enhanced digital telecommunications system in Moscow. The system is now providing voice, data and facsimile transmission services to hard currency paying hotel and other clients in Moscow. The EBRD has financed the equivalent of ECU3,900,000 out of a total project cost equivalent to ECU12,200,000. The Bank's loan has helped to fund the central equipment item of the joint venture's enhanced international digital telecommunications system, as well as the expansion of that system.

A further project in the oil sector (Parker Drilling) was approved by the Board but has been temporarily suspended.

Apart from the above loans, the EBRD is actively processing loan and investment projects totalling over ECU550 million, in the following sectors: (a) transportation (b) energy (c) food and agriculture (d) aerospace (e) banking (f) hotels (g) telecommunications (h) natural resources and, (i) privatisation.



**Section 4.3**

**INTERNATIONAL OFFICIAL ASSISTANCE TO**  
**THE RUSSIAN FEDERATION**

## INTERNATIONAL OFFICIAL ASSISTANCE TO THE RUSSIAN FEDERATION

### **(a) Overall Assistance to the Russian Federation**

Official assistance from international agencies and bilateral donors to the Russian Federation has to date been overwhelmingly in the form of grant technical assistance and emergency food and humanitarian aid or credits. While detailed and complete information is not yet available for each of these categories, the following gives an indication of the main donors and their types of assistance. (More detailed information is available in the following table).

### **(b) Assistance from Multilateral Agencies**

Apart from the EBRD, the EC, World Bank and IMF are now actively involved in providing assistance to the Russian Federation. The *EC* budgetted assistance to the CIS for 1991 at ECU375 million, and focussed on the following areas: (a) energy (32% of total assistance), (b) management training (27%), (c) food distribution (20%), (d) transport (12%), (e) financial services (10%). Over half of this assistance was for the Russian Federation. The EC's budget for the Russian Federation for 1992 is ECU 120 million, and will broadly follow the priorities established for 1991. Apart from technical assistance the EC has budgetted approximately ECU12.5 billion in loans credit guaranteed food aid for the CIS. Of this amount, approximately half is available to the Russian Federation. The *World Bank* has not provided loan assistance to the Russian Federation to date, but allocated approximately \$20 million in technical assistance during 1991/92. This programme is focussing on the following areas: (a) privatisation, (b) energy, (c) agriculture, and (d) shelter. The World Bank's assistance is likely to increase significantly, when membership for the Russian Federation is finalised later in the year. In particular, the option of structural and sectoral adjustment loans is currently being actively pursued by this institution. The *IMF* has not provided financial assistance to date to the Russian Federation, although, as with the World Bank, the finalisation of membership will likely open the door to a substantial programme of such assistance. Currently, IMF staff are acting as advisers to the Government on a range of macro-economic and central banking policy issues.

### **(c) Bilateral Assistance**

The major bilateral assistance programmes to the Russian Federation have been from Germany, Canada, the UK, and the US. *Canada's* assistance has been primarily in the form of credit lines to the CIS (mostly for the Russian Federation) totalling approximately ECU1.3 billion. *Germany's* technical assistance programme has focussed on institution building and the development of industry and business. In addition, Germany has the largest bilateral programme in terms of

loans, credits to the Russian Federation. The *UK's* assistance programme has been primarily in the form of export credits and technical assistance, the latter mainly through its £50 million Know-how Fund, which has focussed on areas such as training of business and financial professionals. The *US's* \$84 million technical assistance programme for 1991/92 has focussed on the following areas: (a) development of democratic systems, (b) energy, (c) healthcare, (d) food and housing and (e) private sector development. In addition to technical assistance, the US has provided approximately \$50 million in emergency food and medical supplies to the CIS, of which approximately half was made available to the Russian Federation. The US has also provided substantial agricultural credit guarantees and emergency food aid to the Russian Federation. In addition, mention should be made of South Korea's substantial assistance to the Russian Federation through credits and balance of payments loans.

#### **(d) Coordination**

Coordination has improved markedly in 1992, with the launching of a series of international conferences on assistance to the CIS. The first conference, held in Washington DC in February 1992, was attended by representatives of approximately 45 countries and all of the major international organisations. The second conference (which will focuss on assistance of a medium term nature) will be held in Lisbon in May 1992 and a third conference is planned for the fall in Tokyo. As back-up to these conferences five international working groups have been established to coordinate assistance in the areas of: (a) technical assistance, (b) food distribution, (c) energy, (d) shelter and (e) logistics (of aid distribution).

As part of the above effort, the OECD, with assistance from EBRD and other donors, is in the process of establishing a database on assistance to the CIS from all official sources. The information in this database will be available to all participants.

ASSISTANCE TO RUSSIAN FEDERATION: 1991/1992			
I. MULTILATERAL ASSISTANCE			
	(ECU)	(Donor Currency)	
<b>1. EUROPEAN COMMUNITY</b>			
	ECU		
<b>TECHNICAL ASSISTANCE FOR 1991</b>	375,300,000		(CIS)
Energy	115,000,000		
Management Training	103,000,000		
Food Distribution	74,000,000		
Transport	45,800,000		
Financial Services	37,500,000		
<b>TECHNICAL ASSISTANCE FOR 1992</b>	120,000,000		(Russia)
<b>I. APPROVED TECHNICAL ASSISTANCE PROJECTS</b>	26,500,000		
Legal Infrastructure for Banking	1,500,000		(CIS)
Central Bank Training	1,500,000		(Russia)
Study of Banking Restructuring Needs	1,200,000		(CIS)
Study of Moscow Banking School	7,500,000		(Russia)
Restructuring of Savings Bank of Russia	1,800,000		(Russia)
Restructuring of Mosbusinessbank	1,000,000		(Russia)
Restructuring of Vnesheconombank	400,000		(Russia)
Restructuring of Promstroybank	300,000		(Russia)
Restructuring of Avtovazbank	300,000		(Russia)
Creation of Development and Project Finance Bank	7,000,000		(Russia)
Development Plan, Stock and Commodity Exchanges, Moscow	300,000		(Russia)
Stock Exchange Training	1,000,000		(Russia)
Feasibility study for creation of Russian Investment Fund	400,000		(Russia)
Legal Assistance in Accounting	1,000,000		(Russia)
International Accounting and Auditing Center, St Petersburg	300,000		(Russia)
Legal Assistance Stock and Commodities Exchanges	1,000,000		(Russia)
<b>II. LOANS/GUARANTEES/AID IN KIND</b>	2,295,000,000		
Commodity Food Aid to Moscow and St Petersburg	95,000,000		(Russia)
Commodity Food Aid	200,000,000		(CIS)
Food Aid to Charity Organisations	250,000,000		(CIS)
Credit Guarantees for Agricultural Product Purchases	500,000,000		(CIS)
Loans to Finance Food and Medical Supply Imports	1,250,000,000		(CIS)
<b>2. IBRD</b>		\$	
<b>I. TECHNICAL ASSISTANCE</b>	17,209,274	21,339,500	(Russia)
Privatisation Advice (with EBRD)	9,677,419	12,000,000	(CIS)
Advice on Economic Reform	440,726	546,500	(CIS)
Advice on Foreign Direct Investment			(CIS)
Review of Financial Sector Legislation and Regulations			(Russia)
Central Bank Assistance			(Russia)
Training in Financial Sector, Privatisation	1,677,419	2,080,000	(Russia)
Intergovernmental Finance and Fiscal Relations	291,935	362,000	(Russia)

Municipal Revenue and Budget Administration	155,645	193,000	(Russia)
Strengthening of Accounting and Audit Standards			(Russia)
Social Safety Net			(Russia)
Housing Reform and Privatisation	419,355	520,000	(Russia)
Agriculture Reforms	2,419,355	3,000,000	(CIS)
Oil Pipeline Industry	354,839	440,000	(Russia)
Investments in Petroleum Operations	885,484	1,098,000	(Russia)
Enterprise Reform	241,935	300,000	(Russia)
Transformation of Gas Transport System	322,581	400,000	(Russia)
Petroleum Training: Legal and Contractual Issues	322,581	400,000	(Russia)
<b>3. INTERNATIONAL MONETARY FUND</b>		\$	
<b>I. TECHNICAL ASSISTANCE</b>			
Training of Trainers in Macroeconomics	(IMF staff)		(CIS)
Central Banking	(IMF staff)		(CIS)
Tax policy/administration, budget, social security	(IMF staff)		(CIS)
Exchange Rate Arrangements, external debt	(IMF staff)		(CIS)
<b>4. OECD</b>			
<b>I. TECHNICAL ASSISTANCE</b>			
Assistance in Statistics	(OECD staff)		(CIS)
Various Seminars on Managing Reform Programme	(OECD staff)		(CIS)
Market Economics for Judges	(OECD staff)		(CIS)
Workshops on Trade Issues	(OECD staff)		(CIS)
Telecommunications Policy Seminar	(OECD staff)		(CIS)
Workshop on Training and Education in Agro-food Sector	(OECD staff)		(CIS)
<b>5. INTERNATIONAL LABOR ORGANISATION</b>			
<b>I. TECHNICAL ASSISTANCE</b>			
Household Surveys of Economically Active Population			(CIS)
Employment Policies at Enterprise Level			(CIS)
Training for rural Employment			(CIS)
Seminars on Modules of Employable Skills			(CIS)
<b>II. BILATERAL ASSISTANCE</b>			
<b>1. AUSTRALIA</b>		US\$	
<b>I. TECHNICAL ASSISTANCE</b>	3,629,032	4,500,000	CIS/ /Baltics
<b>II. LOANS/GUARANTEES/AID IN KIND</b>			
<b>2. AUSTRIA</b>		A.S.	
<b>I. TECHNICAL ASSISTANCE</b>			
Television Series on the Market Economy	923,611	13,300,000	
<b>II. LOANS/GUARANTEES/AID IN KIND</b>			
A. Emergency Humanitarian Assistance (Moscow & St Petersburg)	6,944,444	100,000,000	(Russia)

	B. Credit Line for food, medicine and grains	277,777,778	4,000,000,000	
<b>3. BELGIUM</b>			US\$	
<b>I. TECHNICAL ASSISTANCE</b>		1,612,903	2,000,000	
<b>II. LOANS/GUARANTEES/AID IN KIND</b>				
<b>4. CANADA</b>			C\$	
<b>I. TECHNICAL ASSISTANCE</b>		10,135,135	15,000,000	
	Assistance to Pulp and Paper Industry			(Russia)
	Canada/Russia Commercial Farm Study			(Russia)
	Cement Company Modernisation Feasibility Study			(Russia)
	Civics Textbook			(Russia)
	Communications Network Study			(Russia)
	Defency Conversion: Industry Profile			(Russia)
	Energy Sector Joint Ventures Study			(Russia)
	Export Promotion Workships			(Russia)
	Management Training, Aluma Systems			(Russia)
	Management Training, U. of Western Ontario			(Russia)
	Management Training, York University			(Russia)
	Moscow Dairy Industry Technical Assistance			(Russia)
	Oil and Gas Industry Initiative			(Russia)
	Petroleum Sector Training Needs Assessment			(Russia)
	Petroleum Industry Training Project			(Russia)
	Pulp Mill Modernisation Study			(Russia)
	Real Estate Development: Feasibility Study/Training Programme			(Russia)
	Russian Dairy Industry Technical Assistance			(Russia)
	Sawmilling Feasibility Study/Training Programme			(Russia)
	Western Siberia Oil Feasibility Study/Training Programme			(Russia)
			C\$	
<b>II. LOANS/GUARANTEES/AID IN KIND</b>		1,312,837,838	1,943,000,000	
	Canadian Wheat Board Credit	1,148,648,649	1,700,000,000	(Russia)
	Food Line of Credit	101,351,351	150,000,000	(Russia)
	Line of Credit	58,783,784	87,000,000	(Russia)
	Medical Supplies (through Canadian Red Cross)	4,054,054	6,000,000	(Russia)
			Kronor	
<b>5. DENMARK</b>				
<b>I. TECHNICAL ASSISTANCE</b>				
<b>II. LOANS/GUARANTEES/AID IN KIND</b>				
	Food Aid	5,063,291	40,000,000	(CIS)
<b>6. FINLAND</b>			US\$	
<b>I. TECHNICAL ASSISTANCE</b>		24,193,548	30,000,000	(Russia)
<b>II. LOANS/GUARANTEES/AID IN KIND</b>				
	Food Aid	87,096,774	108,000,000	
<b>7. FRANCE</b>				
<b>I. TECHNICAL ASSISTANCE</b>			US\$	
		66,935,484	83,000,000	(CIS)
			FFr	

<b>II. LOANS/GUARANTEES/AID IN KIND</b>		293,768,116	2,027,000,000	
Food Aid		289,855,072	2,000,000,000	(CIS)
Humanitarian Aid		3,913,043	27,000,000	(CIS)
<b>8. GERMANY</b>			US \$	(CIS)
<b>I. TECHNICAL ASSISTANCE</b>		3,354,516,129	4,159,600,000	
Grants		1,459,354,839	1,809,600,000	1991
		1,895,161,290	2,350,000,000	1992
<b>II. LOANS/GUARANTEES/AID IN KIND</b>		15,722,419,355	19,495,800,000	(Russia)
A. Loans		1,151,854,839	1,428,300,000	1992
		3,138,951,613	3,892,300,000	1991
B. Aid in kind (food)		330,322,581	409,600,000	1991
C. Credit Guarantees		8,672,258,065	10,753,600,000	1991
		2,429,032,258	3,012,000,000	1992
<b>9. GREECE</b>			US\$	
<b>I. TECHNICAL ASSISTANCE</b>				
<b>II. LOANS/GUARANTEES/AID IN KIND</b>				
Food Aid		1,935,484	2,400,000	(CIS)
<b>10. HUNGARY</b>			US\$	
<b>I. TECHNICAL ASSISTANCE</b>				
<b>II. LOANS/GUARANTEES/AID IN KIND</b>				
Aid for Grain		80,645,161	100,000,000	(CIS)
<b>11. INDIA</b>			RP	
<b>I. TECHNICAL ASSISTANCE</b>				
<b>II. LOANS/GUARANTEES/AID IN KIND</b>				
Food Aid		3,571,429	100,000,000	(Russia)
<b>12. ITALY</b>			IL	
<b>I. TECHNICAL ASSISTANCE</b>				(CIS)
<b>II. LOANS/GUARANTEES/AID IN KIND</b>				
Mainly export credits (under G7 framework)		4,442,283	6,850,000,000	
Italian Credit Guarantee Agency (SACE)				
<b>13. JAPAN</b>			US\$	
<b>I. TECHNICAL ASSISTANCE</b>		4,617,742	5,726,000	(CIS)
A. April 1991-March 1992		1,243,548	1,542,000	
Advisory Missions on industrial and economic policy		104,839	130,000	
Advisory Missions on energy, trade etc		354,839	440,000	
Training and invitations of experts in various fields		783,871	972,000	
B. April 1992-March 1992		3,374,194	4,184,000	
Advisory Missions on industrial and economic policy		209,677	260,000	
Advisory Missions on energy, trade, military conversion etc		665,323	825,000	
Advisory Missions on promotion of market economy		445,968	553,000	
Training and invitations of experts in various fields		1,225,806	1,520,000	
Invitations to experts in transportation and tourism		58,871	73,000	

Invitations to experts in labour market issues	311,290	386,000	
Assistance in telecommunications	138,710	172,000	
Assistance concerning Chernobyl	216,935	269,000	
Economic Research	101,613	126,000	
		\$	
<b>II. LOANS/GUARANTEES/AID IN KIND</b>	<b>2,056,451,613</b>	<b>2,550,000,000</b>	
Humanitarian Assistance (food and medicine, loan from EXIM B	403,225,806	500,000,000	pledged
Export Credit (loan from EXIM Bank)	161,290,323	200,000,000	pledged
Trade Insurance (extended by MITI)	1,451,612,903	1,800,000,000	pledged
Humanitarian Assistance (food and medicine, grant to Red Cro	40,322,581	50,000,000	pledged
<b>14. LUXEMBOURG</b>		US\$	
<b>I. TECHNICAL ASSISTANCE</b>	<b>2,661,290</b>	<b>3,300,000</b>	(CIS)
<b>II. LOANS/GUARANTEES/AID IN KIND</b>			
<b>15. NORWAY</b>		US\$	(CIS)
<b>I. TECHNICAL ASSISTANCE</b>	<b>38,709,677</b>	<b>48,000,000</b>	
<b>II. LOANS/GUARANTEES/AID IN KIND</b>			
General Humanitarian Assistance	2,419,355	3,000,000	
<b>16. SOUTH KOREA</b>			
<b>I. TECHNICAL ASSISTANCE</b>			
<b>II. LOANS/GUARANTEES/AID IN KIND</b>	<b>2,419,354,839</b>	<b>3,000,000,000</b>	(Russia)
A. Balance of Payments Support	806,451,613	1,000,000,000	(Russia)
B. Commodity Credit	403,225,806	500,000,000	(Russia)
C. Export Credit	1,209,677,419	1,500,000,000	(Russia)
<b>17. SWEDEN</b>		SEK	
<b>I. TECHNICAL ASSISTANCE</b>	<b>2,608,086</b>	<b>19,352,000</b>	
Advice to Russian Ministries of Economy and Finance	552,561	4,100,000	(Russia)
Economic Advisory Team to Russian Government	269,542	2,000,000	(Russia)
Feasibility study to improve St Petersburg Tax Administration	10,243	76,000	(Russia)
Management Training, St Petersburg	126,550	939,000	(Russia)
Public Sector Training	392,857	2,915,000	(Russia)
Road Management Training	123,315	915,000	(Russia)
Small Business Development Organisations, St Petersburg	90,836	674,000	(Russia)
Study of Business Conditions, St Petersburg	67,385	500,000	(Russia)
Training in Business Administration, Murmansk	177,358	1,316,000	(Russia)
Training in Business Management	195,418	1,450,000	(Russia)
Training in Cadastral and Land Information Systems	235,580	1,748,000	(Russia)
Training in Local Government Administration	102,426	760,000	(Russia)
Training in Social Security	111,860	830,000	(Russia)
Training in Tax Administration	49,057	364,000	(Russia)
Training Seminars on SME Development	103,100	765,000	(Russia)
<b>II. LOANS/GUARANTEES/AID IN KIND</b>	<b>8,221,024</b>	<b>61,000,000</b>	
Humanitarian Aid for food and medicine (through NGOs)	4,716,981	35,000,000	(CIS)
Contribution to International Red Cross	3,504,043	26,000,000	(CIS)



			\$	
<b>18. SWITZERLAND</b>				
<b>I. TECHNICAL ASSISTANCE</b>				
<b>II. LOANS/GUARANTEES/AID IN KIND</b>				
Food Aid	5,887,097	7,300,000	(CIS)	
<b>19. THAILAND</b>				
<b>I. TECHNICAL ASSISTANCE</b>				
<b>II. LOANS/GUARANTEES/AID IN KIND</b>				
	403,225,806	500,000,000	(CIS)	
<b>20. TURKEY</b>				
<b>I. TECHNICAL ASSISTANCE</b>				
<b>II. LOANS/GUARANTEES/AID IN KIND</b>				
Export Credit (by Turkish Eximbank)	161,290,323	200,000,000	(CIS)	
		2,000,000,000	(CIS)	
<b>21. UNITED KINGDOM</b>				
<b>I. TECHNICAL ASSISTANCE</b>				
	125,714,286	88,000,000	(CIS)	
A. UK Know-how Fund	71,428,571	50,000,000	1991-94	
B. Chancellor's Financial Initiative	11,428,571	8,000,000		
C. Defence Related Assistance	42,857,143	30,000,000		
D. Contribution to EC TA	69,300,000			1991
	81,000,000			1992
<b>Detailed (and partial) List of Projects</b>				
Accountancy Standardisation	35,714	25,000	(Russia)	
Accountancy Trainer Training	2,814,286	1,970,000	(Russia)	
Bank Training, St Petersburg	140,000	98,000	(Russia)	
Bank Transmission System for Central Bank	57,143	40,000	(Russia)	
Birmingham University Conference on Food Security	2,786	1,950	(Russia)	
Bread Distribution, St Petersburg	47,143	33,000	(Russia)	
British Food Consortium study on food distribution problems	808,571	566,000	(Russia)	
Britpeck Privatisation Seminars	111,680	78,176	(Russia)	
Business Center, St Petersburg	202,857	142,000	(Russia)	
Business Training for Small Entrepreneurs, St Petersburg City C	535,714	375,000	(Russia)	
Commodities and Stock Exchange Legislation	64,571	45,200	(Russia)	
Defence Conversion, ZEBA	66,057	46,240	(Russia)	
Defence Conversion/privatisatin, Elektropribor	140,000	98,000	(Russia)	
Development and Project Finance Bank	121,429	85,000	(Russia)	
Development of Commodities Exchanges	357,143	250,000	(Russia)	
Development of Consumer Associations in Russia	27,143	19,000	(Russia)	
Development of Opinion Polls, Market Research	142,857	100,000	(Russia)	
Distribution Techniques Training	89,286	62,500	(Russia)	
Employee Ownership Study Visit	7,143	5,000	(Russia)	
Energy Business Development Seminar	42,857	30,000	(Russia)	
Energy Business Development Seminar	42,857	30,000	(Russia)	
Establishment of St Petersburg Bakery	47,857	33,500	(Russia)	
Food Distribution	2,500	1,750	(Russia)	
Instructional Videos on Joint Ventures Market	28,571	20,000	(Russia)	
Moscow Bread Study	1,425,714	998,000	(Russia)	

Moscow City Council - assistance in developing budget	17,143	12,000	(Russia)
Moscow Science Park/Innovation Centre	357,143	250,000	(Russia)
Nuffield Russia Agricultural Trust Project	357,143	250,000	(Russia)
Oil/Gas Industry Infrastructure Development	107,143	75,000	(CIS)
Quality Assurance Training, St Petersburg	37,143	26,000	(Russia)
Regulation of Exploitation of Oil and Gas	107,143	75,000	(Russia)
Russian Dairy Management Training Project	20,057	14,040	(Russia)
Seminar on Energy Business Development	42,857	30,000	(Russia)
Small business Center, Pervomaisky District of Moscow	142,857	100,000	(Russia)
Small Business Study Tour	7,143	5,000	(Russia)
Small Business Training	575,714	403,000	(Russia)
Small Private Farmer Support	214,286	150,000	(Russia)
Soviet Gas Development Project	142,857	100,000	(Russia)
St Petersburg Free Enterprise Zone Business Plan	107,714	75,400	(Russia)
State Bank training	285,714	200,000	(Russia)
Study on Educational TV	78,571	55,000	(Russia)
Training for Diplomats	47,143	33,000	(Russia)
Training for Jobcentre Managers , St Petersburg	32,857	23,000	(Russia)
Training in Banking and Finance (1000, in UK)	11,654,286	8,158,000	(Russia)
Training of Businessmen (St Andrew Foundation Project)	135,714	95,000	(Russia)
TV Series with Entrepreneurs	14,286	10,000	(Russia)
		£	
<b>II. LOANS/GUARANTEES/AID IN KIND</b>			
<b>A. Export Credits</b>	435,714,286	305,000,000	
Medium Term Export Credit	400,000,000	280,000,000	
ECCGD Overseas Investment Insurance	35,714,286	25,000,000	
<b>B. Food Aid</b>	32,178,571	22,525,000	
Feed Grain for St Petersburg	28,571,429	20,000,000	(Russia)
Transportation Assistance	35,714	25,000	(Russia)
Medical Supplies	2,857,143	2,000,000	
Babyfood and medicines for Ekaterinburg	500,000	350,000	(Russia)
Seed Potatoes for St Petersburg	214,286	150,000	(Russia)
<b>C. UK Multilateral Assistance</b>			
EC Food Grants (18% contribution)	81,000,000		
EC Food Credits (18% contribution)	90,000,000		
EC Loan	225,000,000		
Contribution to G7 \$3billion debt deferral (approx. 5%)	227,142,857	159,000,000	
<b>22. USA</b>			(CIS)
<b>I. TECHNICAL ASSISTANCE</b>	68,225,806	84,600,000	
Democratic and Economic Initiatives	11,693,548	14,500,000	
Energy Efficiency and Market Reform	12,580,645	15,600,000	
Health Care Improvement	12,096,774	15,000,000	
Food Systems Restructuring	4,838,710	6,000,000	
Democratic Pluralism Initiatives	6,451,613	8,000,000	
Housing Sector Reform	4,032,258	5,000,000	
Economic Restructuring and Financial Sector Reform	3,225,806	4,000,000	
Foundation for Technical Assistance and Training	3,225,806	4,000,000	
Private Sector Initiatives	10,080,645	12,500,000	
3000 volunteer farm advisers			
Competition Policy and Laws			(CIS)

Educational Reform			(CIS)
Establish Foundation for Democracy			(CIS)
Housing Sector Policy Reforms			
Improvements in Business and Management Practices			(CIS)
Improvements in Energy Efficiency and Pricing			(CIS)
Management Training			(CIS)
Medical Support through PVOs	225,806	280,000	(CIS)
Privatisation Policies for Agribusiness and Health Care			(CIS)
Public Administration Training	806,452	1,000,000	(CIS)
Short Term Advisors for PVO Activities	403,226	500,000	(CIS)
Small Business Development			(CIS)
Strengthen Laws and Legal System in CIS	120,968	150,000	(CIS)
Strengthening Local Authorities			(CIS)
Strengthening of Independent Media			(CIS)
Strengthening Rule of Law			(CIS)
Support for Private Voluntary Organisations	362,903	450,000	(CIS)
Training for Senior Business Managers	362,903	450,000	(CIS)
<b>II. LOANS/GUARANTEES/AID IN KIND</b>	<b>3,689,516,129</b>	<b>4,575,000,000</b>	<b>(CIS)</b>
Emergency Food Aid (USDA Food for Progress)	133,064,516	165,000,000	(CIS)
Surplus Military Rations including transport	116,935,484	145,000,000	(CIS)
Agricultural Credit Guarantees	2,016,129,032	2,500,000,000	(CIS)
Agricultural Credit Guarantees	1,008,064,516	1,250,000,000	(CIS)
Credits (approved 1992)	403,225,806	500,000,000	Russia
Farmer-to-Farmer Programme	8,064,516	10,000,000	(CIS)
Low Cost On-farm Storage Programme	4,032,258	5,000,000	(CIS)
<b>NOTES: (A) ALL FIGURES ARE ON A COMMITMENTS BASIS</b>			
<b>(B) FIGURES FOR SOME COUNTRIES MAY NOT BE COMPLETE</b>			