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MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP STRATEGY (CPS)
FOR
THE RUSSIAN FEDERATION
FOR THE PERIOD 2012-2016

November 18, 2011

Russia Country Unit, World Bank
Europe and Central Asia Region

International Finance Corporation
Europe and Central Asia Department

Multilateral Investment Guarantee Agency
Europe and Central Asia Department

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ACRONYMS AND ABBREVIATIONS

AA	Agency Agreement
AAA	Analytic & Advisory Activities
ACS	Activity Completion Status
AIDS	Acquired Immunodeficiency Syndrome
APEC	Asia-Pacific Economic Cooperation
APG	Associated Petroleum Gas
BBB	Better Business Bureau
BEEPS	Business Environment and Enterprise Performance Survey
BHPP	Bratsk Hydro Power Plant
BOP	Balance of Payments
CBR	Central Bank of Russia
CCA	Central Customs Administration
CIDA	Canadian International Development Agency
CIF	Cultural Investment Facility
CIS	Commonwealth of Independent States
CMDP	Capital Markets Development Project
CPRF	Communist Party of the Russian Federation
CPPR	Country Program Portfolio Review
CPS	Country Partnership Strategy
DAC	Development Assistance Committee
DFID	UK Department for International Development
DIA	Deposit Insurance Agency
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
ECD	Early Childhood Development
EDB	Eurasian Development Bank
EE	Energy Efficiency
EMP	Environmental Management Project
ERPA	Emission Reduction Purchase Agreement
ERUs	Emission Reduction Units
ESMAP	Energy Sector Management Assistance Program
ESW	Economic and Sector Work
EU	European Union
EurAsEc	Eurasian Economic Community
EXT	External Affairs Vice Presidency
FBS	Fee Based Services
FC	Finance Committee
FDI	Foreign Direct Investments
FIL	Financial Intermediary Loan
FM	Financial Management
FMS	Financial Management Specialist
FIAS	Foreign Investment Advisory Service
FOB	Free on Board
FSAP	Financial Sector Assessment Program
FTP	Federal Targeted Program
FTS	Federal Tariff Service
FY	Fiscal Year
GDLN	Global Development Learning Network
GDP	Gross Domestic Product
GFRP	Global Food Crisis Response Program
GHG	Greenhouse Gas
GoR	Government of Russia
GPP	Gas Power Plant
GVEP	Global Village Energy Partnership
GRP	Gross Regional Product
HCS	Housing and Communal Services
HE	Higher Education
HEIs	Higher Educational Institutions
HIPC	Enhanced Heavily Indebted Poor Countries Initiative
HIV	Human Immunodeficiency Virus
HPP	Hydro Power Plant
HRIP	Health Reform Implementation Project
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
ICT	Information and Communication Technology
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFIs	International Financial Institutions
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPO	Initial Public Offering
IT	Information Technology
JRSP	Judicial Reform Support Project
JSDF	Japan Social Development Fund
KIA	Kazan International Airport
LDPR	Liberal Democratic Party of Russia
LIC	Low Income Country
LISP	Local Initiatives Support Project
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Reduction Initiative
MFC	Multifunctional Service Center
MIC	Middle Income Country
MIGA	Multilateral Investment Guarantee Agency
MIRPAL	Support for Migration and Remittances Peer-Assisted Learning
MOED	Ministry of Economic Development
MOES	Ministry of Education and Science
MOF	Ministry of Finance
MOHSD	Ministry of Health and Social Development
MOT	Ministry of Transport
MWWP	Municipal Water and Wastewater Project
NPAF	National Pollution Abatement Fund

NPLs	Non-Performing Loans
NW	North West
NWCA	North-West Customs Administration
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PDO	Program Development Objective
PER	Public Expenditure Review
PFM	Public Financial Management
PIRLS	Progress in International Reading Literacy Study
PISA	Program for International Student Assessment
PIU	Project Implementation Unit
PPP	Public Private Partnership
PR	Progress Report
QAG	Quality Assurance Group
RBOF	Russian Bank Opportunity Fund
R&D	Research and Development
RANEPA	Russia Academy of National Economy and Public Administration
READ	Russia Education Aid for Development
RER	Russian Economic Report
RSEFP	Russia Sustainable Energy Finance Program
RTA	Reimbursable Technical Assistance
RUB	Ruble
SD	Social Development
SEZs	Special Economic Zones
SFD	Southern Federal District
SMEs	Small and Medium Enterprises
SVET	Secondary Vocational Education and Training
TA	Technical Assistance
TB	Tuberculosis
TF	Trust Fund
TI	Transparency International
TIMSS	Trends in International Mathematics and Science Study
TTLs	Task Team Leaders
TVET	Technical and Vocational Education and Training
UES	Unified Energy System of Russia
VEB	Vnesheconombank (State Corporation Bank for Development and Foreign Economic Affairs)
VET	Vocational Education and Training
WBG	World Bank Group
WBI	World Bank Institute
WHO	World Health Organization
WTO	World Trade Organization

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COUNTRY PARTNERSHIP STRATEGY (CPS) 2012-2016
FOR
THE RUSSIAN FEDERATION

TABLE OF CONTENTS

EXECUTIVE SUMMARY I

I. INTRODUCTION 1

II. RUSSIA: CONTEXT AND DEVELOPMENT AGENDA 2
Country Background and Political Context 2
Recent Economic Developments and Prospects 3
Development Challenges and Opportunities 6
The Russian Federation Strategy 2020 Update 12

III. WORLD BANK GROUP PARTNERSHIP STRATEGY FOR RUSSIA 13

A. Lessons Learned from FY07-11 CPS and Stakeholder Feedback 13
Lessons from FY07-11 CPS Completion Report 13
Findings from Recent IEG Evaluations 15
Feedback from Multistakeholder Consultations 15

B. Proposed World Bank Group 2012-2016 CPS for Russia 16
WBG 2012-2016 CPS Overview 16
- Principles of Engagement 19
- WBG Program of Support 20
CPS Strategic Themes, Engagement Areas, Country Outcomes, and WBG Support 24
- Strategic Theme 1: Increasing Growth and Diversification 25
- Strategic Theme 2: Expanding Human Potential 27
- Strategic Theme 3: Deepening Russia's Global and Regional Role 29
- Strategic Theme 4 (cross-cutting): Improving Governance and Transparency 30
Gender Mainstreaming 30

C. Implementing the 2012-2016 CPS for Russia 31
Fiduciary Environment for Bank Lending 31
Managing the WBG Program 32
Fostering Partnerships 33

IV. MANAGING RISKS 34

CPS ANNEXES

Annex 1: 2012-2016 CPS Results Framework
Annex 2: Recent Macroeconomic Developments and Prospects
Annex 3: Diversification and Competitiveness: Challenges and Opportunities
Annex 4: Social and Human Capital Development
Annex 5: Public Sector Governance in Russia
Annex 6: Government's "Development Strategy 2020" Update
Annex 7: FY07-11 CPS Completion Report
Annex 8: 2012-2016 CPS Multistakeholder Consultations
Annex 9: Overview of the Indicative World Bank Group (WBG) Program
Annex 10: The Russian Federation as a Donor
Annex 11: IBRD Reimbursable Technical Assistance (RTA)
Annex 12: IBRD Country Financing Parameters for the Russian Federation

CPS STANDARD ANNEX TABLES

Annex A2: Country At-A-Glance
Annex B2: Selected Indicators of Bank Portfolio Performance and Management
Annex B3: IFC Investment Operations Program and MIGA Guarantees
Annex B3 IBRD Indicative Financing Program, 2012-2016
Annex B4 IBRD/IFC Indicative Knowledge Services Program, 2012-2013
Annex B5: Russian Federation – Social Indicators
Annex B6: Russian Federation – Key Economic Indicators
Annex B7: Russian Federation – Key Exposure Indicators
Annex B8: IFC Committed and Disbursed Outstanding Investment Portfolio
Annex B8: IBRD Operations Portfolio

TABLES

Table 1: Medium-Term Macroeconomic Prospects (Baseline Scenario)
Table 2 Medium-Term Macroeconomic Prospects
Table 3: Simulation Results for Consumption Growth in Russia, 2011–12
Table 4: Russia: History of IDA Contributions
Table 5: Ongoing Trust Funds of the Russian Federation
Table 6: CPS 2012-2016 Identified Reimbursable Technical Assistance (RTA)

BOXES

Box 1: Innovations in Modalities of Cooperation at Sub-National Level
Box 2. Choice of RTA as a Knowledge Services Instrument
Box 3: Improving Transparency and Procurement Management of IBRD Operations
Box 4: Doing Business 2011 Results
Box 5: Expert Thematic Groups Working on the Update of Strategy 2020
Box 6: Structure of the Draft Strategy 2020 Update
Box 7: Alignment of the CPS Outcomes to the Indicative Strategy 2020 Themes
Box 8: Milestones of Russia's Development Aid
Box 9: Russia's ODA: Highlights and Key Facts
Box 10: Results Achieved under Russia-supported IDA/IBRD-administered Trust Funds

FIGURES

Figure 1: Russia: Demand Structure of Russia's Real GDP Growth (percent)
Figure 2: World Bank Oil Price Forecast for Average Crude
Figure 3: The Impact of the Crisis on the Long-term Development Objectives in Russia
Figure 4: Demand Structure of Russia's Real GDP Growth (percent)
Figure 5: Oil Prices and the Trade Balance
Figure 6: Current Account Balances and the Real Effective Exchange Rate
Figure 7: World Bank Oil Price Forecast for Average Crude
Figure 8: Bank Lending to Households and Non-financial Organizations
Figure 9: Knowledge Economy Index
Figure 10: Poverty in Russia
Figure 11: Respondents (percent)) Saying they are Satisfied with Public Services
Figure 12: Respondents (percent) Saying that Unofficial Payments are …
Figure 13: Firms (percent) Using the Courts Saying that Courts are…
Figure 14: Firms (percent) Reporting Unofficial Payments
Figure 15: Firms Reporting that Unofficial Payments are Frequent in Dealing with…
Figure 16: Firms (percent) Saying that Informal Gifts are Usually Requested or Expected
Figure 17: Number of Days to Obtain Licenses, Permits, and Service Connections
Figure 18: Percent of Senior Management Time Spent Dealing with Public Officials
Figure 19: Firms (percent) Saying that Licenses and Permits are *Not* a Problem
Figure 20: Volume of RTAs by Sectors, FY07-FY11
Figure 21: Total Number and Volume of RTAs, FY07-FY14

MAP OF THE RUSSIAN FEDERATION (IBRD NO. 33470)

EXECUTIVE SUMMARY

i. **Partnership of Choice.** The Russian Federation[1] entered the global financial and economic crisis strong and emerged from it stronger than most. The prudent macroeconomic management of the country's natural resources protected it from the worst effects of the economic downturn. A strong countercyclical package financed through revenues from oil and gas, saved for a rainy day, helped keep unemployment and poverty in check. But the crisis also served as a stark reminder for the Government that the country is too dependent on oil and gas and that it needs to free the economy from their own version of the "resource trap". Going forward, the World Bank Group (WBG) 2012-2016 Country Partnership Strategy (CPS) will support Russia's efforts to **(i) increase growth and diversification** through better management of public finances, improved investment climate and innovation, stronger financial sector, better infrastructure, and more effective protection of the environment, **(ii) expand human potential by strengthening skills and social services** through improvements in education, health, and social protection, **(iii) deepen Russia's global and regional role** related to its aspirations as a donor and the provision of global public goods and, as a cross-cutting theme, **(iv) improve governance and transparency** through more accountability and better service standards in public administration, procurement, and financial management. These four themes are at the core of the CPS results framework presented in Annex 1.

ii. **Three-dimensional Engagement.** The WBG's engagement with Russia is unique in the sense that it is three-dimensional: national, regional, and global. At the national level, the WBG will aim to maximize its development impact for the country mainly by trying to reach out to the poorer regions of Russia. IBRD will explore more direct lending to Russia's regions in exceptional cases, sometimes working in partnership with institutions with presence and reach across all of Russia, and innovative ways of supporting IBRD analytical work and technical assistance in poorer regions. IFC will focus for instance on developing infrastructure in Russia's regions and municipalities, including through public-private partnerships (PPPs). As the largest country in the world and a regional (Europe and Central Asia - ECA) growth and migration pole, Russia's national choices also have critical impact on regional and global challenges. At the ECA regional level, the WBG will focus on supporting "Russia as a donor" through technical assistance for capacity strengthening. The Government will likely concentrate its development aid on poorer countries in ECA with which it still has strong economic and historical links. At the global level, the WBG will provide quality advisory services and knowledge to support Russia's ambitions in providing global public goods. It will assist Russia in enhancing its voice in international forums such as the G8, G20 and the Asia-Pacific Economic Cooperation (APEC), and will support the country's integration into the World Trade Organization (WTO).

iii. **Relevance through Innovation.** To stay relevant in an advanced Middle Income Country (MIC) like Russia, the WBG must innovate constantly. In a huge economy like Russia, traditional WBG finance is important but can only have a limited direct impact. The 2012-2016 CPS positions the WBG as a partner of choice for Russia based on its global knowledge leadership in development. IBRD has built up and will continue to grow a larger than usual portfolio of technical assistance and analytical activities, especially Reimbursable Technical Assistance (RTA[2]), that help strengthen capacity and transfer knowledge to Russian institutions. Flexibility

[1] Russian Federation and Russia are used as synonyms throughout this document.

[2] Reimbursable Technical Assistance (RTA) is also being referred to as fee-for-service (FFS) or fee-based services (FBS).

and speed of WBG knowledge provision will be the key in the coming CPS period to meet the often short-term demand of Russian clients for advice and project support for their development priorities. While RTAs have the advantage of being fully driven by client demand, traditional AAA could be better instruments to develop important or emerging topics that WBG staff may wish to bring to the attention of the Russian authorities and public. A particularly innovative part of the program is the support for Russia as Donor, where WBG technical assistance for Russia will provide the Government with a kind of global positioning system for its development aid. This can help the country navigate its way through the establishment of a fully operational bilateral development agency while avoiding known pitfalls. The novel development aid partnership between Russia and the WBG also includes policy dialogues on aid policies and practices and financial cooperation on development assistance funded by Russia through IDA/IBRD-administered trust funds. Finally, innovation for the WBG can also simply mean using its toolbox of instruments more creatively than before. This is particularly relevant with regard to the WBG work in Russia's poorer regions. As the sub-national level is difficult to reach through regular channels, financial intermediary loans, and other new modalities of engagement will be further explored as novel instruments in the Russia program.

iv. **Challenges Ahead.** The WBG program will address Russia's longer-term economic, social and environmental challenges. As in many other major fossil fuel producers, Russia's resources are also the source of many of its development challenges. Indeed, the dominant concerns for Russia's economic and social development remain the dependency on fossil fuel production and exports and the associated challenge of using oil and gas revenues effectively and efficiently. To provide a platform for future economic growth, Russia needs to maintain stable macroeconomic conditions, despite its vulnerability to commodity price volatility, and create a diversified, efficient and sustainable product base. Existing competition rules and the business climate provide insufficient pressure or incentives for innovation and investment, while the financial system remains underdeveloped in terms of its capacity to mobilize and intermediate savings, and is vulnerable to macroeconomic volatility. In the labor market, skills mismatches are turning into an increasingly important development constraint. While general poverty levels have fallen, vulnerability to poverty remains a concern. Demographic and health trends are characterized by low fertility, high adult mortality and morbidity rates, and inefficient health spending. Governance and corruption are recognized as major problems in Russia. Recent and important reform efforts notwithstanding, the institutional structure and quality of public management are often weak.

v. **Strong and Coordinated WBG Program.** The indicative financing envelope for **IBRD** during the CPS period foresees total lending of up to US$5 billion, plus the mobilization of counterpart funds. Actual lending volumes will depend on the country's performance and priorities, IBRD lending capacity, demand from other borrowers, and global economic developments. In accordance with the Government's preferences, all IBRD lending is foreseen in the form of investment projects. The IBRD financing program for the first two years of the CPS is reasonably defined and selective and includes projects in the areas of microfinance, financial sector development, energy efficiency, forestry protection, infrastructure development, and local government. IBRD will continue to provide knowledge products—Economic and Sector Work (ESW), Technical Assistance (TA) and RTA—in support of all CPS strategic themes, covering priority issues such as macroeconomic management, diversification, investment climate, innovation, urban transport, health finance, labor markets and migration, expenditure efficiency, and strengthening procurement. The majority of IBRD's technical assistance will be provided through RTAs. **IFC** foresees total investments between US$3.8-4.8 billion for its own account during the five-year CPS period, plus significant mobilization of counterpart funds. IFC

investment and advisory operations are focused on improving Russia's competitiveness through greater resource efficiency, including use of renewable energy, broadening access to finance and infrastructure and increasing economic diversification (the first theme of the joint CPS). Actual commitment levels will depend on market conditions, demand from clients, IFC additionality, and appetite of counterparts to provide financing alongside IFC. **MIGA** will continue to support foreign investors through the provision of political risk guarantees.

vi. **Implementing the Program.** The WBG will set up a CPS implementation and results monitoring system that will be used to track progress in the WBG contributions towards achieving the country outcomes defined in the CPS results framework. This review process would also provide inputs for the planned CPS Progress Report in 2014 when adjustments in the CPS results framework would be made, if considered necessary.

vii. **Fostering Partnerships.** The WBG will continue to support Russia's growing and varied civil society in its public-private partnership roles. The WBG will also foster partnerships with leading Russian universities and academia. The WBG will cooperate closely with other multilateral institutions, such as the International Monetary Fund (IMF), Eurasian Development Bank (EDB), the European Union (EU), and the European Bank for Reconstruction and Development (EBRD).

viii. **Risks and Rewards.** The achievement of the intended results in this CPS faces political, economic, and implementation risks. Political continuity and stability are accorded high priority by the Government. The forthcoming presidential and parliamentary elections in 2011 and 2012 could lead to some policy uncertainty and delays in implementing reforms. Broad consensus on the key development challenges among most political contenders indicates that reform and institutional priorities will remain broadly constant, but the maintenance of prudent macroeconomic policies may be subjected to other political priorities. Growth prospects remain vulnerable to large drops in oil and gas prices. In the longer term, this risk is mitigated by the government focus on diversifying the economy and improving the fiscal non-oil balance. Nevertheless, if global conditions deteriorate, the focus of the WBG's program on longer-term development constraints would expand to help the authorities respond to the deteriorating economic circumstances. Many of the proposed IBRD engagements under the CPS are likely to be through RTAs, which typically take time, often involve unique arrangements for each contract, and hence introduce a measure of planning uncertainty into the program. Loan preparation in Russia is also lengthy. Staff will address these implementation risks through engagement and consultations with clients and stakeholders. Continued strong fiduciary controls, due diligence, and more transparency will be the main instruments to reduce governance-related risks. Staff will continue to advocate and support improvements in country systems.

I. INTRODUCTION

1. **A Partner of Choice.** The previous WBG CPS for the Russian Federation was discussed by the Board of Executive Directors in December 2006. It marked the WBG transition from "a partner of necessity" to "a partner of choice" for Russia and comprised a battery of innovations in engaging with a rapidly developing middle-income country (MIC) through a demand-driven and flexible approach similar to those adopted for other sophisticated MIC clients. The 2009 Progress Report reaffirmed the relevance of the CPS pillars, made adjustments to respond to the effects of the global financial and economic crisis, and extended the CPS through FY11. Russia's partnership with the WBG is a good example of the ways in which WBG instruments can be used in an advanced MIC.

2. **Continued Shift to New Modalities of Cooperation.** The 2012-2016 CPS serves as a customized WBG business plan in support of Russia's own development strategy and continues the shift to innovative modalities of engagement at global, regional (i.e., Russia's close neighbors), and national (federal and sub-national) levels. It aligns the WBG program with the emerging "Russia Strategy 2020" update and other documents around which there is wide consensus that is expected to be continued after the upcoming parliamentary and presidential elections. The proposed CPS is designed to be demand-driven and flexible, positioning the WBG for a swift and sustainable response to any changes in government priorities. A CPS Progress Report in 2014 will take stock of implementation and will allow the WBG to make mid-term adjustments in the strategy to ensure continued alignment with government priorities.

3. **Consolidated WBG Support for Russia.** The proposed 2012-2016 CPS aims to consolidate WBG support for Russia through greater synergy among the WBG members—IBRD, IFC, and MIGA—in support of the Government's development goals in diversifying growth through more effective management of public finances, better investment climate, stronger financial sector development, more sustainable development, and maximizing Russia's human potential through better education, health, social protection, and social inclusion. The CPS is also aligning the WBG work with the Government's efforts to improve governance and transparency through accountability in public administration, procurement and financial management.

4. **Russia and the Europe and Central Asia (ECA) Regional Strategy.** The ECA Regional Strategy aims at inclusive and sustainable globalization through a focus on competitiveness, inclusion, and climate change. Moreover, the Regional Strategy recognizes Russia's role as a major donor and growth pole in the ECA region and focuses on additional opportunities to deepen the WBG's partnership with Russia, especially in response to the 2009 financial crisis. This is also in line with the WBG global agenda and strategic themes, including the Post-Crisis Directions (PCD). In consequence, the CPS builds on and aims to support Russia's growing global and regional roles as an engine of growth in ECA, as a donor of development assistance, and as a major force in addressing global problems drawing on the WBG expertise in economic policy, development cooperation and global public goods.

II. RUSSIA: CONTEXT AND DEVELOPMENT AGENDA

Country Background and Political Context

5. **Russia is very large and resource-rich.** At 17 million square kilometers, Russia is the largest country in the world, covering more than one-eighth of the Earth's inhabited land area, spanning nine time zones and a wide range of landforms. It is exceptionally rich in mineral, energy, forest, and water resources. Russia accounts for almost a quarter of the world gas market, is one of the two largest oil producers, and the fourth largest producer of electricity. Because of its rich resource base, Russia plays a crucial role in global energy and resource markets. With a population of 142.9 million people in 2011, Russia is the world's ninth most populous nation, including 140 recognized nationalities and 40 ethnic groups. Moscow, the capital of Russia, is the most populous city in Europe.

6. **Russia is a middle income country (MIC) that strives to move to a high income status.** In the period since 2005, the per capita GDP of Russia doubled to approximately US$10,500 in 2010, and the country moved to an upper MIC status. The current country context was formed in the course of a decade of turbulent adjustment following the transition from a centrally planned to a market economy and another decade of rapid economic growth driven largely by natural resources, interrupted by the 2008-2009 global financial and economic crisis. As a result of a strong fiscal and monetary counter-cyclical package, the country emerged from the global recession with lower-than-expected unemployment and poverty and has returned to moderate growth rates. To escape the "middle income trap", Russia's government pursues economic policy and institutional development that aim to modernize, diversify, and increase the competitiveness of the economy and improve the well-being of its citizens.

7. **According to the 1993 Constitution, Russia is a democratic federal law-governed state with a republican form of government, comprising 83 federal subjects.** The Federal Assembly is a two-chamber legislature: the lower house, the State Duma, has 450 deputies elected by proportional representation; and the upper house, the Federation Council, has 178 nominated deputies, two from each of Russia's 83 republics and regions. The most important political parties currently represented in the Duma are: United Russia, the Communist Party of the Russian Federation (CPRF), Just Russia, and the Liberal Democratic Party of Russia (LDPR).

8. **The next parliamentary elections will be held on December 4, 2011, to be followed by presidential elections on March 4, 2012.** President Dmitry Medvedev came to power in March 2008 and appointed Prime Minister Vladimir Putin. This ruling tandem has operated well since then. According to recent polls, the approval ratings for both the president and prime minister remain high, albeit lower than in 2010. The ruling party, United Russia, dominates the State Duma by holding 315 seats. The 2011 parliamentary elections will be the sixth in the history of modern-day Russia. Vladimir Putin announced that he will run for president. According to latest public opinion polls, the political situation is not likely to change significantly after the elections, with the four leading parties retaining their dominance in the Duma.

9. **Russia plays an important role as an emerging donor.** It is working on becoming a significant provider of development assistance and is taking the lead in hosting conferences on cutting-edge development issues. With these efforts Russia strives to integrate itself into the international aid architecture in line with OECD-DAC principles. Russia as a donor already demonstrates strong support for the multilateral development system. This includes a 65 percent

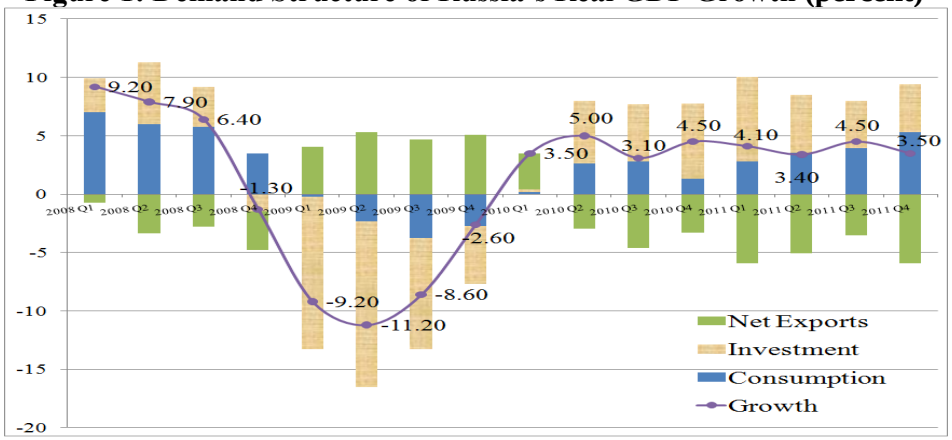
increase in its IDA contribution during the most recent replenishment and a growing portfolio of IDA/IBRD-administered trust funds for the benefit of poor developing countries. Befitting its weight at the ECA regional level, Russia plans to further consolidate its enhanced role as donor by strengthening the institutional framework through the creation of a bilateral aid agency.

Recent Economic Developments and Prospects

10. **Russia has weathered the global crisis well despite the massive oil and capital account shocks.** This was mainly because of the large pre-crisis fiscal reserves and fiscal surpluses that allowed the Government to mount a large countercyclical stimulus package in support of the financial system, enterprises, and households. Despite a large drop in real GDP in 2009 (-7.8 percent), an acute liquidity crisis, and a sharp increase in unemployment, the crisis was managed without systemic bank failures, and the economic and labor market conditions began to improve during 2009 in line with the rise in oil prices and the recovery in domestic demand and credit. Large increases in public sector wages and pensions cushioned the impact on the middle class and the poor, making the social impact less severe than it would otherwise have been. With the cyclical demand recovery in the global and Russian economies as well as energy commodities, Russia's real GDP grew 4 percent, and unemployment fell 2 percentage points from its peak during the crisis to 7.2 percent at the end of 2010.

11. **Following a cyclical recovery of oil prices, economic activity and employment during 2010, Russia's current macroeconomic situation remains favorable.** After a 4 percent growth in 2010, the Russian economy continues to expand in an environment of declining unemployment (6.5 percent in July 2011) and inflation, rising domestic consumption, and still high oil prices. All sectors of the economy are growing and domestic consumption—while less buoyant than anticipated—increasingly acts as an engine of demand growth (Figure 1). With good harvest and favorable food price outlook, annual inflation is expected to end at around 7.5 percent in 2011, somewhat higher than the Government's target of 6-7 percent, but lower than at any time in recent years. The federal budget is likely to be in near-balance in 2011. A large current account surplus of almost US$70 billion significantly exceeds the deficit in the capital account, which will allow the Central Bank to accumulate additional reserves.

Figure 1: Demand Structure of Russia's Real GDP Growth (percent)

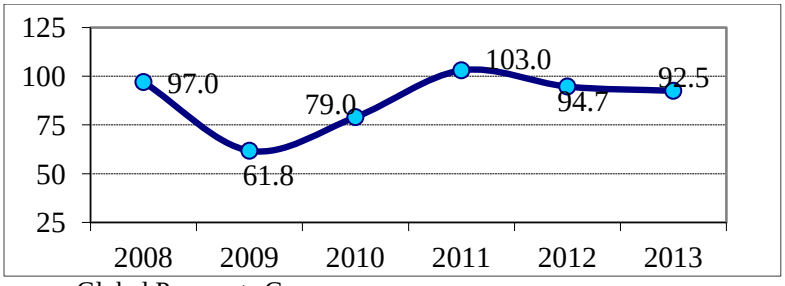


Source: World Bank's Russian Economic Report No. 26: Growing Risks (September 15, 2011).

12. **Yet the risks to the global economy are growing and so are risks to Russia's growth.** Reflecting the slowdown in major developed economies, and rising risks associated with the

European debt crisis during the summer of 2011, the WBG's outlook for Russia's real GDP growth was revised to 4 percent in 2011 (down from 4.4 percent earlier in the year), and to 3.8 percent in 2012. This is predicated on the lower oil price outlook for Russia (Figure 2) and the global economy growing at more moderate rates, especially high income countries.

Figure 2: World Bank Oil Price Forecast for Average Crude:
Brent, Dubai, and West Texas Intermediate (WTI), simple average, US$/barrel



Source: Global Prospects Group.

13. **Beyond this favorable short-term picture lie heightened vulnerabilities of the Russian budget and long-standing structural issues.** First, there is the large *non-oil* fiscal deficit of about 11 percent of GDP, compared with the sustainable 4.5 percent level. Second, with much smaller fiscal reserves than before 2008, Russia's budget is now more vulnerable to a new, sustained drop in oil prices. Third, Russia faces major structural problems in the medium term, including the need to significantly improve the investment climate, close large infrastructure gaps, diversify its export, tax, and broader economic base, improve governance, and strengthen institutions.

14. **In the baseline medium-term scenario, the Russian economy is expected to grow at moderate rates** (Table 1). This forecast is based on the expected slowdown in global economic growth and a lower global demand for commodities and oil in particular than was the case just a few months ago. It also incorporates the latest draft budget parameters for the federal budget 2012-14, featuring very gradual adjustment and a gradual progress with structural reforms in the areas of public sector reforms, governance, and transparency. Oil prices are now projected to gradually decline from US$103 per barrel in 2011 to US$88.5 per barrel in 2015. With lower oil prices and global demand in the medium term and the closure of the output gap, the Russian economy would gradually slow from 4 percent growth in 2011 to a more sustainable pace of about 3.5 percent in 2013-2015. Real GDP expansion will be increasingly driven by domestic consumption, with investment demand also increasing at a slightly higher annual rate than real GDP. Meanwhile, the negative contribution of net exports is likely to increase during the projection period with a deteriorating external current account but with continued, sizeable levels of international reserves.

15. **The fiscal situation is projected to remain stable in the short term but medium term-fiscal adjustment is necessary for Russia to ensure long-term fiscal sustainability.** The new plan for fiscal consolidation is likely to be much less ambitious than previously announced while the widely debated reintroduction of a fiscal rule could be delayed until after 2015. This is reflected in the recently announced draft budget plan for 2012-2014. As a result, the consolidated budget will remain in deficit of about 1.6 percent of GDP in 2012-2015, while non-oil deficit will decline only marginally to about 10 percent of GDP in 2014 from 11 percent in 2011. With low public debt and limited deficit, no significant financing issues arise, and the Government plans to finance the deficit from predominantly domestic borrowing. Strategic, limited external borrowing, especially in the case of new drops in oil prices and fiscal revenues, is possible in 2012-15. In case of significant and

sustained drop in oil prices (e.g., to an average of US$60 per barrel over a period of one year), Russia's budget deficit could increase to about 5.5 percent of GDP, resulting in the need for rapid adjustment and financing (See Annex 2 for the implications of downside risks). At the same time, the quality of the composition of public expenditures should be improved towards more productive expenditures, especially public investments in infrastructure, which has been identified as a key constraint of the investment climate and growth.

Table 1: Medium-Term Macroeconomic Prospects (Baseline Scenario)

	2011	2012	2013	2014	2015
National Accounts					
Real GDP growth rate, %	4.0	3.8	3.5	3.5	3.5
Annual average GDP, billion US$	1.76	1.94	2.08	2.19	2.29
Fiscal Balance (general gov't)					
% of GDP	-0.2	-1.6	-1.5	-1.6	-1.7
BoP					
Balance on Current Account, % GDP	3.8	1.1	0.1	-0.3	-0.8
Gross reserves [incl. gold] million US$	513,028	528,478	533,683	533,443	518,664
Memo: average oil price, US$/bbl	103.00	94.70	92.50	90.50	88.50
Relative Prices: CPI, annual average, %	7.5	6.5	5.0	5.0	4.5

Note: For more details, see Table 2 in Annex 2.

16. **While inflation is on a downward trend, sustained monetary restraint will be required to bring it down to low single digit levels in the medium term.** Although CPI inflation is on a downward trend, this has been mainly because of the seasonal decline in food prices. Core inflation, excluding food and energy, has proven resilient to the monetary tightening so far. On the assumption of a sustained disinflation policy, CPI inflation is projected, in the baseline, to gradually fall to 4.5 percent in 2015 from the projected 7.5 percent in 2011. External shocks due to food and energy prices and/or return of capital inflows as well as inflation inertia and institutional and structural factors (e.g., periodic increases in utility prices), however, could make disinflation more difficult.

17. **Some depreciation of the real effective exchange rate can be expected.** Given the current exchange rate policy (managed float moving to a fully flexible regime) and the deterioration of the external current account and the overall balance of payments position, the real effective exchange rate is expected to depreciate by an average of around 3 percent a year beginning in 2013. Both upside and downside risks remain, mostly related to the volatility in oil prices and capital flows.

18. **Finally, on the structural reform front, the Russian economy is facing multiple, long-term challenges.** These include, first and foremost, improving the investment climate, addressing the large infrastructure gaps, diversifying Russia's tax, export and broader economic base, and strengthening governance and institutions. In each of these areas, Russia scores comparatively low on many measures of performance, especially for a very large middle-income country aspiring to achieve high-income status within the next decade. These challenges underpin the Government's broader modernization agenda and the ongoing broad consultative discussions about the country's revised Strategy 2020. The extent to which these long-term challenges are met will determine the longer-term dynamics of the Russian economy, its catch-up with developed countries, and its ability to improve the living standards of its citizens.

Development Challenges and Opportunities

A. Growth and Diversification

19. **The dominant concern for Russia's economic model remains the dependency on fossil fuel production and exports and the associated challenge of using hydrocarbon revenues effectively and efficiently.** Russia is a global energy powerhouse. It is the world's largest exporter of natural gas and the second largest oil exporter. Energy resources combined with stronger social and economic policies have resulted in rapid social and economic progress during 2002-2008 and allowed it to weather the global crisis well. At the same time, however, as in many other major hydrocarbon producers, these resources are also the source of many of its development challenges. Relative to its structural endowments and trade potential, Russia appears to be under-exporting. Only approximately 9 percent of total exports in 2009 were accounted for by high-tech exports, mainly from the defense industry. There has been some shift to services over the years but the economic structure is dominated by large corporations with concentration in natural resources and low value added industries, while contributions from the SME sector are limited. The financial sector remains underdeveloped in terms of its capacity to mobilize and intermediate savings and is vulnerable to fluctuations in commodity prices and capital flows. Capital markets are inadequately developed and gaps exist in the oversight of the banking system.

20. **Russian businesses are often inefficient and tend to operate at low levels of technology and knowledge.** Russia's product base has narrowed considerably over the past decade. In manufacturing, value-added per worker is similar to that of workers in China and India, but when labor costs are accounted for, overall productivity is lower. State-owned enterprises are present in more sectors of the economy than in any OECD country bar Poland. These enterprises also account for around 17 percent of total employment. Competition and the institutional and policy framework provide insufficient pressure or incentives to stimulate innovation. A difficult environment for the financial system leads to deficiencies in new company formation. External know-how transfers are limited with gross FDI inflows from 2005-2010 averaging a low 1.5 percent of GDP, with only 21 percent of these funds going to non-energy manufacturing.

21. **Russia, as the largest country in the world by land area, faces significant challenges in development of its regions as average numbers for the country mask huge regional variations.** Large and dynamic cities with high growth rates such as Moscow and St. Petersburg are highly congested and create substantial problems for urban transport management, while outside these cities poverty levels and unemployment can reach significantly high levels. According to Rosstat, the average level of unemployment from November 2010 to January 2011 varied from only 1.4 percent in Moscow to 47.5 percent in the Republic of Ingushetia. Headcount poverty rates (2008) ranged from 38 percent in Kalmykia (in the south) to 7.4 percent in oil-rich Khanty-Mansiysk. Providing access to infrastructure of comparable quality is a principal development objective of the Federation, yet is also a significant challenge given its huge size.

22. **To provide a platform for future economic growth, despite its vulnerability to commodity price volatility, Russia needs to maintain stable macroeconomic conditions and create a diversified, efficient and sustainable product base.** Specific challenges that the Government faces include (i) the achievement of fiscal consolidation and a reduction of the non-oil deficit, (ii) promotion of innovation and SME growth to diversify revenue sources away from the oil and gas sector and generate employment, (iii) reforms to strengthen a vulnerable financial system, and (iv) the provision of sufficient investment in construction, maintenance and rehabilitation of

economic infrastructure while exercising sustainable environmental management. The Russian Government has been working to address these challenges, always keeping the development of the regions in mind.

23. **Russia has a strong interest in continuing to improve efficiency and effectiveness of public financial management.** Among other measures, the Government already introduced a three year budget framework, implemented legal and institutional mechanisms for monitoring sub-national public finance and Treasury principles of budget execution, created budget authority at the municipal level, and adopted legislation on insolvency of budgets of the regions. In late 2010 and 2011, Russia experienced large oil windfalls. Rising public expenditure commitments—including on the military, public sector wages, and pensions—are threatening to undermine fiscal and overall macroeconomic stability. The Government needs to substantially improve its long-term fiscal position by rationalizing public expenditures, managing the effects on public finances of an aging population, creating fiscal space for productive infrastructure spending, returning to an explicit fiscal rule, and broadening the tax base.

24. **The Government has renewed and stepped up efforts to improve the business environment.** Over the past few years these efforts have included the reduction of the burden of regulatory compliance on business, particularly in dealing with licensing and inspections at the sub-national level, systematic monitoring of business environment indicators at the level of the regions, strengthening the enforcement of competition regulations, automating key administrative processes concerning business (e-filing of taxes), and stemming the proliferation of new regulations through the introduction of regulatory impact assessments. Despite the promising recent initiatives aiming at improving the business climate, perception indicators of the business environment remain poor. Russia ranks 120th among 183 economies in the 2012 *Doing Business* report. Government efforts now focus on streamlining key regulatory processes (e.g., issuance of licenses and permits) and monitoring administrative corruption affecting business at the level of the regions, where most regulatory processes occur. See further details in Annex 3.

25. **The Russian Government is prepared to address existing weaknesses in the financial system.** Prudential and non-prudential supervision requires strengthening through an improved regulatory framework in line with the G20 objectives. In particular, the Central Bank of Russia needs supervisory powers for several areas to mitigate banking sector risks. Also, financial system assets are concentrated in the banking sector where loan quality may be overestimated and the level of provisions is still lower than it should be. The breadth and depth of the equity, bond and investment fund markets remain well below capacity. Russia's capital markets also face deficiencies in market infrastructure (clearing and settlement) and a small institutional and retail investor base. The issues in the banking system and capital markets mean that there are problems in access to finance. The lack of access to finance is an obstacle for micro, small and medium firms, but is a particularly significant obstacle for medium and large firms. Structural obstacles to an enhanced access to finance remain to be addressed.

26. **The Government regards infrastructure as a key development constraint with estimates for necessary investments at about US$1 trillion until 2020.** According to a joint Bank/IFC study, Russia's potential energy savings are roughly equal to the annual primary energy consumption of France**.** Russia's transport infrastructure is generally poor and has been declining because of underinvestment in maintenance and rehabilitation. Major weaknesses are evident in the quantity, quality and institutions of several large infrastructure sectors. Upgrading Russia's infrastructure would require not only significant investments but also a strengthening of the country's institutional

framework. Russia's environmental management suffers from poor governance and sometimes obsolete management practices. Environmental quality and control are poor for a majority of Russians living in the country's population centers. This has detrimental effects not only for those peoples' well-being but also a significant negative impact on Russia's economy.

B. Skills and Social Services

27. **The Russian Federation has made significant achievements in social and human capital development.** The most notable achievements are in the areas of universal primary education, equality for women, eradication of extreme poverty and malnutrition, lowering child and maternal mortality, and reaching very high levels of higher education enrollment. With these achievements, the Russian Government is increasingly focusing its strategies on moving Russia closer to the level of achievements of other G8/OECD countries. In light of these ambitious goals, despite the impressive achievements to date, Russia is facing new challenges that will be critical to address if the government goals under the updated Strategy 2020 are to be achieved.

28. **While general poverty levels have fallen sharply since the early 2000s, vulnerability to poverty remains a concern.** Poverty rates are declining but remain significant with more than 18.5 million Russians living in poverty in 2010. Chronic poverty is now at about 7 percent, but the relatively high vulnerability to poverty affects about a quarter of the population (some 37 million people)[3]. Efficiency in social spending, better targeting of social programs, as well as new transfers will be of critical importance in the future, especially with Russia's efforts to reduce the fiscal deficit and its exposure to changes in oil prices. Social protection is the largest budget item (55 percent) within the social expenditures[4]. Up to one quarter of social support beneficiaries are not poor. Furthermore, some of the social programs are suffering from low quality and weak integration with active policies that will bring people into jobs and out of poverty or social care. As Russia continues to develop, social transfers and programs will take up an increasing share of the national budget as in other OECD countries. Thus, enhancing its efficiency will be paramount as will be improving the quality of care and social programs.

29. **Demographic and health trends are characterized by low fertility, high adult mortality and morbidity rates, and inefficient health spending, in addition to a rising pressure on pensions.** The demographic profile of the Russian Federation shows a shrinking and aging population. Average male life expectancy in Russia is only 62.8 years (13.8 years less than the EU average), as opposed to 74.7 for women (7.9 years less than the EU average). The excess mortality is overwhelmingly attributable to cardiovascular diseases, cancer, alcohol poisoning, as well as injuries due to traffic accidents. According to Rosstat estimates, the working age population size will decrease by 10.4 million between 2011 and 2025, which is a major challenge for the Russian economy. Labor force shortages are expected to be compensated through labor immigration. Progress has been made in the fight against AIDS/HIV and TB. Still, Russia is among the 10 countries with the highest multi-drug resistant TB burden in the world. Furthermore, the Russian health system suffers from poor quality and inefficient spending with limited resources flowing to preventive care and an excessive amount of resources going to the hospital sector. Despite these challenges, Russia's total health expenditures is only 5.4 percent of GDP compared to an OECD average of 8.8 percent. Health indicators generally remain low in an international perspective and

[3] 2004-2006 Household budget data. A household with consumption below the poverty line for three consecutive years is considered chronically poor.
[4] Publicly financed programs in education, health, culture, mass media, sport, and social protection.

when compared to countries with similar levels of development. Given the relative low retirement age and the aging population, the fiscal burden arising from pensions will continue to grow.

30. **Skill mismatches in the labor market are turning into an increasingly important development constraint.** Professional education and the renewal of skills for labor market entrants as well as existing workers are critical for adopting new technologies, diversifying the economy, and improving productivity levels. The latest EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS) ranks skills as the number one concern for businesses in Russia. This is further exemplified by the fact that excess labor market capacity appears to have been exhausted. Combined with the changes to the demographics of the Russian population, this indicates a serious and tightening bottleneck in the economy with regard to the provision of skilled workers, the quality of higher education[5] and the renewal of skills within the existing labor force. Labor force shortages resulting from demographic trends make the Russian economy dependent on immigrant labor. The Russian Government is undertaking steps to attract more highly skilled immigrants to the country and is currently developing a scheme of organized recruitment of migrant workers. During 1999-2007, Russian GDP grew by an average of 7 percent annually with labor productivity growing an average of 6 percent per year accounting for 2/3 of the expansion in per capita GDP. Both female and male employment rates are below the EU average. The Russian Government is aware of the challenges which are to be addressed in the updated Strategy 2020. See further details in Annex 4.

31. **The country's strong economic recovery and downward poverty trends belie significant challenges of inequality and social exclusion.** Since Russia began its transition from a planned economy to a market economy some 20 years ago, economic growth has been steady and GDP per capita has increased threefold. Inequality as measured by the Gini coefficient rose significantly, however, from 28.9 to 42.2 between 1992 and 2009. Social stresses have been similarly magnified. Given that federal spending on social services in 2007-2008 already accounted for about 17 percent of GDP, or half of total federal spending[6], and was further increased by around 1.3 percent of GDP in 2009 and 2.2 percent of GDP in 2010, effectively addressing the issues of inequality and social exclusion will require an alternative preventative approach that can tackle the root causes of these issues.

32. **The sharp disparities in development and living standards among Russia's regions require a differentiated policy approach.** Russia's achievements conceal huge variations among regions in the level of social spending and poverty rates. For example, 82 percent of preschool education is financed through local government budgets, and therefore poorer regions will be more disadvantaged in their capacity to finance preschool education than richer regions. Substantial differences among Russia's regions are also apparent in per student spending and in the quality of education at the primary and secondary education level[7]. Finally, vulnerable children including those with mental or physical disabilities and those who are infected with HIV suffer from educational exclusion. Addressing these variations among the regions across the human development spectrum will be critical for maintaining the path of achievements and calls for a more differentiated approach to policies and interventions.

[5] Russia places only 43rd in the country rankings compiled by OECD regarding readiness of the country's educational system for the knowledge economy. It lags behind both developed and developing countries (Singapore (#1), India (#7), Czech Republic, Romania, Hungary, Estonia, Lithuania).

[6] The health and education sectors accounted for roughly 4 percent of GDP each, while social protection (insurance and social assistance) accounted for about 9 percent of GDP.

[7] In the worst-performing region, 29 percent of students did not pass a single subject in the 2008/09 Unified State Examination, while in the best-performing region only 3 percent of students failed to pass.

C. Russia's Global and Regional Role

33. **Russia's national choices have critical impact on regional and global challenges.** Russia is one of ECA's regional engines of growth, both as the major destination of exports and migrant labor from the CIS countries. The Russian Government wants to support economic integration within the CIS, including the creation of a common migration space and common labor market, but also has to grapple with social integration and adaptation of labor immigrants. The Russian territory contains about 22 percent of the world's undisturbed ecosystems. These have global value and significance for biodiversity protection, carbon storage and sequestration, and other critically important environmental functions. Strengthening forestry governance and management is particularly critical. The country's forests are at risk from forest fire, pest and disease outbreaks, and low rates of reforestation. Further strengthening of the national system for weather forecasting, hydro-meteorological services and climate monitoring remains a high priority for the Government as the impact of climate change is expected to increase the frequency of extreme and hazardous weather events. Due to the large-scale economic development and climate warming in recent decades, Russia's remote Arctic areas have become more accessible, resulting in a significant increase in human activities. This has led to more pressures on the pristine but fragile environment in the Arctic zone.

34. **At the ECA regional level, Russia has become a prominent emerging donor.** Over the last CPS period, it has implemented an ambitious development assistance program with significant contributions. With the approval of 75 percent of the population according to a 2010 WBG-managed opinion survey by the Levada Center, Russia will focus its assistance on LICs and lower-income MICs in ECA where it has many social and economic ties, and will also become active in other LICs. As a member of the Eurasian Economic Community, it initiated the establishment of a regional multilateral mechanism (EurAsEC Anti-Crisis Fund) administered by EDB to help deal with crisis related challenges in affected EurAsEC countries. Russian lead agencies have developed an understanding of the complexity of development aid communications and a sense of urgency for more active work in ensuring adequate information in support of Russian development aid. The Russian Government now plans to create a stronger institutional framework for development aid. It wants to set up a new bilateral development aid agency and enhance capacity within existing public agencies through better staffing, increased staff training, and development of expert potential.

35. **At the global level, Russia has made important steps toward deeper integration into the international community.** Russia is already a member of the G8, G20, and APEC. It is also making significant progress toward becoming a member of the OECD and the WTO. To reach its full potential as a prominent member of these global institutions, the Russian Government would like to employ the whole array of available policy instruments. Yet, with regard to the area of global public goods, where Russia is showing special interest in decisive issues like financial stability and food security, the Department for International Financial Relations in the Ministry of Finance is understaffed and the Government needs to strengthen the institutional structures and technical expertise necessary to provide effective leadership.

D. Governance and Transparency

36. **In recent years, the Government of Russia has completed or initiated a number of major reforms in the public sector.** These efforts were intended to ensure sound management of public resources, create a more favorable business environment, and enhance public service delivery.

Still, many challenges remain. Annex 5 analyzes recent developments and their impact, the main challenges, and the Government's current strategies for improving public sector governance.

37. **Improving effectiveness and efficiency of public administration has been a high priority for the Russian Government in the last decade.** The Government has undertaken a major effort to clarify and delineate functions between levels of executive government and establish local self-government. The Government also launched a broad set of public sector reforms in areas such as civil service, budget process, and public administration. Some of these reforms, however, were only partially implemented and are not fully visible to the average citizen. The reforms are yet to translate into tangible and noticeable improvements in the quality and effectiveness of public administration in the eyes of the citizens and businesses. Government functions and civil service staff kept growing between 2004 and 2010. Government regulation is seen as excessive and often ineffective. Public services are heavily embedded in traditional administrative arrangements, which often encourage corruption and are burdensome for citizens and businesses.

38. **Corruption has been recognized as one of the major obstacles for investments and growth**. In response, the Government has embarked on a comprehensive anti-corruption program. Anti-corruption efforts have received new impetus in recent years under the leadership of President Medvedev. A Federal Anti-corruption Law and National Anticorruption Plan have been adopted and civil servants are required to declare their assets. Surveys of corruption perceptions show that Russia continues to lag relative to the ECA region and in global terms. The Government has made reform of the state contracting systems a key priority. Reported unofficial payments to obtain public procurement contracts were relatively high (BEEPS 2008), with 30 percent of firms reporting having made such payments, amounting to an average 11.5 percent of the value of the contract. Some improvements have been made, including introducing e-procurement through a single government portal, and according to Rosstat, competition in public procurement tenders has increased (average number of bidders in electronic auctions increased from seven in 2007 to 26 in 2009).

39. **The judiciary is viewed as weak despite some improvements in recent years.** Some high profile court cases have caused international concern about the full independence of the criminal justice system. However, according to surveys by the Levada Center, citizens' confidence in the courts rose from 45 percent in 2006 to 64 percent in 2010. According to the latest Business Environment and Enterprise Performance Survey (BEEPS), the share of firms using the legal system increased from 27 percent in 2005 to 43 percent in 2008, while only 3 percent of the companies surveyed reported corrupt practices. Two areas stand out for continued state attention in the judicial system: (i) continuing the trend towards greater transparency and efficiency in the functioning of courts (through investments in information technology and disseminating information to citizens on judicial decisions and the functioning of courts), and (ii) strengthening the enforcement of judicial and administrative procedures through the bailiff system, ensuring efficiency, transparency and integrity.

40. **A further dimension of Russia's governance challenge is to reduce the growing disparity among the regions.** The disparity is manifested in the lower human development indicators in rural areas. Part of this will involve streamlining and targeting of federal support programs. Sub-national governments (especially in less developed, lower-capacity regions) will also need assistance and effective incentives to implement the Government's reform agenda, with a focus on improving service delivery and investment (public and private) in infrastructure. In poor performing regions special incentives and investment to build more basic capabilities may be needed. Migration to major dynamic urban centers should not be discouraged.

41. **The challenge in the delivery of public services is to become both more efficient and more citizen/business oriented.** This would contribute to business confidence and citizen satisfaction in an environment of fiscal restraint. Continued modernization of public service delivery across tiers and branches of government is designed to meet growing public expectations of user-friendly public services and to achieve efficiency savings. At the federal, regional, and local levels, the Government needs to expand new service delivery modalities, including the use of e-governance applications, use of service standards, administrative complaints procedures, and client feedback mechanisms. Such initiatives should target important development constraints, such as the time required to complete land registration and issue of construction permits and business licenses.

The Russian Federation Strategy 2020 Update

42. **The 2012-2016 CPS is aligned with the Russian Government's own vision for development as laid out in the update of Russia Strategy 2020.** On November 17, 2008, the Government of the Russian Federation approved the *"Concept of Long-Term Social and Economic Development of the Russian Federation through 2020"*[8]. The Government at the federal and regional levels was to follow the provisions of the Concept when preparing target documents, plans and statistics characterizing their activity. The Concept was implemented as part of Russia's strategy to develop its economy into one of the world's top five economies and, along with this, to establish itself as a leader in technological innovation and global energy infrastructure, as well as a major international financial center. By establishing itself as one of the leading economic powers, Russia could also continue to improve domestic living conditions to the level of developed countries and safeguard its national economic interests. More than a narrow domestic strategy, the long-term strategy aimed to place Russia in an international context as part of the world's community to use international economic integration for achieving its domestic economic goals.

43. **Russia's long-term economic development strategy to the year 2020 envisaged three stages.** The basic tasks and directions during each of these stages were identified as follows:

- *First stage (2008~2012):* Prepare the institutional mechanisms needed to bring about economic reform, modernize the education and public health sectors, and commence projects related to the development of high technology and infrastructure
- *Second stage (2013~2017):* Move towards an economy based on new technologies such as information and communications, biotechnology, and nanotechnology
- *Third stage (2018~):* Strengthen the status of Russia in scientific research and development, and stabilize and develop an innovative economic system

44. **Development of resources and expansion of production infrastructure were the main tasks that Russia had to address.** The main tasks suggested as part of the long-term economic development strategy for the economic sector included development of Russia's regions and human resources, improvement of the business and investment environment, development of innovative national systems, diversification of industries, increase of the competitiveness in the high technology sector, development of infrastructure, and development of potential resources.

45. **In January 2011, the Government initiated the preparation of an update of the Strategy based on the experience that had been gained during the global financial crisis.** The update of

[8] A detailed description of the November 2008 *"Concept of Long-Term Social and Economic Development of the Russian Federation through 2020"* is included in the 2009 CPS for Russia as Annex 2.

Strategy 2020 aims to better address the post-crisis economic challenges facing the country and reflect post-recessionary realities of the world. The updated strategy aims to take into account the new reality and provide solutions to the new challenges of economic modernization and overhaul of the social security system and public administration**.** The key themes of the Strategy 2020 update are: new growth model, preconditions for growth, new social policy, balanced infrastructure development, and effective state. See further details in Annex 6.

46. **The selected country level outcomes to which the CPS will contribute are well aligned with the Strategy 2020 thematic areas and objectives.** Some of the key Strategy 2020 themes and sub-themes are strongly supported by the CPS results framework, and ongoing and planned WBG engagements are envisaged to contribute to the achievement of these outputs and milestones. Annex 6 presents the alignment of the country development outcomes to which the CPS will contribute to the key themes of the emerging Strategy 2020 update. The WBG engagements in energy efficiency and environmental management are aligned with ongoing sectoral strategies and programs, and supporting Russia as a donor is an ongoing engagement aligned with the 2007 Concept of Russia's Participation in International Development Assistance as indicated below.

III. WORLD BANK GROUP PARTNERSHIP STRATEGY FOR RUSSIA

A. LESSONS LEARNED FROM FY07-11 CPS AND STAKEHOLDER FEEDBACK

Lessons from FY07-11 CPS Completion Report

47. **The previous CPS together with the CPS Progress Report covered the period FY07-FY11 and focused on maximizing the leverage of WBG international knowledge in its operations.** The WBG program brought its knowledge assets to bear at three levels: global (for Russia as a donor); national (for institutional and policy change), and sub-national (targeting Russian regions). The strategic pillars, as rephrased by the CPS Progress Report, were (i) diversifying the economy for sustainable development and growth, (ii) improving public sector management and performance, (iii) improving delivery of communal and social services, and (iv) enhancing Russia's global role. The CPS Completion Report (see Annex 7) rated the WBG-supported program and WBG performance as satisfactory but considered the overall design of the results framework with 15 outcome clusters and 44 milestones as unsuitable for an advanced MIC with highly sophisticated and fast changing demands. It highlighted that a new partnership strategy should be flexible and demand-driven, built on principles of engagement rather than transactions tied to a rigid results matrix.

48. **With respect to Russia's country development goals the CPS was fully adequate until the global financial crisis hit yet also flexible enough to allow the WBG to react swiftly to the dangers posed by the crisis.** The CPS was designed to support the Government's efforts to sustain robust growth for poverty reduction and higher living standards. The WBG targeted binding constraints to growth within the Government's 2006-2008 strategy, including supporting policies for macroeconomic management, competition and diversification, investment climate, and infrastructure development. The WBG supported significant public financial management (PFM) reforms and all elements of public administration reform. In extending communal and social services, the WBG focused on housing, health, and education. In supporting Russia's global role, the WBG concentrated its support on the development of a Russian Official Development Assistance (ODA)

strategy and the realization of expanded donor activities in line with the country's strategic vision. The CPS Progress Report in 2009 reoriented WBG policy and program focus on vulnerabilities facing households and the banking system as a result of the crisis. It also revisited the Government's borrowing requirements for crisis recovery, fiscal consolidation, and infrastructure investments to serve anti-crisis and longer-term growth objectives.

49. **WBG lending during the period FY07-FY11 was modest in relation to the size of the Russian economy.** For the CPS period, new IBRD lending amounted to US$385 million. The CPS Progress Report in 2009 authorized new borrowing of up to US$4 billion, including US$2 billion for budget support, but in the end the Russian Government preferred to borrow from capital markets. Since FY07, the IBRD portfolio has shrunk from 22 to 13 projects (US$1.206 billion as of June 30, 2011) with overall satisfactory portfolio quality - with two exceptions. On the other hand, Reimbursable TA/Fee-Based Services (40 completed and signed projects for about US$20 million) and sub-national lending (nine loans for US$162 million) emerged as new business lines. IFC invested more than US$4.2 billion in 105 projects, of which US$1.3 billion was mobilized from partner financial institutions. IFC's disbursed and outstanding portfolio in Russia as of June 30, 2011 was US$2 billion, representing 6.3 percent of IFC's global portfolio. An additional US$530 million is committed and undisbursed. IFC portfolio quality remained high throughout the period FY07-FY11, with no crisis-related NPLs. Russia is MIGA's largest net exposure almost entirely concentrated in Russia's financial sector.

50. **A principal finding of the CPS Completion Report is that the WBG increased its relevance in an advanced MIC based on global knowledge.** A culture of innovation and the flexibility to address fast-changing, sophisticated demands by the Government turned out to be key qualities for a successful WBG engagement with Russia. Demand for IBRD fee-based knowledge services (FBS) doubled during the period and was applied to programs at the global, national, and sub-national levels. IFC was also able to offer new products tailored to changing market conditions while maintaining a strong investment program; these include risk management and non-performing loan advisory services, platforms for resolution of distressed assets and the scaling up of the Global Trade Finance Program.

51. **To remain relevant in advanced MICs, the WBG should innovate constantly.** For this purpose, the WBG needs to maintain monitoring and analysis of cutting-edge policy issues. The satisfactory rating for the WBG's performance is based both on CPS outcomes and on innovation. The WBG created a new platform for dialogue based on global knowledge. Multiple areas remain where international knowledge can bring Russia further economic and efficiency gains. Procurement and innovation policies are prime examples.

52. **With limited resources relative to the size of the country, the WBG should aim to maximize its development impact through deepened direct engagement in Russia's regions.** Experimentation in the regions influences national policy. Demand-based delivery of global knowledge in the regions created a feedback loop for federal policy change. While the development of RTA/FBS is extremely positive, the WBG should not overlook the needs of poorer regions. Not surprisingly, most demand for FBS comes from wealthier regions. A lending operation for the Northern Caucasus (the least advanced region) is under development, which will test the applicability of WBG's instruments under those local conditions. Federal guarantees for sub-national lending and a lack of funds in less advanced regions to pay for RTAs are hurdles to be addressed by the federal authorities. Also going forward, the WBG needs to make instruments as flexible as possible for diverse development needs in Russia's regions.

53. **The broadening of the global development community is an opportunity to "modernize multilateralism".** The implications of making donor capacity-building a separate CPS pillar go beyond the Russia program, and beyond the World Bank Group as an institution. The accession of advanced MICs like Russia to the ranks of development aid donors is beginning to change the international aid architecture with the sharing of new knowledge (including South-South dialogue) and the provision of additional development finance resources. To avoid fragmentation and to achieve fast track integration of emerging donors into the multilateral donor community, the build-up of new institutional structures and expert capacity within the Government are necessary.

Findings from Recent IEG Evaluations

54. **During the period FY07-11, the Independent Evaluation Group (IEG) evaluated 13 projects, of which 12 projects, or 92 percent, were rated Moderately Satisfactory or better for project outcomes.** This compares favorably with the ECA Regional and Bank-wide averages. The key lessons focus on the need for a higher awareness of the economic, political and cultural context within which WBG-financed projects are implemented. A related lesson is that client/stakeholder commitment and buy-in are key. Positive examples in this respect include the Tax Administration and Modernization II Project under which technical groups of officials for each component had been organized that continued their work even when formal project activities were stalled due to procurement issues, and the Health Reform Implementation and Municipal Heating projects that benefited from local champions and leadership. Another lesson that summarizes finding from both project design and implementation is that flexibility is important for success. The larger ambitious reform projects were considered to be too complex. One of the lessons from the Capital Market Development Project was that a sequence of smaller, well targeted projects might have allowed the Bank to better adapt to changing client needs over time. In a similar vein, the Implementation Completion Report (ICR) for the Sustainable Forestry Pilot Project noted that providing just-in-time policy advice is more helpful than large consultancy contracts. On the need for flexibility during implementation, a lesson that IEG drew from the Development of the State Statistical Systems Project was the value of continuously engaging the borrower in an evolving and expanding project design leading to enhanced ownership and greater leveraging of IBRD lending resources for development results.

55. **IEG conducted a review of Bank engagement at the state level in Brazil, India, Nigeria, and Russia over 1998 to 2008.** The study confirmed the desirability of selective lending to a few focus states, not only in high performing states but also in poorer, low-capacity states with committed counterparts. It confirmed the soundness of focusing on public finance management and found scope for greater impact from knowledge transfers. IEG noted that Russia was unique in that there was growing demand for reimbursable technical assistance at the regional (oblast) level, reflecting the high quality of advice provided through the Bank's fiscal federalism loans.

Feedback from Multistakeholder Consultations

56. **The WBG held consultations about the new 2012-2016 CPS for Russia with stakeholders across the country at the federal level and in the regions.** Between February and June 2011 a series of workshops and videoconferences, supplemented by a web-based consultation process, discussed progress achieved during the last CPS period and strategic challenges for the next. A main purpose was to identify existing successful approaches to socio-economic development in Russia's regions. The WBG also made every effort to learn from participants where international

knowledge or finance could strengthen programs in the regions or address new priorities, and to get feedback on its performance in the country. The consultations involved representatives of federal and local governments, civil society and business communities, think-tanks, academia, and other stakeholders. For a more detailed overview of the multistakeholder consultations, see Annex 8.

57. **The WBG received in-depth feedback on the development priorities of the regions.** In line with the agenda at the federal level, local and regional authorities highlighted diversification of the economy in the regions through improvements of the investment climate and innovations as their top priority. In this context, government representatives also expressed interest in the attraction of foreign direct investment and highlighted the importance of skills development and higher education for competitiveness. Participants from less advanced regions focused on the need for more and better public infrastructure (in particular with regard to transport, water and sewerage). Representatives from economic think-tanks and academia endorsed an increasing focus on working with the regions as timely and appropriate. They also welcomed the WBG's wider menu of financial instruments in favor of regions, especially Financial Intermediary Loans (FILs) and sub-national lending.

58. **Civil society and the business community stressed the importance of access to services.** Stakeholders emphasized the lack of available microfinance for SMEs and the importance of access to housing and social housing, as well as to energy. They noted that this could also be pursued through Public Private Partnerships at the municipal level. With regard to vulnerable groups, participants in the consultations saw a particular deficiency in opportunities for the young and disabled. In terms of public goods provision the consultations yielded great interest in environmental protection and preservation of Russia's unique landscapes. Finally, representatives also called for local initiatives at the community level to be better supported in order to strengthen civil society.

B. PROPOSED WORLD BANK GROUP 2012-2016 CPS FOR RUSSIA

WBG 2012-2016 CPS Overview

59. **The joint IBRD/IFC/MIGA CPS balances flexibility and responsiveness to a multitude of evolving needs with a strategic focus on country priorities within the WBG areas of comparative strength.** In this context, during the CPS period of 2012-2016, the WBG will support Russia's efforts to **(i) increase growth and diversification** through better management of public finances, improved investment climate and innovation, stronger financial sector, better infrastructure, and more effective protection of the environment, **(ii) expand human potential** through improvements in education, health, and social protection to ensure socially inclusive development, **(iii) deepen Russia's global and regional role** related to the provision of global public goods and Russia's growing role as a donor, and as a cross-cutting theme **(iv) improve governance and transparency** through more accountability and better service standards in public administration, procurement, and financial management. Annex 1 presents a complete results framework based on these four themes.

Strategic Theme 1: Increasing Growth and Diversification
Management of Public Finances
Outcome 1: Improved efficiency and effectiveness of public financial management
Investment Climate/Innovation
Outcome 2: Further streamlined and simplified business procedures and improved capacity to monitor and benchmark business regulations
Outcome 3: Strengthened capacity to design and implement innovation and diversification programs in Russia's regions
Financial Sector Development
Outcome 4: Improved regulatory and supervisory framework for the financial sector and upgraded market infrastructure
Outcome 5: Increased depth and breadth in the financial sector and increased access to finance
Sustainable Development and Effective Protection of the Environment
Outcome 6: Increased access to quality infrastructure assets and improved infrastructure services
Outcome 7: Enhanced competitiveness and sustainability of the economy via reduced resource intensity of GDP
Outcome 8: Improved management of environmental risks and natural resources
Strategic Theme 2: Expanding Human Potential
Education, Health, and Social Protection
Outcome 9: Increased quality and improved access, targeting, coverage, and efficiency of social services for human development
Skills for Economic Development
Outcome 10: Professional education system produces adequate skills for increased competitiveness
Socially Inclusive Development
Outcome 11: Increased social inclusion of vulnerable groups
Strategic Theme 3: Deepening Russia's Global and Regional Role
Global Public Goods
Outcome 12: Strengthened Russian participation in the provision of global public goods
Russia as a Donor
Outcome 13: Established an institutional structure for delivery of a bilateral and multilateral development assistance program
Strategic Theme 4 (cross-cutting): Improving Governance and Transparency
Public Administration, Procurement, and Financial Management
Outcome 14: Improved government transparency and accountability

60. **The WBG will work with the Government in a flexible manner at three levels: national (federal and sub-national), ECA regional, and global.** Its strategic positioning toward Russia in this multidimensional relationship will continue to emphasize the WBG's global knowledge leadership in development. The opportunity to strengthen institutional capacity, pilot innovations, and employ other multiplier effects of "how" the WBG does its business, including implementation support, will be the main criteria in the selection of new activities. IBRD will continue to provide intensive macroeconomic monitoring and analysis of fiscal policy and expenditure effectiveness.

61. **In the national dimensions (federal and sub-national), the WBG will focus on knowledge generation and transfer, institutional development, reaching out to Russia's poorer regions, and supporting vulnerable groups.** Cutting edge delivery mechanisms, international best practice dissemination and other distinguishing characteristics of IBRD operations outweigh its role in providing financial capital. At the federal level, the IBRD will continue to stay engaged in the major areas of investment climate, financial sector reform, upgrading of infrastructure, and public sector reform. The Government and IBRD are considering an innovation in the modalities of cooperation at the federal level by providing fee-based preparation and implementation support to projects wholly subject to WBG policies but fully financed from the Russian federal budget ("Virtual

Project Loan"). However, the lessons learned from the previous CPS point to IBRD investment and TA operations having the biggest development impact when they can be targeted at the sub-national level and in particular at activities in the poorer regions. The expected main outcome is an improvement in indicators in the regions, such as regional poverty levels or GRP in regions where the IBRD is active. IFC will continue to support the growth and diversification of the private sector and increase its competitiveness through a range of investment and advisory services targeting priority sectors, including infrastructure, agribusiness and forestry, manufacturing (including high-tech), and financial markets, with an overarching focus on increasing access to finance for SMEs, reaching poorer regions, promoting sustainable resource use, and mobilizing financing from partners.

62. **In order to have a clear impact on the sub-national level in the Russian context the WBG will have to use its toolbox of instruments more creatively than before.** IFC will leverage its global and country experience in the realm of PPPs to help Russia's regions structure and implement infrastructure investments. IFC is also exploring innovative structures, such as the Russian Bank Opportunity Fund (RBOF), to increase access to finance for SMEs via bank networks in Russia's regions, and will seek to invest in value-added manufacturing, agribusiness and high-tech sectors in less developed frontier regions to help attract additional investment and strengthen local economies. The Government and IBRD will explore direct lending to Russia's regions with a sovereign guarantee in exceptional cases, partnerships with institutions with presence and reach across Russia, and innovative ways of supporting IBRD analytical work and technical assistance in less advanced regions. With regard to new partners, IBRD will build working relationships with public sector banks with a reach into the regions to realize the potential of Financial Intermediary Loans (FILs) to support issues like energy efficiency or SME growth. IBRD will also continue to use federal intermediaries for issues directly aligned with their remit such as housing or financial literacy. Some ideas for innovations in modalities of cooperation at the sub-national level are presented in Box 1.

Box 1. Innovations in Modalities of Cooperation at Sub-National Level

- **Financial Intermediary Loans.** FILs provide long-term financing to local financial intuitions to finance real sector investment needs. In the case of Russia, the use of this instrument will be pursued more extensively through public sector banks in support of specific development areas in Russia's regions such as energy efficiency and SME development.
- **Supporting IBRD analytical work and technical assistance in less advanced regions.** In addition to the innovative instrument of direct lending to Russia's regions, the Government and IBRD are discussing a possible instrument for supporting analytical work and technical assistance in less advanced regions which are often constrained in getting such assistance on a fee-for-service basis. One idea that is being considered is the establishment of a federal fund with IBRD participation that could finance (fully or partially) such assistance.
- **Direct IBRD lending to Russia's regions with a sovereign guarantee**. Direct lending to Russia's regions carries the potential of a large positive impact on modernizing some of the less advanced regions in the Federation. The Government and IBRD are discussing principles of engagement with the regions that could then be tested in pilot operations in exceptional cases when the projects have innovative components that require IBRD experience. The principles under discussion include: (i) focusing on less advanced regions, (ii) not undermining incentives for fiscal rectitude, (iii) focusing to the extent possible on sectors that are also a priority for the Federation, and (iv) diffusion of best international and national sectoral knowledge, and (v) strengthening public administration.

63. **In the regional (ECA) dimension, the WBG will focus on strengthening Russia as a donor.** Building on the success achieved by the Russian Government in creating the foundations for an ODA system, TA from IBRD will support the set up of a new Russian bilateral aid agency as well as the build-up of relevant sectoral expertise. The WBG will coordinate more closely with Russia to

provide development aid to the poorer sub-region of the CIS. The WBG will help in strengthening regional institutions such as the Eurasian Development Bank, which can serve as conduits for Russian financial support and expertise to the poorer countries in the CIS.

64. **In the global dimension, the WBG will focus on supporting Russia's ambitions with regard to global public goods (GPGs).** It will make quality advisory services and knowledge available for the Government to enhance its voice in international forums as it prepares for presidencies of the G8, G20 and APEC. The WBG will also provide support to Russia through lending, IDA/IBRD administered Trust Funds and FBS/RTA in handling critical issues related to the provision of global public goods. This encompasses a wide agenda ranging from combating infectious diseases to climate change, financial stability, food security and other GPG concerns. With regard to global trade, the WBG will continue its assistance to Russia for integration into the WTO through TA for trade in services.

- ***Principles of Engagement***

65. Within the four strategic themes, based on the lessons from implementing the previous CPS, the feedback from the forward-looking multistakeholder consultations, and examples from other well-performing MICs, the CPS identifies the following principles of engagement in a program of support to the Russia development strategy:

- **Global Knowledge and Innovation.** The WBG will build on the achievements to date of developing a platform for dialogue and development solutions based on global knowledge. In doing so, the WBG will also leverage scarce WBG resources with Russia's own budgetary resources, by replicating the successful model that had resulted in a strong program of RTAs under the previous CPS. The WBG will strategically use its own funds to support and complement the program of RTAs, as well as to conduct diagnostic and evaluation work of strategic importance for which RTA resources are not available or would not be appropriate. The WBG will also use trust funds where feasible, especially for Russia's participation and contribution in global and regional initiatives. IFC will apply its global experience in areas including renewable energy, PPPs in infrastructure, and SME finance to help open new markets in Russia and strengthen the role of the private sector.
- **Focus on Results.** Each of the projects and programs will be prepared and implemented with a focus on results. This implies the employment of standard tools of managing for development results, such as results-oriented design, reporting and assessment frameworks.
- **Flexibility.** WBG engagement will continue to be driven by evolving country demands and priorities. To this end, the WBG will maintain flexibility in its program within the parameters of the CPS strategic themes. The WBG will be prepared to engage in new projects and new regions as demand occurs, as well as to adjust and modify ongoing programs as needed. The WBG will also continue to explore ways for flexible use of existing and new WBG lending and non-lending instruments to adapt to emerging opportunities.
- **Selectivity.** The WBG will support priority activities addressing Russia's key development challenges in accordance with the CPS strategic framework. Priority will be given to support for systemic solutions with lasting impact on institutional capacity and potential for scaling up. The WBG will balance federal level cooperation with growing engagement with Russian regions and municipalities. The WBG will respond to demands for assistance selectively, taking into account its own capacity to deliver and considering the comparative advantages of

the three parts of the WBG (IBRD, IFC and MIGA), while further increasing their collaboration.

- **Timeliness/Fast Response.** Success of the implementation of the strategy depends on the WBG's ability to respond rapidly to sophisticated demands by the Government. Maintaining flexibility and selectivity of the program would allow the WBG to respond in a timely manner with appropriate instruments. The WBG may choose not to engage when a timely response is not feasible.
- **Coordinated WBG Support.** IBRD, IFC and MIGA programs will continue to develop synergies for offering development solutions to Russia.

66. **Following these principles will allow the WBG to scale up and maximize the impact of the WBG and government resources.** Selection of activities for WBG support will be guided by the Government's demand for WBG services, the above key principles for WBG engagement, and the WBG's capacity to respond to new assistance demands.

- ***WBG Program of Support***

WBG Ongoing Program

67. Because of the continuity in the Russia Strategy 2020 and the 2012-2016 CPS approach, the ongoing WBG program is aligned with and supports the strategic themes of the CPS. The current status of the ongoing program is as follows:

- **IBRD's loan portfolio** in Russia as of end October 2011 consists of 10 investment operations with net commitments totaling US$987 million, of which US$512.2 million remains undisbursed (see Annex B8-IBRD). The portfolio of investment loans is supplemented by one carbon finance project of US$40 million, and one GEF operation of US$23 million. Overall portfolio quality is satisfactory, with two projects with unsatisfactory ratings (Judicial Reform and Registration Development Projects) which are being restructured. Five projects were closed at the end of FY11. Two more projects are scheduled to be closed in FY12.
- **IFC's outstanding portfolio** of US$2 billion in 121 projects in Russia makes it IFC's 4th largest country exposure (see Annex B8-IFC). In FY11, IFC invested $1,226 million in Russia, of which $387 million was mobilized from partners. IFC has been seeking to further diversify the portfolio towards manufacturing and infrastructure, which currently account for 26 percent and 20 percent of the outstanding portfolio, respectively, with the remainder in financial markets, and to increase the equity share of the outstanding portfolio from around 27 percent currently (see Annex B3-IFC). To the extent possible, IFC seeks to work with reputable local sponsors. Around 60 percent of current portfolio projects have been carried out with local sponsors.
- **MIGA's net exposure** in Russia is slightly more than US$470 million in 13 active projects as of October 31, 2011 – MIGA's largest net exposure. MIGA's exposure is almost entirely concentrated in Russia's financial sector, having mainly supported investments of global financial institutions into their banking, mortgage, and leasing subsidiaries in Russia in 2008 and 2009. However, MIGA recently signed its first guarantees supporting foreign investments in the telecom and agribusiness sectors, the latter in two of Russia's 'black earth' oblasts.

WBG Indicative Financing and Guarantee Program

68. **IBRD Indicative Financing Envelope, Pipeline, and Instruments.** The indicative financing envelope for IBRD during the CPS period foresees total lending of up to US$5 billion, plus the mobilization of counterpart funds. Actual lending volumes will depend on the country's performance and priorities, IBRD lending capacity, demand from other borrowers, and global economic developments. In accordance with the Government's preferences, all IBRD lending is foreseen in the form of investment projects. The IBRD indicative financing program for the first two years of the CPS is reasonably defined and selective – see Annex B3 (IBRD). The IBRD 2012-2013 lending pipeline includes projects in the areas of microfinance, financial sector development, energy efficiency, forestry protection, infrastructure development, and local government initiatives with an expected total volume of about US$1.3 billion. IBRD's lending pipeline supports all strategic themes, with a concentration on the first two strategic themes - growth and diversification, and human potential. The indicative pipeline is composed of specific investment loans and financial intermediary loans and has the potential to expand once the financial intermediary tool is fully operational. The program for the outer years of the CPS is to be further defined in the CPS Progress Report in consultation with the Government based on the evolution of the country priorities and with consideration of the WBG's comparative advantages and value-added.

69. **IFC Investment Plans.** IFC is planning investments between US$3.8-4.8 billion for its own account during the five-year CPS period, with the goal of mobilizing significant additional financing from the private sector, IFI, and government partners. IFC's focus on improving Russia's economic competitiveness through greater resource efficiency and economic diversification (the first theme of the joint CPS) is fully aligned with the themes of the CPS. IFC's long term strategic priorities include (i) improving the resource efficiency of Russia's economy and reducing its greenhouse gas (GHG) emissions, with programs in Sustainable Energy Finance, Cleaner Production, Residential Energy Efficiency, and Renewable Energy, (ii) developing transport and municipal infrastructure, including through PPPs, and (iii) supporting greater financial intermediation and the growth of mid-sized private sector banks, helping to increase access to finance to SMEs (see Annex B3-IFC). Across all sectors, IFC prioritizes investment in projects which contribute to greater economic diversification, particularly in less developed frontier regions, including in agribusiness, value-added manufacturing, and in hi-tech sectors. IFC works closely with partners, including the Russian Government, IBRD, and other international financial institutions (IFIs) to mobilize additional financing and maximize its impact and reach.

70. **Russian Bank Opportunity Fund (RBOF).** In June 2011, at the St. Petersburg International Economic Forum, IFC and the Ministry of Finance signed an agreement under which Russia committed to invest US$50 million in the RBOF, a vehicle for IFC to mobilize financing to support the banking sector and boost access to finance for SMEs to increase economic diversification. VEB and IFC signed a separate memorandum of understanding through which VEB is considering investing up to US$250 million toward the fund. IFC will invest up to US$250 million of its own funds.

71. **MIGA Guarantees.** MIGA will continue to support foreign investors through the provision of political risk insurance. Supporting foreign investment in infrastructure, in close coordination with the IFC and IBRD, will remain a strategic priority for MIGA's activity in Russia. In the financial sector, the Agency will continue to explore opportunities to support capital markets transactions, including asset-backed securitizations. MIGA may also continue to promote the role and assist in the expansion of foreign banks in the Russian banking sector. Areas for potential

further involvement in Russia include the manufacturing, agribusiness, and services sectors. MIGA will also seek opportunities to support Russian companies by providing guarantees for their investments abroad.

WBG Indicative Knowledge Services Program

72. **IBRD Analytical and Advisory Activities (AAA).** Even with resumed lending, knowledge will continue to be IBRD's main product demanded by the Government. In response, IBRD will continue to provide AAA products—Economic and Sector Work (ESW) and Technical Assistance (TA)—in support of all CPS strategic themes. ESW products planned for the next 18 months include studies and reports on professional education and skills development, poverty and social mobility, urban transport, and environmental performance. IBRD ESW, especially in the areas of poverty, labor markets, urban transport, and health financing, will address gender issues. The periodic Russian Economic Reports (RER) will continue to analyze short-term economic developments and policies and present an economic and social outlook. Non-reimbursable TA covers various sectoral aspects, such as diversification, investment climate, innovations, urban transport, health finance, labor markets, expenditure efficiency, and procurement system strengthening. A particularly important part of IBRD's TA program supports the deepening of Russia's global and regional role related to participation in regional integration (APEC) and WTO accession, as well as the institutional strengthening of Russia's development aid program.

73. **IBRD Reimbursable Technical Assistance/Fee-based Services (RTA-FBS)**. RTAs are provided in the areas of the government strategic priorities. The provision of this type of technical assistance has been promoted under the previous CPS and now it substantiates the new CPS strategic themes. RTAs are governed by the same standards as the rest of IBRD's program, and the same procedures of monitoring and evaluation apply. During the CPS period FY07-11, IBRD signed and completed around 40 contracts valued at approximately US$20 million. Expectations are for a continued high demand for RTAs. Box 2 presents some aspects of the choice of RTAs as an instrument in providing knowledge services. The current RTA pipeline over the next CPS period includes around 20 pre-identified activities, and the program has the potential to achieve over US$30 million. With the RTA program having expanded so significantly, the WBG is faced with the need to exercise higher selectivity. Annex 11 gives further details on the evolution and status of the RTA program.

74. **IFC Advisory Program.** IFC's advisory programs help lay the groundwork for future private sector investment, helping to create new markets in areas such as energy efficiency and renewable energy finance, and distressed asset resolution. IFC takes a programmatic approach to developing the market for sustainable energy investment and resource efficiency through joint investment and advisory programs that address regulatory, knowledge and financing barriers helping to mitigate climate change and increase Russia's economic competitiveness. These programs include Sustainable Energy Finance (FY05-FY12), Residential Energy Efficiency (FY10-FY15), Cleaner Production (FY08-FY12), and Renewable Energy (FY10-FY15). IFC also adapted its Mortgage Market Development Project in response to the crisis in 2009 to create the Financial Markets Crisis Management Program (FY10-FY12), which helps build risk management and NPL management capacity in the financial sector. New advisory programs may be added as they are developed in response to market needs, depending on institutional capacity and donor interest. Annex B4 presents the combined IFC/IBRD indicative non-lending program, including the RTA pipeline, as of the beginning of FY12.

Box 2. Choice of RTA as a Knowledge Services Instrument

The expansion of the RTA program has posed important questions about the use of the instrument. First, given resource constraints in the budgets of Russia's regions, the federal authorities and IBRD are considering options for setting up a system to support access of poorer regions to RTAs. **Second** is the choice between traditional AAA instruments and RTAs. While RTAs have the advantage of being fully driven by client demand, traditional AAA could be better instruments to develop important or emerging topics that IBRD and IFC staff may wish to analyze and in this way bring to the attention of the Russian authorities and public. For example, the proposed report on poverty and inclusion across Russia's regions could help bring forcefully into the development agenda the poverty challenges still prevalent in Russia. Traditional ESW instruments would be the preferred instrument also when IBRD wishes to maintain full independence (not only actual but also perceived) in its analysis, for example in the Russia Economic Reports that analyze recent economic development and prospects. Traditional TA may be a better instrument than RTAs when Bank staff themselves would not be providing the bulk of the knowledge transfer but rather consultants, or when there are associated purchases of IT or other equipment. **Third**, RTAs are generally proprietary to the client, and are not automatically disclosed. While the Russian authorities have generally been open to sharing these reports, the lack of disclosure could reduce their development impact or the ability of Bank staff to engage with other stakeholders. Such considerations are a factor in staff decisions on whether to engage in a RTA. **Finally**, it is important to avoid potential or perceived conflicts of interest, in particular avoiding proposing additional activities that could be construed to be developing Bank Group business in Russia. These questions, as well as others emerging from the Bank's FBS/RTA program, are being considered under the ongoing Review of Fee-Based Services, being led jointly by ECA and OPCS.

75. **Russia-financed IDA/IBRD-administered Trust Funds.** The Russia-financed IDA/IRBD-administered trust funds (seven single-donor and 11 multi-donor) are part of the "Russia as a Donor" initiative and are primarily of regional and global nature for use outside of Russia. They focus on the themes of infectious disease control, quality of basic education, energy access, food crisis response and social support programs. The overall contributions over the past five years reached US$433.7 million, 61 percent of which went to support Financial Intermediary Funds (FIFs) and the rest were allocated to IDA/IBRD-administered trust funds. Annex 10 presents further details on the evolution and status of Russia as a donor, including a full list of Russia's IDA/IRBD-administered trust funds.

IBRD-IFC Collaboration

76. **IFC and IBRD have a productive and often close working relationship in the Russian Federation, particularly in areas where the public and private sectors interact heavily.** Collaboration is especially close in areas such as infrastructure and PPP development, energy efficiency and renewable energy markets, the financial sector, and the regulatory and business environments. In general, IFC benefits from IBRD's ongoing dialogue with the Russian Government on policy matters and makes use of IBRD analytical work in its advisory operations. The IBRD regularly calls on IFC's sectoral expertise and surveys, and benefits from IFC's close engagement with the private sector and its ability to lend to Russia's regions without a sovereign guarantee. Cooperation between the two institutions and MIGA is expected to strengthen over the CPS period in response to the Government's demand for greater coordination of World Bank Group activities. Promising areas for future collaboration include sub-national level and other infrastructure projects, energy efficiency projects, and financial markets initiatives.

77. **Infrastructure/PPP:** IFC-IBRD sub-national loans have supported nine projects to date in five regions, helping to repair and upgrade health services in Russia's regions and municipalities, district heating, water/wastewater infrastructure and road networks. IBRD and IFC are cooperating on development of PPPs in Russia. IBRD helps build institutional capacity and provides financing either directly or through financial intermediaries (e.g., VEB), and IFC provides advice to the private

sector, as well as financing. IBRD/IFC will work on leveraging their recent experience from the Pulkovo Airport PPP to assist other regions with structuring and implementation of PPPs in transport and municipal utilities.

78. **Energy Efficiency/Renewable Energy:** IFC and IBRD have worked closely with the Russian Government on policies to facilitate sustainable energy investment, collaborating on a major policy study and the subsequent enactment of the Energy Efficiency Law. They will support engagements to enable the commercialization of energy efficiency finance with a proposed financial intermediary loan (IBRD) and advisory plus investments (IFC). The latter program will be carried out in conjunction with EBRD. IFC's Renewable Energy program consists of a GEF-funded advisory project to support renewable energy development in the country, plus eventual IFC investment.

79. **Financial Markets:** IFC and IBRD activities in the financial sector are complementary, helping to strengthen the regulatory and supervisory frameworks for the banking sector and capital markets, improving risk management practices and deepening financial markets. Together, these activities help to improve access to finance, particularly for SMEs. For example, IBRD's proposed Microfinance Development Project at the sub-national level will enhance access to finance for the poor, especially outside major cities. Likewise, IFC is focused on supporting well-managed private banks with networks in the regions to extend access to finance to a broader geographical area, including underserved regions and populations. IBRD's Financial Sector Development project will support enhancements in the legal and regulatory framework for the financial markets and greater depth of financial services in Russia, while IFC's Global Trade Finance Program provides critical short term finance to facilitate the flow of goods and services.

CPS Strategic Themes, Engagement Areas, Country Outcomes, and WBG Support

80. **In a country as big as Russia, the WBG influence is small in terms of both resources and ability to influence country outcomes.** Attributing progress toward any significant country outcome solely to WBG actions is not sensible or feasible. Still, the WBG's efforts are focused on a relatively small number of key areas, with defined country outcomes to the achievement of which the WBG contributes by supporting processes, intermediate outcomes, and local results as presented below. The Results Framework in Annex 1 is, thus, a non-conventional one, comprising country level (instead of CPS-level) outcomes and WBG's contributions in terms of milestones, outputs, and activities. The following section presents the engagement areas, country outcomes, and WBG support by strategic theme. Annex 9 contains a more detailed overview of the WBG program.

- ***Strategic Theme 1: Increasing Growth and Diversification***

National Goals: Reduce the federal fiscal deficit; diversify from dependence on energy extraction industries; improve the business climate, and strengthen productivity, competitiveness, and innovation; deepen the financial sector and strengthen regulations and oversight; improve management of infrastructure assets and expand quality services with private sector participation; decrease the energy intensity of the economy by 40 percent by 2020; adapt to and mitigate climate change challenges.
Areas of Engagement and Country Development Outcomes to which CPS Contributes
1.1: Management of public finances
Outcome 1: Improved efficiency and effectiveness of public financial management
1.2: Investment climate/innovation
Outcome 2: Further streamlined and simplified business procedures and improved capacity to monitor and benchmark business regulations
Outcome 3: Strengthened capacity to design and implement innovation and diversification programs in Russia's regions
1.3: Financial sector development
Outcome 4: Improved regulatory and supervisory framework for the financial sector and upgraded market infrastructure
Outcome 5: Increased depth and breadth in the financial sector and increased access to finance
1.4: Sustainable development and effective protection of the environment
Outcome 6: Increased access to quality infrastructure assets and improved infrastructure services
Outcome 7: Enhanced competitiveness and sustainability of the economy via reduced resource intensity of GDP
Outcome 8*:* Improved management of environmental risks and natural resources

Area of Engagement 1.1: Management of public finances

81. **Outcome 1: Improved efficiency and effectiveness of public financial management.** A key challenge for the Government is to restore some explicit rules that would guide fiscal policy in the medium term and limit pressures for unsustainable increases in expenditures. The WBG, through its AAA and policy dialogue, will inform the policy discussions on the importance of returning to an explicit fiscal rule. The ongoing and planned IBRD-financed projects in this area will enhance the further strengthening of treasury functions and frameworks, the promotion of program budgeting, the efforts to increase taxpayer compliance, and the modernization of the Customs Department. Strengthening public financial management would have the added benefit of improving governance, accountability, and transparency.

Area of Engagement 1.2: Investment climate/innovation

82. **Outcome 2: Further streamlined and simplified business procedures and improved capacity to monitor and benchmark business regulations.** A primary focus of the Government is the simplification and streamlining of business procedures, improving their enforcement record, improving the implementation of laws and regulations, and thus increasing the protection of investors' rights to strengthen stability and predictability of the business environment. Russia has particularly low rankings in three areas measured by Doing Business: Dealing with Construction Permits, Trading across Borders, and Getting Electricity. The WBG will provide recommendations on how to improve the regulatory environment, and provide support, mostly through TAs, on various aspects of assessing the business climate and related rankings, and with advisory services on how to ease some of the key regulatory bottlenecks, particularly for trade finance, customs, export and import permits, and construction permits.

83. **Outcome 3: Strengthened capacity to design and implement innovation and diversification programs in Russia's regions**. The Government is emphasizing and supporting innovation to further diversify the economy including the export base. A national program for Regional Innovation Action Plans (RIAP) will be deployed and made accessible to regions aiming to develop their economies through the prism of entrepreneurship, innovation and technology, and help to improve efficiency and transparency of federal policies. The Government has requested IBRD (with possible collaboration with the European Commission) to support the implementation of the program in four pilot Russian regions which can become a core instrument of Russia's Modernization Program. Initiatives with the Ministry of Economic Development and the regions on competitiveness and export promotion may also be supported by WBG engagements and through the development of methodological recommendations. Cultural heritage will be used as a means of promoting diversification and channeling development opportunities to local levels as communities in the Russian Federation take full ownership of their cultural assets to generate income, with selected projects supported by WBG financing.

Area of Engagement 1.3: Financial sector development

84. **Outcome 4: Improved regulatory and supervisory framework for the financial sector and upgraded market infrastructure.** The Government intends to increase financial sector development, in line with G20 objectives, through improving regulations and supervision while meeting international macroprudential oversight guidelines. One objective will be to improve supervisory standards in the financial sector so that they meet IOSCO (International Organization of Security Commissions) principles. WBG will provide recommendations to support the adoption of G20 capital and liquidity practices, and advisory services towards increasing the number and ratings of IOSCO principles. IBRD has been asked to deploy two TA projects to support the newly established market supervisory agency, one of which focuses on strengthening the microfinance system.

85. **Outcome 5: Increased depth and breadth in the financial sector and increased access to finance.** The Government aims to increase the breadth and depth of the sector and address the weakness in the institutional investor base and the small size of the retail investor base. Increasing access would assist in the greater diversification of the economy through adequate funding being channeled to more, and more diverse, firms. Increased financing would be provided to help meet the objectives of reducing the energy intensity of the economy. WBG will provide support for some of these objectives through selected financial intermediary loans, in particular for catalyzing energy efficiency financing and investments. As a part of wider financial sector development, the Government wishes to increase Moscow's standing as an international financial center and may request RTA support. IFC's strategy of supporting well-managed private banks with networks in the regions via the Russian Bank Opportunity Fund, and otherwise seeking to increase access to finance for SMEs through targeted SME, trade and energy efficiency finance to these banks, support SME development and economic diversification. Providing its products through banks with networks in the regions helps IFC to reach a broader geographical area, including underserved regions and populations.

Area of Engagement 1.4: Sustainable development and effective protection of the environment

86. **Outcome 6: Increased access to quality infrastructure assets and improved infrastructure services, including through increased participation of the private sector in financing and management of infrastructur**e. In order to achieve its objectives, the Government

has put high priority to attract private sector investment in infrastructure through the use of Public-Private Partnerships (PPPs) at the federal level and in the regions. The Russian Development Bank (VEB) was given a central role to develop PPPs in the regions. The WBG will support these activities with an array of proposed engagements, many at the sub-national level, including project financing, AAA (TA and ESW), and a number of RTAs. RTAs will strengthen the institutional and management capacities of AVTODOR (State Road Agency), and assist the Ministry of Transport to improve public and urban transport.

87. **Outcome 7: Enhanced competitiveness and sustainability of the economy via reduced resource intensity of GDP.** The Government has recently been vigorously pursuing a modernization agenda and energy efficiency (EE) has been recognized as one of the key elements. The importance of mobilizing commercial financing in achieving nation-wide energy savings targets was highlighted by the State Program, *Energy Savings and Increase in Energy Efficiency through 2020*. The WBG will provide support through its lending program (for example, through the financial intermediary project in support of catalyzing EE investments and availability of commercial financing), technical assistance, and IFC investment transactions and advisory.

88. **Outcome 8: Improved management of environmental risks and natural resources.** The Government is keen to improve Russia's environmental management systems to deal with past environmental liabilities and growing environmental risks and pollutions caused by climate change and large scale economic development. Government initiatives include measures to protect the Arctic environment, improve forest fire prevention and forestry management, strengthen the national capacity to deliver reliable and timely weather, water, and climate information and services, improve the procedures and information flow of cadastre and registration data, and develop the National Spatial Data Infrastructure. Selected elements of strategic environmental and natural resource management activities would be supported through several WBG engagements at the national and sub-national levels, such as developing systems for better management of forests and decrease fire risks, strengthening of hydrometeorological capacity, and contributing towards the development of a policy and institutional framework for the environmental issues in the Arctic zone.

- ***Strategic Theme 2: Expanding Human Potential***

National Goals: Improve efficiency of social spending budgets and targeting; promote healthy lifestyles, improve quality and access of health care, and strengthen health financing; improve coverage and efficiency of early childhood development; flexibly align education and skills with labor markets; improve quality of primary and secondary education.
Areas of Engagement and Country Development Outcomes to which CPS Contributes
2.1: Education, health, and social protection Outcome 9: Increased quality and improved access, targeting, coverage, and efficiency of social services for human development
2.1: Skills for economic development Outcome 10: Professional education system produces adequate skills for increased competitiveness
2.3: Socially inclusive development Outcome 11: Increased social inclusion of vulnerable groups

Area of Engagement 2.1: Education, health, and social protection

89. **Outcome 9: Increased quality and improved access, targeting, coverage, and efficiency of social services for human development.** A key current emphasis of the Government is on increasing the coverage of preschool services in selected regions coupled with increased efficiency in

the sector. In the health sector, the major goals are to improve outcomes through support to health financing reforms and health services reorganization. Russia is cooperating with other CIS countries on the basis of bilateral and multilateral agreements to ensure access to social services for migrant workers and their families. The Government has been attempting to shift social services from institutionalized care provided to certain categories of beneficiaries to a more client-oriented and case-management based flexible system of social care with the focus on increasing the efficiency of budget expenditure and improving outcomes. The WBG will contribute towards informing the policy dialogue on these issues based on proposed AAA and RTAs, provide support towards the development of pilots in Russia's regions to test provider payment reforms, support the launching of household and provider surveys (for example, as part of the Regional Health Study), contribute to the development of methodological approaches to measuring social sector performance, and finance efforts to increase coverage of preschool services in Yakutia.

Area of Engagement 2.2: Skills for economic development

90. **Outcome 10: Professional education system produces adequate skills for increased competitiveness.** Russia aims to adjust the professional and vocational education system to the labor market needs of the regions in order to increase diversification and improve productivity. The approach is to improve professional and vocational education systems through support of regional programs for Vocational Education and Training (VET) on a competitive basis. WBG support (including WBI engagements) will be geared towards contributing to the development of an overview of the professional and vocational education systems and the related analysis to identify issues and challenges, and may include technical assistance for the development of Technical and VET programs in the regions for skills development and renewal.

Area of Engagement 2.3: Socially inclusive development

91. **Outcome 11: Increased social inclusion of vulnerable groups.** The Government has been encouraging social sector innovations and partnerships that help to overcome social exclusion, vulnerability, physical constraints and other barriers for people with various special needs. For example, this commitment features strongly in the Government's Sports Development Strategy which strives to create conditions for physical training and sports, including for those in vulnerable and marginalized situations. By building on the universality of sports and its traditional importance in Russian society, a proposed IBRD project will create a new entry point for contributing towards the promotion of social inclusion, as well as the creation of space for promoting and providing additional social support services to vulnerable groups. Issues of social inclusion of immigrants will continue to be addressed within the WBG's analytical work program on labor migration and remittances and the framework of the Migration and Remittances Peer-Assisted Learning (MIRPAL) network initiative.

- ***Strategic Theme 3: Deepening Russia's Global and Regional Role***

National Goals: Strengthen Russia's role as a reliable international partner; expand Russia's role as a donor of high quality ODA; establish the necessary institutional structures to deliver multi and bilateral development assistance.
Areas of Engagement and Country Outcomes Supported by the CPS
3.1 Global public goods Outcome 12: Strengthened Russian participation in the provision of global public goods **3.2 Russia as a donor** Outcome 13: Established an institutional structure for delivery of a bilateral and multilateral development assistance program

Area of Engagement 3.1: Global public goods

92. **Outcome 12: Strengthened Russian participation in the provision of global public goods**. Russia aspires to integrate more fully into the international community and to become a reliable partner in resolving global problems. The WBG will support the Russian Federation to strengthen its role as it seeks to broaden and deepen its global engagements. In addition to WBG engagements which will support the enhancing of Russia's participation in the provision of global public goods (such as lending for energy efficiency relevant for climate change, or RTA support for a Eurasian Center for Food Security), the WBG will also provide technical advice and organizational support for the Russian presidencies in global forums beginning with APEC 2012. Such TA will, among other objectives, contribute to strengthening capacity for the preparation of international forums and conferences, support the enhancing of technical expertise within the civil service, and offer programs for Russian engagement on the global level to help strengthen Russia's voice in ongoing discussions and increase its leverage in the provision of global public goods through multilateral channels.

Area of Engagement 3.2 Russia as a donor

93. **Outcome 13: Established an institutional structure for delivery of a bilateral and multilateral development assistance program**. Russia seeks to expand its role as a donor of development assistance including the establishment of the necessary institutional structures to deliver a full program of multi- and bilateral development assistance. Challenges include the lack of an aid agency for delivery of bilateral aid, the absence of a legal framework on development aid, the aid reporting system, monitoring and evaluation functions, and limited experience within lead ministries. The WBG will partner with the Government and support Russia's efforts as it strives to attain high quality standards for Russia's development assistance programs and to build a national ODA system aligned with OECD-DAC principles. Russia is open to knowledge-sharing and dialogue with other emerging donors and is committed to supporting the poorest countries of ECA through implementing an innovative approach aimed at establishing programmatic trust funds.

- ***Strategic Theme 4 (cross-cutting): Improving Governance and Transparency***

National Goals: Increase transparency of government activities; achieve modern standards of public service delivery based on needs of citizens and businesses.
Areas of Engagement and Country Development Outcomes to which CPS Contributes
Public administration, procurement, and financial management Outcome 14: Improved government transparency and accountability

94. **Outcome 14: Improved government transparency and accountability**. The Government is keen to focus its efforts on increasing the efficiency and effectiveness of regulatory functions, increasing transparency of government activities, strengthening accountability, and achieving modern standards of high quality and more accessible, effective public service delivery based on the needs of citizens and businesses. The Government has adopted legislation on access to information on the activities of public authorities and is improving budget transparency through introducing the E-Budget system. It is also keen to improve the performance of the public procurement system, including the development of a new federal contract system. Possible WBG technical assistance can contribute towards the development of frameworks and capacities for implementing selected programs designed to address some of these objectives including in the areas of program budgeting and procurement reform.

Gender Mainstreaming

95. **While Russia stands relatively well compared with many other countries with respect to gender equality, there are many issues that need to be addressed.** Gender inequalities in Russia have both female and male dimensions. Average male life expectancy in Russia is only 62.8 years (13.8 years less than the EU average), as opposed to 74.7 years for women. Women in Russia live longer but they bear a heavy burden of chronic diseases and live 7.9 years less than the EU average. Vertical and horizontal segregation persists in the labor market. Women predominate in the low-paying public sector. The gender structure of public employment shows significant under-representation of women in top positions and an overrepresentation in support-level positions. In 2009, only 20 percent of top level managers, top advisors or top specialists in federal level civil service posts were women, while women accounted for over 83 percent of all junior support specialist positions. Gender equality in political participation is still an issue in Russia. Women represent only 14 percent of State Duma deputies. Women face high degree of domestic violence: violence in one form or another is observed in every fourth Russian family.[9]

96. **The WBG works toward ensuring that gender considerations are mainstreamed into operations.** Examples of projects in the portfolio and pipeline that exhibit high level of sensitivity to gender include:

- ***The Russia Local Initiatives Support Project (LISP).*** The LISP approach of allocating micro grants to rural settlements to finance competitively selected small microprojects, which are initiated by the population, allows community groups to voice their needs. The program helps in increasing the power of women, as part of local communities, by allowing them to actively participate in community meetings and to direct local community development in line with their and their families' needs. Experience in Russia's regions where the project has been actively implemented (Stavropol, Kirov) shows that women are very active in using

[9] Source: Ministry of Internal Affairs, 2008.

the project's consultation mechanisms and in setting local priorities. The current approach to gender will be preserved in the planned follow-on project.

- ***Central Asia Regional Migration Program (CARMP).*** CARMP, that also covers Russia in addition to Kazakhstan, Tajikistan, and Kyrgyz Republic, has a component to help labor migrants and their families benefit from a broader range of gender sensitive services provided throughout the migration cycle. Given growing number of women migrant workers to Russia, such services are to be offered both in the country of origin and destination (Russia) to the benefit of both. This component is being implemented mainly by the CARMP partners, International Organization for Migration (IOM) and UN Women, while IBRD contributes to the overall policy dialogue on migration policy and regional coordination and cooperation in the area of labor migration.

- ***Microfinance Project.*** Currently, the supply of micro credits only covers about 10 percent of the demand. The project has the potential to significantly expand access to financial services to underserved Russian population. Given the explicit targeting of women as good clients by many Microfinance Institutions and credit cooperatives, it is expected that women will particularly benefit from this project.

97. **In parallel, the WBG addresses gender issues in its non-lending work.** For instance, IBRD will continue the policy dialogue in support of efforts to change risk behavior (including tobacco and alcohol control, deaths due to road accidents) and support health promotion. TA on health financing reform would support reallocation of healthcare system resources to higher impact health interventions with emphasis on health promotion, disease prevention, and management of chronic diseases to effectively confront health challenges. Gender dimensions of poverty will also be analyzed as part of upcoming poverty assessment work in Russia.

C. IMPLEMENTING THE 2012-2016 CPS FOR RUSSIA

Fiduciary Environment for Bank Lending

98. **Fiduciary Risk Assessment.** Financial management risk for the majority of projects is substantial; however, risk mitigating measures incorporated into the project design and implementation ensure that the residual risk remains acceptable. These measures have so far included: (i) adoption of a risk-based approach to financial management, which helps focus attention and resources on particular areas of vulnerability, (ii) at the project preparation stage, close work with client agencies to identify measures to mitigate fiduciary risks, strengthen controls, and develop borrower capacity, and (iii) at the project implementation stage, monitoring the continuing adequacy of the financial management arrangements and satisfactory implementation of action plans and performance of controls.

99. **Procurement Risk Assessment.** The procurement environment for World Bank projects in Russia continues to be complex and risky in spite of the efforts to improve the legal framework. The Russian procurement system is based on the Public Procurement Law which is regarded as a "direct action" instrument that leaves little space for interpretation and judgment. It established an overly prescriptive, detailed framework that is difficult to amend through secondary regulations. In spite of numerous amendments it still has several features that make the procurement procedures not fully consistent with good international practice in the area of procurement methods, qualification

requirements of suppliers, contractors and consultants, disclosure of estimated prices before competition, and planning, among others. The Bank will maintain a strong dialogue with the Government in the interest of improving the existing national procurement system.

100. **Managing Fiduciary Risks.** The general environment in Russia indicates that fiduciary risks linked to governance and anti-corruption may exist and go undetected. To avoid such risks, IBRD-supported projects follow IBRD procurement and financial management rules. Traditionally, MOF and other ministries outsource fiduciary functions to Project Implementation Units (PIUs), whose staff are well trained in Bank financial management and procurement procedures. A risk associated with the use of PIUs is that PIU staff, who are not considered civil servants, are not subject to the same scrutiny as civil servants in terms of reporting requirements and potential conflicts of interest. The Bank intends to review the issues related to reporting requirements for PIU staff and present alternatives to the Government. Joint fiduciary reviews help to mitigate this risk. Such reviews aim to assess the adequacy and quality of the Bank's fiduciary oversight of the portfolio in supervising procurement and financial management arrangements of individual projects and/or particular implementing entities. The most recent procurement plan of each project is used to sample the contracts, and the same contracts are reviewed by procurement, financial management, disbursement, and technical teams. The reviews may include physical inspection for selected contracts incorporating the representatives from the Department of Institutional Integrity (INT) in the Bank, if appropriate. As a result of these reviews, specific recommendations are made for the procurement, financial management, disbursement, and governance aspects of the projects. Box 3 presents an initiative aimed at improving the transparency and procurement management of IBRD operations in Russia.

Box 3. Improving Transparency and Procurement Management of IBRD Operations in Russia

To further improve the transparency and procurement management of its operations in Russia at the request of the authorities, IBRD and Russian counterparts are embarking on implementing SEPA, a Procurement Plan Execution System. SEPA is a Web-based regional procurement management system that provides all the information (from planning details to state of advance) linked to the contracts for projects financed by IBRD. It promotes transparency, accountability and compliance in Bank-funded projects and brings significant value added to the procurement process. For the Government, SEPA allows better planning, management and monitoring of public investments and expenditures together with building institutional capacity in these areas. Private sector and citizens also benefit from the introduction of this system, since it provides detailed information on the contracts for projects financed by the Bank. This innovative approach is considered to have increased the efficiency of procurement management in the Latin America region. SEPA is now being used in 12 countries and is being replicated in others. In Russia, SEPA will first be piloted in a few projects, and improved if necessary, before expanding its use in all IBRD-financed projects in Russia.

Managing the WBG Program

101. **WBG CPS Implementation and Results Monitoring.** The WBG will set up a CPS implementation and results monitoring system that will be used to track progress in the WBG contributions towards achieving the country outcomes defined in the CPS results framework. Based on the results from the monitoring, the WBG will conduct an annual CPS implementation review for assessing progress under the CPS and possible adjustments to the WBG program. This review process would also provide inputs for the planned CPS Progress Report in 2014 when adjustments in the CPS results framework would be made, if considered necessary.

102. **IBRD Program Management.** With the Government as its main client, IBRD's program management will also include an annual review process with the Government and will build on it with the purpose of strengthening portfolio implementation, improving lending efficiency, furthering the knowledge agenda, and leveraging resources through strategic partnerships with Russian institutions and multilateral agencies. To maintain the quality of portfolio performance, the country management unit (CMU) works closely with project teams to ensure a proactive approach in solving issues during implementation.

Fostering Partnerships

103. **Partnering with Civil Society and Think Tanks.** The WBG aims to support Russia's growing and varied civil society in its public-private partnership roles. In 1999 the WBG established the Civil Society/NGOs Advisory Council that was joined by 25 civil society organizations (CSO) from all over Russia. In 2005 a group of 15 representatives from leading Russian think-tanks, academia and analytical departments of government agencies formed a joint Civil Society/Think-Tanks Advisory Council with those CSOs to consolidate Russian experts' collaboration with the WBG. The Council provides expert assessment of the Bank's work in Russia, including feedback on CPS and WBG policies and initiatives. Since 2000 the World Bank Small Grants Program/Civil Society Fund is being implemented in Russia aimed at empowering marginal and vulnerable population groups. Fourteen Russian CSOs participated in the Development Marketplace. Seven indigenous people CSOs applied to the Grants Facility for Indigenous Peoples and four of those received grants.

104. **Partnering with Universities.** The WBG fosters partnerships with leading Russian universities and academia. Over the years the cooperation with universities has evolved into multi-year programs for development and capacity building. Since 2008 the Bank has worked closely with the State University-High School of Economics (HSE) on an RTA basis. Until 2014 the WBG will support HSE in implementation of a Strategic Development Plan by providing independent evaluation and advisory services. Another multi-year partnership during the CPS period between the WBG and the Federal State Government-Financed Educational Institution of Higher Education "Russian Presidential Academy of National Economy and Public Administration" (RANEPA) will also be implemented as an RTA. The cooperation program includes advisory services to assist RANEPA in building institutional capacity and creating the necessary foundation for becoming a nationally and internationally recognized leading institution in the areas of public policy, public and business administration.

105. **Collaboration with Multilateral Institutions.** The WBG cooperates closely with other multilateral institutions. IBRD conducts annual consultations with the International Monetary Fund (IMF). In March 2011 the WBG signed an MOU with the Eurasian Development Bank (EDB). The MOU envisions a wide range of opportunities for cooperation – including joint investment projects and joint analytical work – on issues such as integration processes throughout the EurAsEC, energy efficiency, and coordination of macroeconomic stabilization programs and economic stimulus measures (EurAsEC Anti-Crisis Fund). IBRD will also provide fee-based analytical and advisory services to the EDB on operational issues, such as project design, capacity building, and training on project implementation. The EU funded the European Neighborhood Policy East Countries plus Russia, Forest Law Enforcement and Governance (FLEG) Program (2008-2012) with EUR 6 million. The FLEG Program is being implemented by a partnership comprising IBRD, IUCN and WWF. The EBRD is another vital working partner for the WBG in Russia, particularly for IFC. About 28 percent of IFC's joint activity with EBRD in the ECA region is concentrated in Russia, primarily in

the financial markets, transportation and manufacturing sectors. As a regionally-focused institution, EBRD invests roughly three times more than IFC in Russia annually. The two institutions share common focus areas, including SME finance, infrastructure, sub-national development, and energy efficiency, which in many cases facilitates coordination and cooperation, including joint financing and advisory initiatives. This cooperation is particularly valuable with larger projects, where neither organization can absorb the full exposure needed, and with local partners, where both can play a role in developing the company's capacity. Cooperation on financing, including arranging syndications, has strengthened as a result of the financial crisis. IBRD coordinates with EBRD on the Arctic agenda. Both EBRD and IBRD have been invited to take part in the GEF-funded Arctic 2020 program with separate projects.

IV. MANAGING RISKS

106. **The implementation of the proposed CPS program and the achievement of the intended results face political, economic and implementation risks.** The WBG is proposing measures to address and mitigate risks to the CPS program through its engagements, dialogue, consultations, and due diligence for implementation, fiduciary, and governance issues.

107. **Political Risks.** The forthcoming presidential and parliamentary elections in 2011 and 2012 could lead to some policy uncertainty and delays in implementing reforms. Rising expenditure pressures in the run-up to the elections may also slow down fiscal adjustment. The executive and legislative structures at the federal level and in the regions are consolidated and dominated by a single party. On the other hand, fragmentation of policies at the sub-national level due to frequent restructurings is quite common. Risks to political stability and security persist from unrest in the North Caucasus. In recent years, violence and an Islamist insurgency have spread from Chechnya to other areas of the North Caucasus, such as the neighboring republics of Ingushetia and Dagestan. Following the bombing of the Moscow Metro in March 2010 and of the city's busiest airport in January 2011, a risk of further high-profile terrorist attacks remains. Broad consensus on the key development challenges among most political contenders indicates that reform and institutional priorities will remain broadly constant. Political continuity and stability are accorded high priority by the Government. The country leadership regularly monitors public polls for signs of social unrest and implements mitigation measures. The Government, with IBRD support through the Local Initiatives Support Project (LISP), is also providing support to communities aiming at improving social conditions.

108. **Economic Risks.** Growth prospects remain particularly vulnerable to large and sustainable drops in oil prices, as well as the prices of gas and metals. Significant worsening of the international economic environment with prolonged impact on global growth could result in significant contraction in demand for Russia's exports and fiscal revenues. The Federal Government is aware of the long-term risks faced by the economy due to excessive reliance on extractive industries, ranging from vulnerability to terms of trade shocks, to the increase of rent-seeking opportunities, and the constraints for generating employment and broad based growth. As a response, the "Strategy 2020" aims to diversify the economy through proactive policies and defines SME development as a major priority. If global conditions deteriorate further and lead to a significant drop in oil prices, the WBG's program could require a change from its current focus on longer term development constraints to help the authorities respond to the deteriorating economic circumstances. Russia is also aiming to rebuild its fiscal reserves through accumulation in its sovereign wealth funds. In the longer term, the economic risks will be mitigated by the Government's focus on diversifying the

economy and improving the fiscal non-oil balance. The WBG, in close cooperation with other development partners, closely monitors and assesses macro developments and policies, and there is continuous policy dialogue with the Ministry of Finance on key economic policy issues and choices.

109. **Program Implementation Risks.** Loan preparation in Russia is lengthy. The WBG will actively engage core ministries in the design of new projects to ensure continuity in ownership and oversight if there are changes in management. Staff will also continue to advocate and support improvement in country systems. Specific program implementation risks in Russia concern:

- **Perceptions of corruption as a significant development challenge continue to be significant.** The presidential oversight administration recently estimated that kickbacks in state procurement programs may amount to as much as one trillion rubles (US$32.5 billion) a year. In line with the high priority given by the leadership to combat corruption and reduce conflicts of interest among government employees and legislators, the WBG is cooperating with the Ministry of Finance to heighten oversight of all related risks in existing and new projects (see section on Fiduciary Environment above). The Government regulates procurement procedures with extensive use of information technology, and project entities generally have good experience in Bank fiduciary procedures. However, special care is taken in IT and other high risk contracts. A study to identify potential procurement risks will further inform WBG operations.
- **Capacity for implementation in Russia's regions is limited.** This challenge is related to Russia's multi-level governance system. Many policies are designed at the federal level but most public services are the responsibility of sub-national governments, and success depends on the technical capacity and fiscal positions of regional and local executive authorities which vary widely. While engaging at the sub-national programs, the WBG will pay special attention to the design aspects which address the existing limited capacities and the need to avoid technically difficult reforms and programs. Many of the WBG engagements will directly or indirectly contribute to improving the capacity in the regions.
- **Reliance on RTAs introduces measure of planning uncertainty into the program**. Many of the proposed WBG engagements under the CPS are likely to be through RTAs which typically take time and often involve unique arrangements for each contract. There are often uncertainties on RTA requests by various agencies. The WBG engagements with the less advanced regions will be dependent on the capacity to develop viable partnerships, as well as on addressing the challenge that these entities may not be able to pay for RTA by establishing a seed fund that could support assistance to poorer regions. These concerns will be taken into account when the proposed RTAs are designed and negotiated.

110. **Development Rewards.** Notwithstanding these risks, the engagement between the Russian Federation and the WBG is expected to bring high development rewards for Russia, for the ECA region, and for the multilateral aid system. For Russia, the development impact will come through the implementation of the WBG-supported program presented in this strategy, in particular through increased engagement on the sub-national level with Russia's poorer/less advanced regions. For the ECA region, the positive influence will be channeled through Russia's role as a regional driver of growth. For the multilateral development aid system, the reward will come as a result of Russia's expanding role as a donor.

JOINT IBRD/IFC/MIGA
COUNTRY PARTNERSHIP STRATEGY (CPS) 2012-2016
FOR
THE RUSSIAN FEDERATION

ANNEXES

CPS Annexes

Annex 1: 2012-2016 CPS Results Framework
Annex 2: Recent Macroeconomic Developments and Prospects
Annex 3: Diversification and Competitiveness: Challenges and Opportunities
Annex 4: Social and Human Capital Development
Annex 5: Public Sector Governance in Russia
Annex 6: Government's "Development Strategy 2020" Update
Annex 7: FY07-11 CPS Completion Report
Annex 8: 2012-2016 CPS Multistakeholder Consultations
Annex 9: Overview of the Indicative World Bank Group (WBG) Program
Annex 10: The Russian Federation as a Donor
Annex 11: IBRD Reimbursable Technical Assistance (RTA)
Annex 12: IBRD Country Financing Parameters for the Russian Federation

CPS Standard Annex Tables

Annex A2: Country At-A-Glance
Annex B2: Selected Indicators of Bank Portfolio Performance and Management
Annex B3: IFC Investment Operations Program and MIGA Guarantees
Annex B3 IBRD Indicative Financing Program, 2012-2016
Annex B4 IBRD/IFC Indicative Knowledge Services Program, 2012-2013
Annex B5: Russian Federation – Social Indicators
Annex B6: Russian Federation – Key Economic Indicators
Annex B7: Russian Federation – Key Exposure Indicators
Annex B8: IFC Committed and Disbursed Outstanding Investment Portfolio
Annex B8: IBRD Operations Portfolio

MAP OF THE RUSSIAN FEDERATION (IBRD NO. 33470)

Annex 1

RUSSIAN FEDERATION: 2012-2016 CPS Results Framework[10]

Country Development Outcomes to which CPS contributes	**Milestones and Outputs of the CPS Program**	**World Bank Group Program**
Strategic Theme 1: Increasing Growth and Diversification		
National Goals: Reduce the federal fiscal deficit; diversify from dependence on energy extraction industries; improve the business climate, and strengthen productivity, competitiveness, and innovation; deepen the financial sector and strengthen regulations and oversight; improve management of infrastructure assets and expand quality services with private sector participation; decrease the energy intensity of the economy by 40 percent by 2020; adapt to and mitigate climate change challenges.		
Issues and Obstacles: • Rising public expenditure commitments threatening to undermine fiscal and macro stability • Challenging business environment and insufficient competitiveness • Financial sector weaknesses, constrained access to finance, underdeveloped capital markets • Declining quality of infrastructure assets and services, and significant investment gaps		
Management of Public Finances ***Outcome 1***: Improved efficiency and effectiveness of public financial management	❖ Support improvements in the Treasury including the associated legal/regulatory framework, policies, systems, and operational policies ❖ Augment efforts to ensure that all central government departments report expenditures on a programmatic basis with results indicators in FY14 ❖ Strengthen capacity in the Ministry of Finance and the Federal Tax Service to further modernize the Customs Department ❖ Strengthen E-Budget systems ❖ Support the preparation of a new Strategy 2020	**NATIONAL** **Ongoing Financing** • Treasury Development Project (FY02) • Customs Development Project (FY03) **Indicative Financing (2012-2013)** • Fiscal and Public Finance Modernization Project **Indicative AAA/Others (2012-2013)** • ESW Russian Economic Reports • TA Public Expenditure Performance Review • TA Support to Strategy 2020 **Indicative RTA (2012-2013)** • E-Budget Systems

[10] *Notes:*
(1) The WBG indicative financing and knowledge services program is for the period 2012-2013. The program for the outer years of the CPS will be determined jointly with the Government and will be presented for Board discussion in the CPS Progress Report in 2014. It is expected that the financing program in 2014-2016 will include operations in infrastructure, human development, regional development, and environmental management, as well as possible follow-on operations in land registration and customs management. Some WBG engagements support more than one engagement area.
(2) RTA: Reimbursable Technical Assistance, also being referred to as fee-for-service (FFS) or fee-based services (FBS).
(3) AAA: Analytical and Advisory Activities including TA: Technical Assistance, and ESW: Economic and Sector Work.
(4) FYs for ongoing projects in the third column refer to the fiscal year of approval.

Country Development Outcomes to which CPS contributes	**Milestones and Outputs of the CPS Program**	**World Bank Group Program**
Investment Climate/Innovation ***Outcome 2:*** Further streamlined and simplified business procedures and improved capacity to monitor and benchmark business regulations ***Outcome 3*****:** Strengthened capacity to design and implement innovation and diversification programs in Russia's regions	❖ Provide recommendations to improve the regulatory environment as measured by various surveys including Business Environment and Enterprise Performance (BEEPS), annual Doing Business, and Sub-National Doing Business ❖ Complete the second round of the Sub-National Doing Business assessment comparing 30 Russian cities for key areas of business regulations ❖ Provide advisory services to reduce average customs clearance time, reduce the number of documents needed to export and import, and address issues relating to construction permits ❖ Support the implementation of the regional innovation business plan program in four pilot regions ❖ Support the deployment of the national program for Regional Innovation Action Plans (RIAP) by the Ministry of Economic Development (MOED) through issuance of methodological recommendations ❖ Invest in the conservation, safekeeping, valorization and promotion of cultural heritage assets in four oblasts ❖ Increase the number of visitors in cultural heritage sites under the Bank-supported project (additional 10 percent by 2016 from baseline to be determined during project implementation)	**NATIONAL** **Ongoing Financing** • Customs Development Project (FY03) **Indicative AAA/Others (2012-2013)** • ESW Policy notes on growth, jobs, and productivity • TA Investment Climate/Doing Business • TA Economic Diversification • TA Diversification and Innovation **Indicative RTA (2012-2013)** • Investment Climate **SUB-NATIONAL** **Ongoing Financing** • St. Petersburg Economic Development Project (FY03) • Cultural Heritage 2 Project (FY11) **Indicative RTA (2012-2013)** • Sub-national Doing Business • Tatarstan Innovation Support • Tomsk Innovation Strategy • Regional Innovation Action Plan • Cultural Heritage and Cultural Tourism Development in Tatarstan
Financial Sector Development ***Outcome 4*****:** Improved regulatory and supervisory framework for the financial sector, and upgraded market infrastructure ***Outcome 5*****:** Increased depth and breadth in the financial	❖ Improve access to finance for small proprietors and individuals and increase the number of members and clients of microfinance institutions and credit co-operatives ❖ Increase aggregate investment of financial institutions through credit line to industry for energy efficiency improvements ❖ Provide advisory services to increase the number of IOSCO (International Organization of Security Commissions) principles which are rated as "broadly implemented"	**NATIONAL** **Ongoing Financing** • Financial Education and Financial Literacy Project (FY11) • IFC direct financing to banks and private sector **Indicative Financing (2012-2013)** • Energy Efficiency Financial Intermediary Project • Financial Sector Development Project

Country Development Outcomes to which CPS contributes	**Milestones and Outputs of the CPS Program**	**World Bank Group Program**
sector, and increased access to finance		• Fiscal and Public Finance Modernization Project • IFC Russian Bank Opportunity Fund (RBOF) **Indicative AAA/Others (2012-2013)** • TA Financial Sector Development • IFC Russia Financial Markets Crisis Management Project **Indicative RTA (2012-2013)** • Development of Moscow as International Financial Center **<u>SUB-NATIONAL</u>** **Indicative Financing (2012-2013)** • Microfinance Development Project
Sustainable Development and Effective Protection of the Environment ***Outcome 6***: Increased access to quality infrastructure assets and improved infrastructure services including through increased participation of the private sector in financing and management of infrastructure ***Outcome 7*****:** Enhanced competitiveness and sustainability of the economy via reduced resource intensity of GDP ***Outcome 8:*** Improved management of environmental risks and natural resources	❖ Strengthen the capacity of AVTODOR (State Road Agency) to identify, prepare, procure, and monitor toll road projects ❖ Improve the overall legal, regulatory, and institutional framework for PPPs ❖ Reduce the number of pipe breaks in distribution networks in the cities participating in the Housing and Community Services (HCS) Project ❖ Increase energy savings under the Energy Efficiency Financial Intermediary Project ❖ Increase the availability of commercial financing for resource and Energy Efficiency (EE) projects and provide advisory services ❖ Provide financing towards the establishment of inter-regional Forest Fire Centers ❖ Equip and train fire brigades in pilot regions and Protected Areas ❖ Strengthen the institutional and management capacity for	**<u>NATIONAL</u>** **Ongoing Financing** • Housing and Communal Services Project (FY08) • Carbon Finance 4 Rosneft Gas Flaring Reduction Project (FY09) • IFC municipal and PPP finance • IFC direct financing to private sector **Indicative Financing (2012-2013)** • Forest Fire Response Project • Energy Efficiency Financial Intermediary Project • VEB (Russian Development Bank) Infrastructure Financial Intermediary Project • Environmental Monitoring Project **Indicative AAA/Others (2012-2013)** • ESW Environmental Performance Overview • IFC Russia Sustainable Energy Finance Program • IFC Russia Residential Energy Efficiency Program • IFC Russia Renewable Energy • IFC Russia Cleaner Production • WBI support to selected lagging regions and monocities **Indicative RTA (2012-2013)**

Country Development Outcomes to which CPS contributes	**Milestones and Outputs of the CPS Program**	**World Bank Group Program**
	hydrometerological service delivery ❖ Contribute towards the development of a policy and institutional framework to deal with unique environmental issues in the Arctic Zone	• Improving Public Transport (in cooperation with the Ministry of Transport) • Strengthening the Institutional and Management Capacity of Avtodor (State Road Agency) • Improvement of Urban Transport in Russia • Support to Institutional Strengthening and PPP Project Preparation • International Water Academy **<u>SUB-NATIONAL</u>** **Ongoing Financing** • Housing and Communal Services Project (FY08) **Indicative Financing (2012-2013)** • Hydrometerological Modernization Project 2 **Indicative AAA/Others (2012-2013)** • TA Intelligent Transport System for St. Petersburg • ESW Urban Transport Sector Overview **Indicative RTA (2012-2013)** • St. Petersburg Urban Transport
Strategic Theme 2: Expanding Human Potential		
National Goals: Improve efficiency of social spending budgets and targeting; promote healthy lifestyles, improve quality and access of health care, and strengthen health financing; improve coverage and efficiency of early childhood development; flexibly align education and skills with labor markets; improve quality of primary and secondary education.		
Issues and Obstacles: • Continuing vulnerability to poverty, and social and economic exclusion • Poor targeting of social programs and inefficient public social spending • Poor health outcomes with low life expectancy, high mortality rates and high burden of disease • Mismatch of skills and vocational education with labor market and business needs • Inefficient use of ICT and other technology in educational institutions		
Education, Health, and Social Protection ***Outcome 9*:** Increased quality and improved access, targeting, coverage, and efficiency of social services for human development	❖ Increase coverage of preschool services in selected regions ❖ Support efforts to increase the share of health resources channeled through Mandatory Health Insurance (MHI) funds ❖ Develop regional pilots of provider payment reforms ❖ Undertake pilots at the regional/ spending unit level to define a limited	**<u>NATIONAL</u>** **Indicative AAA/Others (2012-2013)** • TA Health Financing • ESW Health Provider Survey

Country Development Outcomes to which CPS contributes	Milestones and Outputs of the CPS Program	World Bank Group Program
	set of indicators to inform policy and evaluation ❖ Enhance the use of ICT for development of education in selected educational institutions	**Indicative RTA (2012-2013)** • Russian Academy of National Economy and Public Administration (RANEPA) Program • Russia Education Aid for Development - READ • Higher School of Economics II • READ II **SUB-NATIONAL** **Indicative Financing (2012-2013)** • Preschool Education Project for Yakutia **Indicative AAA/Others (2012-2013)** • TA Regional Human Development **Indicative RTA (2012-2013)** • Yakutia Early Childhood Development Program • Primary Health Care Provider Payment Reform in Kirov Region • E-Education Project • Krasnoyarsk Technical Vocational Education and Training Program • Provider Payment Reforms in Regions • Tatarstan Social Protection • Local Initiatives Support in Kirov • Local Initiatives Support in Stavropol
Skills for Economic Development ***Outcome 10***: Professional education system produces adequate skills for increased competitiveness	❖ Improve financial literacy of Russian citizens and strengthen consumer protection ❖ Provide an overview of professional and vocational education systems and identify major issues and challenges	**NATIONAL** **Ongoing Financing** • Financial Education and Financial Literacy Project (FY11) • WBI Engage Russian participants in global and regional events, connect to global development debates, help access e-Institute courses, develop knowledge and learning partnerships with Russian knowledge institutions **Indicative AAA/Others (2012-2013)** • ESW Professional Education and Skills • ESW Poverty, Opportunity, and Social Mobility

Country Development Outcomes to which CPS contributes	Milestones and Outputs of the CPS Program	World Bank Group Program
		Indicative RTA (2012-2013) • Higher School of Economics II • Russian Academy of National Economy and Public Administration (RANEPA) Program
Socially Inclusive Development ***Outcome 11*: Increased social inclusion of vulnerable groups**	✣ Increase the access of vulnerable groups to sports and physical activities under the Bank-assisted project (measured by the percentage of sports facility users who are from disadvantaged groups; to be determined during project appraisal and implementation) ❖ Inform the dialogue on issues relating to the social inclusion of immigrants ❖ Increase the share of eligible settlement municipalities in the North Caucasus Federal Okrug (NCFO) implementing participatory initiatives according to community participation principles ❖ Assist the regional governments of the Kirov Oblast and the Stavropol Krai in identifying key lessons and areas of improvement in their local initiatives support programs for vulnerable groups and territories ❖ Introduce the best World Bank project supervision principles and practices in the Stavropol Krai and Kirov Oblast local initiative support programs.	**NATIONAL** **Indicative Financing (2012-2013)** • Social Inclusion through Sports Project **Indicative AAA/Others (2012-2013)** • Support for Migration and Remittances Peer-Assisted Learning (MIRPAL) Network Initiative **SUB-NATIONAL** **Ongoing Financing** • St. Petersburg Economic Development Project (FY03) • Housing and Communal Services Project (FY08) **Indicative Financing (2012-2013)** • North Caucasus South Okrug Local Initiatives Support Project **Indicative RTA (2012-2013)** • Local Initiatives Support in Kirov • Local Initiatives Support in Stavropol • Cultural Heritage and Cultural Tourism Development in Tatarstan
Strategic Theme 3: Deepening Russia's Global and Regional Role		
National Goals: Strengthen Russia's role as a reliable international partner; expand Russia's role as a donor of high quality ODA; establish the necessary institutional structures to deliver multi and bilateral development assistance.		
Issues and Obstacles: • Lack of public discourse on global development aid and Russia's role in international development assistance • Institutional framework for Russian development aid needs strengthening • Limited initial capacity to manage role as donor and for related policy analysis • Lack of adequate information support for Russian development aid		

Country Development Outcomes to which CPS contributes	Milestones and Outputs of the CPS Program	World Bank Group Program
Global Public Goods ***Outcome 12:*** Strengthened Russian participation in the provision of global public goods	❖ Provide technical support for the planned establishment of the Eurasian Food Security Center (linked to CGIAR) and the International Water Academy ❖ Strengthen national capacity for weather and climate risk management ❖ Provide advice and organizational support for Russia's APEC Presidency	**GLOBAL** **Ongoing Financing** • Hydrometerological System Modernization Project (FY05) **Indicative Financing (2012-2013)** • Energy Efficiency Financial Intermediary Project • Forest Fire Response Project • Fiscal and Public Finance Modernization Project • Hydrometerological Modernization Project 2 • Environmental Monitoring Project **Indicative AAA/Others (2012-2013)** • TA Support to Russia 2012 APEC Presidency • TA Support to Strategy 2020 • TA WTO Monitoring and Analysis and Trade in Services **Indicative RTA (2012-2013)** • International Water Academy (in support of TF) • Eurasian Center for Food Security (linked to CGIAR)
Russia as a Donor ***Outcome 13*:** Established an institutional structure for delivery of a bilateral and multilateral development assistance program	❖ Support the setting up of a Russian bilateral development agency ❖ Advise on aligning the Russian national Official Development Assistance (ODA) system with OECD-DAC principles ❖ Boost capacity for development aid delivery in priority sectors and areas	**ECA REGIONAL** **Indicative Financing (2012-2013)** • Fiscal and Public Finance Modernization Project (component on aid agency) **Indicative AAA/Others (2012-2013)** • TA Development Aid Program • WBI support to Russia as a Donor **Indicative RTA (2012-2013)** • Russia Education Aid for Development – READ (in support of TF)

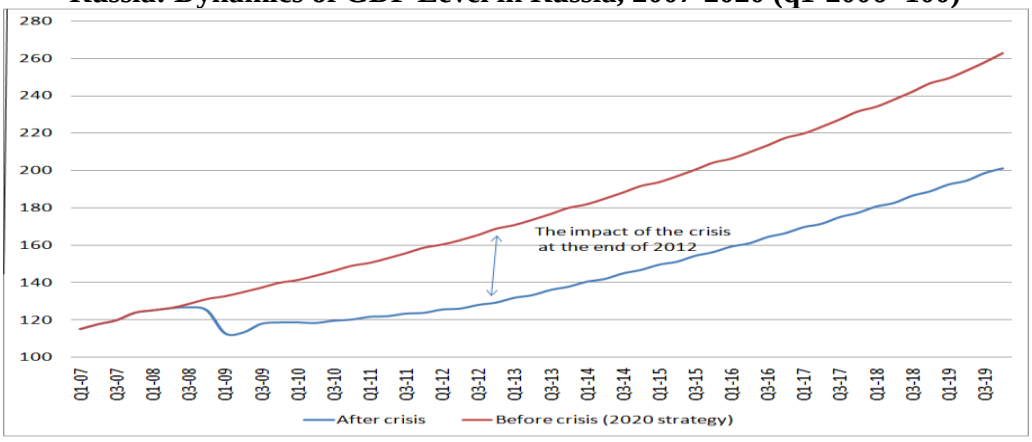
Country Development Outcomes to which CPS contributes	**Milestones and Outputs of the CPS Program**	**World Bank Group Program**
Cross-cutting Theme: Improving Governance and Transparency		
National Goals: Increase transparency of government activities; achieve modern standards of public service delivery based on needs of citizens and businesses.		
Issues and Obstacles: • Reform efforts yet to translate into tangible improvements in quality of public administration • Public services heavily embedded in traditional administrative arrangements • Little uniformity of scope and format of information disclosure of government activities • Concerns about quality of institutional systems and vulnerability to corruption		
Public Administration, Procurement, and Financial Management ***Outcome 14*:** Improved government transparency and accountability	❖ Collaborate on the introduction of additional e-services for taxpayers using the e-government gateway ❖ Augment efforts to prepare forest strategies which include forest governance issues ❖ Provide independent advice on the update of the public procurement legislation and the federal contracting system	**NATIONAL** **Ongoing Financing** • Registration Development Project (FY06) • Judicial Reform Support Project (FY07) • State Statistical System II Project (FY07) • GPF (Governance Partnership Facility): Support to the Ombudsman Office in Perm (FY09) • TA EC European Neighborhood Partnership Instrument (ENPI) East Countries and Russia FLEG (Forest Law Enforcement and Governance program) **Indicative Financing (2012-2013)** • Fiscal and Public Finance Modernization Project **Indicative AAA/Others (2012-2013)** • TA Program Budgeting and Expenditure Efficiency • TA Procurement System Development **Indicative RTA (2012-2013)** • E-Budget Systems • Russian Academy of National Economy and Public Administration (RANEPA) Program

Annex 2

Recent Macroeconomic Developments and Prospects

1. **Russia has weathered the global crisis well despite the massive oil and capital account shocks but the crisis has altered the country's long-term growth trajectory (Figure 3).** This was mainly because of the large pre-crisis fiscal reserves and fiscal surpluses that allowed the Government to mount a large countercyclical stimulus package in support of the financial system, enterprises, and households. Despite a large drop in real GDP in 2009 (-7.8 percent), an acute liquidity crisis, and a sharp increase in unemployment, the crisis was managed without systemic bank failures, and the economic and labor market conditions began to improve during 2009 in line with the rise in oil prices and recovery in domestic demand and credit. Large increases in public sector wages and pensions have cushioned the impact on the middle class and the poor, making the social impact less severe than it would otherwise have been. With the cyclical demand recovery in the global and Russian economies as well as energy commodities, Russia's real GDP grew 4 percent and unemployment fell 2 percentage points from its peak during the crisis to 7.2 percent at the end of 2010.

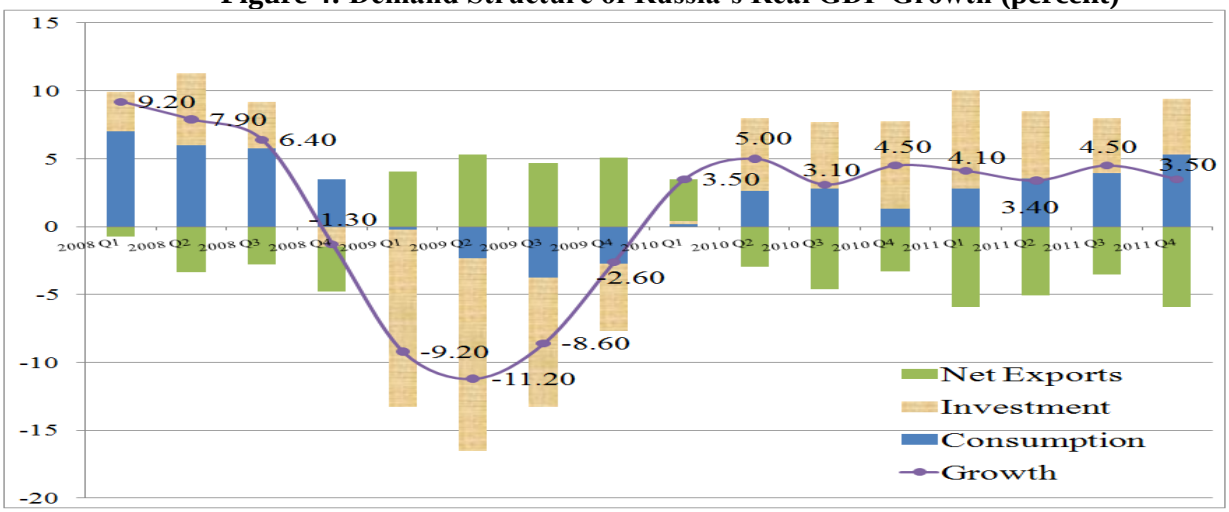
Figure 3: .The Impact of the Crisis on the Long-term Development Objectives in Russia: Dynamics of GDP Level in Russia, 2007-2020 (q1-2006=100)



Source: World Bank's Russian Economic Report No. 26: Growing Risks (September 15, 2011).

2. **Following a cyclical recovery of oil prices, economic activity, and employment during 2010, Russia's current macroeconomic situation remains favorable.** After a 4 percent growth in 2010, the Russian economy continues to expand in an environment of declining unemployment (6.5 percent in July 2011) and inflation, rising domestic consumption, and still high oil prices. All sectors of the economy are growing and domestic consumption—while less buoyant than anticipated—increasingly acts as an engine of demand growth (Figure 4). With good harvest and favorable food price outlook, annual inflation is expected to end at around 7.5 percent, somewhat higher than the Government's target of 7 percent, but lower than at any time in recent years. The federal budget is likely to be in near-balance in 2011. And a large current account surplus of almost US$70 billion significantly exceeds the deficit in the capital account, which will allow the Central Bank to accumulate additional reserves.

Figure 4: Demand Structure of Russia's Real GDP Growth (percent)



Source: World Bank's Russian Economic Report No. 26: Growing Risks (September 15, 2011).

3. **With almost two years of moderate growth, unemployment fell to 6.5 percent in July 2011 but improvements in Russia's regions are much more differentiated.** The unemployment rate fell in all districts in 2010 and continued to fall in the first half of 2011, especially in Moscow and St. Petersburg, which account for the bulk of the economic activity in the country. But in some regions unemployment rates remain high or have increased in comparison with the similar period of the past year. For instance, unemployment has increased in Altai republic, Chukotka autonomous okrug, Kamchatka krai, Lipetsk oblast, Mari El republic, Murmansk oblast, Smolensk oblast, Tomsk oblast, and Vladimir oblast. In some other regions, with very high rates prevailing before the crisis, unemployment remains very high (North Caucasus federal district, reflecting structural, investment climate, and security factors).

4. **Yet the risks to the global economy are growing and so are risks to Russia's growth.** Reflecting slowdown in major developed economies, and rising risks associated with the European debt crisis during the summer of 2011, the WBG's outlook for Russia's real GDP growth was revised to 4 percent in 2011 (down from 4.4 percent earlier in the year), and to 3.8 percent in 2012. This is predicated on the lower oil price outlook for Russia and the global economy growing at more moderate rates, especially high income countries.

5. **Beyond this favorable short-term picture lie heightened vulnerabilities of the Russian budget and long-standing structural issues.** First, there is the large *non-oil* fiscal deficit of about 11 percent of GDP, compared with the sustainable 4.5 percent level. Second, with much smaller fiscal reserves than before 2008, Russia's budget is now more vulnerable to a new, sustained drop in oil prices. Third, Russia faces major structural problems in the medium term, including the need to significantly improve the investment climate, close large infrastructure gaps, diversify its export, tax, and broader economic base, improve governance, and strengthen institutions.

Inflation

6. **Inflation is on a downward, short-term trend.** Although Consumer Price Index (CPI) inflation is on a downward trend with annual inflation in August 2011 at 8.2 percent, this has been mainly because of the seasonal decline in food prices. Core inflation (excluding food and energy

prices) has proven resilient to the monetary tightening so far. On the assumption of sustained disinflation policy, CPI inflation is projected, in the baseline, to gradually fall to 7.5 percent in 2011 (compared with the government's target of 6-7 percent) with further declines in the medium term. External shocks due to food and energy prices and/or return of capital inflows as well as inflation inertia and institutional and structural factors (e.g., periodic increases in utility prices), however, could make disinflation more difficult.

External Performance and Trade Integration

7. **High oil prices have helped strengthen Russia's current account but capital outflows continued.** In the first half of 2011, the overall balance of payments (BoP) position deteriorated due to large net capital outflows, but Russia continues to enjoy a sizeable current account surplus. With average oil prices remaining above US$100 a barrel, the external current account balance slightly improved to US$57.6 billion in the first half of 2011 from US$52.1 billion in the same period of 2010, despite a surge in imports associated with continued increase in economic activity (Figures 5 and 6). The capital account, on the other hand, has considerably weakened because of increased capital outflows. As a result, the overall BoP surplus has narrowed, albeit allowing the Central Bank of Russia (CBR) to accumulate about US$23 billion in foreign currency reserves.

Figure 5: Oil Prices and the Trade Balance

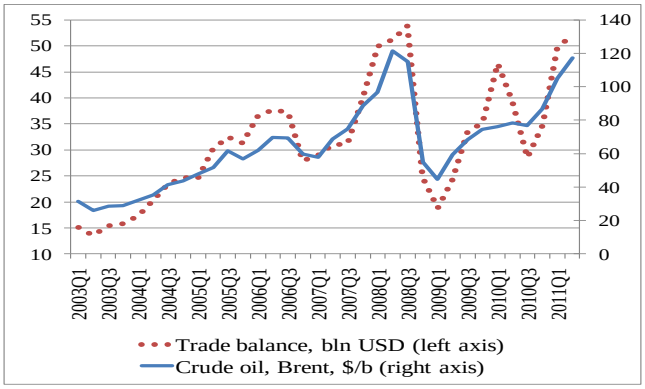
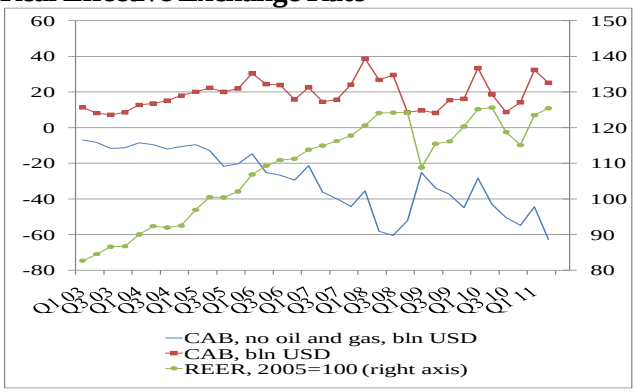


Figure 6: Current Account Balances and the Real Effective Exchange Rate



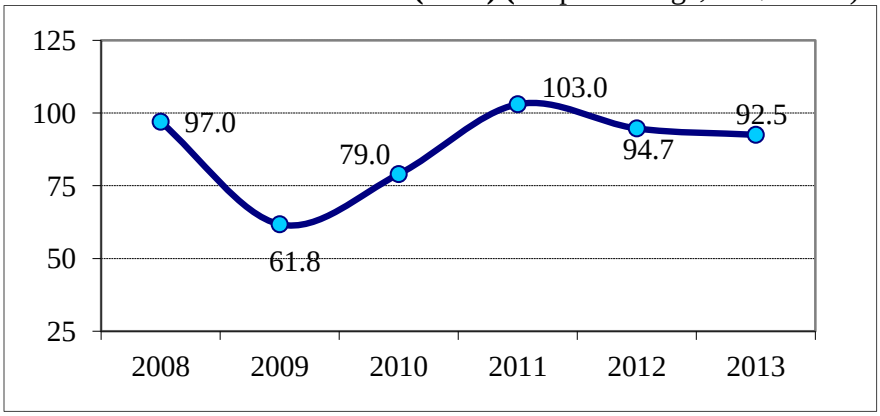
8. **Russia made important progress toward World Trade Organization (WTO) membership.** If the remaining issues are resolved, which is within the realm of possibilities, membership can be anticipated in early 2012. At the same time, on July 1, 2011, the Customs Union among Russia, Kazakhstan, and Belarus became operational, reflecting Russia's concerted efforts to increase trade, energy, and economic integration with countries in its vicinity.

Fiscal Sector

9. **High oil prices and seasonal delays in expenditure execution resulted in sizable surpluses of the federal budget.** Despite the recent declines in oil prices, average oil prices remained high (Figure 7). According to preliminary estimates of the Ministry of Finance, the federal budget was executed with a surplus of 2.5 percent of GDP in January-July 2011, compared to the 1.3 percent annual deficit stipulated in the amended 2011 budget. The surplus was mainly due to higher revenues (thanks to oil prices which average US$117.10 per barrel of Brent in Q2 2011) that amounted to 21.8 percent of GDP compared to a targeted 19.3 percent in the Budget Law. Execution

of expenditures in the first seven months of 2011 has been slow, with federal spending amounting to 19.3 percent of GDP compared to 20.7 percent planned in the budget.

Figure 7: World Bank Oil Price Forecast for Average Crude: Brent, Dubai, and West Texas Intermediate (WTI) (simple average, US$/barrel)



Source: World Bank staff.

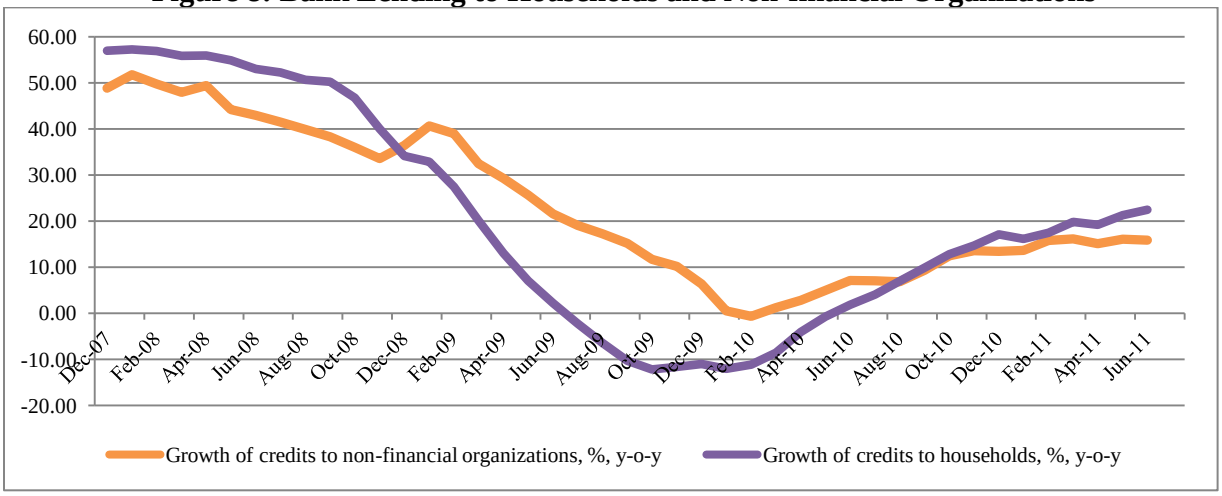
10. **Nevertheless, the budget remains vulnerable to a new, sudden drop in oil prices.** Non-oil fiscal deficit remains at about 11 percent of GDP, much higher than the sustainable, long-term level of about 4.5 percent. The 2011 budget amendment proposes modest adjustments but large non-oil deficit and associated vulnerabilities will remain in the medium term. In case of sustained drop of oil prices to about US$60 for a year, Russia's fiscal deficit would rise to about 5.5 percent of GDP, resulting in a need for sizeable and rapid adjustment and financing.

Financial Sector

11. With improved liquidity and a continued decline in lending rates, robust credit recovery continues, but the share of total credits to the private sector in GDP remains below the pre-crisis level. In January–July 2011, the total stock of credit to the private sector increased 19 percent in nominal terms, year-on-year. Credit to households, in particular (for example, mortgages, consumer loans and car loans), rose 25 percent during the first seven months of 2011, while credit to nonfinancial corporations increased 17.5 percent. But the share of total stock of credits in GDP remains relatively low — about 41 percent at end-July 2011 (only 10 percent for household credits).

12. **Lending to small and medium-size enterprises (SMEs)—which suffered disproportionately during the crisis—however, is recovering slowly.** This suggests that banks still perceive SMEs and households as high-risk borrowers, often imposing prohibitive terms on consumer loans, limiting a more robust recovery of domestic consumption (Figure 8).

Figure 8: Bank Lending to Households and Non-financial Organizations



Source: CBR and World Bank staff estimates.

13. **Official debt statistics indicate that access to longer-term credits by Russian banks and corporations improved in the first half of 2011, before the rise in debt uncertainties in Europe.** According to CBR preliminary debt statistics, the outstanding external debt of the corporate sector increased to US$485.6 billion and that of the banking sector to US$157.0 billion by end-June 2011, while that of nonfinancial corporations rose to US$328.5. The latest statistics also show that access to long-term external financing has improved for private banks and corporations. The maturity structure of the private sector debt, in particular, indicates that both banks and nonfinancial corporations increased their long-term external liabilities in Q1 2011 (possibly reflecting future investment plans) while the *share* of short-term debt in total liabilities has been reduced.

Medium-Term Macroeconomic Prospects and Long-Term Challenges

14. **In the baseline medium-term scenario, the Russian economy is expected to grow at moderate rates** (Table 2). This forecast is based on the expected slowdown in global economic growth and a lower global demand for commodities and oil in particular than was the case just a few months ago. It also incorporates the latest draft budget parameters for the federal budget 2012-14, featuring very gradual adjustment. Oil prices are now projected to gradually decline from US$103 per barrel in 2011 to US$88.50 per barrel in 2015. With lower oil prices and global demand in the medium term and the closure of the output gap, the Russian economy would gradually slow from 4 percent growth in 2011 to a more sustainable pace of about 3.5 percent in 2013-2015. Real GDP expansion will be increasingly driven by domestic consumption, with investment demand also increasing at a slightly higher annual rate than real GDP. Meanwhile, the negative contribution of net exports is likely to increase during the projection period with deteriorating external current account but with continued, sizeable levels of international reserves.

Table 2: Medium-Term Macroeconomic Prospects

			2011	2012	2013	2014	2015
National Accounts							
	Real GDP growth rates, %		4.0	3.8	3.5	3.5	3.5
	Annual average GDP, million US$		1,765,175	1,939,255	2,083,199	2,195,999	2,291,042
Fiscal Balances (general gov't)							
		% of GDP	-0.2	-1.6	-1.5	-1.6	-1.7
Non –oil	Balance	% of GDP	-11.0	-10.3	-9.2	-9.3	-9.4
BoP, million US$							
	Exports (GNFS)		505,191	486,612	496,915	510,967	521,055
	Imports (GNFS)		389,166	423,507	460,326	485,525	507,686
	Balance on Current Account, % GDP		3.8	1.1	0.1	-0.3	-0.8
	Gross reserves [incl. gold]		513,028	528,478	533,683	533,443	518,664
	Memo: average oil price , US$/bbl		103.00	94.70	92.50	90.50	88.50
Relative Prices							
	CPI, annual average, %		7.5	6.5	5.0	5.0	4.5
	Average REER change, %		14.7	5.0	2.8	-0.5	-1.5
Debt, million US$							
	DOD at end of year (LT, ext, federal gov't)		43,510.0	46,020.0	48,530.0	51,040.0	53,550.0
	DOD at end of year (LT,ext, private sector)		324,769.3	329,815.4	343,852.4	355,081.9	364,065.5
	Debt/GDP ratio for total government debt (gross)		0.10	0.11	0.15	0.18	0.22

15. **The fiscal situation is projected to remain stable in the short term but medium term-fiscal adjustment is necessary for Russia to achieve long-term fiscal sustainability.** The new plan for fiscal consolidation is likely to be much less ambitious than previously announced while the widely debated reintroduction of a fiscal rule could be delayed until after 2015. This is reflected in the recently announced draft budget plan for 2012-2014. As a result, the consolidated budget will remain in deficit of about 1.6 percent of GDP in 2012-2015, while non-oil deficit will reduce only marginally to about 10 percent of GDP in 2014 from 11 percent in 2011. With low public debt and limited deficit, no significant financing issues arise, and the Government plans to finance the deficit from predominantly domestic borrowing. Strategic, limited external borrowing, especially in the case of new drops in oil prices and fiscal revenues, is possible in 2012-15. In case of significant and sustained drop in oil prices (e.g., to an average of US$60 per barrel over a period of one year), Russia's budget deficit could increase to about 5.5 percent of GDP, resulting in the need for rapid adjustment and financing. At the same time, the quality of the composition of public expenditures should be improved towards more productive expenditures, especially public investments in infrastructure, which has been identified as a key constraint of the investment climate and growth. In addition, this scenario assumes gradual progress on structural reform initiatives in the areas of anti-corruption, privatization, and transparency.

16. **Some depreciation of the real effective exchange rate can be expected.** Given the current exchange rate policy (managed float moving to a fully flexible regime) and the deterioration of the external current account and the overall balance of payments position, the real effective exchange rate is expected to depreciate by an average of around 3 percent a year beginning in 2013. Both upside and downside risks will remain, mostly related to the volatility in oil prices and capital flows.

17. **Given the sharply higher global risks, however, and the sensitivity of the Russian economy to swings in oil prices, it is useful to outline the implications of some downside scenarios.** Using an empirical model linking oil prices, budget balance, consumption, growth, and unemployment, it is possible to illustrate the implications of "moderate shock" and "severe shock" scenarios in order to get a sense of how bad the economic and fiscal situation could get in case of sizeable new shocks.

18. Under the **"moderate shock" scenario**, global growth outlook gradually deteriorates, reflected in lower oil price outlook to an average of US$80 (a drop of about US$15 compared with the baseline outlook) (Table 3).[11] This results in the growth in 2011 and the fiscal balance and unemployment all being adversely affected in the last quarter of the year with moderate impact on the year as a whole. But in 2012, growth is cut by 2 percentage points and, without corrective adjustment, fiscal balance deteriorates sharply to 3.1 percent of GDP. The remaining balances of the Reserve Fund would likely be used to partly finance the gap with the remainder likely to come from domestic financing. Unemployment would trend back to 7 percent.

19. Under the **"severe shock" scenario**, global outlook is severely affected by the recession in one of the major economic blocks, resulting in a sharp contraction in global demand and demand for oil. Under these conditions, oil demand would fall sharply and prices could again average US$60 in 2012 (as in 2009). Russia's economy would also enter a recession with negative growth and unemployment rising almost 1.5 percentage points higher than in the baseline outlook. In the absence of countervailing fiscal measures, fiscal balance would turn into a deficit of about 5.3 percent of GDP. Both scenarios would require significant, new fiscal measures consisting of tax, expenditure, and financing measures to close the resulting fiscal gaps.

Table 3: Simulation Results for Consumption Growth in Russia, 2011–12

Scenario 1 (base case)

	Oil price (Brent), US$		GG surplus/deficit,	Unemploy-ment rate, %	Consumption growth y-o-y, %
2011	105	4.0	-0.2	6.6	5.5
2012	95	3.8	-1.6	6.3	5.3

Scenario 2 (moderate shock)

	Oil price (Brent), US$		GG surplus/deficit,	Unemploy-ment rate, %	Consumption growth y-o-y, %
2011	100	3.5	-0.5	6.8	5.0
2012	80	2.0	-3.1	7.0	3.0

Scenario 3 (severe shock)

	Oil price (Brent), US$		GG surplus/deficit,	Unemploym ent rate, %	Consumption growth y-o-y, %
2011	90	3.3	-1.4	7.0	4.6
2012	60	-1.5	-5.3	7.5	0.3

Source: World Bank staff calculations.

20. **Finally, under any scenario, on the structural reform front, the Russian economy is facing multiple, *long-term challenges*.** These include, first and foremost, improving the investment climate, addressing the large infrastructure gaps, diversifying Russia's tax, export and broader economic base, further strengthening of the financial sector, and strengthening governance and institutions. In each of these areas, Russia scores comparatively low on many measures of performance, especially for a very large middle-income country aspiring to achieve high-income status within the next decade. These challenges underpin the Government's broader modernization agenda and the ongoing broad consultative discussions about the country's revised Strategy 2020. The extent to which these long-term challenges are met will determine the longer-term dynamics of the Russian economy, its catch-up with the developed countries, and its ability to improve the living standards of its citizens.

[11] Note that this is not an improbable scenario given that US$80 in real terms is the current, long-term equilibrium level of oil prices according to the World Bank commodity forecasts; it would also be much more favorable than during the 2009 crisis when the World Bank oil price index averaged just above US$60 per barrel.

Annex 3

Diversification and Competitiveness: Challenges and Opportunities

Overall Assessment

1. **The Russian economy suffers from weak competition, a poor investment climate, and a lack of innovation which, in turn, limit its diversification.** One of the consequences of this is that Russia's product base has narrowed considerably over the past decade. Oil and natural gas exports comprised less than half of total exports in 2000. Ten years later they had grown to two-thirds of total exports. Of the remainder, 15 percent was accounted for by other extractive industries and only 9 percent by high-tech exports, mainly from the defense industry. Most of the growth in Russian exports has come from exporting more of the same products and services to existing markets rather than through exporting new ones to old or new markets. By contrast, other BRIC countries show more dynamism in their export performance.

2. **Relative to its structural endowments and trade potential, Russia appears to be under-exporting.** According to the 2009 World Bank Enterprise Survey, 50 percent of Russian firms see local markets as their main sales destination – a large number, even when compared to large economies such as Brazil, where the corresponding share is only 35 percent. Despite China's growth in world trade, its share in Russia's exports remained between 4 and 5 percent between 1998 and 2008. Furthermore, the decline in the share of services exported by Russia (from 11.4 percent of GDP in 1999 to 7.6 percent of GDP in 2008) is unique among the BRIC countries.

3. **State involvement in the economy is high.** State-owned enterprises are present in more sectors of the economy than in any OECD country bar Poland. These enterprises also account for around 17 percent of total employment. As shown by the OECD's 2008 Product Market Regulation Indicators, the average level of foreign participation in Russian firms was 2.7 percent in 2007. In the EU-10 countries it was 7.5 percent.

4. **Firm productivity is weak in important sectors.** In manufacturing, value-added per worker is similar to that of workers in China and India, but when labor costs are accounted for, overall productivity is lower. Innovation in Russia also lags behind. Business R&D has been declining in recent years, with expenditures dropping from a high of 0.88 percent of GDP in 2003 to 0.65 percent in 2008. Comparatively, OECD countries increased their average business expenditures on R&D in the same period, from 1.49 percent to 1.63 percent.

Key Challenges

5. Recent World Bank research focusing on key challenges in export competitiveness and diversification emphasized the importance of three binding constraints: the investment climate, competition, and innovation.[12]

[12] World Bank, *Russian Federation: Export Diversification through Competition and Innovation: A Policy Agenda*, 2011

6. **Investment Climate.** The quality of the investment climate varies across Russia, but key surveys such as *BEEPS*, *Doing Business* and the *Global Competitiveness Report* continue to show that widespread problems exist. *Doing Business 2012* reveals that it is particularly hard to deal in getting electricity (where Russia ranks 183nd out of 183 countries), with construction permits (rank 178) and in trading across borders (rank 160). These hurdles are combined with the difficulties entrepreneurs also face in starting a business (rank 111), weak protections for investors (rank 111), the difficulty in paying taxes (rank 105) and in getting credit (rank 98), see Box 4 for more details. Consequently there is a lesser propensity for firms to start, grow and compete. This affects domestic competition, innovation, and the ability to compete abroad.

Box 4: Doing Business 2012 Results

- Russia ranks 120rd out of 183 countries for its investment climate in *Doing Business 2012*, raising its position four places from last year or 21th among the 25 countries in Europe and Central Asia (ECA). Despite notable improvements over last year, this suggests that businesses in the country continue to face operational hurdles in several areas. According to *Doing Business*, Russian firms face considerable difficulties in dealing with construction permits, trading across borders and getting electricity, but also in starting a business, getting credit, protecting investors and paying taxes. [13]

- When dealing with rules around **construction permits** Russian firms face some of the most difficult conditions analyzed by *Doing Business*. In *Doing Business 2012* Russia is ranked 178nd on dealing with construction permits with the process of gaining a permit requiring 51 procedures and taking an average of 423 days with a cost of 183,8 percent of the country's income per capita. - On **trading across borders**, Russian firms face high hurdles. It takes on average 36 days to export a container of goods, at a cost of US$1,850. Eight documents are required for exports and 10 for imports. Russia ranks 160nd in *Doing Business* on this measure, or 20st in ECA as a whole or worse than any country in the OECD.

- When **starting a business**, *Doing Business* reports that Russian entrepreneurs must go through nine procedures to start a business, taking up to 30 days in the process and paying out up to 2.0 percent of Russia's per capita income. Russia ranks 111th out of 183 countries on this measure, although it ranks higher than any other BRIC country

- **Getting credit** can also be difficult in Russia. On the *Doing Business* measure of getting credit, which analyses the protection of creditor and debtor rights in collateral and bankruptcy laws and the availability of credit information, Russia ranks 98th. Getting credit in Russia could be made easier by permitting an expansion in the range of assets that are allowed as collateral, while more general descriptions of assets to enable flexible security arrangements could also be permitted.

- When it comes to **protecting investors**, Russia ranks 111rd. This ranking reflects issues such as the insufficient disclosure of related party transactions to boards of directors, in annual reports, and to regulators. In addition, major transactions that involve potential conflicts of interest are not under sufficiently stringent requirements.

- Russian businesses also face bureaucratic hurdles when **paying taxes**. As of June 2011, it took on average 9 payments and 290 working days per year for Russian businesses to comply with tax regulations. Russia ranks 105th on this measure, or 14th in the ECA region alone.

- The Doing Business 2012 includes **getting electricity** as a new topic. Based on the information published in the Doing Business 2012 report, it takes 10 procedures, 281 days and 1,852.4% of income per capita to obtain electricity connections. Russia ranks last of all measured economies in the DB report.

[13] *Doing Business* concentrates on the biggest business centers in the countries it analyzes. Russia's performance is thus assessed through Moscow's performance as the country's leading business center. Given the size of the country (spanning 83 regions and nine time zones), to obtain a more nuanced picture of Russia's regional comparative performance, the Russian Government and the World Bank conducted a first sub-national Doing Business assessment in 2009 in nine Russian regions beyond Moscow, covering the cities of Irkutsk, Kazan, Perm, Petrozavodsk, Rostov-on-Don, St. Petersburg, Tomsk, Tver, and Voronezh. Interestingly, compared to these cities, Moscow was ranked lowest overall while Kazan was ranked highest, with considerable regional variations.

7. **Competition.** WBG research suggests that competition levels in Russia do not produce the kind of competitive pressures required for businesses to start innovating and thus to become more efficient, and that firms tend to operate at low levels of technology and knowledge. This is also supported by the EBRD Transition Indicators, which show that enterprise development (firms changing to become more productive and competitive) in Russia lags behind that of Poland, Turkey, and the average in the ECA region. The extent of monopoly power in some markets and the degree of state involvement in enterprise are key factors in the sub-optimal level of competition in the Russian economy. According to a recent OECD report, between 2001 and 2007 the share of markets with power concentrated in a few firms increased from 43 to 47 percent, a high incidence of concentrated sectors compared to most developed economies. State involvement is particularly high in infrastructure and "network" industries. The Russian state wholly owns the companies in the rail transport and postal services markets, and has more than a 50 percent share of the gas, electricity, air transport, and telecommunications sectors.

8. **Innovation.** Russia has a long scientific tradition, but the contribution of science to economic activity is limited due to the low level of entrepreneurship and minimal application of science in business activity. R&D investments are low in both the public and private sectors. Russia specializes in products at the "periphery" of the product-space map, meaning it has a comparative advantage in industries, such as raw materials and forestry, from which it is difficult to develop new products and skills that can be used in other industries.[14] This hinders the process of economic diversification. Furthermore, R&D investments in Russia translate into fewer outputs, such as commercialization of knowledge-goods, patents and publications, than in most OECD countries. This is despite Russia's large talent pool, a level of investment in R&D – particularly in engineering and science – and number of researchers that are comparable as a proportion of GDP to levels in R&D-intensive economies such as Germany and South Korea (and far ahead of those of Brazil, China, and India).

9. There is also limited capacity for the implementation of innovation policies in the regions. In Russia, federal agencies such as the Ministry of Economic Development, the Russian Venture Company, and Rosnano play major roles in financing innovation support measures in Russia's regions such as venture funds, industrial technology subsidies, technology parks, technology transfer offices and research laboratories. However, little of this support has been provided on the basis of transparent information about the state of the innovation system in the regions, or a clear understanding among regional stakeholders of the vision for the development of the innovation system.

10. Overall conditions for innovation and commercialization of public research are gradually improving but important limitations remain. Despite recent advances in intellectual property legislation, loopholes and uncertainty relating to the full ownership of discoveries financed by public funding hinders private sector investments and the full development of the commercialization process. Licenses are mostly granted on a non-exclusivity basis, which raises doubts about the capacity of firms to raise capital and carry on necessary investments. The gap between the Foundation for Assistance to Small Innovative Enterprises (FASIE) programs and venture capital

[14] Product space analysis is based on an approach pioneered by Hidalgo, C.A, B. Klinger, A-L Barabasi, and R. Hausmann (2007) "The Product Space and its Consequences for Economic Growth," *Science* 317; 482-487.

funding continues to harm the emergence of Russian start-ups, despite recent initiatives to improve early stage financing in the country.

Strengths and Progress to Date

11. **In recent years the Russian Government has been working to address some of the challenges highlighted above.** Its strategy for economic development to 2020 emphasizes greater domestic competition, the creation of an economic environment that will encourage long-term investments, and stronger foreign demand for Russian goods.

12. **There have been some recent improvements in the investment climate.** The Russian Federation made it easier for domestic entrepreneurs in 2010-2011, rising in the global rankings on ease of doing business to 120 from 124. One important change was the requirement for banks to release credit data, meaning that a private credit bureau could be established. In 2010 property registration was made easier through simpler documentation requirements and, in 2011, the process of dealing with construction permits was simplified by the establishment of a single window for all land use procedures. The Government is also planning further legislation to improve the process of dealing with construction permits. For example, private developers will now be allowed to choose between government-run "expertiza" and private legal engineering companies as third-party reviewers of compliance requirements. In addition, amendments to the Code of Administrative Offences will increase penalties on negligent public officials. Also the Russian Federation made registering property transfers easier by eliminating the requirement to obtain cadastral passports on land plots. Russia made trading across borders easier by reducing the number of documents needed for each export or import transaction and lowering the associated cost. The country made filing a commercial case easier by introducing an electronic case filing system. And it made getting electricity less costly by revising the tariffs for connection. Russia made tax compliance more difficult, however, by increasing the social security contribution rate for employers.

13. **Competition through increasing the role of the private sector in the economy will be a key part of the Government's reforms over the next few years.** It plans to sell stakes in strategically important firms currently owned by the state and to sell non-strategic assets elsewhere. The declared goals of this wave of privatization are (i) reducing government ownership in state-owned enterprises, (ii) streamlining property still held by the state into a more coherent structure, and (iii) introducing new technologies and business methods into privatized enterprises.

14. **The Government has also been pursuing a number of policy measures to foster innovation.** There is an attempt to emulate the experience of Silicon Valley, as evidenced by the development of Rosnano and Skolkovo (a "science city"). Cisco and Nokia have already committed to conduct research at Skolkovo.

Annex 4

Social and Human Capital Development

Achievements and Challenges

1. **Russia's Social and Human Capital Development Goals.** With significant achievements and advances in social and human capital development[15], the Russian Federation is increasingly focusing its strategies to move Russia closer to the level of achievements of other G8/OECD countries. It has already met the goals of eradicating extreme poverty and malnutrition, achieving universal primary education, and promoting gender equality and empowering women. The agenda going forward includes aligning the education system to the changing needs of the economy to boost competiveness, addressing non-communicable diseases, increasing life expectancy, and improving the quality and efficiency of social services as well as enhancing the targeting of social programs. The devolution of the provision of social services to different sub-national levels of government increases the challenges of achieving basic levels of quality and equitable funding in all regions and municipalities. To this can be added the need to address the fiscal and service delivery challenges posed by the fast aging population in Russia which underscores the critical importance of improving equity and efficiency in services and spending. Shrinking of working age population challenges economic development. The Government is to address these risks through complex reforms in migration regulation. In its National Development Strategy for 2012-2020 the Russian Government has already taken numerous steps and launched proactive actions to address the many issues. The challenges in human development will require more differentiated approaches and policies if positive changes are to be achieved.

2. **Early Childhood, Primary, and Secondary Education.** Primary education enrollment is at about 99 percent, while the objective of reaching full completion of primary education remains to be achieved (current level of 90 percent). Given the progress made on primary enrollment, the Government aims to increase coverage of preschool education which is low compared to the OECD average. About 78 percent of preschool education is financed through local government budgets, and therefore poorer regions are more disadvantaged. Substantial differences among regions are also apparent in per student spending and in the quality of education at the primary and secondary level.

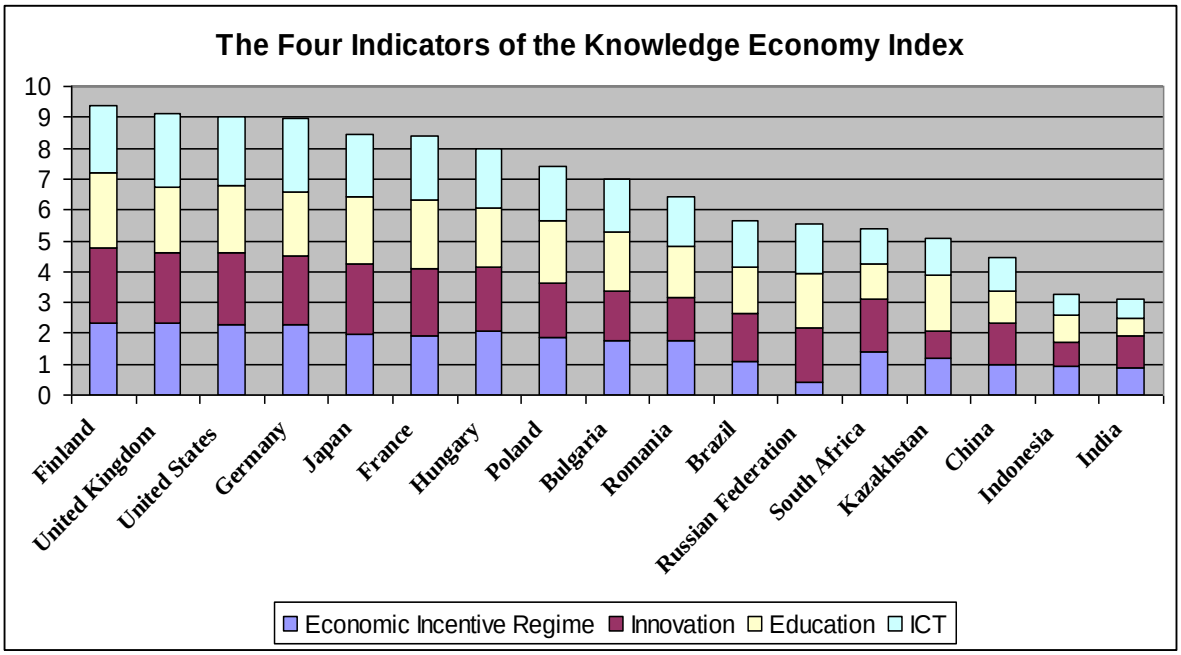
3. **Higher and Vocational Education, Productivity Growth, and Competitiveness.** While the number of students pursuing higher education in the Russian Federation has significantly increased from 2.8 million in 1990 to 7.4 million in 2010 (equivalent to gross enrollment rate of about 83 percent), Russia places only 50th in the country rankings[16] compiled by OECD regarding readiness of

[15] The annex draws from UNDP *National Human Development Report in the Russian Federation 2010: Millennium Development Goals in Russia: Looking into the Future*, 2010.

[16] Recent international rankings of higher educational institutions have shown unfavorable performance of Russian HEIs. According to Shanghai SJTU (includes 500 universities) only two universities in Russia are included in the international list in the 2011 ranking. English THES university ranking (includes 200 universities) excluded Russian universities from the international list (2010-2011 ranking). In comparison, 39 German and 22 Canadian universities were included in the SJTU list, while the THES list had 14 and 9 universities from those countries, respectively.
Times Higher Education World University Ranking // http://www.timeshighereducation.co.uk/world-university-rankings/2010-2011/top-200.html,
Academic Ranking of World Universities – 2011 // http://www.shanghairanking.com/ARWU2011.html

the country's higher education and training systems for the knowledge economy and lags behind both developed and developing countries (e.g., Finland (#1), Sweden (#2), Denmark (#3), Singapore (#5), Malaysia (#49))[17]. Thus, the Russian educational system has not transformed fast enough to keep up with demand for new jobs and specializations created by the new economy and the Government's goal of diversifying the economy further. The lack of skilled labor and the renewal of skills will continue to constrain private sector growth and any effort to modernize public institutions further. Concurrently the shortage of skills is listed as the most severe constraint to private sector development and economic diversification. The Russian system of professional and vocational education is characterized by large numbers of relatively small vocational schools and narrow specialist offerings. Regional Technical and Vocational Education and Training (TVET) systems are in urgent need of reform to adjust to the labor market needs. The need is for a shift towards an education system that supports continuing education, training, or renewal of skills in the economy. Given the tightening in labor market supply, the shortage of skilled labor could undermine any future productivity growth and competitiveness. Figure 9 below illustrates how Russia compares with other countries on the four indicators of the Knowledge Economy Index.

Figure 9. The Knowledge Economy Index



Source: World Bank's Knowledge for Development Website (July 2009)

4. **Child Mortality and Maternal Health.** Child mortality and maternal health have improved since 1990 and the related indicators are on track to continue to improve over the coming years. Child and maternal mortality rates have improved considerably over the past decade (under-five mortality rate of 10.2 per 1,000 live births in 2009 compared to 21.5 in 1990, and maternal mortality rate of 16.5 per 100,000 live births in 2010 compared to 47.4 in 1990) but remain higher than in the European Union. Births are almost universally attended by skilled health personnel, and since 1990 the country has experienced a significant increase in access to contraception and decrease in the adolescent birth rate. Progress has been made in the fight against TB (although Russia is among the

[17] OECD and World Economic Forum ranked 139 countries according to the readiness of their education systems for the new economic reality. The Global Competitiveness Report 2010-2011 // http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf

10 countries with the highest MDR TB (multi-drug-resistant tuberculosis) burden in the world), which augurs well for the country meeting the goal of halting and reversing the incidence of the disease over the next decade. Demographic and health trends are characterized by low fertility and high adult mortality and morbidity rates and inefficient health spending. Adults, particularly males, suffer from higher levels of morbidity and disability and they have a far lower healthy life expectancy than in other G8 countries.

5. **HIV/AIDs.** Russia faces a rising HIV epidemic and infection rates are not slowing. The official[18] number of HIV cases in Russia was 529,828 in 2009. The majority of HIV-positive people are of working age with the prevalence rate estimated at 1 percent for adults aged 15 to 49. Notwithstanding the rise in infection rates, there have been achievements in HIV detection and HIV/AIDS treatment, including increased availability of modern anti-retroviral (ARV) therapies and successful prevention of vertical transmission of HIV in pregnant women. The survival rate among patients receiving ARV treatment has gone up and about 96 percent of those in need receive ARV treatment. Budgets allocated to fight HIV/AIDS have increased almost 60-fold since 2005. However, there is room for improved preventative policies to combat the epidemic.

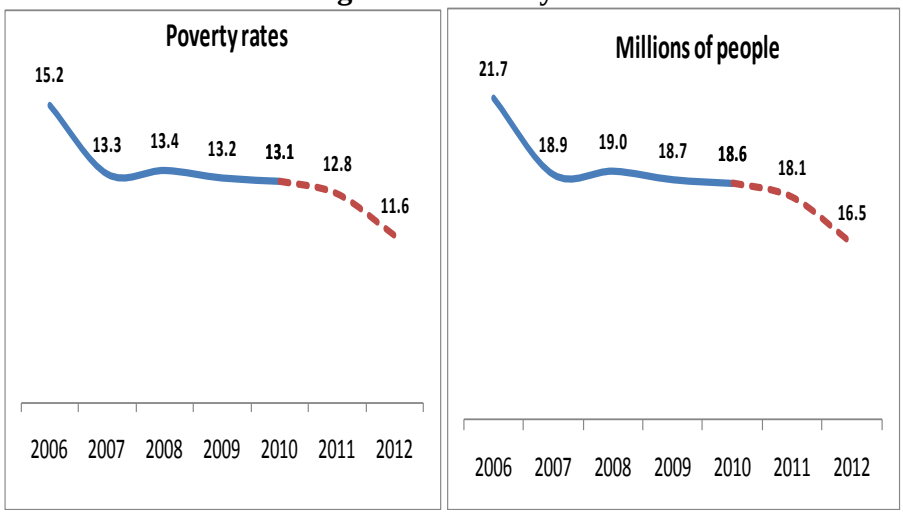
6. **Gender.** The Russian Federation has already met the target of eliminating gender disparities in education[19]. The share of women in secondary, vocational, and university education is 56.2 percent — higher than in many OECD countries. However, there remain critical challenges in reaching gender equality. The quality of health services and particularly preventive care and sexual education for women are rather poor, with a relatively high (though declining) rate of teen pregnancy and frequent use of abortion to terminate pregnancies. Despite the high proportion of public employees who are women, there is significant under-representation of women in top positions. Gender equality in political participation remains an issue in Russia: the share of political representatives and high-level politicians who are women is much lower than in OECD countries.

7. **Vulnerability to Poverty – Russians at Risk.** A substantial reduction in poverty has been achieved, with a fall in the percentage of individuals living under the national poverty line falling from 28.9 percent in 2000 to 13.1 percent in 2010. Strong economic growth coupled with significant wage increases, increased working hours and falling unemployment were responsible for this dramatic fall in poverty. While general poverty levels have fallen (chronic poverty is now at about 7 percent), the relatively high vulnerability to poverty remains a concern. Poverty levels remained broadly flat during and after the 2008 global crisis, allowing the Russian Federation to maintain the over 50 percent reduction achieved since 2000. The Government managed to cushion any adverse social impacts through a large fiscal stimulus. However, an estimated 18 million Russians are still living in poverty and large segments of the middle class remain vulnerable to new income shocks, such as inflation. Spatial analysis of poverty in Russia reveals broad variations among Russia's regions in poverty reduction, with pockets of poverty and areas of high unemployment concentrated in the northeastern and southern parts of the country. Poverty rates in the poorest regions are 45 times those in the richest. As elasticity of poverty reduction to economic growth has declined, bringing this significant proportion of the Russian population out of poverty will require better targeting and a mix of social programs and labor market interventions.

[18] However, the UN/HIV Program estimates the number at about 1 million in 2009.
[19] Rights are guaranteed under the Constitution and Labor Code. The Convention on the Elimination of all forms of Discrimination against Women (CEDAW) was ratified by the Russian Federation in 1981.

8. **Access to Social Services and Improving the Welfare of Russians.** Inequality of access to social services, particularly for those in rural areas, across different income groups and the more vulnerable in society, remains a challenge. There is a large diversity in outcomes in the regions of the Russian Federation. Certain regions have human development levels similar to European Union countries, while some have outcomes closer to those of much poorer countries.[20] The National Development Strategy for 2012-2020 is currently being updated and seeks to address some of these challenges, most notably through the recommendations of Expert Groups working on "Poverty Alleviation and Inequality", and "Health and the Human Environment."

Figure 10: Poverty in Russia



Source: RER No. 25, June 2011.

9. **Efficiency in Social Spending and Services.** Efficiency in social spending, better targeting of social programs, as well as new transfers will be of critical importance in the future. The social protection system in Russia is suffering from the inheritance of the past. Up to one quarter of social support beneficiaries are not poor as many social assistance benefits are not designed to really protect the poorest households. Social assistance programs make no effort to help beneficiaries graduate from poverty. Despite demographic, mortality, and morbidity challenges, Russia's total health expenditures are only 5.4 percent of GDP compared to an OECD average of 8.8 percent. Furthermore, the effectiveness of health spending could be significantly improved (e.g., more resources for primary care such as out-patient management of chronic disease, health promotion and disease prevention, general practitioners and family doctors).

Russian Government National Development Strategy 2012-2020

10. Many of these challenges are already recognized by the Russian Government and are being addressed through existing interventions which will receive further emphasis in the National Development Strategy for 2012-2020.

- **Basic Education and the Knowledge Economy.** The goals include increasing coverage of preschool services coupled with increased efficiency in the sector**.** Strategies include improved

[20] Source: Chapter 9: Millennium Development Goals and Russian Regions in *National Human Development Report in the Russian Federation 2010: Millennium Development Goals in Russia: Looking into the Future (*2010) UNDP.

performance by the regional authorities and increased funding of the sector. The Government aims to improve the quality of primary and secondary education through support of programs of school system development in the regions, including development of school infrastructure. The Government is providing subsidies to budgets of the regions for modernization of school systems. Reform activities include provision to schools of new equipment including computers and other ICTs, teacher training in the area of ICT and teacher qualification improvement, and development of distance learning.

- **Professional and Vocational Education.** Government steps include support of programs for VET system development in the regions on a competitive basis**.** The process of transferring of federal vocational institutions to regional subordination is almost completed in many regions of Russia, and currently the Government is supporting regional programs of VET system development that adjust education systems to the needs of the regions' economies. The support includes co-financing from the Federal Ministry of Education and provision of assistance in dissemination of regional experience at the national level.

- **Health.** Additional resources to the sector were channeled through the "National Priority Project Health" which focused on the themes of promoting healthy life styles, strengthening primary health care and disease prevention, increasing access and quality of specialized health care, improving mother and child health, and TB and HIV/AIDS. The Government has been taking key steps including enacting a new federal Mandatory Health Insurance (MHI) law, increased payroll contributions to generate additional resources, and initiated health care modernization plans. The Expert Group on "Health and the Human Environment" is tasked with updating the National Development Strategy 2012-2020. Among others, the draft recommendations include developing payment methods, developing integrated models of health care delivery, and increasing accountability of health care providers to quality.

- **Social Protection, Social Transfers and Services.** Social protection systems are mostly a responsibility of the regions. The Government has been trying to shift the social services paradigm from institutionalized care provided to certain categories of beneficiaries to a more client-oriented and case-management based flexible system and has been encouraging innovations and partnerships that help to overcome social exclusion, vulnerability, physical constraints and other barriers. Given the devolution of authority, the Government may wish to look at furthering national minimum service standards and introducing stronger elements of incentives in the transfer of fiscal resources to the regions.

Annex 5

Public Sector Governance in Russia: Achievements and Remaining Agenda

1. In recent years the Government of Russia has completed or initiated major reform efforts intended to ensure sound management of public resources, create a more favorable business environment, and enhance public service delivery. This Annex analyzes recent developments and their impact, the main challenges and the Government's current strategies for improving public sector governance.

Public Finance

2. Russia faces a dual challenge in public financial management: to achieve fiscal consolidation and reduce the non-oil deficit while boosting investment in economic infrastructure and human capital that will provide the basis for future economic growth. Specific challenges that the Government faces include diversifying revenue sources away from the oil and gas sector, managing the effects on public finances of an aging population, and boosting investment in infrastructure and skills to address economic bottlenecks and sharp disparities among Russia's regions in development and living standards.

3. The Government has largely completed a number of important improvements in public financial management, while initiating others. Multi-annual budgeting, linked to results information, was introduced from 2007, helping ministries and regions to better plan their activities and investments. Although the financial crisis forced its temporary suspension this practice was resumed in 2010. Modernization and expansion of the automated Treasury system (combined with the single treasury account), has improved efficiency in cash and debt management and enabled up to date reporting on budgets and expenditures, not just within government but also to the legislature and the public (via the web).

4. In 2010, the Government initiated a major program to raise the efficiency of public spending, which offers the prospect of further improvements in resource allocation and performance. Major new initiatives that are underway will introduce program budgeting in 2014, overhaul the public procurement system and further integrate public finance management information systems. A program to create autonomous agencies to deliver public services more efficiently and with greater accountability is also planned, but is proceeding more slowly.

5. The program to improve the efficiency of public expenditures is likely to require sustained effort over a prolonged period to implement program budgeting, increase results orientation in the public sector, strengthen investment appraisal, and create effective and accountable autonomous agencies to deliver public services. Expenditure controls (internal controls and internal audits) will also require modernization to support effective and accountable budget implementation. Across all levels of government investment in skills and the professionalization of public financial management, including internal and external audit functions, will be an important element of the strategy to improve performance.

Sub-national Government

6. Over the period from 2003 to 2009, the responsibilities of different levels of government were clarified and rationalized, creating a uniform national structure of regional and local government. A large number of responsibilities were transferred to sub-national governments, while many unfunded mandates were eliminated and the system of intergovernmental transfers was brought into line. From 2007, the Government has introduced a system for monitoring the effectiveness and efficiency of sub-national governments which provides a good basis for targeting efforts to strengthen public sector management, but also attests to the very uneven capacity of sub-national governments.

7. A further dimension of Russia's governance challenge is to reduce the growing disparity among the regions manifested in the lower human development indicators in rural areas and migration to the major urban centers. Part of this will involve streamlining and targeting of federal support programs. Sub-national governments (especially in less developed, lower-capacity regions) will also need assistance and effective incentives to implement the Government's reform agenda, with a focus on improving service delivery and investment (public and private) in infrastructure. In poor performing regions special incentives and investment to build more basic capabilities may be needed.

Tax and Customs

8. The Government has made significant investments in improving tax and customs administration, aimed at reducing fraud and tax evasion and improving the business climate. Increasing automation, including electronic filing of tax returns, and the use of risk-based audit methods in tax and customs have helped to improve performance, but the average number of working days per year devoted to tax matters remains high. Public perceptions of the incidence of fraud and corruption have reduced markedly although they remain high relative to other countries in the region. The Government has plans to introduce tax policy changes that would encourage new investment in the oil and gas sector, and to introduce a market based property tax. The Federal Tax Service plans to invest in improving its business processes, reducing the scope for tax evasion while simplifying and improving its interface with taxpayers.

9. The Government's strategy for tax policy modernization, including changes to the oil and gas tax regime, transfer pricing and real estate tax, should help to safeguard revenues while promoting new investment in key sectors. Improvements in tax and customs administration should promote tax compliance while creating more user-friendly tax and customs services that impose less of a burden on businesses.

Public Service Delivery

10. Efforts to improve public administration have focused on improving the Government's responsiveness to citizens and simplifying complex procedures. The main achievements have been the introduction of administrative regulations that set out the duties of public officials with regard to public service delivery and public service standards. The Government is also experimenting with new service delivery mechanisms, including Multi-functional Citizen Service Centers (one stop shop) for service delivery and electronic government portals; streamlining regulatory requirements

and processes affecting business, including through regulatory impact assessments; and the use of performance management instruments to enhance many aspects of public sector performance at the federal and sub-national levels.

11. According to the *Life in Transition Survey* conducted by the World Bank and the EBRD, citizens' satisfaction with public services has improved significantly and the reported incidence of unofficial payments has declined between 2006 and 2010 (Figures 11-12).

Figure 11: Respondents (percent)) Saying they are Satisfied with Public Services

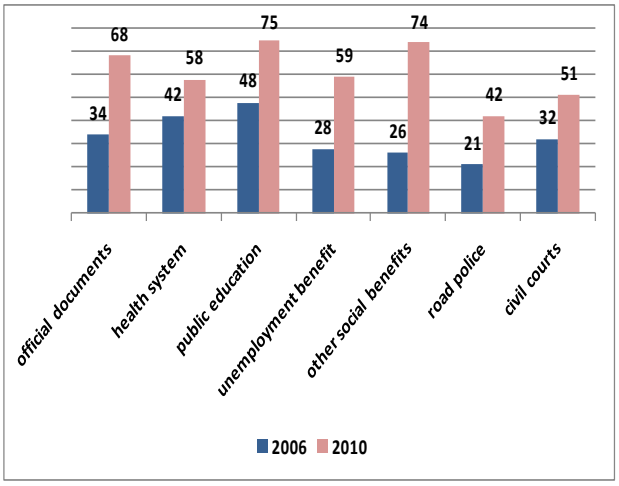
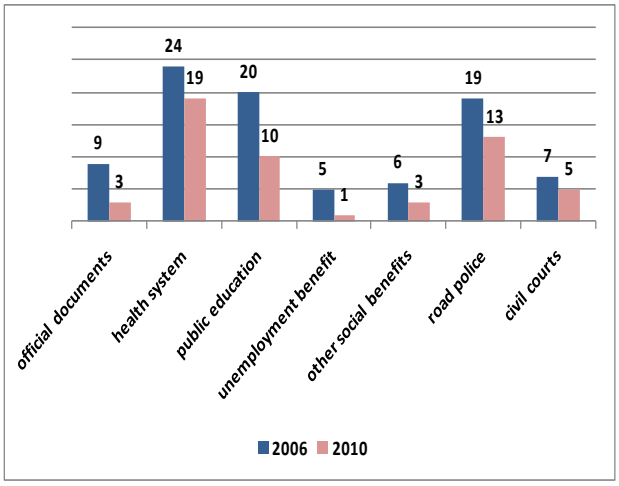


Figure 12: Respondents (percent) Saying that Unofficial Payments are Always/Usually Needed



Source: Life in Transition Survey

12. The challenge in the delivery of public services is to become both more efficient and more citizen/business oriented, contributing to business confidence and citizen satisfaction in an environment of fiscal restraint. Continued modernization of public service delivery across tiers and branches of government is designed to meet growing public expectations of user-friendly public services and to achieve efficiency savings. At the federal, regional, and local levels, the Government needs to expand new service delivery modalities, including the use of e-governance applications, use of service standards, administrative complaints procedures and client feedback mechanisms. Such initiatives should target important development constraints, such as the time required to complete land registration and issue of construction permits and business licenses.

Demand for Governance Improvements, Transparency and Accountability

13. In spite of significant progress made in improving public sector effectiveness, experts recognize that the vast majority of public administration reform results remained internal and not visible to the public. The reforms were to a significant extent driven by the state, they lacked mechanisms of civil society involvement in designing reform strategies and have not offered efficient mechanisms of partnering with civil society in the reforms implementation. In the latest President's Address to the Parliament, President Medvedev stressed the need to involve civil society organizations in the delivery of social services, and the social partnership concept is receiving increased attention from the state.

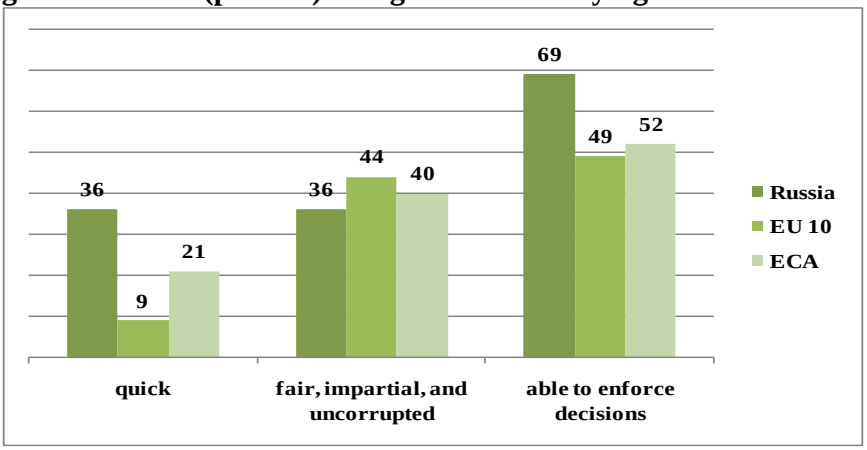
14. Some progress has been made in improving transparency and accountability. One of the key achievements in this area is the adoption of the federal law *On Access to Information on the Activities of Public Authorities and Local Government Authorities*, describing the rights of individuals and organizations to obtain access to governmental documents and stipulating the main principles and procedures for ensuring access to information. The challenge, however, remains to make the disclosed information user-friendly and understandable for the public.

The Judicial System

15. The key constituent elements of the Russian judicial system (Constitutional Court, Supreme Court, Supreme Arbitration Court, the courts of general jurisdiction, the commercial court system and the Justices of the Peace) have been steadily modernizing their business processes and facilities. During the last five years the Russian Federation is estimated to have spent more than US$2 billion on judicial modernization (IT systems, physical infrastructure, security systems, salary increases). Law No. 262 which came into effect on July 1, 2010 mandates courts to publish their decisions. A suite of IT applications is being rolled out across the courts of general jurisdiction to facilitate publication online and also improve court administration, case management, and other functions. This modernization has helped the commercial courts – the fastest reforming set of courts – to manage the spurt in cases arising from the financial crisis, which hit the private sector hard.

16. As a result, survey-based ratings of the performance of courts (speed, ability to enforce decisions, fairness and impartiality) have trended upwards (see Figure 13) and compare favorably with the EU-10 countries and the overall average for the ECA region. According to the 2008 Business Environment and Enterprise Performance Survey (BEEPS), 43 percent of firms use the courts, one of the highest rates in the ECA region. Firms using the courts in Russia expressed higher levels of satisfaction with the courts' speed and ability to enforce decisions than the ECA and EU-10 averages, but lower confidence in the courts' impartiality and integrity (Figure 13). In the *Doing Business* report of 2011, Russia ranks 18th among 183 economies in terms of the ease of enforcing commercial contracts through the courts, with Russian courts being faster and cheaper to use than the ECA and OECD averages. According to surveys by the Levada Center, citizens' confidence in the courts rose from 45 percent in 2006 to 64 percent in 2010.

Figure 13: Firms (percent) Using the Courts Saying that Courts are…



Sources: BEEPS 2008; Life in Transition Survey

17. Against this positive backdrop, however, concerns persist about lack of judicial independence, corruption, conflict of interest, and undue influence tainting judicial decisions, especially in the lower courts. With respect to the judicial branch, two areas stand out for continued state attention: (i) continuing the trend towards greater transparency and efficiency in the functioning of courts (through investments in information technology and disseminating information to citizens on judicial decisions and the functioning of courts) and (ii) strengthening the enforcement of judicial and administrative procedures through the bailiff system, ensuring efficiency, transparency and integrity.

Anti-Corruption and State Procurement

18. Corruption is acknowledged to be a serious problem in Russia. The presidential oversight administration recently estimated that kickbacks in state procurement programs may amount to as much as 1 trillion rubles (US$32.5 billion) a year. Anti-corruption efforts have received new impetus in recent years under the leadership of President Medvedev. A Federal Anticorruption Law and National Anticorruption Plan have been adopted and civil servants are required to declare their assets. The BEEPS survey of firms points to some improvements regarding the frequency of unofficial payments (Figures 14**,** 15, 16). Nevertheless, surveys of corruption perceptions show that Russia continues to lag relative to the region and in global terms.

Figure 14: Firms (percent) Reporting Unofficial Payments

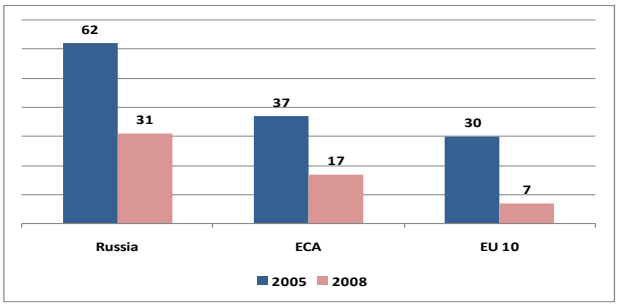
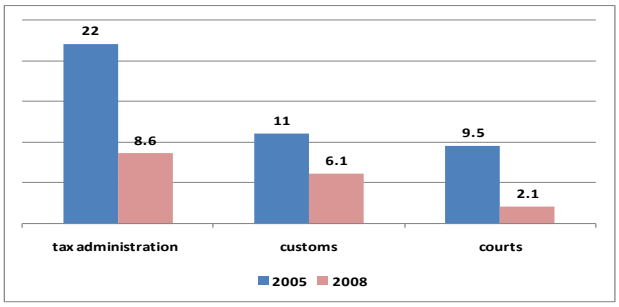
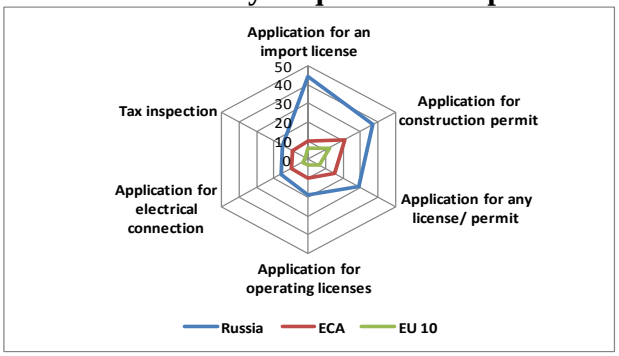


Figure 15: Firms Reporting that Unofficial Payments are Frequent in Dealing with…



Source: World Bank-EBRD. 2010. *Business Environment and Enterprise Performance Survey.*

Figure 16: Firms (percent) Saying that Informal Gifts are Usually Requested or Expected



Source: World Bank-EBRD. 2010. *Business Environment and Enterprise Performance Survey*

19. The Government has made reform of the state contracting systems a key priority. Reported unofficial payments to obtain public procurement contracts were relatively high (BEEPS 2008), with 30 percent of firms reporting having made such payments, amounting to an average 11.5 percent of the value of the contract. Some improvements have been made, including introducing e-procurement through a single government portal, and according to Rosstat, competition in public procurement tenders has increased (average number of bidders in electronic auctions increased from seven in 2007 to 26 in 2009). Overhauling the federal contracting system is likely to produce multiple benefits, improving value for money in procurement, reducing corruption and increasing transparency, and supporting new forms of partnership between the public and private sectors.

Regulation and the Business Environment

20. In the past few years the Government has renewed and stepped up efforts to improve the business environment with a focus on promoting innovation and the development of small and medium-sized enterprises as a means of accelerating job creation and economic diversification. These efforts have included reducing the burden of regulatory compliance on business, particularly in dealing with licensing and inspections at the sub-national level; systematic monitoring of business environment indicators in the regions; strengthening the enforcement of competition regulations; automating key administrative processes concerning business (e-filing of taxes); and stemming the proliferation of new regulations through the introduction of regulatory impact assessments.

21. Despite these initiatives, perception indicators of the business environment remain poor, with Russia ranking 120rd among 183 economies in the 2012 *Doing Business* report. Russia fares particularly poorly in getting electricity (183th position), in the ease of dealing with construction permits (178nd position), trading across borders (160nd position), starting a business (111th position) and protecting investors (111th position). Red tape remains a major problem for firms. Many business interactions with the public administration, especially obtaining import licenses and construction permits, are particularly time consuming and prone to unofficial payments (Figures 17, 18). The overall 'time tax' is the second-highest in the ECA region, with firms reporting that 22.9 percent of senior managers' time was spent dealing with government regulations and more firms saying that licenses and permits were a problem in doing business in 2008 than in 2005 (Figure 19). Accordingly, government efforts now focus on streamlining key regulatory processes (e.g., issuance of licenses and permits) and monitoring administrative corruption affecting business in the regions, where most regulatory processes occur.

Figure 17: Number of Days to Obtain Licenses, Permits, and Service Connections

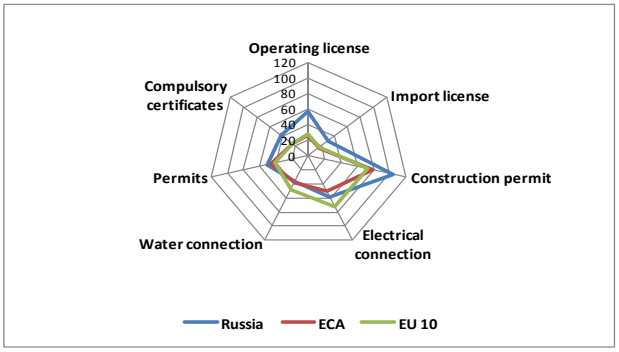
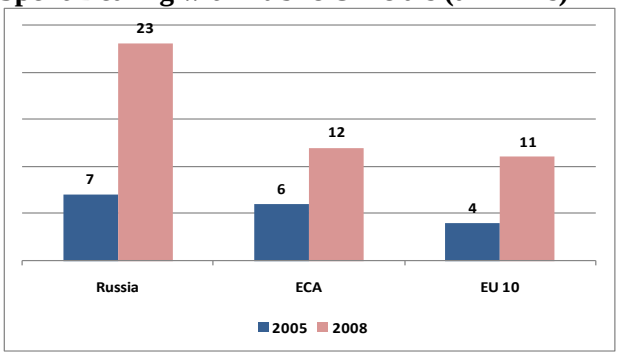
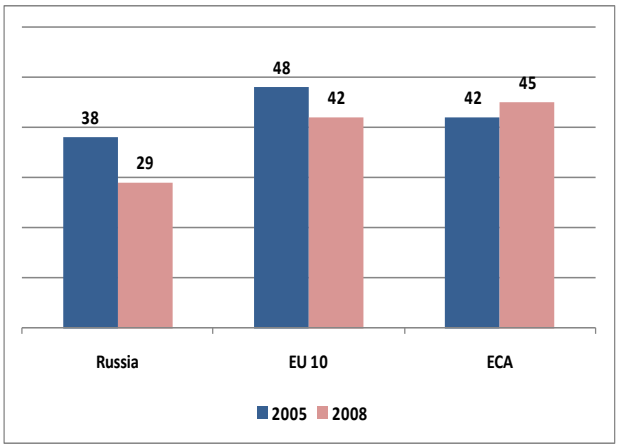


Figure 18: Percent of Senior Management Time Spent Dealing with Public Officials (all firms)



Source: World Bank-EBRD. 2010. *Business Environment and Enterprise Performance Survey*.

Figure 19: Firms (percent) Saying that Licenses and Permits are *Not* a Problem



Source: World Bank-EBRD. 2010. *Business Environment and Enterprise Performance Survey.*

Annex 6

Government's "Development Strategy 2020" Update

1. In January 2011, the Government of the Russian Federation decided to update the "Long-Term Socio-Economic Development Concept until 2020" ("Strategy 2020") prepared in November 2008. It was decided that "Strategy 2020" would be revised around sets of development challenges rather than sector blocks, and a broad public debate would be launched on the issues. Five priority areas were identified: (i) a new growth model, (ii) human capital and better quality of life, (iii) a cost-effective state and a new social contract between the state, business and society, (iv) overcoming territorial and information isolation, and (v) Russia's international role.

2. Following the Directive signed by Prime Minister Putin, the Government created 21 expert thematic groups to work out recommendations for the socioeconomic strategy from 2012 to 2020 (Box 5). The Strategy 2020 update is prepared in a participatory and transparent manner: the general public and experts, federal and regional authorities, the business community, leading analysts, and prominent international experts take an active part in the discussions and further development of the update. Nearly 2,000 scientists from all over the country were engaged in the effort, and draft reports and materials from all thematic groups were placed on a special website (www.2020strategy.ru). The preliminary results were presented to the Government in August 2011 in the form of an interim report, and the final report is expected to be delivered to the Government by end-December 2011 after broad discussions.

Box 5. Expert Thematic Groups Working on the Update of Strategy 2020

(01) New economic growth model - securing macroeconomic and social stability
(02) Fiscal and monetary policy, macroeconomic parameters underlying Russia's economic growth
(03) Pension system reform
(04) Strengthening market institutions
(05) Transition from fostering innovation to innovation-led growth
(06) Tax policy
(07) Labor market, professional education, and migration policy
(08) New school
(09) Mitigating social disparity and overcoming poverty
(10) Financial and banking sector development
(11) Human health and habitat
(12) Real federalism, local self-governance, and inter-governmental policy
(13) Enhancing public investment and public procurement efficiency, adopting a federal contractual system
(14) Reducing regulatory functions, promoting transparency and feedback with civil society and business
(15) Public property management and privatization
(16) Development of civil institutions
(17) Government sector reform
(18) Reform of natural monopolies
(19) Developing transportation, communications and information
(20) Russia's international standing: economic guidelines
(21) Promoting economic and social integration in the post-soviet environment

Vision

3. The interim report on Strategy 2020 update (draft Strategy 2020) provides a comprehensive vision of Russia's development towards becoming a more diversified and innovative economy driven by private sector investment, a stable macroeconomic environment, a more efficient public sector, and better investment climate, skills, and infrastructure. It identifies issues that the new government will need to address upon taking office after presidential elections in 2012. The structure of the report reflecting the key challenges facing Russia is presented in Box 6.

Box 6. Structure of the Draft Strategy 2020 Update

I. New Growth Model
- New economic growth model, ensuring macroeconomic and social stability
- Strategies for better business climate and a more attractive investment potential in order to implement a sustainable growth model
- From encouraging innovations to innovation-based growth

II. Macroeconomics: Basic Preconditions for Growth
- Budgetary and monetary policy: macroeconomic parameters and development of the Russian economy
- Tax policy
- Pension system reform
- Development of financial and banking sector

III. New Social Policy: Development of Human Capital
- Labor market
- Migration policy
- Professional education
- Reducing inequality and overcoming poverty
- Health care policy
- New school

IV. Infrastructure: Balanced Development, Comfortable Living Environment
- State housing policy
- Overcoming territorial disunity
- Removing constraints to heating and electric energy sector development
- Overcoming informational disunity

V. Effective State
- Optimization of state presence: reducing regulatory functions and ensuring transparency
- Development of the civil society institutions
- Public property management and privatization
- Raising efficiency of state investment and procurement, creation of federal contracting system
- Public sector reform
- Genuine federalism, local government, and interbudgetary relations policy

VI. Annexes
- Reform measures: time schedule, costs, and budget implications

4. The draft Strategy 2020 notes that the current objective is to achieve a sustainable and balanced economic growth that through modernization and the creation of the appropriate post-industrial infrastructure will transition Russia to an innovation-driven economy. Thus the strategy is based on two pillars – a new model of economic growth and a new social policy. To achieve its

strategic goals, Russia needs to ensure not just growth, but sufficiently high growth rates of at least 5 percent per year. However, Russia needs not just economic growth, but high-quality growth.

New Growth Model

5. The new growth model is aimed at transforming Russia into a post-industrial economy. The idea is to complement sustained efforts to maintain macroeconomic and financial stability with the removal of structural barriers to growth and with focused efforts for human capital development. Key challenges include lowering inflation, introducing fiscal rules to manage oil revenue volatility, developing early warning systems in the financial sector, improving the business climate, and promoting a competitive environment for businesses, export diversification and innovation. Additional priorities include encouraging innovation-driven growth, strengthening the comparative advantages in education and culture, creating a favorable environment for human development through reforms in education, healthcare, social protection and pension systems, strengthening local governments, and removing the monopoly of the state in the provision of services related to human capital development.

6. In general, the draft Strategy 2020 envisages increased budget spending on social policy reforms (by about 4 percent of GDP by 2020) offset by reduction of other expenditures (sometimes accompanied by reallocation of funds within the social sectors) in order to maintain macroeconomic stability. Very detailed costing of different reform measures and their potential implications for the general government budget are presented in the Appendix to the report.

Growth Scenarios

7. Growth scenarios leading to macroeconomic instability and inflation, as well as decreasing support to vulnerable groups or higher social inequalities were considered to be unacceptable. All reform measures have been grouped under three scenarios: scenario of inertia (development without any significant reforms or the low case scenario), reform scenario (certain reforms are implemented but there are significant vested interests of certain social groups which constrain more radical reforms, and that there are significant funding constraints), and optimal or high case scenario (budget resources and substantial political will to overcome vested interests). Most of the reforms are assumed to be implemented under the second scenario, but reforms in education, health care (partially), transport infrastructure, housing policy (partially), and pension systems would be implemented under the high case scenario.

8. The selected country level outcomes to which the CPS will contribute are well aligned with the Strategy 2020 thematic areas and objectives (see Box 7). Some of the key Strategy 2020 themes and sub-themes are strongly supported by the CPS results framework, and ongoing and planned WBG engagements are envisaged to contribute to the achievement of these outputs and milestones. The WBG engagements in energy efficiency and environmental management are aligned with ongoing sectoral strategies and programs, and supporting Russia as a donor is an ongoing engagement aligned with the 2007 Concept of Russia's Participation in International Development Assistance as indicated below.

Box 7. Alignment of CPS Outcomes to the Indicative Strategy 2020 Themes

Indicative Strategy 2020 Themes	***Country Development Outcomes to which the CPS Contributes***
Macroeconomics: Basic Preconditions for Growth	
Creating conditions for sustainable and well-balanced economic growth by ensuring **macroeconomic stability** including prudent fiscal and monetary policies, tax policies, customs modernization, and pension reforms	*Outcome 1:* Improved efficiency and effectiveness of public financial management
Developing a better **business climate** that increases investment and competitiveness including ensuring legislative protection of competition, expansion of businesses' rights to protect their interests, and facilitating and increasing the share of exports of non-resource products	*Outcome 2:* Further streamlined and simplified business procedures and improved capacity to monitor and benchmark business regulations
Strengthening the **financial and banking sector** by increasing its stability, developing and implementing a system of macroprudential regulations, implementing a road map for the implementation of Basel-2 standards, increasing the competitiveness of the sector, developing the market for domestic long-term investments, and increasing financial literacy	*Outcome 4:* Improved regulatory and supervisory framework for the financial sector and upgraded market infrastructure *Outcome 5:* Increased depth and breadth in the financial sector and increased access to finance
Ensuring **innovations-based growth** by providing incentives to both the supply and demand for innovation and ensuring benefits accrue to innovators	*Outcome 3:* Strengthened capacity to design and implement innovation and diversification programs in Russia's regions
New Social Policy: Human Capital Development	
Implementing a strategy for the **labor market and migration** processes by emphasizing the liberalization of the labor market, policies for higher labor mobility, increasing Russia's attractiveness for high quality immigrants, improving labor legislation and its enforcement, and improving social protection mechanisms	*Outcome 9:* Increased quality and improved access, targeting, coverage, and efficiency of social services for human development *Outcome 11:* Increased social inclusion of vulnerable groups
Strengthening the **tertiary education** system and stimulating professional skills development through effective contracts with teachers, developing a system of research universities, introducing applied qualifications, and increasing transparency of university entrances	*Outcome 10:* Professional education system produces adequate skills for increased competitiveness
Addressing the issues of insufficient accessibility of **preschool education,** enhancing the quality of education (e.g., PISA scores), improving management flexibility, and developing continuous improvements in teaching quality	*Outcome 9:* Increased quality and improved access, targeting, coverage, and efficiency of social services for human development
Implementing a renewed **health care policy** by promoting healthy lifestyles, developing medical education, increasing the use of IT, **r**eorganizing and restructuring outpatient and hospital care, implementing quality management systems, developing health insurance, and strengthening the market for health care services	*Outcome 8:* Improved management of environmental risks and natural resources *Outcome 9:* Increased quality and improved access, targeting, coverage, and efficiency of social services for human development
Reducing **inequality and overcoming poverty** by establishing a universal approach to targeting, developing a methodology of proxy means testing at the federal level, and encouraging regions to finance social protection within the framework of budget transfers	*Outcome 9:* Increased quality and improved access, targeting, coverage, and efficiency of social services for human development *Outcome 11:* Increased social inclusion of vulnerable groups
Infrastructure: Balanced Development, Comfortable Living Environment	
Reforming the provision of **state housing** by developing self-regulation in construction, design, and engineering, upgrading of communal infrastructures, improving the management of housing stocks, and improving mortgage finance	*Outcome 6:* Increased access to quality infrastructure assets and improved infrastructure services

Indicative Strategy 2020 Themes	***Country Development Outcomes to which the CPS Contributes***
Strengthening the **transport** systems to increase spatial connectivity by modernizing the automobile road network, decreasing the cost of road construction and maintenance, making road construction financing transparent, accelerating the development of urban transport, preventing stock degradation, developing a national highway system, connecting inaccessible regions, reducing cargo transport costs	*Outcome 6:* Increased access to quality infrastructure assets and improved infrastructure services
Increasing the competitiveness, financial sustainability, and **energy** and environment security of the Russian economy by reducing the energy intensity of the gross domestic product by 40 percent through 2020 relying on realizing the energy efficiency potential, modernization and technological development, and rational and environmentally responsible use of energy resources[21]	*Outcome 7:* Enhanced competitiveness and sustainability of the economy via reduced resource intensity of GDP
Modernizing and reforming Russia's **environmental management** systems by focusing on strategic alignment of national economic development, environmental protection, and environmental standards that contribute to human health and quality of life with priorities including (i) reduction of environmental impacts from industry; (ii) improving environmental quality standards, environmental and climate monitoring; (iii) developing incentives for effective economic development based on 'green' technologies; and (iv) protection of the natural environment and biodiversity[22]	*Outcome 8:* Improved management of environmental risks and natural resources
Improving accessibility to **ICT services**, for example, by promoting fair competition in the telecom market, accelerating the modernization of telecom infrastructure, narrowing the IT divide and promoting equal access, implementing e-government solutions, and enhancing the application of ICT in the public sector	*Outcome 6:* Increased access to quality infrastructure assets and improved infrastructure services
Effective State	
Reducing **regulatory barriers** and ensuring **transparency** through the implementation of modern standards of service provision in governmental and municipal services for citizens and businesses, and debureaucratization	*Outcome 14:* Improved government transparency and accountability
Developing **civil society** institutions by ensuring competitiveness of the Russian society and state system, optimizing public expenditure in the social sphere, and dividing responsibilities between the state and civic sectors	*Outcome 14*: Improved government transparency and accountability
Strengthening **public property** management and privatization by emphasizing a multisectoral, structural, and pragmatic approach, curtailing the proliferation of the public sector in the economy, regularly reducing the state's direct participation in the economy, and improving the quality of state management in companies with state participation	*Outcome 1:* Improved efficiency and effectiveness of public financial management *Outcome 14:* Improved government transparency and accountability
Raising the **efficiency of state investments and procurement** by creating a Federal Contractual System (FCS), improving the current procedures under Federal Law 94, introducing FCS priority standards, applying standard state contracts, and monitoring	*Outcome 14:* Improved government transparency and accountability

[21] This goal is defined in the ongoing State Program on *"Energy Savings and Increase in Energy Efficiency through 2020"* that is complementary to the Strategy 2020 Update.
[22] This goal is defined in the *Concept of Long-Term Social and Economic Development to 2020 (November 2008)*.

Indicative Strategy 2020 Themes	***Country Development Outcomes to which the CPS Contributes***
performance	
Modernizing the public sector in the **provision of services** by, among others, involving non-public organizations, giving consumers an opportunity for informed choice of a service provider, and developing the three-sector model for the provision of socially important services (open social and cultural sector, competition for quality, and promotion of PPP)	*Outcome 9:* Increased quality and improved access, targeting, coverage, and efficiency of social services for human development *Outcome 14:* Improved government transparency and accountability
Strengthening **interbudgetary federal relations** to enhance the renewal of autonomy of every level of government	*Outcome 1:* Improved efficiency and effectiveness of public financial management *Outcome 14:* Improved government transparency and accountability
Russia's Global and Regional Role	
Strengthening **Russia's regional and global role** through targeted international initiatives, projects and programs designed to provide adequate responses to contemporary global challenges and threats, initially through grants to international funds and programs of international development assistance, and in future through the establishment of a national system of instruments to provide such assistance on a bilateral basis[23]	*Outcome 12:* Strengthened Russian participation in the provision of global public goods *Outcome 13:* Established an institutional structure for delivery of a bilateral and multilateral development assistance program

[23] This goal is defined in the *Concept of Russia's Participation in International Development Assistance (June 2007).*

Annex 7
RUSSIAN FEDERATION
World Bank Group (WBG) FY07-11 Country Partnership Strategy (CPS) Completion Report

Date of CPS: November 20, 2006 (Report No. 37901-RU), Board discussion on December 14, 2006
Date of CPS Progress Report: July 30, 2009 (Report No.49119-RU)
Period Covered by the CPS Completion Report: July 2007 to July 2011
CPS Completion Report prepared by:
Marsha McGraw Olive (IBRD), Hester Marie DeCasper (IFC), and Franciscus Johannes Linden (MIGA) with input from Marcus Heinz, Anna-Maria Bogdanova, and the WBG Russia Country Team

I. Introduction and Overview

1. **The Country Partnership Strategy (CPS) and CPS Progress Report period FY07-11 represents a case study of adaptation by the World Bank Group to growth dynamics and demand from an advanced Middle Income Country (MIC).** The main event for both Russia and the WBG during the CPS period was the sharp fall in economic output and fiscal stress during the global financial crisis in 2008 and 2009. It highlighted the validity of the Government's strategy, supported by the CPS, to diversify the economy away from dependency on oil and gas revenues. At the same time, it demanded flexibility from the Government and WBG to work together in response to the crisis, to create new partnership mechanisms, and to re-orient the strategy to longer-term growth objectives. This experience underscores that strategic planning and evaluation in an advanced MIC should follow a different approach than the one taken by the previous first-generation results-based CPS. The overall design of the results framework with 15 outcome clusters and 44 milestones was unsuitable for a country with highly sophisticated and fast changing demands. Going forward, a new partnership strategy for Russia should be flexible and demand-driven, built on principles of engagement rather than transactions tied to a rigid results matrix.

2. **A principal finding of this evaluation is that the WBG increased its relevance in an advanced MIC based on global knowledge.** A culture of innovation and the flexibility to address fast-changing, sophisticated demands by the Government turned out to be key qualities for a successful WBG engagement with Russia. Demand for IBRD fee-based knowledge services (FBS) doubled during the period and was applied to programs at the global, national, and sub-national levels. IFC was also able to offer new products tailored to changing market conditions while maintaining a strong investment program; these include risk management and non-performing loan advisory services, platforms for resolution of distressed assets and the scaling up of the Global Trade Finance Program. Another finding is that the development impact of WBG operations can be maximized through direct engagement with Russia's regions, including through fee-based services and sub-national lending. Going forward, however, new approaches are needed to improve knowledge services and lending to less advanced regions. Finally, IBRD innovated in response to the Government's interest in becoming a multilateral aid provider by creating a self-standing pillar on "Russia as a Donor".

3. **This self-evaluation rates the WBG-supported program and WBG performance as satisfactory** based on CPS outcomes (Attachment 1), a survey of Country Team members

(December 2010), and feedback from seven regions in Russia. A draft version of the report was shared with the Government and the final text reflects comments received. Between FY07 and FY11 IEG prepared 13 ICR reviews for projects (12 rated satisfactory or moderately satisfactory, one rated moderately unsatisfactory), one PPAR (rated highly satisfactory), one comparative study of World Bank engagement at the State Level and one country study on World Bank support for the pension system.

- Most CPS outcomes were achieved, to varying degrees, despite the global crisis. In areas such as financial sector regulation, the crisis ignited urgency for reform. In others, such as attraction of substantial investment to non-oil tradable sectors, it highlighted the importance of IFC and MIGA as catalysts for private investment.
- Areas falling behind, including infrastructure development, investment climate, and social protection, rose to become even higher priorities for long-term growth. The WBG continued to advocate for necessary long term structural reforms even when the response to the immediate crisis took precedence.
- Program outcomes and Bank performance were highly satisfactory in two areas: public financial management and "Russia as a Donor".

II. Progress toward Country Development Goals

4. **Russia was making good progress prior to the 2008-2009 global financial crisis.** Living standards, human development indicators, and development in Russia's region all showed positive gains, although still mostly remaining below international comparators. During the crisis GDP fell sharply but Russia successfully preserved macroeconomic and financial stability. It used its strong fiscal position and large reserves to cushion the impact on the financial sector, firms and households. The authorities implemented a large anti-crisis policy package that included a gradual but still significant devaluation of the currency, support to banks and firms to strengthen balance sheets and roll over maturing foreign debt, and a large fiscal stimulus to maintain employment and incomes. The country emerged from the global recession with lower-than-expected unemployment and poverty. At the end of the CPS period, inflation represented the main macroeconomic concern for Russia.

5. **The WBG CPS reflected Russia's own medium-term development strategy.** It grouped Russia's country development goals into four strategic pillars**.** After the adoption of the Government's new "Strategy 2020" in November 2008 these pillars were slightly adapted by the CPS Progress Report and titled as: diversify the economy for sustainable development and growth (Pillar 1), improve public sector management and performance (Pillar 2), improve delivery of communal and social services (Pillar 3), and enhance Russia's global role (Pillar 4).

6. **Structural reforms focusing on the investment climate and diversification of the economy (Pillar 1) progressed only slowly over the CPS period.** There has been some shift to services in the Russian economy over the years but the economic structure is dominated by large corporations with concentration in natural resources and low value added industries, while contributions from the SME sector are limited. Although Russia's performance varies significantly across regions, most indicators suggest that the investment environment continues to make it hard for businesses to operate (dealing with construction permits, trading across borders, etc.). Competition and the institutional and policy framework remain inadequate to stimulate innovation. Most businesses continue to operate at low technological levels. The WBG "Doing Business Report" in 2010 puts Russia only at rank 123 and gross FDI inflows from 2005-2010 averaged a low 1.5 percent of GDP, with only 21 percent of these funds going to non-energy manufacturing.

7. **Infrastructure is emerging as a key development constraint**. Large and sustained investments are required to underpin a diversified, efficient and sustainable product base. The infrastructure gap estimates by the Russian Government are in the range of US$1 trillion over the next decade (Strategy 2020). Based on findings in IBRD's Public Expenditure Review (2011), significant improvements are needed in policy, institutional and funding mechanisms to meet federal infrastructure investment targets and remove bottlenecks to business growth.

8. **Regional development continues to be a challenge for the largest country in the world by land area.** Uniformly low population densities make it difficult to capture agglomeration economies but at least there is measurable progress in convergence over the CPS period when measured in gross regional product (GRP). Nonetheless, great differences among regions and their respective challenges remain. While large and dynamic cities such as Moscow and St. Petersburg do well economically, they are highly congested and create substantial problems for urban transport management. Outside these cities, poverty and unemployment can reach significantly high levels. Twenty regions (out of 83) reported an average unemployment rate above 10 percent in early 2011.

9. **Efforts to improve the quality of public services (Pillar 2) have intensified.** Streamlined standards for federal authorities in service delivery are beginning to induce cultural change in the bureaucracy. In some key areas, however, government units are understaffed and civil service salary structures make attraction and retention of qualified staff difficult. Some progress in service delivery is observable, even though the quality and even access to basic social and infrastructural services in less advanced regions are lagging behind. Multi-functional service centers, where they already have been established, have helped to cut in half the waiting time for some administrative services. The Government has also started to roll out the first wave of e-Government.

10. **Public financial management (PFM) underwent significant reforms during the CPS period.** Decentralization and the introduction of a three-year budget framework, the automation of Treasury payment functions and reforms in customs administration to increase taxpayer compliance with the Customs Code all showed that the Russian Government has followed through with a strong commitment to modern principles of sound fiscal management. PFM implementation results, however, are uneven, in particular when comparing the federal level to the local level, where municipal reforms are just taking effect.

11. **The judiciary is viewed as weak despite some improvements in recent years.** According to the latest Business Environment and Enterprise Performance Survey (BEEPS) the share of firms using the legal system increased from 27 percent in 2005 to 45 percent in 2008, while only 3 percent of the companies surveyed reported corrupt practices. IBRD (Judicial Reform Support Project) commissioned polls also show improved ratings for judicial transparency and efficiency with 64 percent of respondents in 2010 expressing confidence compared to only 46 percent in 2006.

12. **Russia's demographic profile shows a shrinking and aging population with pressure building up on social expenditures (Pillar 3).** Spending on social services in 2007-2008 accounted for about 17 percent of GDP, or half of total spending. The health and education sectors accounted for roughly 4 percent of GDP each, while social protection (insurance and social assistance) accounted for about 9 percent of GDP. During the crisis, health and education budgets were kept stable and social protection spending was increased. The total amount of additional social protection expenditures is estimated to have been around 1.3 percent of GDP in 2009 and 2.2 percent of GDP in 2010.

13. **Health indicators generally remain low in Russia in an international perspective and when compared to countries with similar levels of development.** However, measures undertaken to improve the health of the population, including the fight against HIV/AIDS and Tuberculosis, have shown first positive results. Life expectancy at birth trended upwards according to the Human Development Report from 65.5 in 2005 to 67.2 years in 2010.

14. **Relatively low spending on education in Russia achieves good outcomes compared to OECD countries.** Russia's achievements on international education tests vary. While Russian primary school students are the best readers internationally according to the results of the Program of International Reading Literacy Study (PIRLS), Russia's achievements in Program for International Student Assessment (PISA) are modest. The average numbers for Russia, however, mask huge variations among regions, and skill mismatches in the labor market are an increasingly important development constraint.

15. **A substantial part of social protection expenditure is linked to social insurance (mostly pensions).** Social assistance in Russia is mainly based on payments to specific categories of the population (privileges), while very little is spent on targeted programs**.** Privileges generally do not reach the poor well, and hence achieve little in terms of poverty reduction. Russia still lacks a unified nation-wide pro-poor safety net program or a coherent social safety net strategy. Federal/sub-national overlaps also impede improved targeting of social assistance and this remains an important area for further reforms. An IBRD Social Expenditures Review published in January 2011 provided the Government with benchmarks and options for the improvement of social service delivery.

16. **Russia plays important regional and global roles (Pillar 4) through its membership in the G8 and G20.** Russia is becoming a significant provider of crisis response funds and development assistance. It contributed US$7.5 billion to the EurAsEC Anti Crisis Fund and its ODA equivalent financial flows increased from US$102 million in 2006 to an extraordinary US$785 million during the crisis in 2009 and then fell back to US$472 million in 2010, which is in line with the Government's ODA growth path.

17. **Russia is also taking a lead in hosting global conferences on cutting-edge development issues.** Supported by the Bank and the OECD, Russia sponsored the Moscow International Conference on New Partnerships in Global Development Finance in February 2010. In November 2010 the Bank lent its support to the First International Tiger Forum hosted by Prime Minister Putin in St. Petersburg for the Tiger Range Countries, including China, international organizations and civil society organizations. Mr. Zoellick, World Bank President, participated in both of these conferences.

18. **As provider of global public goods, Russia's position on climate change is evolving slowly.** Energy efficiency is a high priority following the adoption of a landmark law in 2009, championed by President Medvedev; IFC and IBRD helped draft the law and continue to advise on secondary legislation. Russia established the legal framework for Joint Implementation (JI) projects in 2008 and approved a Climate Doctrine in 2009. It is implementing the regulatory mechanism for carbon finance and approved the first 33 JI projects. Nevertheless, the regulatory process was unnecessarily protracted, involving multiple institutional actors and steps. This hampered access to climate finance for much-needed energy efficiency investments constituting a missed opportunity for the country.

III. Development Outcomes of the Program

19. **At the beginning of the CPS period in FY07, the Russian economy had experienced eight years of robust growth from 1999 to 2006.** With growing fiscal surpluses, federal authorities indicated their intent to stop borrowing from IBRD. Without expectations for significant lending on the federal level, the challenge for the WBG was to devise a flexible, customized country partnership strategy still relevant to the country. The CPS FY07-09 put international knowledge at the center of the strategy. This was applied at three levels: global (for Russia as a donor); national (for institutional and policy change), and sub-national (targeting Russian regions). When the CPS period ended, in FY09, the Russian economy was plummeting to its lowest level since the depression of the early 1990s. The flexibility of the WBG approach enabled it to provide timely, crisis-relevant support in line with new demands from the federal authorities, as well as timely financing and advisory to the private sector. The WBG and the Government agreed that it was inappropriate to design a new medium-term strategy for Russia as it was coping with a global crisis. Moreover, the existing CPS pillars continued to be relevant since they addressed long-standing structural weaknesses and national aspirations.

20. **The Progress Report extended the CPS to FY11 and shifted focus to anti-crisis and long-term growth objectives.** The Progress Report retained new cooperation initiatives of the CPS, including the focus on regions, WBG sub-national lending, fee-based services, and a stronger role for IFC and MIGA in private sector development resulting from increased demand. As financial backing of the Russian Government's crisis response seemed necessary at the time, the CPS Progress Report also authorized new borrowing of up to US$4 billion, including for budget support. In the end a crisis- related DPO for US$2 billion was prepared but dropped after Russia decided to borrow from capital markets instead.

Pillar 1: Diversify the Economy for Sustainable Development and Growth

21. **The CPS was designed to support the Government's efforts to sustain robust growth for poverty reduction and higher living standards.** The WBG targeted binding constraints to growth within the Government's 2006-2008 strategy, including supporting policies for macroeconomic management, competition and diversification, investment climate, and infrastructure development. Given growing fiscal surpluses, new lending was restricted in favor of Bank AAA, WBG sub-national lending, and direct investments by IFC in non-oil sectors to increase economic diversification, with a sectoral emphasis on supporting regional banks, agribusiness, value-added manufacturing, and infrastructure. Jointly, the WBG aimed at supporting the development of land and property markets that are essential for business development, mobility, and revenue generation. At the outset of the crisis in June 2008, IBRD highlighted risks from an overheating economy, recommended policy adjustments to curb inflation, and called for reinvigoration of structural reforms to make productivity the driver of sustainable growth.

22. **The strategy was relevant until it was interrupted by the global financial crisis.** Structural weaknesses in the banking sector, reliance of the private sector on external financing, and a narrow economic base made Russia highly vulnerable to the unanticipated triple shocks of an oil price collapse, sudden capital outflows, and global credit tightening. In September 2008, the Russian stock market lost about US$1 trillion in wealth. Making use of the flexibility embedded in the CPS, IBRD and IFC were able to rapidly shift course in October 2008 in order to ramp up advice and support for government anti-crisis programs; IFC also intensified portfolio monitoring, working closely with existing clients to help them weather the crisis.

23. **The Progress Report shifted the strategy more toward anti-crisis and longer-term growth objectives.** For IFC, in addition to increased support for portfolio clients, crisis response included provision of short-term liquidity and advisory services to address crisis-related needs of client banks and real sector clients, as well as actions to catalyze the market in distressed assets. IFC maintained a focus on competitiveness and long-term growth through joint advisory and investment programs to improve resource efficiency, invested in municipal and transport infrastructure, and helped position clients for post-crisis growth through provision of longer-term financing. IFC also helped bring financing back to the Russian market by arranging the first international syndication for a private Russian bank since the onset of the global credit crunch. For IBRD, it meant just-in-time advice on the fiscal policy response, protection of vulnerable groups, and financial sector reform. Taking into account the uncertainties in mid-2009, when the full impact on the Russian economy was still unknown, the Progress Report reoriented WBG policy and program focus on vulnerabilities facing households and the banking system. It also revisited the Government's borrowing requirements for crisis recovery, fiscal consolidation, and infrastructure investments to serve anti-crisis and longer-term growth objectives.

24. **Impacts from the crisis were sizable yet lower than feared, with Bank policy advice playing a supporting role.** Prior to the crisis, the Bank (including Treasury) helped the Government to establish the Reserve Funds that captured windfall oil revenues and provided a financial cushion to weather the crisis. During and after the crisis, Bank dialogue with the Ministry of Finance and policy analysis in Russian Economic Reports contributed to policy actions to mitigate poverty and employment impacts (see also Pillar 3). Bank recommendations were widely disseminated, including via GDLN to the regions. The policy agenda for a DPO on public expenditure efficiency has been taken onboard by the Russian Government, although ultimately, the Russian Federation favored the option of issuing securities to attract funds from the international markets for budget support to an IBRD loan.

25. **WBG engagement prior to the crisis facilitated financial sector adjustment afterwards.** The Capital Markets Development Project (CMDP) and TA to the Central Bank and Ministry of Finance contributed to financial sector reforms. The next CPS needs to further support the strengthening of the supervisory framework, meeting G20 recommendations, and Russia's goal to become an international financial center. IFC introduced new risk management standards for banks, advanced a transparent distressed asset resolution process, boosted provision of short-term finance and worked closely with the Ministry of Finance and Vnesheconombank (VEB) to create the Russian Bank Opportunities Fund (RBOF) that, once active, will support regional banks that finance SMEs, contributing to sustainable growth and economic diversification. This was in addition to providing more traditional financing to support banking sector liquidity and bank capitalization. IFC investments in Russia's financial sector over the three years from July 2008 to June 2011 totaled US$2.24 billion, including US$1 billion mobilized from partners.

26. **Despite a global success story in Pulkovo airport, public-private partnerships (PPPs) for infrastructure development are lagging.** Though federal authorities recognized the importance of PPPs to reduce the massive backlog in infrastructure investment, the financial crisis and restrictions in the Federal Concession law reduced the formation of PPPs and use of the Federal Investment Fund. Based on a new law passed by the City of St. Petersburg and three years of advisory services on a fee basis by IBRD, a PPP for Pulkovo Airport reached financial closure in end-2010. The deal generated private investments of Euro 1.2 billion and won the *Infrastructure Investor* award for best global and regional (in ECA) PPP of the year. IFC and EBRD committed "A" loans of €70 million

(US$94 million) and €100 million (US$134 million), respectively, and jointly raised €200 million (US$268 million) in syndicated loans from a group of international banks.

Pillar 2: Improve Public Sector Management and Performance

27. **The Government has made significant progress towards adoption of modern principles of sound fiscal management**. The Bank supported the Ministry of Finance in implementing legal and institutional mechanisms for monitoring sub-national public finance, implementing management processes and expenditure controls for budget execution, creating budget authority at the municipal level, revising revenue and expenditure assignments, adopting legislation on insolvency of regional budgets, and operating a Regional Fiscal Reform Fund. Implementation of a three-year fiscal framework was temporarily suspended during the crisis but resumed in 2010. The next phase of cooperation will focus on public expenditure effectiveness drawing on the Public Expenditure Review published in February 2011.

28. **Results for the modernization of public administration and the judiciary are mixed.** The WBG supported all elements of the public administration reform process through a DFID trust fund that closed in March 2011. It responded to demand across multiple agencies and regions. While showing results in each area supported by the WBG (e.g., government statistics), there are no champions for systemic reform below the level of the President. With regard to judicial reform, the results of the WBG's support to the Government remain unsatisfactory. Despite strong progress in the arbitration courts, led by a champion for transparency, the reform overall suffers from fragmentation and weak oversight.

Pillar 3: Improve the Delivery of Communal and Social Services

29. **A model for delivery of better housing and communal services is evolving at the municipal level.** Following a decade of support to create modern land and property markets, the WBG aided the growth of the mortgage industry and financially-viable utilities. IBRD lending for water quality and district heat established the principle that tariffs can be raised if quality and service are improved, while targeting housing subsidies to the poorest. Currently, the Housing and Communal Services project is applying these lessons by providing investments for utility modernization in return for tariff and subsidy reform by municipalities. IFC programs for greater energy efficiency in housing markets also contribute by providing financing mechanisms whereby homeowners are able to invest in capital improvements, reduce energy use and waste, and raise their standard of living.

30. **Results of IBRD-supported pilot projects in the health sector have shown encouraging trends. WBG**-managed health pilots in the regions of Chuvashia and Voronezh provided a national model for restructuring health systems. Changes introduced by the Government show that primary care and outpatient services increased as hospital beds in tertiary units declined. Single-channel payment replaced fragmented systems. For example, general practitioners delivered care to 65 percent of the population in Chuvashia in 2008, up from 13 percent in 2003. A WBG sub-national loan to Chuvashia financed complementary medical equipment. In addition to this US$6 million local currency loan, IFC invested US$62.5 million in private health sector services over the CPS period.

31. **Government efforts to reduce mortality and incidence rates of TB-AIDS are beginning to show some results.** The IBRD-supported TB-AIDs project helped to overcome resistance in the

medical community to adopt WHO protocols for TB treatment and clinical practices for HIV-AIDs. Implementation support included international observers to ensure treatments reached patients. Procurement and payments were monitored for 380 million dosages of drugs and 35,335 sets of equipment for approximately 3,000 federal healthcare institutions in 85 regions. Treatment effectiveness was verified during independent monitoring visits to 60 regions.

32. **WBG support for the Government in the education sector was wide-ranging and included early child care for migrants to ICT for rural youth, benchmarking for world-class universities, and financial education for consumers.** The Russia Education Team innovated in what it financed – such as a highly successful E-Learning Project and a new project on Financial Literacy and Financial Education. The team also demonstrated the value of demand-driven fee-based services for education. The sector has secured contracts for US$4 million over that period to deliver international knowledge in addressing issues in early child care, vocational, and higher education.

Pillar 4: Enhance Russia's Global Role

33. **The CPS outcomes in support of the country development priority comprised the development of a Russian ODA strategy and the realization of expanded donor activities in line with the strategic vision.** Substantial progress is evident in this area and overall the expected outcomes were achieved. The WBG in collaboration with other partners (DFID, OECD) provided key support for the successful re-emergence of "Russia as a Donor". The Russian Federation formulated an overarching policy statement for its ODA activities in 2007 ("Concept for Russia's Participation in International Development Assistance"). This strategic vision was approved by the President of the Russian Federation. It established key orientations and objectives for the country's future aid program based on OECD-DAC principles and the achievement of the MDGs. The concept lays out a two stage process to build a national ODA system. Ultimately, the plan anticipates the establishment of a specialized Russian aid agency (yet to be realized) and the formulation of separate three-year work programs for Russia's development assistance. IBRD has directly supported the Russian Federation's efforts to develop an ODA strategy during the CPS period and a demand driven World Bank Trust Fund ("Russia as a Donor Initiative"), financed with a grant of US$870,000 by DFID, supported the development of main elements of the future Russian aid architecture. IBRD, alongside the OECD, also supported the preparation of the Moscow International Conference on New Partnerships in Global Development Finance (February 17-18, 2010) in which Mr. Zoellick, World Bank President, participated.

34. **The Russian Federation has significantly scaled up its development assistance and broadened its engagement in development cooperation during the CPS period.** The Russian Federation currently provides most of its development aid through multilateral channels, including through IBRD Trust Funds. Russia has constantly increased its IDA contributions since IDA12 and has pledged US$173.5 million (0.51 percent burden share) for the latest IDA16 replenishment. As of March 2011, its contributions to World Bank administered Single and Multiple Donor Trust Funds have reached a total of US$461.7 million (including US$257 million for the Global Fund to Fight AIDS, Tuberculosis and Malaria). Following its ODA strategy and in line with G8 commitments, the Russian Federation focused its activities as a donor during the CPS period on six themes: *Quality of Education, Access to Energy, Infectious Diseases, Public Financial Management, Financial Literacy, and Migration*. Russia also supported activities in the area of *Crisis Response* with significant contributions. The WBG has supported Russia with its new engagement in these initiatives and helped with the desired build-up of expertise in the Russian aid system, as is particularly evident from the creation of the "Russia Aid for Development" (READ) Trust Fund.

35. **The WBG helped lay the basis for carbon finance and concluded two deals.** Following the ratification of the Kyoto Protocol by the Russian Federation in 2005, the WBG invested considerable resources over four years to help Russia prepare environmentally sustainable projects using carbon market tools. Several operations were initiated but only one was concluded: Komsomolskoe Associated Gas Flaring Reduction Project. Prepared together with OAO NK Rosneft, it will reduce about 2 million tons of CO2 emissions. IFC completed one carbon finance deal in Russia during the CPS period in cooperation with CoreCarbon, reducing 2-3 million tons of nitrous oxide emissions from a fertilizer plant. However, overall Russia underexploited its reserves in utilizing carbon finance instruments.

36. **IFC took a comprehensive approach to catalyze the market for investments in energy efficiency, renewable energy, residential energy efficiency, and resource efficiency.** IFC and IBRD have worked closely with the Russian Government on policies to facilitate investment in the sector, including publication of a major policy study discussed at the highest levels of government. In addition to direct financing and advisory services to financial institutions and real sector enterprises, IFC engages with a broad range of stakeholders to educate the market about the benefits of investments in sustainable resource use, provides sector benchmarking and disseminates best practices. IFC climate change projects in Russia between July 2007 and June 2011 reduce direct CO2 emissions by 490,000 tons annually. IFC's Sustainable Energy Finance and Cleaner Production Programs have facilitated US$213 million in credit lines by IFC, of which US$97.5 million has already reached end users, and have generated over US$40 million in annual energy cost savings for companies.

IV. WBG Performance

37. **The WBG has a modest program in relation to the Russian economy.** GDP reached a level of US$1.5 trillion in 2010 while for the whole CPS period new IBRD lending amounted to a total of US$385 million. IFC invested more than US$4.2 billion in 105 projects, of which US$1.3 billion was mobilized from partner financial institutions. Russia is MIGA's largest net exposure (US$450 million as of June 30, 2011) almost entirely concentrated in Russia's financial sector, yet there have been no new guarantees issued for investments since September 2009.

38. **Since FY07 the IBRD portfolio has shrunk from 22 to 13 projects (US$1.206 billion as of June 30, 2011).** Loan preparation in Russia is lengthy. Portfolio quality is overall satisfactory, with two exceptions in the Judicial Reform Support Project and the Registration Development Project. FBS and sub-national lending (nine loans for US$162 million) emerged as new business lines. Nonetheless, the financial terms and conditions of these instruments are not well suited to the circumstances of less advanced regions which are most in need of WBG support.

39. **IFC's disbursed and outstanding portfolio in Russia was US$2 billion (as of June 30, 2011), representing 6.3 percent of IFC's global portfolio**. An additional US$530 million is committed and undisbursed. IFC portfolio quality remained high throughout the CPS period, with no crisis-related NPLs. During the CPS period, IFC introduced the following joint advisory-investment programs aimed at improving resource efficiency among private sector businesses: Russia Cleaner Production Program (2008), Russia Renewable Energy Program (2010), and Russia Residential Energy Efficiency Project (2010). IFC began offering structured finance products in Russia during the early years of the CPS period, including partial-credit guarantees to sub-national entities and securitizations of mortgages and auto loans. IFC also boosted provision of trade finance, risk

management products such as swaps, and local-currency financing during the latter stages of the CPS period in response to unmet demand from the private sector.

40. **WBI supported and complemented the rest of the WBG through capacity strengthening and learning programs.** All programs were aligned with the strategic dimensions of the CPS pillars and with the WBG's strategic approach to engage in regions where development has been uneven and capacity needs were the greatest. WBI worked jointly with the ECA GDLN Network to reach out to Russian regions through the GDLN Russia Affiliates Network and worked closely with local partner institutions such as universities and research think tanks.

41. **The WBG was catalytic by focusing on policy and institutional advice with broad macro or microeconomic impact, investments in the regions with strong demonstration effect, mobilization of other funds, and new markets underserved by the private sector.** To strengthen impact in a vast country with a strong financial position, the CPS introduced six distinctive features to WBG engagement. Making "Russia as a Donor" a self-standing pillar was particularly effective, as discussed above. Additional features included:

42. ***Regional focus.*** With federal endorsement, IBRD provided direct services to 12 regions. Demand evolved from successful earlier engagements that received national attention. Similarly, IFC prioritized less advanced frontier regions for investment and advisory services. However, without federal guarantees for direct IBRD lending and federal support for WBG knowledge services, outreach to less advanced regions has proved difficult (see also below).

43. ***Fee-based services.*** All services were provided on a demand-driven basis in line with WBG guidelines, quality control procedures, and usually with support from network anchors. Total contract value of 40 completed and signed projects for FY07-FY11 is approximately US$20 million**.** All FBS are provided on the principle of full-cost recovery.

44. ***WBG piloted sub-national lending without sovereign guarantees.*** These loans met a vast, heretofore unmet demand for essential investments in infrastructure services in regions with limited access to long-term commercial finance. Nine operations for a total investment of US$162 million are completed or disbursing. Demand dropped during the financial crisis due to high cost of borrowing (pricing is market-based). Financial conditions are also not apt for less advanced regions.

45. ***Stronger role for IFC and MIGA in private sector development.*** IFC and MIGA contributed increasingly to the pillar on economic diversification, linked closely to SME development. Demand for IFC financing and advisory services grew during the crisis, particularly for shorter term instruments and risk management and distressed asset solutions. IFC programs are helping to open up new markets, particularly those linked to mitigating climate change and increasing resource and energy efficiency to boost competitiveness.

46. ***Realization of projects on the basis of 'new modalities.'*** The Government wants to eventually shift to a non-lending relationship in which the WBG provides implementation and advisory services for projects without sovereign borrowing. A number of projects were identified for the so-called 'new modalities' when the global financial crisis hit (e.g., Financial Education and Financial Literacy reverted to a loan). The Ministry of Finance and the WBG are working on sample agreements to govern the *"new modalities"* for which a pilot project will be identified in the next CPS period.

V. Lessons and Recommendations

47. **To remain relevant in advanced MICs, the WBG should innovate constantly.** For this purpose, the WBG needs to maintain monitoring and analysis of cutting-edge policy issues. The satisfactory rating for the Bank's performance is based both on CPS outcomes and on innovation. The Country Team rose to the challenge of a non-lending CPS. The WBG created a new platform for dialogue based on global knowledge. Sources and uses of such knowledge were diverse: federal country experience (e.g., Australia, Canada, US for the Treasury, Tax and Public Finance projects), international benchmarking (world class university study by the HD anchor, Doing Business), international standards (WHO for TB-AIDs, OECD for ODA), international good practices (oil reserve fund, long-term fiscal rules, PPP for Pulkovo airport, distressed asset markets, consumer financial protection), and AAA on Russia's global role (WTO, energy efficiency). There remain multiple areas where international knowledge can bring Russia economic and efficiency gains in the next CPS. Procurement and innovation policies are prime examples here.

48. **With limited resources, the WBG should aim to maximize its development impact through deepened direct engagement in the regions.** Experimentation in the regions influences national policy. Demand-based delivery of global knowledge in the regions created a feedback loop for federal policy change. Examples include services in Tatarstan for innovation policy, poverty analysis, and world-class universities; in Stavropol and Kirov for increasing public participation in budgeting; and in St. Petersburg for PPPs.

49. **Less advanced regions and vulnerable citizens need higher attention.** While extremely positive about the development of fee-based services, Country Team members do not want to overlook less advanced regions. Not surprisingly, most demand for FBS comes from wealthier regions (the exceptions are Stavropol and Kirov for the Local Initiatives Support mechanism). A lending operation for the Northern Caucasus (the least advanced region) is under development, which will test the applicability of Bank instruments under those local conditions. Federal guarantees for sub-national lending and a lack of funds in less advanced regions to pay for FBS are hurdles to be addressed by the federal authorities. Also going forward, the WBG needs to make instruments as flexible as possible for diverse development needs in the regions.

50. **The broadening of the global development community is an opportunity to "modernize multilateralism".** The implications of making donor capacity-building a separate CPS pillar go beyond the Russia program, and beyond the World Bank as an institution. The large new commitments made by the Russian Federation to crisis response internationally, while facing a fiscal crisis at home, show that multilateralism in the twenty-first century is evolving. The accession of advanced MICs like Russia to the ranks of development aid donors is beginning to change the international aid architecture with the sharing of new knowledge (including South-South dialogue) and the provision of additional development finance resources. To avoid fragmentation and to achieve fast track integration of emerging donors into the multilateral donor community, the build-up of new institutional structures and expert capacity within the Government are necessary.

Attachments:

Attachment 1: **CPS FY07-11 Results Summary**
Attachment 2: **CPS FY07-11 Planned Lending Program and Actual Deliveries**
Attachment 3: **CPS FY07-11 Planned Non-lending Services and Actual Deliveries**

Attachment 1

CPS FY07-11 Results Summary

PILLAR 1: DIVERSIFY THE ECONOMY FOR SUSTAINABLE DEVELOPMENT AND GROWTH	
COUNTRY DEVELOPMENT GOAL: PROMOTE PRIVATE SECTOR DEVELOPMENT	
CPS Outcome	Status and Evaluation Summary
Strong progress in land registration and cadastre listings	**Status: achieved** The procedure of cadastre recording was simplified. The number of steps requiring the client to interact with the cadastre offices in connection with transactions in immovable property was reduced. The requirement of a technical inventory for secondary transactions was abolished. A mass appraisal methodology was created and tested. The legal base for the Unified Real Estate Cadastre was created. Integration of land and real estate data is progressing well. All 40 participating regions installed and tested equipment and software for inter-relations between managerial levels and integration of data on all types of immovable property. *Measured progress:* The average time for completion of transactions in immovable property was reduced to 51 days in 2009 (Baseline (2004): four months). Regulatory changes have had considerable effect, but reorganization and adaptation to new technologies in offices moderated (and sometimes reversed) time savings. The average time a client spends in a cadastre office (per visit) decreased to 59 minutes in 2009 (Baseline (2004): two hours). Seventy percent of surveyed clients (2009) were satisfied with the operation of cadastre offices. *Bank Group impact:* The Cadastre Development Project served as a pilot for all governmental reforms in the area of real estate cadastre and registration. The mass appraisal methodology (and its test under the project) is the major source for the setting of taxation rates for immovable property. *Enabling/disabling factors:* Market competition was introduced to technical inventory services (in 2009, 245 survey firms were accredited). The cadastre and registration offices were unified both at the federal and regional levels. However, the land market is underdeveloped due to weak protection of property rights. No improvement was noticeable in the International Property Rights Index (63rd place among 70 countries surveyed in 2007; same in 2010).
Lessons and Suggestions for CPS 2012-2016	
Property registration remains a key issue for unlocking the dynamic growth potential of the Russian economy. Exposure of responsible government staff to international best practice is essential for nurturing domestic progress. The new program should ideally target real estate market development (including land markets), improvement of services, and protection of legal rights to immovable property.	
Bank Group Contributions: **P078420** Cadastre Development Project (SIL) *Approved*: July 2005; *Status:* Closed (June 2011); *Latest ISR Rating*: Satisfactory; *ICR Rating*: Not available	
COUNTRY DEVELOPMENT GOAL: PROMOTE PRIVATE SECTOR DEVELOPMENT	
CPS Outcome	Status and Evaluation Summary
Financial sector regulation reform implemented **Availability of finance for Russian entrepreneurs increased**	**Status: achieved** Capital markets legislation was enacted to stimulate the development of the domestic capital markets and strengthen investor protection through increased transparency and effective market surveillance (e.g., law on insider-trading and price manipulation; increased protection of bond holders' rights in the eventuality of default; amendments to the Securities Market Law on disclosure to strengthen transparency, etc). Access to capital market for private companies increased as a result of facilitation of capital raising through IPOs and new corporate debt issuance.

	Measured progress: Equity market capitalization as a percentage of GDP fell to 60 percent in 2009 after peaking at close to 100 percent in 2007 (Baseline (2000): 17.2 percent). Bond market size as a percentage of GDP went to 5.2 percent of GDP in 2009 (Baseline (2000): 0.5 percent). IPO volume (in US$ billions) rose from 0.01 in 2003 to 1.13 in 2010. The number of corporate debt issuers increased from 168 in 2004 to 405 in 2010. The volume of bonds issued rose from US$9.6 billion in 2004 to US$67.1 billion in 2010. *Bank Group impact:* The debt and asset management capacity of the MOF was strengthened through the development of the legal and organizational framework underpinning the new Financial Agency responsible for managing sovereign debt and assets, including the Sovereign Wealth Fund. The institutional capacity of the FFMS benefited from an automated document workflow system supporting the modernization and automation of the business functions of the Securities Regulator. Specifications and design of a modern and comprehensive information analytical system to strengthen Central Bank oversight and monitoring of national payment system were developed. IFC invested more than US$3.4 billion in 120 projects in Russia's private sector and mobilized US$1.3 billion from partners, including commercial banks and other development finance institutions. Financial markets investments (US$1.9 billion, plus mobilization of US$1.1 billion) to regional banks supported trade, SME, mortgage and energy efficiency finance as well as risk management and distressed asset resolution. From 2006 to 2010, IFC's portfolio clients in the banking sector provided around 360,000 SME loans and held an outstanding SME portfolio of US$4.6 billion at the end of 2010. IFC's portfolio clients provided approximately 168,000 microfinance loans over the same period, and held an outstanding microfinance portfolio of almost US$23 million at the end of 2009. The Russian Bank Opportunity Fund (RBOF; MOU signed with Ministry of Finance, June 2011) will support regional banks that finance SMEs and play a critical role in funding regional growth. RBOF will also complement IFC's comprehensive advisory programs for regional banks seeking to improve risk management and NPL management. IFC provided in-depth advisory services to eight financial institutions, advised 27, and trained 115 entities in portfolio and risk management strategies and resolution of distressed assets. IFC delivered diagnostics with recommendations to advisory clients and provided follow up advisory services in selected cases. MIGA issued nearly US$581 million in new guarantees supporting investments of global financial institutions into their banking, mortgage and leasing subsidiaries in Russia. MIGA guarantees support manufacturing projects in the consumer goods industry and financial institutions interested in regional expansion and consumer and SME credit and services. *Enabling/disabling factors:* The financial crisis led to a "credit crunch" (that has eased since 2009) and increased awareness for the necessity of stronger supervision and enforcement. The Bank Group's rapid response was possible because of the existing deep engagement in the sector and the continuity of dialogue since the 90s. The institutional investor base is still shallow due to underdevelopment of insurance and non-government pension funds. NPLs continue to constrain lending to corporations and SMEs. Credit growth in 2010 is lower than in 2007.

Lessons and Suggestions for CPS 2012-2016

There were no major bank failures during the financial crisis, in part due to strong synergies between Bank and IFC policy guidance and lending. Continued engagement in the sector enabled flexible, just-in-time response by IBRD and created demand for FBS. The remaining issues in the banking system and capital markets continue to create structural problems for firms. The lack of access to finance is the single highest obstacle for medium, small, and micro enterprises, and is the second highest obstacle to larger firms after tax rates. Access to financial services improved from 109th in 2009 Doing Business to 89th in 2011. Still, about 60 million Russians have no access to financial services.

The Bank should put an emphasis on further strengthening of the supervisory framework, help meet G20 recommendations and should try to support Russia's goal to become an international financial center.

IFC should continue its work on strengthening bank risk management, help establish infrastructure for the transparent distressed asset resolution process (i.e., NPLs sold on stock exchange), and assist in preparing for the implementation of Basel II and III policies. IFC should also enable equity investments (complemented by debt instruments and advisory services) to improve bank fundamentals and efficiency, facilitate the consolidation and stabilization of the private banking sector, and help improve the intermediation and access to finance for SMEs and entrepreneurs. IFC should also strive to promote the sustainable presence of institutional investors in Russia.

Bank Group Contributions: **P042622** Capital Market Development Project (TAL) *Approved*: May 1996; S*tatus:* Closed (November 2010); *ICR Rating*: Satisfactory; *IEG Rating:* Moderately Satisfactory **P122493** FBS to Central Bank of Russia; *Approved*: June 2010; *Status:* Ongoing

P104863 Financial Sector Assessment Program update (FSAP); *Approved:* February 2008; *Status*: Completed; **P108310** Post FSAP TA on Banking Supervision, Insurance and Pension; *Approved:* February 2008; *Status*: Completed; **IFC** Russia FM Crisis Management Program (2010-present) and Russia Banking Advisory Program (2007-2010); **IFC** Financing to private banks and non-bank financial institutions

COUNTRY DEVELOPMENT GOAL: MAINTAIN MACROECONOMIC STABILITY

CPS Outcome	Status and Evaluation Summary
Fund for Future Generations created according to good international practices	**Status: achieved** The Stabilization Fund was divided into the Reserve Fund (to insure the budget against oil price fluctuations) and the Fund for Future Generations (invested in longer-term assets). Total accumulation reached a peak of US$580 billion. These reserves enabled Russia to finance the fiscal cost of anti-crisis measures implemented in 2008 and 2009 (around US$90 billion, or about 7 percent of GDP) from internal sources and relieve social impact and pressures on the currency. As a result, the financial crisis was managed with much lower-than-feared social impact, without a currency crisis or a failure of any major bank. *Bank Group impact:* The Ministry of Finance developed the new Financial Agency (under Capital Market Development Project) to manage sovereign debt and assets, including sovereign funds. Bank AAA helped resolve questions and controversies related to investment strategies and potential uses for the Funds: Policy recommendations by the Bank were adopted on long-term fiscal planning and management of oil revenues (e.g., budget for 2009-2010 prudently based on conservative oil price assumptions). The Russian Economic Reports provided regular monitoring and timely, evidence-based policy analysis and advice on macro policies. From 2006 to 2010, IFC's client companies contributed to macro-stability through tax payments of over US$5.7 billion. *Enabling/disabling factors:* The Government sterilized large balance of payments inflows and resisted temptations to spend oil windfalls. Strong leadership by the Ministry of Finance and the Central Bank was reinforced by technical inputs (Treasury) and analytical work (Bank).

Lessons and Suggestions for CPS FY 12-16

Objective and timely policy advice that feeds into the authorities' policy cycle strengthens champions for prudent fiscal and debt management. Future support is needed to underpin on-going fiscal consolidation, implement improvements in public expenditure efficiency and program budgeting, and develop institutions to manage sovereign debt and assets.

Bank Group Contributions: **ESW** Russian Economic Reports *Approved:* 2001; *Status:* Ongoing; **ESW** Long Term Fiscal Risks and Fiscal Sustainability *Approved*: June 2008, *Status:* Completed; **P042622** Capital Market

Development Project (TAL) *Approved*: May 1996; *Status:* Closed (November 2010); *ICR Rating*: Satisfactory;
P119392 Public Expenditure Management and Efficiency TA *Approved*: September 2009; *Status:* Completed

COUNTRY DEVELOPMENT GOAL: INCREASE DIVERSIFICATION OF THE ECONOMY	
CPS Outcome	Status and Evaluation Summary
Special Economic Zones, IT parks, and investment fund projects implemented according to best practices **Attraction of substantial private investment to non-oil tradable sectors** **Russian firms monitored clearly and benchmarked relative to the past and other countries on competitiveness measures.** **Increase in innovation rates**	**Status: partially achieved** With few exceptions, Russia's companies find themselves only at the margin of the modern "knowledge economy". Competition and the institutional and policy framework remain inadequate to stimulate innovation. Most businesses continue to operate at low technological levels. Government investments in "innovation infrastructure" include science parks, technology-transfer organizations; i.e., *Rosnano*, (to commercialize nanotechnologies) and a high-profile R&D center in *Skolkovo*. The Fund for Assistance of Small Innovative Enterprises (FASIE) received funding of RUB2.4 billion in 2010. *Measured progress:* The WBG "Doing Business Report" in 2010 puts Russia only at rank 123 and gross FDI inflows from 2005 -2010 averaged a low 1.5 percent of GDP, with only 21 percent of these funds going to non-energy manufacturing. Patent applications of Russian residents decreased from 27,884 (2006) to 25,598 (2009), while non-resident patent applications increased from 9,807 (2006) to 12,966 (2009). *Bank Group impact:* Russian firms were benchmarked for competitiveness (see ECA flagship report for comparison with other firms in the region). Policy recommendations were provided for innovation-oriented exports. The Bank is advising the Russian Venture Company (RVC, a public company holding RUB28 billion as seed capital) on global approaches to strengthening innovation management networks. The Association of Innovative Regions was created under the Ministry of Economic Development based on findings of FBS to Tatarstan that national policies must be complemented with regional policies. The Bank was requested to continue support to Regional Action Plans and an Innovation Observatory. IFC investments in the real sectors during the CPS period (US$1.4 billion plus mobilization of US$243 million) comprise manufacturing, including chemicals, glass, wood processing, machinery, metallurgy, electronics, construction, real estate and retail (US$427 million plus mobilization of US$5 million); agribusiness, including food and beverage manufacturing/processing and agri-infrastructure (US$316 million plus mobilization of US$48 million); infrastructure, including transport, logistics and municipal services (US$466 million plus mobilization of US$173 million); IT and communications infrastructure and services (US$107 million plus mobilization of US$18 million); private and municipal healthcare services (US$69 million); and oil, gas and mining (US$50 million). IFC investment in extractive industries was less than 4 percent of total IFC real sector investment. *Enabling/disabling factors:* The Government declined to borrow for SEZ/IT project (withdrawn from Bank pipeline in 2008). Russia's investments in innovation support measures are not yet matched by outcomes, partly due to a focus on equity investments and physical infrastructure without adequate attention to constraints on overall business productivity and soft measures of a national innovation system.

Lessons and Suggestions for CPS 2012-2016

Bank engagement depends on demand, which declined at the federal level as oil prices rose and increased when financial crisis exposed vulnerability to oil price shock. Nevertheless, the Tatarstan FBS has had a strong demonstration effect on other regions and is now informing federal policy. Work initiated with the Bank in 2008 did not lead to direct lending, but at the end of 2010, the Ministry of Economic Development approached the Bank to conduct an assessment of the Russian SEZ framework on an FBS basis.
IFC remains an important investor for economic diversification.

Going forward, the Bank should combine specific advice on innovation policy with dialogue on export diversification.

Bank Group Contributions: **ESW** Russian Economic Reports *Approved:* 2001; *Status:* Ongoing**; ESW** ECA Flagship Report "Unleashing Prosperity: Productivity Growth in Eastern Europe and FSU"; *Approved*: 2007; *Status*: Completed; **ESW** Export Diversification, Competition and Innovation; *Approved*: 2010; *Status*: Completed; **P109701** TA Regional Development Strategies *Approved*: 2008; *Status*: Completed; **P118130** FBS Support for Innovation in the Republic of Tatarstan *Approved*: 2009; *Status*: Completed; **P123690** RU Innovation EFO *Approved:* August 2010; *Status*: Completed; **P125925** FBS Nurturing Innovation Management in Russia *Approved*: 2010; *Status*: Completed; **IFC** Financing and Advisory Services related to resource efficiency

COUNTRY DEVELOPMENT GOAL: CORRECTING SPATIAL IMBALANCES AND PROMOTING GROWTH POINTS	
CPS Outcome	Status and Evaluation Summary
Selected regions with Bank support (development strategies) improve climate for growth and investment **Drafting of national regional strategy for promoting growth points** **Improvement in regional trade through reduction in transportation logistics costs**	**Status: partially achieved** For Russia's 11 macro-regions, the coefficient of variation of population is 2.5 (a lower value indicating more uniformity), but for Canada's 11 provinces it is 14.8. This spatial dispersion continues to impede capture of agglomeration economies in Russia. Internal migration remains a contested issue. Spatial policies continue evolving at the national level. A national regional strategy for promoting growth points has not been adopted so far. *Measured progress:* In 2010 the number of SMEs in St. Petersburg, where the Bank was active with support, reached 228,000 (Baseline (2003): 97,000; Target (2010): 189,000) and private transactions for land and real estate exceeded 210,000 (Baseline (2003): 90,400; Target (2010: 127,200). Over 4,600 people out-migrated from Northern Territories during three migration waves (fourth wave was not endorsed by the Government). *Bank Group impact:* The Bank supported higher economic development in St. Petersburg and outmigration from Northern regions through lending. It contributed to policy debates on sources of regional growth and increased the focus on importance of migration, trade and agglomeration as a preferred strategy to address spatial inequalities. Discussions with the Government showed that one-size-fits-all national regional development policy is unlikely to be successful in Russia. In a Country Economic Memorandum the Bank documented a decline in the differentiation of regions by gross regional product (GRP) and growth of consumer prices. It benchmarked 10 regions on key investment climate issues, leading to demand for a repetition in 30 regions (which will also document changes in the first 10). Demand-driven advisory services through FBS contributed to planning of new investments and raising financing (e.g., Euro 1.1 billion for Pulkovo airport). The Moscow Urban Transport – Bridge reconstruction program contributed to the construction of six pedestrian underpasses and established a Traffic Management Center. The Bank supported benchmarking of regional authorities on ease of trading across borders, which highlighted constraints. Bank dialogue with Avtodor (new agency for federal toll road construction and maintenance) remains in the early stages. The Customs Development Project targeted a reduction in compliance costs for border crossings. Thirty-three percent of IFC investments (US$1.1 billion) targeted frontier regions. *Enabling/disabling factors:* A number of regional authorities showed strong commitment to improve the business climate in their localities to underpin socio-economic progress. At the national level, the Government put greater focus on balanced regional development in the wake of the financial crisis, partly due to stress in "mono" (one company) towns. Infrastructure financing remains a high priority for the Government yet demand at the federal level did not materialize as expected. "Progress in housing reform" outcome was moved to Pillar 3 because it is better

	aligned with CPS outcomes under the Country Development Goal linked to affordable housing.

Lessons and Suggestions for CPS 2012-2016

The Bank Group can contribute directly to regional development through lending and policy advice. Further engagement with less advanced regions is dependent on a federal support mechanism for Bank activities there but bear prospect of high development impacts. Interlocutors for national policy are dispersed among agencies and think-tanks. Bank Group influence to date has been primarily in raising awareness. Careful diagnostics of regional development constraints and specifics are likely to be needed in formulating and implementing effective individual regional development strategies. At the end of the CPS period demand was increasing at the regional level for long-term, regional socio-economic strategies and investment climate assessments. The Bank should continue planning its support for socio-economic development in interested regions following a demand-driven approach. With regard to infrastructure as a factor for regional development, strong demand by regional authorities for advisory services on transport and logistics is not matched by federal agencies (except under the Customs Project). The Bank should concentrate on implementation of the public expenditure effectiveness agenda in large infrastructure sectors to improve Operations and Maintenance (O&M) as well as investment efficiency. Going forward, further promising infrastructure activities in regions could be linked to facilitating investments in major transport hubs (St. Petersburg, Moscow) and to making use of financial intermediaries.

Bank Group Contributions: **Country Economic Memorandum** Regional Development *Approved:* 2009 *Status*: Completed; **GDLN** seminars on Russian Economic Reports and regional development strategies for regions *Approved: 2000*; *Status:* Completed; **P046061** Moscow Urban Transp. (SIL) *Approved*: February 2001; *Status*: Closed (December 2008); *ICR Rating*: Satisfactory; *IEG Rating:* Satisfactory; **P064328** Northern Restructuring Project (SIL) *Approved*: June 2001; *Status*: Closed *ICR Rating*: Moderately Unsatisfactory; **P069063** St. Petersburg Economic Development Project (FIL) *Approved*: May 2003; *Status*: Ongoing *Latest ISR Rating*: Satisfactory; **P072960** Customs Development Project (SIL) Approved: April 2003; Status: Ongoing *Latest ISR Rating*: Satisfactory; **P105815** Sub-national Doing Business TA *Approved*: April 2007; *Status*: Completed; **P108703/704** FBS Transport Nadzemny Express PPP St. Petersburg *Approved*: August 2007; *Status*: Completed; **P109067** FBS Western High Speed Diameter/Orlovski Tunnel *Approved*: September 2007; *Status*: Completed ; **P109593** FBS Transport Pulkovo Airport Expansion PPP St. Petersburg *Approved*: October 2007; *Status*: Completed; **P109701** TA Regional Dev. Strategies *Approved*: 2008; *Status*: Completed; **P110746** FBS Transport Kazan International Airport *Approved*: March 2008; *Status*: Completed; **P114071** FBS Transport Volgograd Feasibility By-pass *Approved*: December 2008; *Status*: Completed; **IFC** Financing and Advisory Services in Frontier regions

COUNTRY DEVELOPMENT GOAL: REMOVE INFRASTRUCTURE BOTTLENECKS TO GROWTH IN TRANSPORTATION, ENERGY, AND OTHER AREAS

CPS Outcome	Status and Evaluation Summary
Improvement in overall legal, regulatory and institutional framework for PPP **Successful formation of PPPs** **Key (with economic impact) infrastructure created in the context of Bank projects** **Power sector able to attract investment resources at good terms (under guarantee)** **Effective allocation of Investment Fund and Federal Targeted Program resources.**	**Status: partially achieved** Public-private partnerships (PPP) for infrastructure development are lagging. The financial crisis and restrictions in the Federal Concession Law reduced the formation of PPPs and use of the Federal Investment Fund. The power sector restructuring has been completed. Most of thermal generation assets and regional power supply companies have been privatized. Many power sector companies are floated on the Russian stock exchange. Investments in the power sector are mostly funded through depreciation charges and commercial borrowing. *Bank Group impact:* Four FBS agreements with St. Petersburg laid the basis for Russia's first concessions in the transport sector. Pulkovo Airport reached financial closure and raised Euro 1.1 billion in the first major PPP in Russia (IFC Euro 170 million). The Moscow Urban Transport – Bridge reconstruction program contributed to the construction of six pedestrian underpasses and established a Traffic Management Center (it continues to operate after project completion). The Bank assisted in the creation of regulatory institutions (the Federal Tariff Service and Regional Energy Commission), introducing a competitive wholesale market to trade electricity by reorganizing the former vertically integrated national monopoly RAO-UES. The Bank provided recommendations on improvement of efficiency and quality of public

	expenditures and PPPs in the transportation sector. IFC invested US$466 million in transport and municipal infrastructure during the CPS period and mobilized an additional US$173 million. Included in this total are US$162 million in IFC-Bank Sub-national loans supporting nine projects in Kamchatka and Moscow oblasts, and the Republics of Chuvashia, Mariy-El and Bashkortostan. Sub-national lending has helped repair and upgrade regional and municipal health services, district heating, water/wastewater infrastructure and road networks, including rural road networks, improving delivery of social services and facilitating access to markets. For example, projects in Chuvashia financed modernization and construction of 550 km of rural roads and resurfacing of 450 km of major road networks, helping to connect around 120,000 people in rural areas to all weather road networks by 2012. *Enabling/disabling factors:* Key aspects included the recognition of the importance of the PPP role to reduce the massive backlog in infrastructure investment by the federal and regional authorities.

Lessons and Suggestions for CPS 2012-2016

Despite the financial crisis, a best practice case of PPP was possible due to the Bank making itself a trusted partner following strong operational experience in St. Petersburg. The demonstration effect of Pulkovo increased the demand for Bank best practice in PPPs at the federal level. This underlines the high importance of delivering high quality results in FBS. IFC is also looking at several new PPP financing opportunities in the St. Petersburg area, where the regulatory framework for PPPs is already in place. IFC is considering providing advice on waste management planning and deal structuring to other cities using experience from the St. Petersburg market. Based on the findings in the PER for transportation sector, significant improvements are needed in policy, institutional and funding mechanisms to meet federal infrastructure investment targets and remove constraints on business. Future Bank TA and FBS will need to address this more systematically.

Bank Group Contributions: **WBI** Workshop on PPP in Infrastructure (December 2007); **P046061** Moscow Urban Transport Project (SIL) *Approved*: February 2001; *Status*: Closed (December 2008); *ICR Rating*: Satisfactory; **P050891** Electricity Sector Reform (TAL) *Approved*: June 1997; *Status*: Closed (December 2006); **P109594** FBS Urban PPP Unit in St. Petersburg *Approved*: October 2007; *Status*: Completed; **P112597** Public Expenditure Review *Approved*: October 2009; Status: Completed; **P124597** TA and FBS St. Petersburg PPP Program Development *Approved*: October 2010; *Status*: Ongoing; **IFC** Financing and Sub-national loans together with IBRD

COUNTRY DEVELOPMENT GOAL: REMOVE INFRASTRUCTURE BOTTLENECKS TO GROWTH IN TRANSPORTATION, ENERGY, AND OTHER AREAS

CAS Outcome	Status and Evaluation Summary
Enactment of energy efficiency law and development of secondary legislation to enable both public and private investments into energy efficiency projects across Russia.	**Status: achieved** The landmark law on "Energy Efficiency Involvement and Energy Saving" was adopted in November 2009. The "Action Plan on Energy Efficiency and Energy Saving" was approved by the Russian Government in December 2009. Ministries are developing 70 related by-laws to facilitate investments with WBG assistance. Several energy-efficiency measures were introduced. *Measured progress:* In 2008, the amount of standard fuel saved amounted to 38M tons (potential is up to 420M tons) *Bank Group impact:* The Bank assessed the effectiveness of regional energy efficiency (EE) policies in meeting energy supply and demand challenges. As outcomes of the study, IFC and IBRD developed two regional action plans for Vologda and Leningrad oblasts with input from regional stakeholders, assisted Arhkhangelsk and Murmansk oblasts to calculate EE potential and assess existing EE policies, and published a toolkit to disseminate learning to a broader audience. Based on the IFC/IBRD study of EE policies in the residential housing sector, IFC has prepared US$134 million worth of investments in energy efficient renovations of residential multi-family buildings to avoid at least 128,000 tons of GHG emissions per year through its Residential Energy Efficiency Project. *Enabling/disabling factors:* The regulatory and market enabling environment for

	investment is still evolving.
Lessons and Suggestions for CPS 2012-2016	
Energy efficiency is viewed mainly as a national concern in Russia (there is less interest in the global public goods dimension). Timely ESW by Bank/IFC directly influenced demand for legislation and created high-profile support by the President and Prime Minister for greater energy efficiency. Positive stimulus from analytical work and high-level policy support notwithstanding, practical demonstrations are still needed to develop markets in private sector investments. Future WBG activities should also aim to reach EE potential in the regions.	
Bank Group Contributions: **ESW** Energy Efficiency Study in Russia *Approved*: 2007; *Status*: Completed; **IFC** Russia Residential Energy Efficiency Project *Approved*: 2010 *Status*: Ongoing	
PILLAR 2: IMPROVE PUBLIC SECTOR MANAGEMENT AND PERFORMANCE	
COUNTRY DEVELOPMENT GOAL: CREATION OF AN EFFICIENT, MODERN, AND PROFESSIONAL CIVIL SERVICE THAT IS MOTIVATED TO IMPROVE THE INVESTMENT CLIMATE AND QUALITY OF PUBLIC SERVICES	
CPS Outcome	Status and Evaluation Summary
Realization of public administration reform program for reorganization of apparatus and conversion to new principles **Significant initiatives taken in regions for reforming government administration** **Relatively rapid progress on administrative reform in regions where IBRD is engaged**	**Status: achieved** Efforts to improve the quality of public service have intensified. Streamlined standards for federal authorities in service delivery are beginning to induce cultural change in the bureaucracy. *Measured progress:* The quality of public service delivery has improved, especially in multi-functional service centers (MFCs) with 102 MFCs in over 46 regions established between 2007- 2010 leading to waiting time for some administrative services there cut in half. *Bank Group impact:* The Bank directly supported the Government's Strategy for Public Administration Reform (2008-2010), with priority in Southern and North Caucasus Federal District (least advanced region). Support was provided to implement performance management and performance budgeting. The Bank enhanced performance management approaches and supported better linkages between policy priorities and the budget. Selected performance management tools were implemented at the federal and regional level. Performance reporting practices were enhanced by tightening definitions and quality of indicators used by the Ministry of Regional Development to assess performance of regional executive authorities. The functions of the Khanti-Mansiysk Autonomous Okrug Government have been reviewed and civil servants trained to apply functional review approaches to improve government performance. The Bank helped to enhance the regulatory environment for businesses, especially competitiveness and SME business environment with Improved environment for private sector expansion in St. Petersburg. Regulatory Impact Assessment (RIA) was institutionalized at the federal level and piloted at the sub-national level in North Ossetia Republic. Administrative barriers and informality studies have been undertaken in selected regions of Southern and North Caucasus Federal Districts (in cooperation with ICAS). Administrative regulations and service standards for key public services have been improved with Bank help. A survey of public services delivery through MFCs informed the Ministry of Economic Development of the gaps and further priorities in improving service delivery. *Enabling/disabling factors:* The lack of full fiscal autonomy in regions and incomplete civil service reform retards effectiveness of the public sector.
Lessons and Suggestions for CPS 2012-2016	
The focus of the Russian Government on performance management, together with decentralization of operational decision making, led to better service orientation by agencies. Public administration reform is most successful at the regional/local level when addressed systematically across sectors, including fiscal and social issues. This was achieved when TA complemented other Bank projects (noted under various CPS outcomes). Future work should build on achievements in increasing engagement of communities in setting budget priorities to improve public service delivery. Depending on demand, there is scope for improvement to professionalize the civil	

service and implement modern management practices.

Bank Group Contributions: **GDLN** Series on results-based management for Regions (2007); **GDLN** workshop on sharing international experience and dialogue among six Russian regions. Launching MFCs (2008); **P069063** St. Petersburg Economic Development Project (FIL) *Approved*: May 2003; *Status*: Ongoing *Latest ISR Rating*: Satisfactory; **P106543** WB-DFID Trust Fund "Support to Public Administration and Governance in Russia" (November 2007 – March 2011); **P110048** TA Advisory Services: Khanti-Mansiysk Autonomous Okrug-Yugra *Approved*: November 2007; *Status:* Completed

COUNTRY DEVELOPMENT GOAL: FISCAL AND ADMINISTRATIVE DECENTRALIZATION/CREATION OF EFFECTIVE LOCAL SELF GOVERNANCE

CPS Outcome	Status and Evaluation Summary
Good progress on the development of local self-government in pilot rural areas **Increased capacity of Municipal Associations** **Measureable increase of participation of the population in public decision-making in the three regions of the study.** **Development and piloting of new modalities of interaction between the government and the population in the process of public decision-making**.	**Status: achieved** The administrative, political and fiscal decentralization mandated in 2006 was path-breaking. The transition was fairly smooth. In 2009, transition to local self-government was completed, creating 10,000 new administrative units. *Measured progress:* More than 400,000 people in 85 municipalities (out of the 95 eligible) benefited from Local Initiative Support Project (LISP) implementation. Overall financing exceeded US$4 million in three years with US$1 million equivalent of settlement level co-financing. Participation increased from 50 to 81 communities in Round Three and in Stavropol the number of project applications increased from 61 in 2007 to 119 in 2010. *Bank Group impact:* The Bank developed and tested replicable models of capacity building for settlement-level administrators (both elected and appointed) and methodologies for effective public hearings mandated under the new legislation. It advised the Ministry of Regional Development on indicators of local government effectiveness. It developed locality cards as examples of data to be collected by national statistical agencies. It helped design new formats for interaction between local government officials and the population (to be continued with the help of a US$750,000 JSPF grant to the Perm administration). In pilot rural settlements, 22 local governments/community working groups comprised of settlement administrative staff, elected deputies and community members were formed and trained. Five hundred people benefited from pro bono legal consultations from the trained local legal and Rural Municipal Consultants. *Enabling/disabling factors:* The quality of local government is highly uneven, training and capacity building programs are insufficient, and programs for support of local initiatives have not been developed, minimizing incentives for inclusion of the population into public decision making and processes of local governance. Settlement-level statistics are not consistently collected by Rosstat.

Lessons and Suggestions for CPS 2012-2016

A rigorous assessment methodology enabled the Bank to demonstrate that one-shot training is insufficient to alter local perceptions of effectiveness of local administration. In contrast, on-site capacity building and experience by villages in local decision-making can lead to significant improvements. A short implementation period (no more than two years) is important to ensure timely contribution to the country work program and momentum in the reforms. The Bank is applying findings in preparation of the Local Initiatives Support Project (LISP).

Bank Group Contributions: **P110537** Quality of Local Governance TA financed by JSDF *Approved*: April 2009; *Status*: Completed; **P121856** FBS Advisory Services TA for Kirov Oblast LISP Implementation *Approved*: Apr 2010; *Status*: Completed; **P121866** FBS TA to Support the Stavropol Krai LISP Implementation *Approved:* March 2010; *Status:* Completed

COUNTRY DEVELOPMENT GOAL: IMPROVING THE EFFICIENCY AND RESULTS ORIENTATION OF BUDGETING AT THE FEDERAL AND SUB-NATIONAL LEVELS

CPS Outcome	Status and Evaluation Summary

Successful realization of three-year budgetary framework at the federal level	**Status: achieved** The MOF introduced three-year budget framework in 2008. *Measured progress:* There was a 40 percent reduction in late filing of tax returns by mid-2008; regions where tax reforms were implemented were 180 percent more efficient than those without reforms in obtaining higher tax revenues as a share of expenditures in tax collection; and there was an increase of almost 200 percent in tax returns filed by mail or electronically. By 2011, all spending units in the country are covered by centralized payment processing. Federal Treasury Automation System (FTAS) was implemented in 21 regions. *Bank Group impact:* The Bank supported legal and institutional mechanisms, including a system to monitor sub-national public finance in MOF, the implementation of Treasury principles of budget execution, the creation of budget authority at municipal level, the revision of revenue and expenditure assignments, a law on insolvency of regional budgets, and a mechanism for operation of the Regional Fiscal Reform Fund. Related support included the modernization of tax administration and the modernization of Treasury functions. *Enabling/disabling factors*: Enabling factors include a highly professional team in the MOF that leads national reform through cutting-edge knowledge management practices in tandem with regional offices. The implementation of medium-term fiscal framework was suspended temporarily during the financial crisis; the resumption in 2010 demonstrates strong commitment to implement modern principles of sound fiscal management.

Lessons and Suggestions for CPS 2012-2016

The next phase of cooperation should focus on the program budgeting and expenditure effectiveness agenda arising from the Public Expenditure Review; the analysis by the World Bank prepared for the Ministry of Finance was completed in the first Quarter of 2011.

Building on the 2010 PER, a programmatic TA program should work with the Ministry of Regional Development and relevant line ministries to identify alternative approaches to measure expenditure performance for education, health, and social protection at sub-national and spending unit levels. This should be followed by the implementation of an agreed approach in a number of regional case studies.

Bank Group Contributions: **P058587** Regional Fiscal Technical Assistance Project (TAL) *Approved*: December 1999; *Status*: Closed (June 2011); *Latest ISR Rating*: Satisfactory; **P064508** Treasury Development Project (Adaptable Program Loan)
Approved: June 2002; Status: Active; *Latest ISR Rating*: Satisfactory; **P066155** Tax Administration Modernization 2 Project (SIL) *Approved*: October 2002; *Status:* Closed (June 2008); *ICR Rating*: Moderately Satisfactory; *IEG Rating;* Moderately Satisfactory; **P112597** Public Expenditure Review (PER) *Approved*: October 2009; *Status*: Completed

COUNTRY DEVELOPMENT GOAL: IMPROVE THE JUDICIARY AND OTHER KEY PUBLIC INSTITUTIONS

CPS Outcome	Status and Evaluation Summary
Continued improvements in the quality of Russian statistics as targeted in Stat projects	**Status: achieved** A law governing official statistics was passed. There has been an improvement of the quality and availability of information through free-of-charge access to official statistical publications and internet access to databases. *Bank Group impact:* Bank Group engagements supported activities which included: the transition to performance-based budgeting; the adoption of international standards in statistical products (e.g., national accounts, balance of payments) for improved macro planning and forecasting; integrated processing systems tested in 15 pilot regions; introduction of international standards and methodology (e.g., transition from census-based to integrated census-sampling framework of statistical surveys); establishment of the National Statistical Council (2010) for development of strategic issues and methodology comprised of leading Russian economists and recognized statisticians. *Enabling/disabling factors:* There has been strong leadership by federal and

	local users. Flexibility by the Bank to the needs of clients proved central to success. Rosstat adopted the participatory approach. Good project management was exercised by the beneficiary institution.

Lessons and Suggestions for CPS 2012-2016

The principal lesson is that international knowledge can be integrated into national institutional frameworks only very gradually. Slow disbursement of the second project was primarily due to procurement issues as a result of limited expertise in the statistical field at local levels and for advanced tasks at international levels.

Bank Group Contributions: **P050487** Development of State Statistical System Project (SIL) *Approved*: May 1999; *Status:* Closed (Dec 2006); *ICR Rating*: Satisfactory; *IEG Rating*: Satisfactory; **P092429** Second State Statistical System (APL) *Approved*: June 2007; *Status:* Ongoing; *Latest ISR Rating*: Moderately Satisfactory

COUNTRY DEVELOPMENT GOAL: IMPROVE THE JUDICIARY AND OTHER KEY PUBLIC INSTITUTIONS

CPS Outcome	Status and Evaluation Summary
Progress in judiciary reform in context of project (information transmission and disclosure)	**Status: partially achieved** Progress is strongest in arbitration (commercial) courts and weakest in Courts of General Jurisdiction. The publication of arbitration court decisions on the unified web-portal has been achieved. The Law on Securing Access to Information on Courts' Activities (December 2008) now increases information for public and the mass media. *Measured progress:* Periodic surveys show improved private sector and public rating for judicial transparency and efficiency (64 percent respondents expressed confidence (2010) versus 46 percent in 2006. All courts financed by the project publish judicial decisions more quickly. *Bank Group impact:* Twenty legal aid centers were set up in Perm krai and Leningrad oblast to pilot contrasting approaches. The experience from the contrasting pilots positively influenced legislation on free legal aid in the Russian Federation, making certain non-state actors are eligible to provide such legal aid. These centers provided 9,780 citizens with 12,287 legal aid consultations (December 2010). Target group comprises non-working pensioners, invalids and low income citizens. Interventions contributed to better treatment of poor litigants including monitoring progress of 80 court cases from lodging of complaint to rendering of court decisions. *Enabling/disabling factors:* Factors include the recognition by the Russian Government of the corruption problem and current strong intention to fight it. There is strong leadership in successfully reforming judicial agencies. However, there is fragmentation of oversight for judicial reform and weak implementation support, particularly on IT procurement.

Lessons and Suggestions for CPS 2012-2016

The Bank project appropriately complements the Federal Targeted Program on judicial modernization. However, not all parts of this Program are advancing equally mainly linked to IT procurement problems. Project complexity and governance are hindering restructuring. Bank procurement should be strengthened in the next CPS period.

Bank Group Contributions: **P089733** Judicial Reform Support Project (SIL) *Approved*: February 2007; *Status*: Ongoing; *Latest ISR Rating*: Unsatisfactory

PILLAR 3: IMPROVE THE DELIVERY OF COMMUNAL AND SOCIAL SERVICES

COUNTRY DEVELOPMENT GOAL: IMPROVE THE QUALITY AND QUANTITY OF AFFORDABLE HOUSING AND UTILITIES AVAILABLE TO THE POPULATION, INCLUDING FACILITIES FOR MIGRANTS IN GROWING REGIONS

CPS Outcome	Status and Evaluation Summary

Increases in affordable housing as measured from Bank infrastructure and housing projects or IFC mortgage support **Progress in housing reform (utilities prices, competition in the industry, etc.) in regions participating in housing and communal service project or receiving IFC support** **Implementation of National Project in Housing** **Regional pilots launched for reforming housing sector** **Continued rapid growth of the mortgage market**	**Status: achieved** Regions and municipalities seeking access to investment financing are more willing to implement housing and communal service reform programs. *Measured progress*: In 2008, 21 percent of families purchased standard dwellings with the use of credits or own funds. New housing construction totaled 63million sq.m (twice as much as annually in 2000-2002). The financial viability of the communal entities in the cities improved, and percentage of entities having losses from main activities decreased almost three times compared with the baseline. Percentage of private companies managing communal sector facilities on the basis of concession agreements and other agreements in the total number of communal entities increased more than three times and almost reached the projected target value. Percentage of multi-family buildings managed by professional management companies increased more than four times and is approaching the target value. One hundred percent of the participating cities completed monetization of housing allowances, and transferred cash payments to individual social accounts of citizens. About 4.2 million residents (45 percent more than anticipated) benefited from improved water and wastewater systems. Good quality drinking water was provided 24/7 (98 percent of samples meet quality standards). Water utilities improved financing working ratios from 0.95 to 0.85. Municipal subsidies decreased and are now targeted to the poorest households. Quality and energy efficiency of heat and hot water service improved considerably (heat composition fell 12-17 percent and DHW by 5-10 percent). Funds spent by cities for heating have decreased 2 percent per year in 2007. The cost-effectiveness of subsidies has improved. Municipal subsidies for heating services in project cities dropped from RUB 535 million (baseline) to RUB 78 million (the level achieved at the end of the project), housing allowances are better targeted (20.3 percent versus 100 percent of population). *Bank Group impact*: From 2007 to 2009, IFC's investment client banks provided over 150,000 housing finance loans and held an outstanding mortgage portfolio of US$4.3 billion at the end of 2009. From FY05 to December 2008, advisory project pilot banks disbursed 110,858 mortgage loans worth US$6.8 billion, with extremely low delinquency rates. A borrower manual on rights and responsibilities was published. Modernized regulations on investor disclosure were devised. One hundred and twenty mortgage specialists were trained in loan restructuring, pricing and portfolio management by IFC. Institutional capacity was built within the department of HCS in the Municipality of Nizhnevartovsk city. The activity was only partially completed due to financial constraints. Based on a demand-driven study of housing construction issues in the Rostov oblast, the study led to recommendations and an action plan for better supply of affordable housing to the population and stabilization of the price situation in the Southern Federal Okrug. In 2010, IFC launched a Residential Energy Efficiency Project focused on unlocking the flow of finance to facilitate common area renovations in multi-story apartment buildings, where the majority of Russians live. IFC and EBRD are advising the Ministry of Regional Development on structuring the proper regulatory framework, and will pilot financing mechanisms to allow homeowners to invest in capital improvements, increase energy efficiency and raise their standard of living. The program aims to facilitate at least US$134 million of investment into energy efficient renovations of residential multi-family buildings. To date IFC has disbursed US$10 million under the program to one client bank in the Rostov oblast. *Enabling/disabling factors:* The creation of the legal basis for mortgage operations was eased through using synergies in IFC/Bank policy advice and programs. The delay in declaring effectiveness and start of the Housing and Communal Services loan was caused by Russia's reluctance to borrow from the

	Bank, which lasted from 2007 until the fall of 2009. In response to the financial crisis, IFC refocused the mortgage market program in FY09 on diagnostics and client real estate portfolio stress testing, and tools for lenders to manage loan portfolios and distressed assets.

Lessons and Suggestions for CPS 2012-2016

Housing issues are decentralized to the lowest level of government. To have high impact, the Bank should concentrate on working with regions and require maintenance of financial management (FM) reforms in utilities. These FM reforms should be accompanied by reforms to target social protection to the poorest. Future engagement will depend on performance of the investment phase of the Housing and Communal Services Project. The financial crisis slowed progress but WBG program adjustments are facilitating reform momentum.
Synergies in Bank and IFC programs create stronger outcomes.
Future engagement may be facilitated in case of increased pace of implementation of IBRD HCS project and the first project results.
By focusing on innovative products, such as residential energy efficiency, IFC can continue to have an impact in the sector in spite of limitations to traditional mortgage lending resulting from the crisis.

Bank Group Contributions: **ESW** Housing Market Study in Southern Okrug (2005-2007); **ESW** Housing Supply (2007); **ESW** Housing Study (2008); **IFC** Russia Primary Mortgage Market Development Project (2005-2008/9); **IFC** Russia Residential Energy Efficiency Program (2010-Present); **P008832** Municipal Waste and Wastewater Project (SIL) *Approved:* December 2000; *Status:* Closed (April 2009); *ICR Rating:* Moderately Satisfactory; *IEG Rating:* Moderately Satisfactory; **P038551** Municipal Heating Project (SIL) *Approved*: March 2001; *Status*: Closed (June 2008); *ICR Rating*: Satisfactory; *IEG Rating*: Satisfactory; **P079032** Housing and Communal Services Project (SIL) *Approved*: February 2008; *Status*: Active; *Latest ISR Rating*: Moderately Satisfactory; **P082018** Kazan Municipal Development Project (Programmatic Structural Adjustment Loan) *Approved:* February 2005; *Status:* Closed (December 2006); *ICR Rating:* Satisfactory; *IEG Rating:* Satisfactory; **P110048** FBS Khanti-Mansiysk Autonomous Okrug-Yugra (Assistance in Developing Housing and Communal Services in Nizhnevartovsk) *Approved*: November 2007; *Status*: Completed

COUNTRY DEVELOPMENT GOAL: IMPROVE HEALTH OF THE POPULATION, INCREASE LIFE EXPECTANCY, AND REVERSE NEGATIVE DEMOGRAPHIC TRENDS

CPS Outcome	Status and Evaluation Summary
Signs of reversals in negative health status trends **Successful implementation of National Project in Health and other programs supported by international organizations (e.g., World Bank, Global Fund)** **Reforms of health care system implemented in pilot regions with good results that are being emulated in other regions**	**Status: achieved** Average life expectancy in the two pilot regions is increasing and infant mortality is declining. *Measured progress:* In 2008, general practitioners delivered care to about 65 percent of the population in Chuvash Republic, up from 13.1 percent in 2003; in Voronezh, from 3 percent to 30 percent. Patient satisfaction over 2002-2007 increased from 48 percent to 65 percent in Voronezh; from 67 percent to 73 percent in Chuvash Republic. A 10 percent mortality reduction was reached among new cases of TB and 5 percent decrease in new TB cases. The percentage of HIV-positive infants born to HIV-infected women decreased from 13.2 percent (base line) to 10.6 percent in 2009; incidence rates of syphilis, gonorrhea and others STIs and prevalence rate of HIV reduced considerably. *Bank Group impact:* Impacts include: Primary health care strengthened vis-à-vis hospital services (50-60 percent of total regional health budgets, up from 30-40 percent in 2002); a national model for restructuring was demonstrated; Chuvash Republic transitioned to a primarily single-channel system of health finance, reducing fragmentation of sector finances; a performance-based remuneration system for general practitioners was introduced; at federal and oblast levels, new standards and protocols strengthened federal stewardship for effective regulation of a highly decentralized system: 400 standards and protocols were approved and enacted by MHSD, including 310 standards for hi-tech health service provision, 88 standards for specialized care provision, and 46 for emergency care. IFC investments in private and municipal health services over the CPS period totaled US$69million. *Enabling/disabling factors:* Significant AAA leading up to projects reversed opposition in the medical community to adoption of international practices,

	particularly for TB-AIDs.

Lessons and Suggestions for CPS 2012-2016

Vision and willingness to experiment existed on the part of the regional political and health officials. Solid analytical work combined with strong coordination among international agencies provided critical underpinning to a complex National Targeted Program on TB-AIDs. Regional pilots demonstrated more cost-effective health services are possible given leadership in government and health system. Health status depends on more than the health system; federal leadership is needed to reverse negative trends from lifestyle and environmental factors.

Bank Group Contributions: **GDLN** workshop series on H1N1 Pandemic Response in ECA (2009); **ESW** "Public Spending in Russia for Health Care : Issues and Options" (2008); **P046497** Health Reform Implementation Project (SIL) *Approved*: March 2003; *Status*: Closed (April 2009); *ICR Rating*: Satisfactory; *IEG Rating*: Satisfactory; **P064237** Tuberculosis & AIDS Control (SIL) *Approved*: April 2003, *Status*: Closed (April 2009); *ICR Rating*: Satisfactory; *IEG Rating*: Satisfactory; **P115338 -** Chuvash Health – Sub-national Loan *Approved*: March 2009; *Status*: Ongoing; **IFC** financing of private sector health service providers

COUNTRY DEVELOPMENT GOAL: MODERNIZE THE EDUCATION SYSTEM WITH GREATER RELEVANCE TO THE DEMANDS OF AN OPEN MARKET ECONOMY

CPS Outcome	Status and Evaluation Summary
Realization of objectives set out in Bank assistance to federal and regional education programs for modernizing curriculums, particularly in access to high quality education using ICT **Successful implementation of National Project in education on regional education programs.** **Successful implementation of National Project in Education on innovative universities** **All schools connected to the internet.**	**Status: achieved** The unified collection of digital resources with more than 100,000 learning items has been established and is accessible to all Russian schools through the Internet. All schools are connected to the internet. *Measured progress*: The implementation of the strategy led to improvement in international ranking from 500-600 range in 2009 to 400-500 in the Times Higher Education Supplement ranking. Since 2005, ICT skills of advanced teachers doubled while the number of inexperienced users declined by 200 percent. Ninth graders performing above average on use of ICT increased from 48 to 63 percent. Benefits are equal in urban and rural schools. *Bank Group impact:* Access to education of higher quality was provided (with special focus on students from remote and rural areas) through wide introduction of modern educational technologies enhanced by ICT as supported by the E-Learning Support Project. New performance based salary schemes, per capita financing mechanism for general education, and new education governance schemes were developed and piloted within the Education Reform Project and have been disseminated throughout the country (in 36 regions) within the National Priority Project "Education". The E-Learning Support Project increased competence in information and communication technologies (ICT), a central factor in world economic competitiveness. Seven pilot regions became leaders in applying ICT in education. Based on outcomes, an additional 30 regions adopted the program. About 130,000 teachers were trained and 10 pedagogical universities educated 3,900 future teachers. A national curriculum of 75,000 new digital teaching resources is being used in 13 subjects for all grades. Russian masterworks are now a digitally protected heritage, available to all students in the country. The number of students enrolled in distance learning courses under the project was over 37,000 and more than 10 percent of total enrollment came from rural populations. The number of students participating in ICT-based educational projects (including students, receiving support in preparing for the Unified State Examination) was 23,000. Vocational education development programs were developed with special focus on the linkages between vocational education and the labor market in two regions under FBS agreements: Tver oblast and Krasnoyarsk krai. A study of Russian students' high achievements in PIRLS examined and disseminated successful teaching and learning practices. ECD and preschool education systems improved through (i) introduction of modern curriculum, (ii) strengthening the quality assurance system, and (iii) increasing access to ECD services. The quality of the ECD systems of six

	regions were reviewed, policy recommendations were developed, disseminated and adopted. Higher education system development program and institutional strategies for universities were developed in Tatarstan. As the result, three universities received federal government awards for the implementation of their strategies. The Institutional Strategy of the Higher School of Economics as leading Russian university in area of social and economic sciences was developed and approved by the Government. *Enabling/disabling factors:* Focus of the Russian Government on education issues as the priority direction of Russia's development in the CPS period was key. High demand from regional authorities was also evident.
Lessons and Suggestions for CPS 2012-2016	
Demand-driven FBS enabled the Bank to discover strong regional need for reform of ECD and tertiary education. Institutional development of leading universities provided impulse for the improvement of other higher education institutions. Greater focus on and support to regional reforms can lead to federal policy improvements.	
Bank Group Contributions: **P050474** Education Reform Project (SIL) *Approved*: May 2001; *Status*: Closed (December 2006); *ICR Rating*: Satisfactory; *IEG Rating*: Satisfactory; **P075387** e-Learning Support Project (Adaptable Program Loan) *Approved*: March 2004; *Status*: Closed (June 2008); *ICR Rating*: Highly Satisfactory; *IEG Rating:* Highly Satisfactory; **P092430** - Education Advisory Services *Approved*: December 2004; *Status*: Completed; **P108590** FBS Education Khanty-Mansisk AO *Approved*: August 2007; *Status*: Completed; **P111759** FBS Tver Oblast Vocational Education *Approved*: April 2008; *Status*: Completed; **P108590** FBS Education Khanty-Mansisk AO *Approved*: August 2007; *Status*: Completed; **P108985** FBS Higher Educ. Kazan *Approved*: September 2007; *Status*: Completed; **P111119** FBS Higher School of Economy *Approved*: March 2008; *Status*: Completed; **P113989** FBS Higher Education Kazan II *Approved*: Nov 2008; *Status*: Completed; **P123357** FBS E-Education in Tatarstan *Approved*: July 2007; *Status*: Ongoing	
COUNTRY DEVELOPMENT GOAL: IMPROVE EFFECTIVENESS OF SOCIAL ASSISTANCE	
CPS Outcome	Status and Evaluation Summary
Measured progress in regions targeted for poverty reduction and social assistance support in the World Bank poverty work.	**Status: partially achieved** Social protection, mostly pensions, makes up a large part of the federal budget but is still badly targeted at the poor. Social protection spending increased from 2009 onwards despite the crisis. Labor market policies for the unemployed were introduced at the regional level to mitigate the impact of the crisis on employment, in addition to weekly monitoring of labor market indicators. *Measured progress*: The national poverty rate fell from 13.4 percent in 2008 to 13.2 percent by end-2009 and then to 13.1 percent in 2010. The total amount of additional social protection expenditures (including increased transfers to regions to cope with the social and labor market impacts of the crisis at the regional level) is estimated to have been around 1.3 percent of GDP in 2009 and 2.2 percent of GDP in 2010. *Bank Group impact:* The Government revised its labor market strategy (based on Bank TA) to redesign labor market programs used during the crisis to deal with post-crisis challenges. Based on regional analysis in Tatarstan and on-going dialogue, Rosstat is increasing public access and analysis of Household Budget Surveys, which will form the basis for better poverty analysis and targeting of social programs. Based on Bank social expenditure analysis, the Ministry of Regional Development requested TA on methodology for performance evaluation of sub-national expenditure efficiency. In 2010 Moscow City requested Bank FBS to develop a framework for regular monitoring of the social protection system efficiency and living standards in Moscow. *Enabling/disabling factors:* The Bank experienced difficulties engaging with less advanced regions due to their lack of funds and an absence of guarantees from the federal level. Federal/regional overlaps impede improved targeting of social assistance. There is huge heterogeneity across regions in the pace and scope of reforms.

Lessons and Suggestions for CPS 2012-2016
Further engagement with less advanced regions is dependent on a federal support mechanism for Bank activities there. Lending and knowledge services for less advanced regions bear prospect of high development impacts. A regional analysis of social protection should be undertaken. The plan is to identify a methodology to be used to analyze sub-national social protection programs (targeting, coverage, and benefit adequacy). Then, the proposal is to work with the Government to use regional Household Budget Survey (HBS) data to carry out regional case studies on social protection spending. Anticipating, measuring and estimating likely poverty and labor effects of an evolving crisis may help formulate and implement timely policy response, thereby limiting the social impact. Regular, timely updates of labor/poverty effects of major shocks (e.g., food price inflation) and highlighting policy choices and trade-offs can focus policy attention and help improve policy formulation. Follow-up labor market work should begin with a net impact evaluation of active labor market programs in a pilot region.
Bank Group Contributions: **ESW** Russian Economic Reports (including regular updates of labor and poverty developments) *Approved:* 2001; *Status:* Ongoing; **P112803** Regional HD Public Expenditure Review *Approved*: April 2009; *Status*: Completed; **P118448** Labor Market Monitoring and Policy Assessment TA *Approved*: December 2009; *Status*: Completed; **P122457** FBS Moscow Social Protection *Approved:* December2010; *Status*: Completed

PILLAR 4: ENHANCING RUSSIA'S GLOBAL ROLE

COUNTRY DEVELOPMENT GOAL: DEVELOPING AND ARTICULATING ROLE AS AN EMERGING DONOR

CPS Outcome	Status and Evaluation Summary
Development of an ODA strategy	**Status: achieved** The Russian President approved the Concept of International Development Cooperation and Action Plan for implementation in June 2007. Planning is underway for the establishment of a bilateral aid agency to be supported by a medium-term work program. *Bank Group impact:* Bank TA "Russia as a Donor Initiative (RDI)" financed by DFID strengthened Russian ODA statistical capacity, the creation of a development focused university curriculum and the establishment of a strategic communications program for development aid. RDI advisory group (Ministry of Finance, Ministry of Foreign Affairs, Ministry of Education and Science, Ministry for Civil Emergencies and Rossotrudnichestvo; co-chaired by the Bank) conducted policy dialogue on capacity building. UNDP, Oxfam, GIZ, USAID participated as observers. The Bank-supported International Conference on New Partnerships in Global Development Finance (Moscow, February 17-18, 2010) launched "Moscow Process" to broaden the global development community and modernize multilateralism. *Enabling/disabling factors:* There is strong dedication of the Russian Government to fulfilling its G8 commitments. However, there was limited initial capacity within primary counterpart Russian government ministries and agencies.

Lessons and Suggestions for CPS 2012-2016
The accession of advanced Middle Income Countries like Russia to the ranks of development aid donors is beginning to change the international aid architecture with the sharing of knowledge (South-South dialogue), and the provision of additional financial resources. To avoid fragmentation and to achieve fast track integration of emerging donors into the multilateral donor community, the build-up of new institutional structures and expert capacity within the government are necessary. The Bank with its hub function for the international donor community is in a prime position to support Russia in this. To keep the momentum going, the new CPS should include demand-driven TA to support institutional capacity development of a new bilateral aid agency, once a decision is reached in Government.
Bank Group Contributions: **GDLN** Food and Fuel Price Crisis series (2008); **P104803** - Development Aid Program Support TA *Approved:* May 2008; *Status*: Ongoing; **P115468** FBS Capacity Building to Support Russian Education Aid for Development (READ) Program *Approved*: December 2008; *Status*: Ongoing; **MOU** with Eurasian Development Bank/AntiCrisisFund on capacity-building and cooperation (2011)

COUNTRY DEVELOPMENT GOAL: DEVELOPING AND ARTICULATING ROLE AS AN EMERGING DONOR	
CPS Outcome	Status and Evaluation Summary
Expanded donor activities realized according to articulated vision	**Status: achieved** Before 2007 Russian donor activities concentrated mainly on debt relief. Acting on G8 commitments and based on its ODA concept, Russia from 2007 onwards expanded its donor activities to "Quality of Education", "Access to Energy", "Infectious Diseases", "Public Financial Management", "Financial Literacy" and "Remittances". In 2009 Russia acted as crisis response donor and contributed US$7.5 billion to EurAsEC-Anti Crisis Fund administered by the Eurasian Development Bank (EDB), US$50 million to the World Bank managed Rapid Social Response and US$15 million to the World Bank managed Russia Food Price Crisis Rapid Response Trust Fund for Tajikistan and Kyrgyz Republic. *Measured progress:* Since 2006, Russia has significantly scaled-up and diversified its official development assistance (ODA). According to Russian statistics compiled in accordance with OECD-DAC methodology, ODA from the Russian Federation (excluding debt relief for the poorest countries) grew from US$102 million in 2006 to US$785 million in 2009 (0.065 percent ODA/GNI). For 2010, Russia is estimated to have generated ODA amounting to US$500 million. *Bank Group impact*: As of March 2011 Russian contributions to World Bank administered Single and Multiple Donor Trust Funds have reached a total of US$518 million (including US$317 million for the Global Fund to fight AIDS, Tuberculosis and Malaria) *Enabling/disabling factors:* At the program level, a strong multilateral focus was endorsed by Russia's ODA strategy. The effects of the global financial and economic crisis together with volatile oil prices influenced Russia's fiscal position and priorities.
Lessons and Suggestions for CPS 2012-2016	
The lack of a TF framework agreement with Russia has incurred unnecessarily high transaction costs. The development of a World Bank-Russia TF Framework Agreement (FA) should be pursued. There is a need for better and more systematic communication with Russia as a donor on results of the Russia-funded TFs in order to demonstrate effective fund management, progress in disbursement and the results achieved, as well as optimize the learning experience for participating Russian aid specialists. This would also provide a sound basis for Russian authorities to consider follow-up and new financing successful activities as a donor (including Repeater Trust Funds).	
Bank Group Contributions: **GDLN** Support for community of practice (MIRPAL) (2010-present) on labor migration and remittances; **TF 070664** Public Expenditure Management and Peer-Assisted Learning (PEM-PAL) in the Europe and Central Asia Region *Agreement*: 2007; *Status*: Ongoing;**TF 70783** Russian Federation Booster Program for Malaria Control in Africa *Agreement*: 2008; *Status*: Ongoing; **TF 071069** Financial Literacy and Education *Agreement*: 2008; *Status*: Ongoing; **TF 071154** Russia Education Aid for Development *Agreement*: 2008; *Status*: Ongoing; **TF 071223** Energy Small and Medium Enterprises Support in Sub-Saharan Africa *Agreement*: 2009; *Status*: Ongoing; **TF 071577** Multi-Donor Programmatic Trust Fund Europe and Central Asia Public Finance Management *Agreement*: 2009; *Status*: Ongoing	
COUNTRY DEVELOPMENT GOAL: FULFILLING INTERNATIONAL OBLIGATIONS FOR GLOBAL PUBLIC GOODS	
CPS Outcome	Status and Evaluation Summary
Legal and institutional framework established for carbon finance **Increased number of carbon finance operations in the country with increasing awareness of climate change**	**Status: achieved** The legal framework for Joint Implementation projects was established in 2008. A Climate Doctrine was approved in April 2009. "Energy Efficiency in Russia: Untapped Reserves" led to landmark EE law and the signing by President Medvedev of a decree to cut the energy intensity of Russia's economy by 40 percent by 2020. The Russian Government requested IBRD in 2010 to prepare a project to reduce greenhouse gases through the removal of barriers related to energy efficiency investments.

problems	*Measured progress:* Bank carbon finance deal with Rosneft to reduce gas-flaring for a reduction of 2M tons of ERUs. IFC carbon finance deal with CoreCarbon reduced 2-3 M tons of nitrous oxide emissions. *Bank Group impact:* IFC's Russia Sustainable Energy Finance Program (RSEFP; 2005-present) is developing a marketable energy efficiency product for industry and EE investments. Since program launch in 2006, the RSEFP has facilitated US$188 million in IFC commitments and US$73 million in EE projects financed by six partner banks, resulting in over US$32 million in energy cost savings to companies and annual avoidance of around 370,000 tons of CO2 emissions. IFC/IBRD provided assistance to four oblasts in NW Russia on EE action plans and incentives for renewable energy investments. IFC/Bank Russia Renewable Energy Program (2010-present) is working with stakeholders, including the Government of Russia, to design a comprehensive approach to grow the renewable energy market in Russia. IFC expects to facilitate at least US$360 million through the program to create a demonstration effect in the market. IFC's Russia Cleaner Production Program (2008-present) promotes resource efficiency in industry through equipment modernization, improved management practices, waste management and product and process re-design, resulting in reduction of emissions and other wastes as well as in cost and energy savings *Enabling/disabling factors:* Russia's goals in Energy Efficiency and Climate Change are driven by domestic economic interests reducing incentives to make use of instruments geared towards global public goods.

Lessons and Suggestions for CPS 2012-2016

Russia is not seen as taking up a global leadership position in climate change. Nonetheless, climate issues became more visible on the national economic agenda. The adopted Climate Doctrine with Implementation Action Plan made the country's position and approach to the climate change agenda more solid and sustainable. However, Russia underexploited its reserves in utilizing the carbon finance instruments under the current commitment period.

Bank Group Contributions: **GIS** Options Study in Russia; **ESW** "Energy Efficiency in Russia: Untapped Reserves" (2007-2008); **P102324** CF 4: Rosneft Gas Flaring Reduction Project (Carbon Offset) *Approved*: September 2008; *Status*: Ongoing *Latest ISR Rating*: Moderately Satisfactory; **IFC** Russia Sustainable Energy Finance Program (2005-present); **IFC** Russia Cleaner Production Program (2008-present); **IFC** Russia Renewable Energy Program (2010-present)

COUNTRY DEVELOPMENT GOAL: FULFILLING INTERNATIONAL OBLIGATIONS FOR GLOBAL PUBLIC GOODS

CPS Outcome	Status and Evaluation Summary
Addressed environmental issues to provide local and global benefits **Modernize Meteorological Systems**	**Status: achieved** Major deterioration of hydrometeorological services in Russia occurred since mid-1980s primarily due to lack of investment in modern technology and degradation of its observation networks. The decline affected all elements of the RosHydromet system. Further degradation of the RosHydromet system has been stopped. *Measured progress:* Average response time to requesters from any point in Russia is reduced to 12 hours (instead of 14 days as initially targeted). About 92 percent of World Meteorological Organization reporting stations now report data to GTS on time. *Bank Group impact:* Responding to the federal request to modernize key elements of RosHydromet's technical base and strengthening its institutional arrangements, the project is making good progress in reaching its development objectives. Lead time for national and regional weather forecasts increased considerably: projected lead indicators are reached or exceeded. Four computing centers (in Moscow, St. Petersburg, Novosibirsk, and Khabarovsk) equipped with new supercomputer complexes are testing and operationalizing new forecasting models (with higher resolution for weather forecasts and emergency response, and also seasonal weather forecasts based on

	hydrodynamic modeling and using the ensemble method). There are no infrastructure bottlenecks in collecting and transmitting data within Russia or globally: the end target was achieved. Russia Hydromet Modernization triggered the development of similar operations in ECA and other regions in the Bank. *Enabling/disabling factors:* This was not a CPS Outcome in the 2006 CPS or 2009 CPS PR. It was added subsequently due to strong government demand and for full accounting of contributions under Russia's Global Role.

Lessons and Suggestions for CPS 2012-2016

The CPS needs to be flexible enough to provide room for fast changing, sophisticated demands from Upper Middle Income Countries like Russia. Strengthening provision of high quality weather, climate and hydrological services proved to be an important element in adapting to climate change and towards sustainable development. Long term engagement is needed to achieve significant and sustainable results in such institutionally and technically challenging sectors. A follow up operation is being considered by the Government aimed to improve the national capacity to deliver reliable and timely weather, water and climate information.

Bank Group Contributions: **P082239** Hydrometeorological System Modernization Project (SIL) *Approved*: March 2005; *Status*: Ongoing *Latest ISR Rating*: Satisfactory

COUNTRY DEVELOPMENT GOAL: FULFILLING INTERNATIONAL OBLIGATIONS FOR GLOBAL PUBLIC GOODS

CPS Outcome	Status and Evaluation Summary
Addressed environmental issues to provide local and global benefits **Strengthened the forestry sector**	**Status: partially achieved** In 2007 a new Forest Code was introduced, which decentralized the responsibility for fire fighting to the subjects of the Russian Federation. Federal legal responsibilities and associated physical and human capabilities were considerably weakened by the reforms, which left federal agencies unable to fully compensate and backstop regional weaknesses. The full effect of the change in the Forest Code was not foreseen by Russian policy-makers. There has been significant under-investment in forest fire-fighting equipment since the Soviet era. *Measured progress:* The area of forest covered by improved forest and pest management systems rose from zero in 2000 to 559 million ha (in 2010, area under satellite fire monitoring) and 85 million ha (in 2009, area under pest management with remote sensing data). *Bank Group impact:* With strong support from the EU and strong cooperation with WWF and IUCN, Russian regions were provided with recommendations on the development and implementation of the strategy for sustainable forestry. The Bank reduced the risk of corruption in the forestry sector by analyzing existing policies and legislation to identify gaps and to propose anti-corruption measures and recommendations on law enforcement procedures. The analysis identified numerous loopholes and perverse incentives that drive both forest fires and poor governance. Recommendations of the Forestry Law Enforcement and Governance have been taken into consideration in the recent and proposed changes to the policy and legislative framework. The Bank created special training courses (including curricula materials for professional development program comprising six modules) on forest law enforcement as a part of a continuous education program for managers and specialists from forest management authorities. The Bank raised awareness and the standard of education of forestry professionals significantly in order to increase understanding of forest governance issues with specific reference to forest fires. Arkhangelsk oblast approved "Standard guidelines for the development and implementation of coherent interventions to prevent and reduce illegal logging and illegal timber trade" in 2010. On the basis of these recommendations, the responsible forest agency will revise and elaborate the regional action plan. Training and awareness raising has focused on the private sector, particularly

	with respect to forest certification, timber tracking systems, and the impact of both the EU Legal Timber Law and the US Lacey Act. All of these initiatives should help address the trade and use of illegally sourced timber in Russia. Bank support allowed for survey and swift remedial actions over much bigger areas during large outbreaks of pests which typically follow forest fires. Improved forest fire monitoring and communications systems were established in seven regions, and 45 brigades were equipped and trained. This resulted in improved response times and better coordinated response leading to smaller areas burnt. *Enabling/disabling factors:* This was not a CPS Outcome in the 2006 CPS or 2009 CPS Progress Report. It was added subsequently due to strong government demand and for full accounting of contributions under Russia's Global Role.
Lessons and Suggestions for CPS 2012-2016	
The CPS needs to be flexible enough to provide room for fast changing, sophisticated demands from Upper Middle Income Countries like Russia. In light of severe problems caused by the forest fires in European Russia in 2010, a clear need has materialized to enhance fire prevention, management and control, and at the same time, to support forest management more generally to address the perverse policy incentives and to develop and test silvicultural systems less prone to fire; there is also a need to promote sustainable forestry practices amongst private sector actors.	
Bank Group Contributions: **P053830** Sustainable Forestry Pilot Project (SIL); *Approved*: May 2000; *Status*: Closed (May 2010); *ICR Rating*: Moderately Satisfactory; *IEG Rating*: Moderately Unsatisfactory **P111139** Improving Forest Law Enforcement and Governance in the European Neighborhood Policy East Countries and Russia TA *Approved*: October 2008; *Status*: Ongoing	
COUNTRY DEVELOPMENT GOAL: FULFILLING INTERNATIONAL OBLIGATIONS FOR GLOBAL PUBLIC GOODS	
CPS Outcome	Status and Evaluation Summary
Addressed environmental issues to provide local and global benefits **Supported Global Tiger Initiative**	**Status: achieved** Russia played a leading role in the Global Tiger Initiative (GTI) – an alliance of governments, international agencies, civil society, and the private sector united to save wild tigers from extinction and integrate conservation into the development agenda. Through its active participation in the Global Tiger Initiative, Russia has developed and adopted the new "Strategy for Conservation of the Amur Tiger in the Russian Federation" (approved 2010), as well as the Action Plans for its implementation till 2020 at the federal level and at the level of two involved regions (Khabarovsk kray and Primorsky kray). This strategy is Russia's concrete and successful national contribution to the Global Tiger Recovery Program. *Bank Group impact:* The Prime Minister partnered with the World Bank to organize and host the Global Tiger Summit (St. Petersburg, November 2010) attended by heads of governments, senior officials from 13 tiger range countries, and CSOs. The summit adopted the Global Tiger Recovery Program, a flagship example of country-led collaboration on transboundary and global conservation issues. *Enabling/disabling factors:* This was not a CPS Outcome in the 2006 CPS or 2009 CPS Progress Report. It was added subsequently due to strong government demand and for full accounting of contributions under Russia's Global Role.
Lessons and Suggestions for CPS 2012-2016	
The CPS needs to be flexible enough to provide room for fast changing, sophisticated demands from Upper Middle Income Countries like Russia. Support to the country's active involvement in the global agenda helps activate and promote necessary national action in key areas of environmental sustainability. In the next CPS, it is recommended that the Bank continues to support Russia in implementing the Global Tiger Recovery Program and develop a joint agenda in the area of biodiversity of regional and global significance.	
Bank Group Contributions: **P116149** - Global Tiger Initiative TA *Approved*: April 2009; *Status*: Ongoing; **GEF** Support to Global Tiger Summit (2010)	

COUNTRY DEVELOPMENT GOAL: FULFILLING INTERNATIONAL OBLIGATIONS FOR GLOBAL PUBLIC GOODS	
CPS Outcome	Status and Evaluation Summary
Addressed environmental issues to provide local and global benefits **Strengthened environmental management**	**Status: partially achieved** Environmental quality and control are poor for a majority of Russians living in the country's population centers. This has detrimental effects not only for those peoples' wellbeing but also a significant negative impact on Russia's economy. Russia inherited obsolete technologies continue to generate pollution and wasteful use of natural resources. The inefficient environmental quality management systems severely restricted the ability of the Government to address the issue of deteriorating environment. *Measured progress:* Reduction in emissions (discharges, wastes): emission – 123,000 t., discharges – 35,000 t., wastes – 255,000 t. as of December 2010 (targets are largely met). *Bank Group impact:* The Environmental Management Project (EMP) assisted the Russian authorities in the implementation of the National Pollution Abatement Facility (NPAF) – a credit line for pollution abatement projects (amount of total investments – US$78 million). Half of NPAF funds were invested in seven pollution abatement projects, including modernization of four large pulp and paper mills in Archangelsk oblast, and mitigation of the consequences of Siberian silkworm outbreak. The Bank supported the establishment of the system of air quality monitoring in the Ural and Upper Volga region. IFC contributes to stronger environmental management practices in the private sector through application of Policy and Performance Standards on Environmental and Social Sustainability to all investment projects, minimizing their impact on the environment and on affected communities. IFC has also begun environmental and social risk assessment of its Advisory Services projects, using the Performance Standards as the framework. *Enabling/disabling factors:* This was not a CPS Outcome in the 2006 CPS or 2009 CPS Progress Report. It was added subsequently to fully account of contributions under Russia's Global Role. Inefficiencies in the environmental quality management system and the absence of adequate technical assistance at the national and regional levels have limited the initial potential of EMP implementation. The latest environmental problems in Russia, including summer 2010 fires, prompted the Russian Government to look at the problem in a new way, and introduce new projects and programs.
Lessons and Suggestions for CPS 2012-2016	
Institutional and financial risks associated with the proposed on-lending arrangement proved to be much greater than anticipated. The main project result is the establishment of a mechanism to finance pollution abatement projects. However this mechanism can be implemented in future only when brought in conformity with the existing legislation. Future priorities for the new CPS have been indicated by the Ministry of Natural Resources and the Environment and include increased cooperation with the Bank in dealing with past environmental liabilities, biodiversity, water management, protected areas management, climate change and associated weather and catastrophic risk insurance.	
Bank Group Contributions: **P008821** Environmental Management Project (FIL) *Approved*: November 1994; *Status*: Closed (June 2011); *Latest ISR Rating*: Moderately Unsatisfactory	
COUNTRY DEVELOPMENT GOAL: FULFILLING INTERNATIONAL OBLIGATIONS FOR GLOBAL PUBLIC GOODS	
CPS Outcome	Status and Evaluation Summary
Supported measures to mitigate global food price crisis	**Status: partially achieved** Before the severe drought in 2010 Russia was the world's third largest wheat exporter. In response to the global food price crisis and following up on commitments made to the G8, the Russian Government is committed to undertake – jointly with the CGIAR and the Bank – a Russian Agricultural Development Aid Cooperation initiative aimed to improve food security in the

	Eurasian region and globally, enhance environmental sustainability of agricultural production, in particular in response to climate change, and build the capacity of the Russian Federation in providing agricultural advisory services in international initiatives on these subject matters. *Bank Group impact:* Under this activity the Bank is providing advisory services in support of Russia's efforts to establish the Eurasian Center for Food Security (ECFS), which is being established as a national center with regional outreach to selected countries of Eurasia. Over a period of several years, ECFS is expected to develop into an internationally recognized institution. The Bank prepared policy notes focusing on grain production and trade. The findings regarding state involvement in Russia's grain trade were taken into account when the "United Grain Company" was established in 2009. *Enabling/disabling factors:* This was not a CPS Outcome in the 2006 CPS or 2009 CPS Progress Report. It was added subsequently due to strong government demand and for full accounting of contributions under Russia's Global Role. There is strong commitment of the Russian Government to G8 initiatives, on the one side, and lack of strong willingness of the Russian Ministry of Agriculture to cooperate with the Bank, on the other side.

Lessons and Suggestions for CPS 2012-2016

The CPS needs to be flexible enough to provide room for fast changing, sophisticated demands from Upper Middle Income Countries like Russia. The Bank's role in Russian agriculture development should be increased considerably since this country has untapped potential in the production growth to meet the increasing food demand of the world. The food price crisis has exposed existing and potential weaknesses and vulnerabilities of households, governments, and the international economy to food and nutrition insecurity. Russia, with its vast potential in agriculture, could significantly contribute to increased food security regionally and globally. The WBG in the next CPS period is well-placed to support Russia in this role.

Bank Group Contributions: **ESW** Russia Grain Reserves Study (2009); **FBS** in support of Russia's efforts to establish a Eurasian Center for Food Security (ECFS) *Approved*: March 2011; *Status*: Ongoing

Attachment 2

CPS FY07-11 Planned Lending Program and Actual Deliveries

CPS PLANS (11/20/2006)			**PROGRESS REPORT (07/30/2009)**	
FY	**PROJECT**	**US$M**	**STATUS actual/dropped**	**US$M**
		IBRD		**IBRD**
2007	Housing & Communal Services Reform Project	200.0	Actual	200.0
	IT Parks	20.0	Dropped Lack of ownership from the borrower	
	Judicial Reform Support	50.0	Actual	50.0
	State Statistical System 2	10.5	Actual	10.0
2008	Microfinance Infrastructure	50.0	Forwarded to FY12	21.0 (TBD)
	Special Economic Zones	50.0	Dropped Institutional changes and lack of ownership from the borrower	
	South Okrug Local Initiatives	TBC	Forwarded to FY12	20.0 (TBD)
	SUAL Guarantee (Komi Commercial)	TBC	Dropped	
2009	Science and Technology	TBC	Dropped	
	Public Sector Efficiency	TBC	Dropped	
	Municipal Budgeting	TBC	Dropped	
			Change of borrowing policy, zero-lending approach	
	PRG Related Activity - Guarantee	TBC	Forwarded to FY10	
	Subtotal FY07-09	380.5	*Subtotal FY07-09*	260.0*

*Loan amount for the project approved during FY07-09

PROGRESS REPORT (07/30/2009)			**COMPLETION REPORT (06/30/2011)**	
2010	PCG for VEB Infrastructure Finance	300.0	Forwarded to FY12	500.0 (TBD)
			Additional Actual (ongoing) Projects:	
2011			*Cultural Heritage II*	100.0
			Financial Education and Literacy	25.0
	Subtotal FY10-11	300.0	*Subtotal FY10-11*	125.0
	Total FY07-11	**680.5**	**Total FY07-11**	**385.0**

Attachment 3

CPS FY07-11 Planned Non-lending Services and Actual Deliveries

CPS PLANS (11/20/2006)		**PROGRESS REPORT (07/30/2009)**
FY	**Product**	**Status actual/dropped**
2007	Programmatic Poverty	Actual (FY09)
	ICA (Russia-Region)	Actual
	CEM (Stage 2)	Actual (FY08)
	Water Quality Management Improvement	Actual
	Housing	Actual
	CPAR-RU	Actual
	Industrial Pollution Abatement	Actual
	Housing Market Study	Actual
	Performance-Based Budgeting	Actual
	Rural Finance/Rural Sector Dialogue	Actual
	Assess & Model Reform Impact	Actual (FY07)
	G8 Advisory Services	Actual
	Agricultural Policy Monitoring	Actual
	Public Administration Reform in RU	Actual
	Self-Governance and Civic Engagement	Actual (FY08)
	Youth Empowerment andSecurity	Actual (FY09)
	GDLN	Actual (FY09)
	Russian Economic Report	Actual
	EDUC/SP Advisory Services	Actual
	Civil Service Reform TA	Actual
		Additional Actual Products
		Evaluation and Modeling Reform IMF
		Development Aid (to be completed in FY12)
2008	SO Okrug Human Development	Actual (FY07)
	Russian Economic Report	Actual
		Additional Actual (ongoing) Products
		HD Advisory Services
		Energy Efficiency Study
		Environmental Performance Overview
2009	Financial Sector Dialogue	Actual
	Russian Economic Report	Actual
		Additional Actual (ongoing) Products
		Policy Note on Demography
		Economic Diversification
		Regional Program Development Strategy
		HD Advisory Services
		Forest Reform TA
		Quality of Local Governance
		State Grain Training
		Russia Grain Reserve Study
		Consumer Protection
		Vulnerability Review

PROGRESS REPORT (07/30/2009)		**COMPLETION REPORT (06/30/2011)**
2010	Regional HD PER	Actual
	Public Expenditure Review (ESW)	Actual (FY11)
	Growth and Regional Development (ESW)	Actual (FY11)
	Russian Economic Report	Actual
		Additional Actual (ongoing) Products
		Policy Dialogue TA on PPP
		Long-Term Fiscal Sustainability
		HD Advisory Services
		Environmental Liabilities
		Labor Market Monitoring and Policy Assessment
		Crisis Response TA
		Energy Efficiency (follow up)
		Russian Economic Report
		RU Financial Sector Review
		Regional HD Public Expenditure Review
2011	Russian Economic Report	Actual
		Additional Actual (ongoing) Products
		HD Advisory Services
		Health Financing
		RU Innovation TA
		RU Financial Sector Monitoring
		RF DFID TF for Govern. Pub. Admin
		Social Expenditure Efficiency
		Diversification and Innovation Support
		Monocities TA
		New Labor Markets
		GDLN Coordination in Russia
		Financial Literacy TA
		SO LISP TA
		RU Economic Diversification (ESW)

Annex 8

2012-2016 CPS Multistakeholder Consultations

Background

1. The consultations of the WBG in Russia with the main stakeholders helped for early identification of the key challenges facing the country at the federal level and in the regions, and for testing the proposed CPS strategic themes and messages. In February and June 2011, the WBG in Russia, in cooperation with the World Bank's Global Development Learning Network (GDLN), Charities Aid Foundation-Russia (CAF-Russia), and the Institute for Contemporary Development (INSOR), organized a series of consultation workshops and videoconferences across the country to discuss the progress achieved during the previous CPS period and strategic challenges for the next partnership period. These workshops and videoconferences involved representatives of the federal and local governments, civil society and business communities, think-tanks, academia, and other stakeholders. The participants were chosen from the WBG's wide network of contacts and partners at the national, regional, and local levels.

Purpose and Process of Consultations

2. The main purpose of the consultations with stakeholders in the regions was to identify successful approaches to socio-economic development in Russia's regions, which may not be currently recognized at the federal and international levels, as well as to share the WBG's approaches to new partnership with Russia and new financial instruments. Also, the WBG was looking forward to learn where international knowledge or finance could strengthen programs in the regions or address new priorities, and to get feedback on its performance in the country.

3. The first round of consultations was held in February 2011, building on the WBG's successful ongoing dialogue with the federal government of the Russian Federation on identifying its key priorities and challenges for the country's socio-economic development, as well as on areas where collaboration with the WBG could be most useful. Consultations brought together 42 representatives of local authorities from seven regions of Russia, including Perm and Stavropol krais; Tatarstan and Chuvash republics; and Kirov, Tver, and Yaroslav oblasts. In the course of the discussions, the WBG learnt about priorities, challenges, and successful approaches to socio-economic development in the regions. The consultations helped identify how collaboration with the WBG could be most useful and efficient.

4. In early June 2011, following initial discussions with representatives of Russia's civil society organizations that indicated their interest in taking active part in the preparation of the CPS, the WBG sought feedback from representatives of the civil society at the federal level and in the regions. The two consecutive videoconferences were attended by over 60 participants representing more than 40 different regional civil society organizations, business associations and academia from eight regions of Russia: Buryatia, Karelia, and Tatarstan republics; Krasnodar and Perm krais; Novosibirsk and Ryazan oblasts; and Moscow. The consultations provided a venue for a meaningful exchange of views with federal and regional governments, as well as with a variety of stakeholders on Russia's most critical development challenges, as well as on policy options and programs that could address these challenges. Also, the consultations helped increase government's and stakeholders'

understanding of the WBG's work and activities in the Russian Federation. Pedro Alba, the World Bank Country Director and Resident Representative in the Russian Federation, led the Bank's team of experts, which facilitated the discussions.

5. Later in June 2011, the WBG held consultations with the economic think-tanks and academia in partnership with the Institute for Contemporary Development (INSOR), one of the leading socio-economic think-tanks in Russia. The workshop engaged more than 30 participants in the consultations representing about 20 different think-tanks and stakeholder agencies, most of which actively participated in the discussions sharing their views and perspectives on the WBG's role in the new CPS period. The WBG's team of experts was led by Zeljko Bogetic, Lead Economist and Country Sector Coordinator (CSC) for Economic Policy for Russia.

Results/Outcomes of the Discussions

6. ***Regional Authorities*:** In the course of two sessions of 3.5 hours each with representatives of local authorities, the WBG received in-depth feedback on development priorities of Russia's regions. Substantively, the WBG in Russia heard that:

- Diversification of the economy through improvements to the investment climate and innovations are at the top of everyone's list in the regions, similar to the federal level agenda.
- All seven regions wanted to attract foreign direct investments.
- Many regions also highlighted the importance of skills development for business and higher education more generally to contribute to competitiveness.
- From the less advanced regions, the WBG understood that public infrastructure (particularly water and sewerage, and transport) remains a critical need.
- Tver Oblast gave a strong positive evaluation of the IBRD assistance since 2003, particularly for public finance, education and culture.
- Representatives of the Chuvash Republic were greatly appreciative of the IFC/IBRD sub-national loans. They expressed interest in additional financing for rural water projects.

7. ***Civil Society, Business Communities, Academia, and Other Stakeholders**:* Seven themes prevailed during the discussion:

- Access for SMEs to microfinance at reasonable terms and long maturity, which is particularly important for SMEs in agriculture and operating in monocities
- Access to housing and social housing, as well as to energy, are the issues at the municipal level
- Support to local initiatives at the community level
- Environmental protection and landscape preservations
- Creating opportunities for development for children and young generations
- Providing access to employment to people with disabilities
- Public private partnerships at the municipal level

8. ***Economic Think-tanks and Academia:*** Four themes permeated the discussion, which touched upon a number of issues:

- There was consensus that, while the WBG continues to work closely with federal agencies, key development issues in Russia are in the regions. The WBG's increasing focus on working with the regions is timely and appropriate.

- The participants welcomed and expressed interest in the WBG's wider menu of financial instruments, especially Financial Intermediary Loans (FILs) as well as greater use of guarantees and opportunities for lending (and on-lending) to the regions.
- Several participants felt that the WBG's non-financial support (technical assistance, capacity strengthening, and knowledge sharing) is extremely important and in several cases even more important than direct financial support.
- Several participants argued that statistics partnership with Rosstat (Russian Statistical Agency) via technical assistance from IBRD could help improve the quality and standards of statistical information, including on national accounts.

9. Mr. Storchak, Deputy Minister of Finance, participated in the entire meeting to facilitate the dialogue between the Ministry and think-tanks regarding the new CPS. At the outset, Mr. Storchak stressed the important contribution that the WBG made to Russia's priorities and development programs in all three main lines of business: lending, technical assistance, and analytical support as well as to Russia's emerging role as a donor and a member of G20. He stressed, among others, the strong results of the regional fiscal technical assistance project, and projects on cultural heritage, education and health, as well as the past budget support operation for the Russian regions. Mr. Storchak also emphasized the importance of the WBG's global and comparative knowledge and analytical work in informing Russia's policy debates and choices. In that sense, he emphasized that the new CPS represents and should reflect a continuity of the WBG's engagements and results.

CPS Formulation and Consultation Process

10. The CPS process was launched internally during the Russia Country Team retreat in June 2010. The discussions on the CPS then went through various stages of brainstorming, debating, working group discussions, government and external consultations, and internal reviews. Organizationally, a CPS Core Team served as the nucleus for the work, which has involved the entire country team.

11. Following is a summary of major events that took place throughout the almost year-long CPS discussions and consultation process, including the highlights of each activity.

Main Steps of CPS Preparation	Highlights
June 9-10, 2010 – **Russia Country Team Retreat**	Discussed initial strategic direction the new CPS
November 2010 - **First Meeting with Representatives of the Government**	Possible volume of lending for the next CPS period of US$1 billion per year, which was announced by Prime Minister Putin after the meeting with Mr. Zoellick, World Bank President, during "The Tiger Summit" in St. Petersburg.
March-April 2011 - First round of **CPS Completion Report** discussion	Discussed outcomes at the technical level with representatives of the Ministry of Finance
March 28, 2011 – **CPS Concept Review,** chaired by Philippe Le Houérou, ECA VP	Preliminary structure of the new CPS and proposed strategic themes were discussed and broadly endorsed
Multistakeholder CPS Consultations: - February 15, 2011 – VC consultations with regional authorities - February 16, 2011 – VC consultations with regions - June 2, 2011 – VC consultations with regional and federal CSOs, academia and	(See details in earlier section of the Annex)

Main Steps of CPS Preparation	Highlights
business communities - June 10, 2011 – Workshop/Consultations with think-tanks	
May 31 and July 11, 2011 - **Country Team Discussions of Draft CPS Outline**	The Russian Country Team was involved in the discussion of the proposed CPS outline and in brainstorming of the possible results framework approach
June 6, 2011 - **Second Meeting with Representatives of the Government**	At the meeting with Deputy Minister of Finance Sergei Storchak, and Director of International Affairs Department Andrei Bokarev, the proposed CPS outline was endorsed. Preliminary feedback received during the meeting and the follow-on written comments were reflected in the draft CPS.
September 24, 2011 - **Third Meeting with Representatives of the Government**	Discussion on the draft CPS with the representatives of the Russian delegation during the 2011 Bank-Fund Annual Meetings
October 3, 2011 - **Regional Operations Committee (ROC) Final Review**	Received additional guidance and overall support from management to proceed with CPS processing for Board discussion
October 28 and November 7, 2011 - **Formal communication from Government on CPS**	Government no-objection to disclose the CPS at the time of circulation to the Board of Executive Directors of the WBG
November 9, 2011 - **Meetings with Development Partners**	Meetings and consultations with representatives of the embassies and other development partners - planned
November 3 - **Submission of CPS for Final Internal Clearances**	
[December 20] – **CPS discussion by the Board of Executive Directors of the WBG**	

Annex 9

Overview of the Indicative World Bank Group (WBG) Program

This Annex provides a detailed overview of the WBG program with brief descriptions of the various indicative engagements (IBRD financing, AAA, RTA, and IFC activities) under the four CPS Strategic Themes. Some WBG engagements support more than one Strategic Theme. The lending program for the outer years of the CPS will be determined jointly with the Government and will be presented for Board discussion in the CPS Progress Report, and may include operations in infrastructure, human development, regional development, and environmental management, as well as possible follow-on operations in land registration and customs management.

Strategic Theme 1: Increasing Growth and Diversification

Areas of Engagement and Country Development Outcomes to which CPS Contributes	World Bank Group Program
Management of Public Finances *Outcome 1*: Improved efficiency and effectiveness of public financial management **Investment Climate/Innovation** *Outcome 2*: Further streamlined and simplified business procedures and improved capacity to monitor and benchmark business regulations *Outcome 3*: Strengthened capacity to design and implement innovation and diversification programs in Russia's regions **Financial Sector Development** *Outcome 4*: Improved regulatory and supervisory framework for the financial sector and upgraded market infrastructure *Outcome 5*: Increased depth and breadth in the financial sector and increased access to finance **Sustainable Development and Effective Protection of the Environment** *Outcome 6*: Increased access to quality infrastructure assets and improved infrastructure services *Outcome 7*: Enhanced competitiveness and sustainability of the economy via reduced resource intensity of GDP *Outcome 8:* Improved management of environmental risks and natural resources	**Ongoing Financing: See Annex B8** **NATIONAL** **Indicative Financing (2012-2013)** • Energy Efficiency Financial Intermediary Project • Forest Fire Response Project • VEB (Russian Development Bank) Infrastructure Financial Intermediary Project • Environmental Monitoring Project • Financial Sector Development Project • Fiscal and Public Finance Modernization Project • IFC Russian Bank Opportunity Fund (RBOF) **Indicative AAA/Others (2012-2013)** • TA Economic Diversification • TA Investment Climate/Doing Business • ESW Environmental Performance Overview • ESW Policy notes on growth, jobs, and productivity • TA Diversification and Innovation • TA Support to Strategy 2020 • TA Public Expenditure Performance Review • ESW Russian Economic Reports • TA Financial Sector Development • IFC Russia Cleaner Production • IFC Russia Financial Markets Crisis Management Project • IFC Russia Sustainable Energy Finance Program • IFC Russia Renewable Energy • IFC Russia Residential Energy Efficiency Program • WBI Support to selected lagging regions and monocities to identify and address development challenges, organize knowledge exchanges among Russian regions and globally, deliver learning events **Indicative RTA (2012-2013)** • Investment Climate • E-Budget Systems • Improvement of Urban Transport in Russia

	• Improving Public Transport (in cooperation with the Ministry of Transport) • Strengthening the Institutional and Management Capacity of Avtodor (State Road Agency) • Development of Moscow as International Financial Center • Support to Institutional Strengthening and PPP Project Preparation • International Water Academy **SUB-NATIONAL** **Indicative Financing (2012-2013)** • Microfinance Development Project • Hydrometerological Modernization Project 2 **Indicative AAA/Others (2012-2013)** • TA Intelligent Transport System for St. Petersburg • ESW Urban Transport Sector Overview **Indicative RTA (2012-2013)** • Tatarstan Innovation Support • Tomsk Innovation Strategy • St. Petersburg Urban Transport • Sub-national Doing Business • Cultural Heritage and Cultural Tourism Development in Tatarstan • Regional Innovation Action Plan

Note: The indicative financing and knowledge services program is for the period 2012-2013. The program for the outer years of the CPS will be determined jointly with the Government and will be presented for Board discussion in the CPS Progress Report.

Area of Engagement 1.1: Management of public finances

Outcome 1: Improved efficiency and effectiveness of public financial management

Indicative Financing: The WBG will continue the ongoing support through the Treasury Development Project (FY02) and the Customs Development Project (FY03) with a proposed Fiscal and Public Finance Modernization Project and a possible follow-on customs modernization project later in the CPS period. These engagements are aimed at supporting the Government through policy advice and capacity strengthening in the Ministry of Finance and the Federal Tax Service towards enhancing the fiscal regime to encourage business investment, streamline the intergovernmental fiscal system, and increase oversight of financial risks.

Indicative Knowledge Services: IBRD will monitor and inform the fiscal policy debate and continue to provide policy advice through the Russian Economic Reports, and WBG participation in major policy and economic forums and policy discussions. The dissemination of the 2011 Public Expenditure Review (PER) will be followed up with a Public Expenditure Performance Review. An RTA is also proposed for strengthening the E-Budget System.

Area of Engagement 1.2: Investment climate/innovation

Outcome 2: Further streamlined and simplified business procedures and improved capacity to monitor and benchmark business regulations

Indicative Knowledge Services: The WBG will continue its support in the area of investment climate reforms through TAs (e.g., Investment Climate/Doing Business) and RTAs (Investment Climate,

Sub-national Doing Business). The second round of sub-national Doing Business assessment in 30 Russian regions will be completed by April 2012 supported by the related RTA. Further advisory services will include contributions in the areas of dealing with construction permits and trading across borders, and may also provide support for the streamlining of processes such as starting a business, paying taxes, closing a business, registering property, getting credit, protecting investors, and enforcing contracts.

Outcome 3: Strengthened capacity to design and implement innovation and diversification programs in Russia's regions

Indicative Financing: The Ministry of Economic Development and the regions may request additional support for strengthening competitiveness and support for development initiatives in the regions focused on economic diversification and innovation during the latter part of the CPS period.

Indicative Knowledge Services: The Government has requested an RTA for the implementation of the innovation business plan program in four pilot Russian regions. Specific regions have already requested support for innovation programs and strategies, including Tartarstan and Tomsk. More generally, IBRD plans to prepare policy notes on growth, jobs, and productivity. The IBRD RTA for Cultural Heritage and Cultural Tourism Development in Tatarstan will suggest ways to develop the region's cultural assets into sustainable sources of income that provide a broad range of benefits to communities using cultural heritage as an entry point for local development.

Area of Engagement 1.3: Financial sector development

Outcome 4: Improved regulatory and supervisory framework for the financial sector and upgraded market infrastructure

*Indicative Financing***:** WBG engagements during the CPS period will include a Financial Sector Development Project which will enhance the orderly expansion of financial markets to serve better the needs for corporate finance by supporting financial market stability through a modernized state-of-the-art regulatory framework and the implementation of strengthened supervisory and enforcement mechanisms. Long-term direct IFC investments in well-managed private sector banks will increase banking sector efficiency and contribute to competition in a state-dominated sector.

Indicative Knowledge Services: The Financial Sector Development Project will be augmented with an associated TA. An RTA for the Development of Moscow as an International Financial Center will support the Government's goals in this respect. IFC advisory will strengthen the sector and its oversight functions (e.g., improving risk management practices of private banks, lowering Non-Performing Loans).

Outcome 5: Increased depth and breadth in the financial sector and increased access to finance

*Indicative Financing***:** The proposed Energy Efficiency Financial Intermediary Project will help to catalyze financing of energy efficiency investments through providing seed money and TA to systemically important banks and strengthen the institutional capacity of the recently established Russian Energy Agency. The proposed Microfinance Development Project at the sub-national level will support the Government in developing a sustainable, safe and sound national financial cooperative and microfinance system in order to enhance access to financial services by the poorer and underserved segments of the population, especially outside of the two large cities. IFC will play

a critical role in helping towards deepening the sector (e.g., expansion of non-bank financial services, trade finance, access to finance for energy efficiency and renewable energy) and making it more competitive, and contribute to increasing the flow of finance for the Russian private sector including for MSMEs both through direct investments and via dedicated loans to partner financial institutions. IFC will also seek opportunities to invest in non-bank products and services, including insurance and pensions, to help in increasing the depth of financial markets. SME development is further assisted by IFC's strategy of supporting well-managed private banks with networks in the regions via the Russian Bank Opportunity Fund (RBOF). IFC also reaches SMEs through targeted SME, trade and energy efficiency finance to Russian banks. Providing its products through banks with networks in the regions helps IFC to reach a broader geographical area, including underserved regions and populations.

Area of Engagement 1.4: Sustainable development and effective protection of the environment

Outcome 6: Increased access to quality infrastructure assets and improved infrastructure services, including through increased participation of the private sector in financing and management of infrastructure

*Indicative Financing***:** The proposed VEB (Russian Development Bank) Infrastructure Financial Intermediary Project will support the development and financing of infrastructure projects in the regions, including PPP projects. Additional engagements in infrastructure are also envisaged for the outer years of the CPS and will be determined with the Government. IFC is focused on helping to address bottlenecks to growth created by inadequate or outdated infrastructure, especially in transport and logistics (airports, ports, roads, warehousing) and at the sub-national level (municipal utilities and transport). Building on the successful experience with the Pulkovo Airport PPP, IFC will explore additional PPP opportunities in areas such as waste management and water treatment in the St. Petersburg area where the regulatory framework for PPPs is already in place.

Indicative Knowledge Services: Proposed AAA include ESW on Environmental Performance Overview, TA on Intelligent Transport System for St. Petersburg, and ESW on Urban Transport Sector Overview. Ongoing and proposed RTAs include continued support to St Petersburg Urban Transport, and Support to Institutional Strengthening and PPP Project Preparation. Engagements with more oblasts/cities such as Moscow are under discussion, and RTAs are envisaged to provide assistance in Improving Public Transport in cooperation with the Ministry of Transport, and agencies with responsibility for PPPs such as Avtodor. IFC will consider providing advice on waste management planning and deal structuring to other cities using experience from the St. Petersburg market. The World Bank Institute (WBI) will work jointly with ECA teams to help selected Russian lagging regions and monocities to identify development challenges, organize and facilitate knowledge exchange activities among Russian regions, and connect them to provinces in other countries and cities facing similar problems. WBI will also provide advice and support in development of strategies and policies.

Outcome 7: Enhanced competitiveness and sustainability of the economy via reduced resource intensity of GDP

*Indicative Financing***:** In consultation with government stakeholders and in coordination with main donors that have ongoing energy efficiency (EE) related programs in Russia, IBRD developed a project that includes a financial intermediary loan to a systemic bank (Gazprombank), and a GEF grant. The GEF grant will support the Russian Energy Agency's efforts to create the environment

enabling commercial financing of EE investments, and help Gazprombank to implement its EE credit line, co-financed by the IBRD loan, and to scale-up its EE lending business. The Energy Efficiency Financial Intermediary Project would provide support from the WBG for this outcome.

Indicative Knowledge Services: Beginning in FY05 IFC successfully piloted an approach combining financing with technical assistance to banks, project owners, and service providers to design and implement viable EE projects through the Sustainable Energy Finance Program which is expected to phase out in FY12. Using the same programmatic approach, IFC has launched the Cleaner Production Program to assist in improving resource efficiency among real sector clients, the Residential Energy Efficiency Project to help homeowners invest in the energy efficiency of residential buildings, and the Renewable Energy Program, which supports the government objective of sourcing up to 4 percent of all energy from renewable sources by 2020 by helping to create the regulatory framework for investment in the sector.

Outcome 8: Improved management of environmental risks and natural resources

*Indicative Financing***:** The proposed Forest Fire Response Project will contribute towards decreasing the number of fires of human origin through support for increasing public awareness and education, working with communities, publicizing fire danger and hazard ratings and re-establishing systems of control. The project will also provide support for enhanced targeted investments to improve forest fire detection and management, forest regeneration and restoration, and the establishment of integrated forest management information systems. The proposed Hydrometeorological Modernization Project 2 will support the provision of necessary information to protect society and the economy from a wide range of hydrometeorological and climate related hazards, and help in improving access to more reliable and abundant information to the international hydrometeorological community. Other proposed engagements include the Environmental Monitoring Project and projects during the outer years of the CPS to be specified through discussions with the Government, which may address issues of past environmental liabilities, spatial data, and land registration. The collaboration in cleaning past environmental liabilities could be expanded to include the Arctic zone, with a focus on institutional strengthening to ensure sustainability of the environmental efforts in this critical area. In addition to implementing existing programs focused on sustainable resource use, IFC will seek opportunities to invest in sustainable forestry and in agribusiness projects which help in improving resource efficiency and minimizing environmental impacts. IFC's globally recognized Policy and Performance Standards on Social and Environmental Sustainability are applied to all advisory and investment operations.

Indicative Knowledge Services: An ESW on Environmental Performance Overview is planned. The proposed RTA for Improving Public Transport (in cooperation with the Ministry of Transport) would help in the development of a federal level regulatory framework for vehicle emission standards.

Strategic Theme 2: Expanding Human Potential

Areas of Engagement and Country Development Outcomes to which CPS Contributes	World Bank Group Program
Education, Health, and Social Protection *Outcome 9:* Increased quality and improved access, targeting, coverage, and efficiency of social services for human development **Skills for Economic Development**	**Ongoing Financing: See Annex B8** **NATIONAL** **Indicative Financing (2012-2013)** • Social Inclusion through Sports Project

Outcome 10: Professional education system produces adequate skills for increased competitiveness **Socially Inclusive Development** *Outcome 11*: Increased social inclusion of vulnerable groups	**Indicative AAA/Others (2012-2013)** • ESW Professional Education and Skills • TA Health Financing • ESW Health Provider Survey • ESW Poverty, Opportunity, and Social Mobility • Support for Migration and Remittances Peer-Assisted Learning (MIRPAL) Network Initiative **Indicative RTA (2012-2013)** • Russia Education Aid for Development - READ (in support of TF) • Russian Academy of National Economy and Public Administration (RANEPA) Program • Higher School of Economics II • READ II **SUB-NATIONAL** **Indicative Financing (2012-2013)** • North Caucasus South Okrug Local Initiatives Support Project • Preschool Education Project for Yakutia **Indicative AAA/Others (2012-2013)** • TA Regional Human Development **Indicative RTA (2012-2013)** • Local Initiatives Support in Kirov • Local Initiatives Support in Stavropol • Primary Health Care Provider Payment Reform in Kirov Region • Yakutia Early Childhood Development Program • Cultural Heritage and Cultural Tourism Development in Tatarstan • E-Education Project • Krasnoyarsk Technical Vocational Education and Training Program • Provider Payment Reforms in Regions • Tatarstan Social Protection

Note: The indicative financing and knowledge services program is for the period 2012-2013. The program for the outer years of the CPS will be determined jointly with the Government and will be presented for Board discussion in the CPS Progress Report.

Area of Engagement 2.1: Education, health, and social protection

Outcome 9: Increased quality and improved access, targeting, coverage, and efficiency of social services for human development

*Indicative Financing***:** The proposed IBRD-supported Preschool Education Project for Yakutia will finance the implementation of the best approaches for cost-efficient expansion of the Early Childhood Development (ECD) system and support the formulation of country level policies to apply the same methodologies in other regions. Further support for projects in human development may materialize through discussions with the Government. IFC will seek opportunities to invest in health sector-related non-bank financial services, including insurance and pensions, and to invest directly in private sector health care providers.

Indicative Knowledge Services: The WBG will support government efforts to improve the delivery of health, education and social protection services through the provision of mainly technical assistance on methodological approaches to measuring social sector performance and the use of such

tools to influence policy formulation. Indicative AAA include TA on Health Financing, ESW on Health Provider Survey, and TA on Regional Human Development. Proposed RTAs at the sub-national level include the Yakutia Early Childhood Development Program, Primary Health Care Provider Payment Reform in Kirov region, Provider Payment Reforms in Regions, and Local Initiatives Support in Kirov and Stavropol. The E-Education RTA in Tatarstan allows the WBG to assist in the introduction of ICT in education to change traditional teaching and learning patterns. The Republic of Tatarstan has approached IBRD with a request for an RTA on Social Protection to assist in building an efficient system of high quality demand-based social services by introducing modern service standards and promoting competitive participation of non-governmental entities in service provision. The RTA in support of the Russia Education Aid for Development (READ) program is intended to strengthen institutional, expert, and research capacity in Russia for more broad and effective involvement in development aid. As a result of this program, Russian experts and expert organizations will be working in several CIS/ECA countries (including in WBG operations) and in other development agencies.

Area of Engagement 2.2: Skills for economic development

Outcome 10: Professional education system produces adequate skills for increased competitiveness

Indicative Knowledge Services: The WBG-supported AAA on Professional Education and Skills will provide an overview of professional and vocational education systems in Russia, identify major issues and challenges, and provide an analysis of Russian skills development systems with a focus on the professional education sector (tertiary education) to inform engagements going forward. Proposed RTAs include support for the Krasnoyarsk Technical Vocational Education and Training Program which will allow the piloting of best approaches to serve better the economy and society of Russia's regions. Two large RTA projects will support the Higher School of Economics II Project, and the Russian Academy of National Economy and Public Administration (RANEPA) Program. As the connector of knowledge and innovations, WBI will engage Russian participants in global and regional networks, connect to global development debates and discussions on acute economic topics, help access the WBI e-Institute learning courses, and continue to develop knowledge and learning partnerships with Russian knowledge institutions (universities, think-tanks).

Area of Engagement 2.3: Socially inclusive development

Outcome 11: Increased social inclusion of vulnerable groups

*Indicative Financing***:** The proposed Social Inclusion through Sports Project will pilot and test innovative approaches in six regions to use sports as an entry point for social integration of vulnerable groups (including the disabled and at-risk children and youth). By building on the universality of sports and its traditional importance in Russian society, the project will help to create a new entry point for promoting social inclusion, as well as space for promoting and providing additional social support services to vulnerable groups. It will improve their access to better health, education and vocational training, and serve to increase their confidence, social skills and engagement in productive activities that lead to economic development. The project will also strengthen the capacity of municipalities to plan for, and deliver, services to disadvantaged groups. The North Caucasus South Okrug Local Initiatives Support Project will contribute to the improvement of the quality of local social and communal services through improved capacity of local authorities to manage these services with increased participation of citizens and communities in

targeted municipalities. The issue of the social inclusion of immigrants, with a focus on the legal framework for labor migration in Russia, will continue to be considered within the WBG's analytical work program on labor migration and remittances as well as within the framework of activities of the Migration and Remittances Peer-Assisted Learning (MIRPAL) network initiative, supported by the WBG and evolving in close collaboration with the Government.

Strategic Theme 3: Deepening Russia's Global and Regional Role

Areas of Engagement and Country Development Outcomes to which CPS Contributes	World Bank Group Program
Global Public Goods *Outcome 12*: Strengthened Russian participation in the provision of global public goods **Russia as a Donor** *Outcome 13*: Established an institutional structure for delivery of a bilateral and multilateral development assistance program	**Ongoing Financing: See Annex B8** **GLOBAL** **Indicative Financing (2012-2013)** • Energy Efficiency Financial Intermediary Project • Forest Fire Response Project • Environmental Monitoring Project • Hydrometerological Modernization Project 2 **Indicative AAA/Others (2012-2013)** • TA Support to Russia 2012 APEC Presidency • TA Support to Strategy 2020 • TA WTO Monitoring and Analysis and Trade in Services **Indicative RTA (2012-2013)** • Eurasian Center for Food Security (linked to CGIAR) • International Water Academy (in support of TF) **ECA REGIONAL** **Indicative Financing (2012-2013)** • Fiscal and Public Finance Modernization Project **Indicative AAA/Others (2012-2013)** • TA Development Aid Program • Support for Migration and Remittances Peer-Assisted Learning (MIRPAL) Network Initiative • WBI Support Russia to shape a focused and structural approach in playing its role as a development partner and to develop an effective system of knowledge transfer and engagement in global development dialogues **Indicative RTA (2012-2013)** • Russia Education Aid for Development – READ

Note: The indicative financing and knowledge services program is for the period 2012-2013. The program for the outer years of the CPS will be determined jointly with the Government and will be presented for Board discussion in the CPS Progress Report.

Area of Engagement 3.1: Global public goods

Outcome 12: Strengthened Russian participation in the provision of global public goods

*Indicative Knowledge Services***:** The WBG will support the Russian Federation to strengthen its role as it seeks to broaden and deepen its global engagements. In addition to WBG engagements which will enhance Russia's participation in the provision of global public goods (such as the Forest Fire Response Project, Energy Efficiency Financial Intermediary Project, Environmental Monitoring Project, Hydrometerological Modernization Project 2), the WBG will also provide technical advice

and organizational support. Such TA will, among other objectives, help in strengthening the capacity for the preparation of international forums and conferences and enhancing technical capacity within the civil service, and offer programs for Russian engagements on the global level to help in strengthening Russia's voice in ongoing discussions and increasing its leverage in the provision of global public goods through multilateral channels. Possible TA includes Support to Russia 2012 APEC Presidency as well as upcoming G8 and G20 Presidencies, Support to Strategy 2020, and WTO Monitoring and Analysis and Trade in Services. Proposed RTAs, including Russia Education Aid for Development – READ, International Water Academy, and Eurasian Center for Food Security will further support Russia's global aspirations.

Area of Engagement 3.2 Russia as a donor

<u>Outcome 13</u>: Established an institutional structure for delivery of a bilateral and multilateral development assistance program

Indicative Lending: WBG support will include a component in the Fiscal and Public Finance Modernization Project to set up a bilateral development agency under the responsibility of the Ministry of Finance.

Indicative Knowledge Services: WBG support will include technical advice on establishing a fully operational bilateral development agency, assistance in strengthening of associated development policy capacity in responsible Russian ministries and agencies, and the WBG partnership with the Russian Government through the channel of the EurAsEC-AntiCrisis Fund (administered by the Eurasian Development Bank) which would contribute to the fast track integration of Russia into the international donor community. TA on the Development Aid Program to support some of these efforts is planned. The WBG is attracting Russian experts through the Donor Funded Staffing Program. A prospective trust fund framework agreement with IBRD will permit the reduction of transaction costs for processing new programs and trust fund agreements with Russia as a donor. Several Russia-supported programmatic multi-donor trust funds (MDTFs) are currently under preparation. The process is coordinated by the joint Russian MOF-IBRD Aid Coordination Working Group established in 2010 for overall coordination of new initiatives and monitoring progress of joint programs towards development results. Planned funding activities include an ECA Capacity Building Trust Fund and an ECA Statistical Capacity Development Fund. WBI can support these efforts as it works with donors, learning institutions, and centers of excellence to help shape, customize, and deliver content locally. It links global sources of knowledge through its platforms for South-South exchange and innovation, and connects, through WBG operations, to the best sources of knowledge and finance and to partners who provide funds and expertise. WBI can help Russia to shape a focused and structural approach in playing its role as a development partner and assist in developing an effective system of knowledge transfer and engagement in development dialogues. Given that Russia is a major destination for labor immigrants from other CIS countries, some of which strongly depend on labor migrants' remittances from Russia, WBG will continue providing technical assistance and organizational support to Russia's leading role in the regional dialogue on migration and remittances issues within the CIS, in particular through supporting the activities under the MIRPAL network practitioners.

Strategic Theme 4 (cross-cutting): Improving Governance and Transparency

Areas of Engagement and Country Development Outcomes to which CPS Contributes	World Bank Group Program
Public Administration, Procurement, and Financial Management *Outcome 14*: Improved government transparency and accountability	**Ongoing Financing: See Annex B8** **NATIONAL** **Indicative Financing (2012-2013)** • Fiscal and Public Finance Modernization Project **Indicative AAA/Others (2012-2013)** • TA Program Budgeting and Expenditure Efficiency • TA Procurement System Development **Indicative RTA (2012-2013)** • E-Budget System • Russian Academy of National Economy and Public Administration (RANEPA) Program

Note: The indicative financing and knowledge services program is for the period 2012-2013. The program for the outer years of the CPS will be determined jointly with the Government and will be presented for Board discussion in the CPS Progress Report.

Outcome 14: Improved government transparency and accountability

Indicative Financing: The ongoing Judicial Reform Support Project (FY07) will continue to contribute to increasing the efficiency and transparency of the delivery of justice, thus raising trust and confidence in the judiciary. Ongoing engagements such as the Registration Development Project (FY06, plus possible additional financing in the later years of the CPS), and the State Statistical System II Project (FY07) also contribute to this outcome as will the proposed Fiscal and Public Finance Modernization Project.

Indicative Knowledge Services: The TA on Program Budgeting and Expenditure Efficiency can provide support in strengthening the program in improving the efficiency of public expenditures, implementing program budgeting, increasing results orientation in the public sector, strengthening investment appraisal, and creating effective and accountable autonomous agencies to deliver public services. The ongoing TA program for the EU-funded Forest Law Enforcement and Governance (FLEG) in the European Neighborhood Partnership Initiative (ENPI) East Countries and Russia is providing key support for addressing governance, natural resource management, monitoring and forest trade issues within Russia and the region (the ENPI East countries), and timber trade with the EU. The possible TA for Procurement System Development can assist the efforts to overhaul the federal contracting system to produce multiple benefits, improve value for money in procurement, reduce corruption and increase transparency, and support new forms of partnerships between the public and private sectors. The RTA for the Russian Academy of National Economy and Public Administration (RANEPA) Program, the component for E-Budget System under the ongoing Treasury Development Project, as well as a related RTA for implementation support, will also help to boost government programs in these areas. A Governance Partnership Facility (GPF) funded TA on Support to the Ombudsman Office in Perm helps to facilitate citizen participation in public life, the provision of materials, platforms and campaigns on issues of public interest, and mediation among local governments, public service providers, and citizens to redress complaints.

Annex 10

The Russian Federation as a Donor

1. **Russia aspires to be one of the 21st century's leading global economies.** The country is willing to integrate itself more fully into the international community including as a donor of international development assistance. Russia is already on track to becoming a member of the OECD. The Russia-WBG development aid program is the most extensive to date for the WBG's cooperation with a MIC client supporting the country's aspiration to become an international aid donor while offering broader opportunities for country participation in the multilateral aid system.

Achievements to Date

2. **Early Steps and Key Milestones.** Following its G8 presidency in 2006 and initiation of OECD accession talks in 2007, Russia took a number of steps to increase its development aid profile and significantly scaled-up and diversified its official development assistance (ODA) equivalent flows. In June 2007 the President of the Russian Federation adopted the national aid strategy *"Concept for Russia's Participation in International Development Assistance"*. This strategic document established key orientations and objectives for the country's future aid program based on OECD-DAC principles of ownership and alignment, predictability and transparency, accountability and monitoring, and the achievement of the MDGs as the basic reference point. Box 5 presents the milestones of Russian development aid over the past several years.

Box 8. Milestones of Russia's Development Aid

- **2005** - Russia G8 team study tour to the WBG in Washington, DC
- **2006** - G8 presidency, Russia-WBG Joint Statement on development aid cooperation signed by World Bank President, Mr. Wolfowitz and Minister of Finance Kudrin
- **2007** - Development aid concept "Russia's Participation in Development Assistance" approved; first IDA/IBRD-administered trust fund signed; high level study tour
- **2007–2009 -** Russia-WBG development aid cooperation strategically outlined and included as one of the key pillars of the Country Partnership Strategy (CPS) for FY07-FY09 and also continued in CPS Progress Report till FY11
- **2009 -** EurAsEc Anti Crisis Fund established; Russia's annual aid reaches US$785.02 million
- **February 2010** - MinFin-World Bank-OECD International Conference on New Partnerships in Global Development Finance; WBG President, Mr. Zoellick – Russia Deputy Prime-Minister, Minister of Finance Kudrin Joint Statement on development assistance cooperation in the countries of ECA region; World Bank-MinFin Aid Coordination Group created; Russia G8 accountability report published
- **January 2011** - Workshop "Strategic Communication for Russia's Development Aid Program"; draft framework paper for aid strategic communications elaborated; survey of public opinion on attitudes of Russian adult population to development aid presented
- **December 2010**–**March 2011 -** Modular development aid training program developed and tested by a group of Russian academics jointly with UK Institute of Development Studies (IDS)
- **May 2011** – Russia G8 accountability report published

3. **Overview of Russia's ODA.** Russia increased its ODA equivalent flows from about US$50 million in 2002-2003 to US$102 million in 2006. During the global financial crisis, Russia's

development aid contributions grew to US$785.02 million. This extraordinary increase is mainly linked to the provision of emergency aid and was aimed to mitigate the adverse impact of the economic crisis, especially in the CIS region. Also during the crisis, Russia initiated the establishment of an innovative crisis response cooperation mechanism — EurAsEc Anti-Crisis Fund — in the amount of US$10 billion with a Russian contribution of US$7.5 billion[24]. In 2010, Russia returned to its medium-term ODA growth path with ODA equivalent flows amounting to US$472.32 million. Much of Russia's ODA is provided through multilateral channels, including the WBG, the UN system, major global initiatives, and special-purpose funds. Russia has increased its assistance to IDA (see Table 4) and supported a number of global development initiatives by contributing to various multilateral agencies, and specifically to the IDA/IBRD-administered trust funds[25].

Table 4. Russia: History of IDA Contributions

	Basic (US$M)	Basic share (%)	Suppl (US$M)		Basic (US$M)	% of Total	Suppl (US$M)		Basic US$M	% of Total	Suppl (US$M)
IDA0	0.00	0.00		**FY84**	0.00	0.00		**IDA11**	15.34	0.20	10.48
IDA1	0.00	0.00		**IDA7**	0.00	0.00		**IDA12**	4.01	0.03	0.28
IDA2	0.00	0.00		**SFA**	0.00	0.00		**IDA13**	10.12	0.08	16.50
IDA3	0.00	0.00		**IDA8**	0.00	0.00		**IDA14**	24.87	0.14	33.68
IDA4	0.00	0.00		**IDA9**	126.00	0.86		**MDRI**	32.00	0.09	
IDA5	0.00	0.00		**IDA10**	0.00	0.00		**IDA15**	67.90	0.25	40.96
IDA6	0.00	0.00		**INTF**	9.11	0.20	3.04	**IDA16**	108.39	0.35	67.50

Amounts for HIPC and arrears clearance, if any, are shown as supplemental.
Supplemental amounts also include credit accelerations.
MDRI amount represents latest cost update.

Data provided by Department for Concessional Finance and Global Partnerships (CFP), IB

4. **Public perception of Russia's Development Assistance.** A survey conducted by the WBG confirmed the low level of knowledge of the general population and of opinion makers about development aid issues. Coverage of Russian development aid is still limited to occasional statements of the Ministry of Finance and Ministry of Foreign Affairs officials. These lead ministries recognize the complexity of development aid communications and a sense of urgency for more active work in this area exists.

5. **Russia's Aid Architecture.** Russian development aid is currently implemented at the ministry level. The Russian Government, however, plans to establish a specialized Russian aid agency that will take the lead in execution of most of the Russian bilateral aid programs. The Government also plans to formulate a separate three-year work program for its development assistance. Box 6 presents highlights and key facts about Russia's ODA.

[24] This contribution would not count as ODA according to the OECD-DAC statistical manual.
[25] A Trust Fund (TF) is a financing arrangement established with contributions from one or more external donor(s)/partners, and in some cases, from the World Bank Group, to support development-related activities.

Box 9. Russia's ODA: Highlights and Key Facts

- **Russia's commitment to multilateral aid mechanisms.** Russia pledged US$108 million to IDA15, becoming the third largest nontraditional donor after Korea and Brazil, and increased its contribution to IDA16 by 60 percent, reaching US$182 million. Russia is participating in a variety of multilateral initiatives - (i) UN system, (ii) Global Funds, (iii) FAO; (iv) IDA/IBRD-administered TFs - Rapid Social Response, READ, Energy Access, Malaria Booster Program, etc, and (v) initiated establishment of an innovative regional multilateral mechanism (EurAsEc Anti-Crisis Fund).
- **Expansion of Russian aid directed to ECA countries, CIS in particular.** In 2008-2009, Russia provided direct concessional financing to Armenia, Kyrgyz Republic and the establishment of a multilateral US$10 billion EurAsEc Anti-Crisis Fund that is coordinated with WBG and IMF support to eligible CIS countries. Using the channels of the EurAsEc Anti-Crisis Fund, Russia provided US$63 million as grant to Tajikistan in 2010. Several IDA/IBRD-administered Russian trust funds are targeting poorer ECA countries – Food Facility, READ, Public Finance Management TF, etc.

A strong development aid partner relationship exists between Russia and the WBG. The relationship between Russia and the World Bank on development aid issues includes three primary elements: (i) policy dialogues on aid policies and practices, (ii) IDA/IBRD TA supporting strengthening Russia's capacity as a donor, and (iii) financial cooperation on development aid (IDA/IBRD-administered trust funds).

Cooperation with the World Bank Group

6. **Russia as a Donor - a Key Pillar of the FY07-11 CPS.** The Russia-WBG development aid cooperation program was implemented as part of the CPS and included three elements: (i) development aid policy dialogue, (ii) capacity strengthening of Russia as a donor through technical assistance program, and (iii) a program of financial cooperation with Russia as a donor. The program has now achieved all of its objectives. It delivered several major outputs including: (i) an international conference on "New Partnerships in Global Development Finance" cosponsored by the Russian Ministry of Finance, the WBG, and OECD in February 2010, (ii) a series of workshops, training programs and other capacity strengthening events for key Russian Federation Government agencies, universities, media, and experts, and (iii) a series of Russian financial contributions to a broad range of IDA/IBRD-administered trust funds, with pledges exceeding US$185 million. In many cases, these trust fund contributions have been part of programs with strong operational and strategic partnership between Russia and the WBG, involving knowledge sharing and continued engagement from Russian counterparts at a strategic governance level. Other important grant contributions include increasing Russia's support to IDA16 (table above), Russia's contribution to the Global Fund to Fight Aids, Tuberculosis and Malaria (GFTAM, US$257 million), and to the Vaccine Advance Market Commitment (AMC) program.

7. **Capacity Building for the Russian Development Aid System.** The WBG has been involved in policy advice and capacity strengthening for Russia's development aid since the 2006 G8 Summit in St. Petersburg. The WBG assisted key Russian Government ministries in developing critical policies and functions for effective donor assistance, such as aid reporting and statistics, aid strategic communications, and training for development. The program was supported by an IDA/IBRD-managed DFID trust fund of US$0.8 million. The Government has requested a US$7 million RTA/fee-based service TA program to strengthen capacity for providing development assistance in education. The program is progressing well and is currently in its third year of implementation. A similar RTA program recently started in ECA agriculture policy research (US$6 million).

8. **Russia's IDA/IBRD-administered Trust Funds.** Russia's IDA/IRBD-administered trust funds cover development and global public goods issues and are focused on the themes of infectious

disease control, quality of basic education, energy access, food crisis response and social support programs, and covered 18 trust funds (seven single-donor and 11 multi-donor). The overall contributions in five years reached US$433.7 million, 61 percent of which went to support Financial Intermediary Funds (FIFs) and the rest were allocated to IDA/IBRD trust funds primarily of regional and global nature. The full list of Russia's IDA/IBRD-administered trust funds, with contribution amounts and development objectives are presented in Table 5 at the end of this Annex. Box 10 below presents some examples of results achieved under Russia-supported trust funds.

Box 10. Results Achieved under Russia-supported IDA/IBRD-administered Trust Funds - Examples

Russia Food Price Crisis Rapid Response Trust Fund for Tajikistan and the Kyrgyz Republic (TF071232, US$15 million)

This fund was established under the World Bank Global Food Crisis Response Program (GFRP) with the main purpose to reduce the negative impact of high and more volatile food prices on the lives of the poor; to support the governments of Tajikistan and the Kyrgyz Republics in the design of sustainable policies that mitigate the adverse impacts of high and more volatile food prices on poverty while minimizing creation of long-term market distortions; and to support broad-based growth in productivity and market participation in agriculture to ensure an accelerated and sustainable food supply response in the Eurasia region.

Results achieved:

- Ongoing Tajikistan Emergency Food Security and Seeds Imports Project **benefited about 94,000 households** in increasing domestic food production and reducing livestock losses ─ exceeding the original target of 55,000 households initially planned to be covered by the project
- FAO distributed **soft wheat seeds and fertilizer** to about **1,000 households** affected by the earthquake at the beginning of 2010
- **Potato seeds and fertilizer** were distributed to over **4,000 households** in the remote mountainous areas, and **64 community production groups** have been established

Booster Program for Malaria Control (TF 070783, US$15 million) - Zambia country program

The support from the Russian trust fund has contributed to a major impact on malaria control in Zambia through the procurement of approximately 300,000 long-lasting insecticide treated nets (LLINs), the scale-up of the insecticide residual spraying campaign (program covers 1.5 million households), expansion of community driven malaria control projects, and strengthening of monitoring and evaluation.

Results achieved:

In recent years, Zambia has made impressive inroads in reducing malaria's toll. This decline coincides with the roll out of IDA and Russian trust fund supported interventions which supported the Government of Zambia's National Malaria Strategic Plan (2006 – 2011). With support from IDA and the Russian Federation Trust Fund, tremendous progress has been made toward achieving the goals of the National Malaria Strategic Plan:

- Overall **malaria deaths fell** by **47 percent** since 2006
- **50 percent of children** under five are now sleeping under bed nets (24 percent in 2006); **70 percent of pregnant women** are receiving **intermittent preventive treatment for malaria** as part of routine antenatal care (as compared with 59 percent baseline in 2006)
- **Malaria cases and related deaths in children** under age five declined **29 and 33 percent** from 2006 to 2010, respectively, while the **percentage of children with severe anemia declined 68 percent from 13.3 to 4.3 percent** (most moderate and severe anemia in children are caused by malaria) over the same period
- **66 percent plunge in malaria deaths** since 2000 has resulted in Zambia **reaching the 2010 Roll Back Malaria target of a 50 percent drop in malaria mortality**

9. **Management of Trust Funds Program Implementation.** The IBRD Country Unit in Russia leads program implementation as part of the strategic country relationship agenda, with support by the Department for Concessional Finance and Global Partnerships (CFP) and continuous

involvement of IBRD's regional departments and thematic sectors (education, human development, PREM, SDN, WBI and others). CFP was engaged in support of key events, applying its broad experience for donor outreach. A joint Russian Ministry of Finance-IBRD Aid Coordination Working Group created in 2010 in implementation of a Joint Statement countersigned by World Bank President, Mr. Zoellick, and Minister Kudrin meets on a regular basis to monitor and evaluate the status of the Russia-WBG development aid cooperation program to ensure overall coordination of the new initiatives, and to agree on necessary next steps and actions.

Future Agenda

10. **Development Aid Dialogue.** Russia and the WBG maintain an active development aid dialogue. Some of the recent agreements reached include the following:

- ***IBRD and the Eurasian Development Bank (EDB) signed a Framework for Cooperation in March 2011.*** The agreement defines forms of collaboration under the EurAsEc Anti-Crisis Fund (ACF). The ACF supports low-income countries on ODA terms and is managed by EDB. The Framework Agreement includes parallel co-financing of investment projects, joint analytical work (to also include macroeconomic forecasting), and IBRD advisory services to EDB on the design and implementation of investment projects as forms of cooperation. An Indicative Implementation Plan for the particular activities under the Framework Agreement for FY12 has been developed and signed by the IBRD and EDB.

- ***IBRD-Russia Trust Fund Framework Agreement is under preparation.*** The preparation of such a framework agreement has been suggested by the Russian Ministry of Finance. Such an agreement would permit the reduction of the transaction cost of processing new programs and trust fund agreements.

- ***Russia is implementing an innovative approach aimed at establishing programmatic trust funds focused on the ECA region.*** Several Russia-supported programmatic multi-donor trust funds (MDTFs) are currently under preparation by various IBRD teams. The process is coordinated by the joint Russian MOF-IBRD Aid Coordination Working Group established in 2010 for overall coordination of new initiatives and monitoring progress of joint programs towards development results. The following programmatic trust funds have been recently established or are expected to be established soon:

  - **Programmatic Public Financial Management (PFM) Trust Fund** of US$18 million to support research and analysis, training, institutional development and capacity building programs in ECA countries in strengthening their PFM systems has been established (approved by the Bank on October 7, 2010; Administration Agreement countersigned on December 17, 2010, US$6 million of the Russian contribution has been paid).

  - **ECA Capacity Building Trust Fund** (under preparation - estimated at US$23 million) would provide grants for preparation of IDA, IBRD and ACF projects, with an objective to improve the quality and speed of project preparation in low income countries of ECA. A peer-assisted learning network on development projects management will supplement the project preparation grants window.

  - **ECA Statistical Capacity Development Fund** (under preparation) would provide country grants for capacity development and restructuring of national statistical

systems, strengthening the use of statistics through improved data dissemination, addressing urgent issues such as preparation of a census or establishing a business register in a particular country, and training the staff of National Statistical Offices (NSOs) of the low income countries.

- **Eurasian Center for Food Security (ECFS)** – in execution of the Russia Agricultural Development Aid Cooperation (ADAC) Initiative, the Russian Federation has committed to allocate US$28.5 million to provide: (i) US$15 million contribution to the Consultative Group on International Agricultural Research (CGIAR) MDTF; (ii) direct financing of US$6 million from the Russian federal budget to the Moscow State University for establishment at its base of the new Eurasian Center for Food Security (ECFS) for ECA countries; and (iii) RTA of US$7.5 million to be provided by the IBRD in support of the ECFS establishment (Contribution Agreement on CGIAR MDTF countersigned by the MOF on June 28, 2011; US$4.5 million has been paid; RTA Agreement for US$6.48 million signed on June 17, 2011 and is under implementation)..
- **ECA Water Academy** (under preparation) - allocation of US$20 million for trust fund to establish and operate the ECA Water Academy along with accompanying RTA from the IBRD is being considered. It is expected that the Water Academy would be based in St. Petersburg and would offer mid-career officials and senior professionals from ECA countries the essential knowledge to successfully design, plan, implement, and efficiently manage sustainable water services in the ECA region.

11. **Russia's Institutional Capacity as a Donor.** Strengthening the institutional framework for Russia's development aid is at the top of the Government's agenda. Challenges include the lack of an aid agency for delivery of bilateral aid, the absence of a legal framework on development aid, the aid reporting system, monitoring and evaluation functions, and limited capacity within Russian Government counterparts. In particular, the Russian Ministry of Finance confirmed the desire to start reporting on aid flows according to OECD-DAC methodology and has asked the WBG to support efforts to establish a bilateral aid agency. These milestones should be reached by the end of 2012. The Ministry of Foreign Affairs has requested the WBG to continue TA in the area of development aid communications. In the medium term, Russia would be interested to establish a follow-up program of international TA for strengthening development aid capacity based on the initial results of the current DFID-supported Russia as a Donor Initiative program (closed at the end of March 2011).

12. **Focus on Results from Russia's IDA/IBRD-administered Trust Funds.** The Russian Government continues to maintain a strong focus on results achieved under the Russia-supported trust funds. The Government has consistently communicated to IBRD the importance of reporting clear results and making all possible efforts to keep within the agreed timetables and deadlines. Documented progress under on-going trust funds will be regarded as a precondition for financing of related new and follow-up programs.

Table 5. On-going Trust Funds of the Russian Federation

#	Type of TF	Countries Participating in TF Program	Objectives	Total Commitments according to AA (US$)	Paid Russia's Contribution (US$)
1	**TF070783- FREE STANDING - COFINANCING/BOOSTER PROGRAM FOR MALARIA CONTROL**				
	Single	Mozambique, Zambia	To strengthen malaria control efforts in two Booster Program Countries: Mozambique, Zambia	20,000,000	
	sub TF070783-WHO			*4,000,000*	
	sub TF070783- Malaria Booster Program			*15,000,000*	*15,000,000*
	sub TF070783- Junior Professional Officers Program and Externally Funded Staffing Program			*1,000,000*	
2	**TF071223-ESME-ENERGY SME SUPPORT TO SUB SAHARAN AFRICA (SSA)**				
	Single	Mali, Tanzania, Rwanda, Senegal, Kenya, Botswana	To provide additional financing and technical assistance to Small and Medium Enterprises (SMEs) in selected countries in Sub-Saharan Africa to strengthen their capacity in providing energy services to poor communities	30,000,000	30,000,000
3	**TF071069-FINANCIAL LITERACY AND EDUCATION (FLIT)**				
	Single	Mexico, Colombia, Namibia, Zambia, Malawi, Uruguay, Papua New Guinea, Brazil, India, Uganda, South Africa	To improve financial literacy of individuals and households in order to promote understanding of, and informed participation in, social insurance and social risk management schemes	15,000,000	14,000,000
4	**TF071154-RUSSIA EDUCATION AID FOR DEVELOPMENT (READ)**				
	Single	Angola, Armenia, Ethiopia, Mozambique, Zambia, Vietnam, Tajikistan, Kyrgyz Republic	To support the improvement of education quality and student learning outcomes through the design, implementation, and use of robust student assessment systems	32,000,000	23,000,000
5	**TF070893-PROVISION OF JUNIOR PROFESSIONAL OFFICERS FROM THE RUSSIAN FEDERATION**				
	Single		To bring young professionals from Russia into the Bank in accordance with the diversity objectives of the institution	650,000	254,085
6	**TF070895-RUSSIA EXTERNALLY FUNDED STAFF PROGRAM**				
	Single		To achieve the Bank's diversity targets	350,000	0

#	Type of TF	Countries Participating in TF Program	Objectives	Total Commitments according to AA (US$)	Paid Russia's Contribution (US$)
7	**TF071232-GLOBAL FOOD CRISIS RESPONSE PROGRAM**				
	Single	Tajikistan, Kyrgyzstan	To reduce the negative impact of high food prices on the lives of the poor in a timely manner, support the Tajik and Kyrgyz governments in the design of sustainable policies that mitigate the adverse impacts of more volatile food prices on poverty, and support broad-based growth in productivity and market participation in agriculture to ensure an adequate supply response as part of a sustained improvement in food supply	15,000,000	15,000,000
8	**TF051061-EDUCATION FOR ALL-FAST TRACK INITIATIVE (EFA-FTI CATALYTIC TF)**				
	Multi-donor		To mobilize resources for low-income countries with sound education sector plans and domestic commitment to achieve the MDG for Primary Education	10,000,000	8,000,000
9	**TF054402-EDUCATION PROGRAM DEVELOPMENT FUND (EPDF)**				
	Multi-donor		1. To increase the number of low-income countries with sound and sustainable education sector plans, embedded in Poverty Reduction Strategies, which prioritize the achievement of the MDG for primary education with gender equity by 2015, focusing on countries that do not have their own capacity and lack donor support to develop and undertake a credible national education sector plan 2. To strengthen Government technical and institutional capacity in developing policies and national education plans capable of providing and sustaining complete primary education for all children of acceptable quality 3. To improve understanding of the conditions under which certain policies and reforms may be successful through better monitoring and evaluation knowledge sharing across countries 4. To strengthen donor partnerships at the country level around the Government's plan	5,200,000	5,200,000
10	**TF069001-GLOBAL FUND TO FIGHT AIDS, TUBERCULOSIS AND MALARIA (GFTAM)**				
	Multi-donor		To increase resources to fight three of the world's most devastating diseases and to direct resources to areas of greatest need	257,000,000	257,000,000

#	Type of TF	Countries Participating in TF Program	Objectives	Total Commitments according to AA (US$)	Paid Russia's Contribution (US$)
11	**TF070515-AVIAN AND HUMAN INFLUENZA FACILITY (AHIF)**				
	Multi-donor		To minimize the risk and socio-economic impact of avian influenza (and other zoonoses) and of a possible human pandemic influenza in developing countries lacking adequate domestic resources and capacity to combat the disease	3,000,000	3,000,000
12	**TF07071-COMMERCIAL DEBT REDUCTION FACILITY**				
	Multi-donor			5,000,000	5,000,000
13	**TF050576-AFGHANISTAN RECONSTRUCTION**				
	Multi-donor	Afghanistan	To finance the reconstruction priorities of Afghanistan. Of US$ 4 million, US$2 million are preferenced for the Strengthening Higher Education Program (SHEP), and the Kabul Polytechnic University in particular	4,000,000	4,000,000
14	**TF07137-RAPID SOCIAL RESPONSE**				
	Multi-donor		To safeguard lives and livelihoods during and after the global crises by promoting social protection measures such as social safety nets and maintenance of access to basic health, nutrition, education and other vital services for communities, especially poor and vulnerable groups	50,000,000	49,999,987
15	**TF071093-SOUTH-SOUTH EXPERIENCE EXCHANGE FACILITY**				
	Multi-donor		To meet the immediate practical operational knowledge gaps by catalyzing the sharing of developing country experiences between practitioners; document and disseminate lessons learned through an experiences exchange library	1,500,000	700,000
16	**TF071577-PFM-ECA REGIONAL PUBLIC FINANCE MANAGEMENT**				
	Multi-donor	Europe and Central Asia (ECA)	To support improvements in public financial management in Europe and Central Asia (ECA), with emphasis on IDA borrowing countries, as an important element of stronger governance and improved conditions for economic and social development in ECA	18,000,000	6,000,000

#	Type of TF	Countries Participating in TF Program	Objectives	Total Commitments according to AA (US$)	Paid Russia's Contribution (US$)
17	**TF070664-PUBLIC EXPENDITURE MANAGEMENT AND PEER-ASSISTED LEARNING (PEMPAL)**				
	Multi-donor	Europe and Central Asia (ECA)	To facilitate regional exchange of knowledge and experience among the countries of the ECA region on public expenditure management (PEM) based on the principles of peer assisted learning, and using benchmarking as a tool to stimulate capacity building and the development of network of peers, with a particular focus on IDA countries	2,000,000	2,000,000
18	**TF069018-CONSULTATIVE GROUP ON INTERNATIONAL AGRICULTURAL RESEARCH (CGIAR)**				
	Multi-donor		To support agricultural research, increase production of healthy food	15,000,000	4,500,000
		TOTAL		**433,700,000**	**397,654,072**

Annex 11

IBRD Reimbursable Technical Assistance (RTA[26])

1. Russia as a high-end middle-income country has demonstrated sustained high demand for knowledge services over the past decade. As institutions and country systems have strengthened, supported by a favorable fiscal environment before the global financial crisis of 2008-2009, the emphasis on IBRD knowledge activities has expanded from transferring knowledge through specific investment lending also to knowledge provision through TA loans and analytical and advisory services. Both projects approved in December 2010 (Financial Education and Financial Literacy Project and Preservation and Promotion of Cultural Heritage in Russia Project) demonstrate that in the post-crisis period knowledge and capacity building remain essential components of investment lending. In addition, the Russian Government has expressed interest in the Bank's instruments and policies at the implementation stage, i.e., the knowledge of how things can be done and not only the knowledge about what has to be done.

2. RTAs are provided in the areas of the Government's strategic priorities, and the provision of this type of technical assistance has been fully in line with the previous Country Partnership Strategy (CPS) and now substantiates three out of four strategic themes of this CPS: (i) Increasing Growth and Diversification, (ii) Expanding Human Potential, and (iii) Deepening Russia's Global and Regional Role[27].

3. RTAs are governed by the same standards as the rest of the WBG's program including for monitoring and evaluation. During the FY07-11 CPS period, IBRD signed and completed around 40 contracts valued at approximately US$20 million[28]**.** The current RTA pipeline over the next CPS period for 2012-2016 includes around 20 pre-identified activities, and the program has easily the potential to achieve over US$30 million (see Table 6). Increased contract amounts and number of RTAs will require the WBG to execute even higher levels of quality control and monitoring. The WBG needs to take more systemic steps to introduce the RTA M&E systems. To avoid any distortions in competition, knowledge transfer through RTAs is provided only if the requested product is not available in the market.

4. In Russia, as in other MICs, an area of demand for RTAs is support for preparing and implementing large-scale infrastructure projects, especially those based on private-public partnerships (PPPs). St. Petersburg Pulkovo airport expansion is a good example of WBG advisory services in developing PPP. Pulkovo attracted more than Euro 1.2 billion of private investments and was awarded the title of "Global PPP deal of the Year" by Infrastructure Investors in 2011. As international experience and analytical components are often the critical success factors in the human development and social assistance sectors, demand from clients has led to widespread use of RTAs in these sectors also. The amount of RTAs provided in human development has increased four times to almost US$3 million in FY11 mostly for health care and education system development. Finally, starting from 2009-2010 RTAs are also provided for investment climate monitoring and capacity building for ODA management. The number and volume, and the sectoral distribution of RTAs, are presented in Figures 20 and 21.

[26] Reimbursable TA (RTA) is also being referred to as fee-for-service (FFS) or fee-based services (FBS).
[27] FY12-16 CPS has an additional cross-cutting strategic theme "Improving Governance".
[28] Pricing of RTAs is based on individual evaluation of each request. All RTAs are provided on the principle of full-cost recovery.

Figure 20. Volume of RTAs by Sectors, FY07-FY11

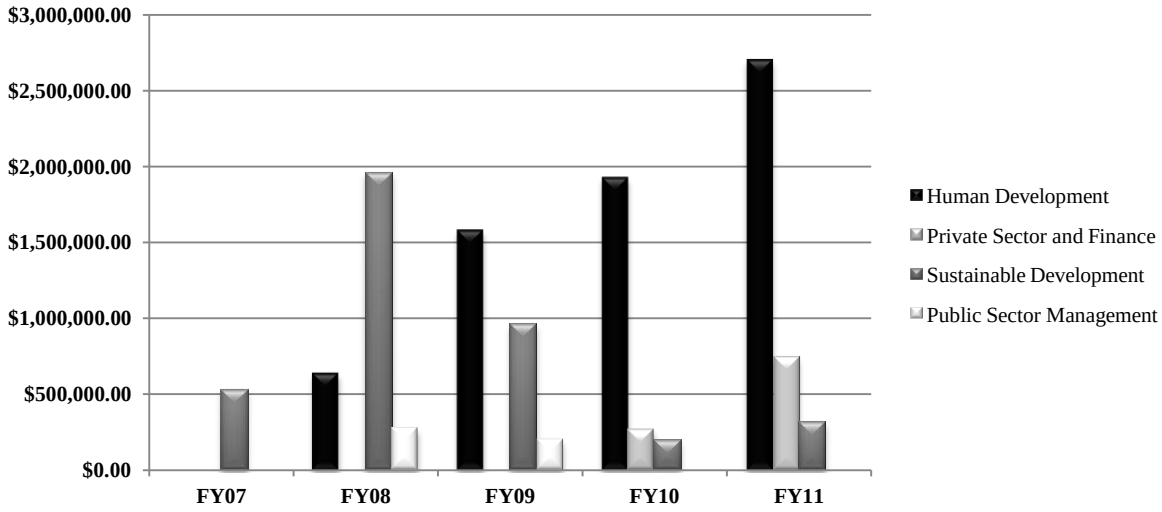
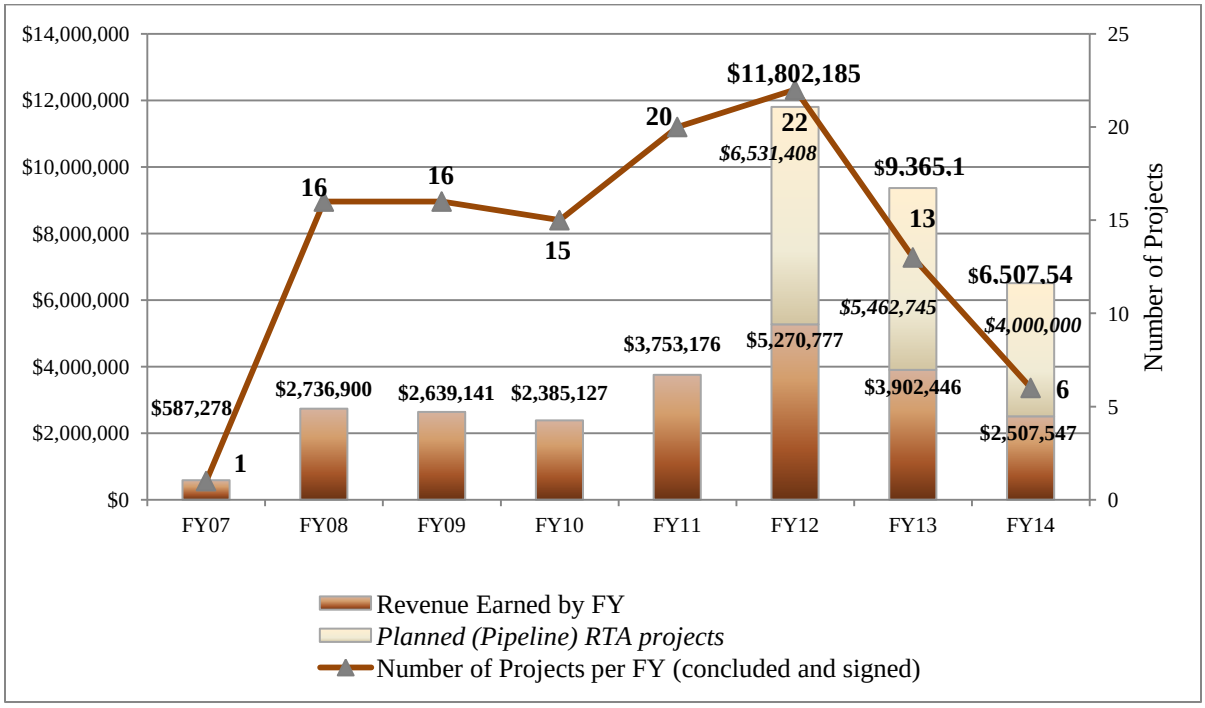


Figure 21. Total Number and Volume of RTAs, FY07-FY14



5. IBRD's collaboration with Russia in RTA now includes four dimensions:

- ***Global level***: RTAs help strengthen Russia's capacity to participate in the provision of Global Public Goods. In a "learning by doing approach", Russian officials benefit from IBRD knowledge in handling funds channeled to developing countries. One example of such cooperation is an RTA linked to the "Russia Education Aid for Development (READ)" program dedicated to global student assessment. The program includes seven developing

countries (Angola, Ethiopia, Mozambique, Zambia, Kyrgyz Republic, Tajikistan, and Vietnam) supported by a Russian financed TF of US$32 million for a period of five years flanked by an RTA agreement of US$3 million.

- ***Regional level***: Russia's regional role is especially important in relation to its role as a donor in CIS countries. Potentially, RTAs are being provided in various sectors to strengthen the capacity of Russian and regional institutions to help in neighboring countries, including improvement of Public Financial Management and capacity strengthening for the Eurasian Development Bank.
- ***Federal level:*** The demand for RTAs from the Federal Government is expanding, especially in the critical areas of the development agenda. A recent RTA example is the ongoing cooperation on investment climate assessment and on health insurance reform. Looking forward, the Federal Government is interested in tapping into IBRD's skills and expertise in project preparation, design, implementation and monitoring. To this end, a concept of a new instrument is currently being considered by the Ministry of Finance and IBRD. The so-called "Virtual Project Loan" would provide project support assistance for fully government-financed projects on a reimbursable basis.
- ***Sub-national level:*** The largest amount of RTAs in Russia has so far been provided at the sub-national level in the regions. IBRD responded to demand from both richer and poorer regions, although unfavorable fiscal conditions in poorer regions made waivers from the principle of full cost recovery necessary in some areas. The lack of client funds often limited options for IBRD engagement in regions where access to knowledge and expertise is critical for launching crucial development programs.

6. One of the challenges identified by the WBG while setting up the framework of RTAs in the Russian Federation is to elaborate a mechanism that would allow less economically advanced regions to access the RTA instrument in order to profit from best practice and knowledge transfer. One of the possible solutions is the creation of a "seed" fund established by the Federal Government and the IBRD to support analytical work and technical assistance in these regions.

Table 6. CPS 2012-2016 Signed Reimbursable Technical Assistance (RTA) Agreements

#	Project	Name	Region	Delivery	Description
Strategic Theme 1: Increasing Growth and Diversification					
1	P126923	City Transport Strategy for St. Petersburg (Part 3)	St. Petersburg	2012	Provision of technical assistance to the St Petersburg Transport Planning Center in the process of refining the Draft Transport Strategy by reviewing, editing and providing possible inputs and arguments before it is sent for approval by the City Government.
2	P119527	St. Petersburg Infrastructure Development Program	St. Petersburg	2012	Advisory Services to St. Petersburg Government on financing of the Western High-Speed Diameter highway
3	P125395	Sub-national Doing Business Review	30 regions of the RF	2012	A second round of WBG Doing Business assessments of 30 regions of the RF, measuring the ease of doing business through the life cycle of a small or medium enterprise (business entry/registration, business operation and business closure).
4	P126648	Investment Climate	Federal	2012	Provision of advisory support to improve the business environment in key areas such as construction permits and trading across borders as well as recommendations on how to improve

#	Project	Name	Region	Delivery	Description
					other investment climate areas captured by the Global Doing Business report.
Strategic Theme 2: Expanding Human Potential					
5	P125406	Higher School of Economics (HSE) II	Moscow	2014	Support of the HSE in Strategic Development Plan implementation by providing independent evaluation and advisory services.
6	P123357	E-education Program	Kazan	2013	Supporting the client in improving the quality of teaching and learning in Tatarstan through introduction of modern educational technologies enhanced by ICT.
7	P126650	Stavropol Krai Local Initiatives Support Project (LISP)	Stavropol	2012	Support to the local initiatives in small settlements by providing training to the representatives and municipal administrations on relevant topics
8	P125083	Yakutia ECD Development	Republic Sakha (Yakutia)	2012	Provision of technical assistance in improving the quality of and access to early childhood services for children and families, and in preparing a concept for the region's ECD system development, including the development of ECD infrastructure.
9	P125969	Technical Vocational Education and Training Program	Krasno-yarsk	2013	Advisory Services to assist in preparation of a concept for long-term development of the professional education system in the regions, producing a comprehensive program for professional education development for Krasnoyarsk Krai, and monitoring professional education development.
10	P126797	RANEPA	Federal	2014	Advisory Services for the Federal State Government-Financed Educational Institution of Higher Education "Russian Presidential Academy of National Economy and Public Administration" (RANEPA) to assist RANEPA in building the necessary foundation for becoming a nationally and internationally recognized modern institution that leads education, training, research and policy development in the areas of public policy, public and business administration in the Russian Federation, as well as in building its institutional capacity for long-term development.
11	P126548	Kirov Local Initiatives Support Project (LISP)	Kirov	2012	Support to the local initiatives in small settlements by providing training to the representatives and municipal administrations on relevant topics
Strategic Theme 3: Deepening Russia's Global and Regional Role					
12	P115468	Russia Education Aid for Development (READ) Program	Moscow/ Global	2013	Assistance to selected countries to strengthen the system of educational quality evaluation
13	P127300	Eurasian Center for Food Security (ECFS)	Moscow/ Regional	2015	Supporting the improvement of food security in the Eurasian region and globally, at enhancing environmental sustainability of agricultural production also and in particular in response to climate change, and at building the capacity of the Russian Federation to provide agricultural advisory services in international initiatives

Annex 12

IBRD Country Financing Parameters for the Russian Federation

Date: April 2005

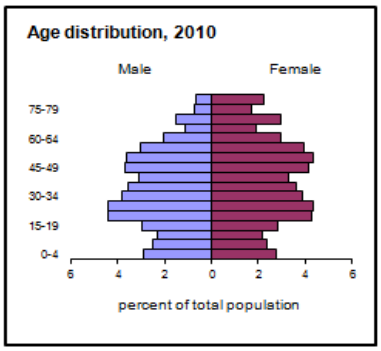
The country financing parameters for Russia set out below have been approved by the Regional Vice President, Europe and Central Asia, and are being posted on the Bank's internal website.

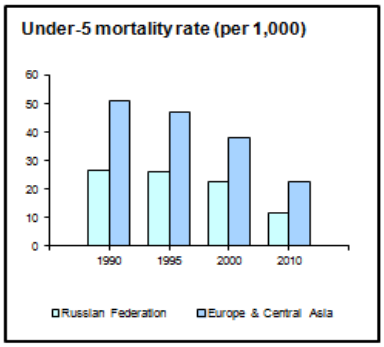
Item	Parameter	Explanations/Remarks
Cost Sharing. Limit on the proportion of individual project costs that the Bank may finance	100 percent	The Government is generally seeking to increase its financing share of projects. The greater flexibility would allow cost sharing arrangements to be appropriately adapted to project circumstances, e.g. higher Bank financing share on projects in Russia's poorest regions, social sector projects and lower Bank financing share on projects executed by revenue generating entities.
Recurrent cost financing. Any limits that would apply to the overall amount of recurrent expenditures that the Bank may finance. No country level limit on recurrent cost financing	No country level limit on recurrent cost financing	The Bank would selectively finance recurrent costs, only when (i) there is clear evidence of the efficiency and effectiveness of the government institution that would receive the funding; and (ii) financial support for the government agency will assist in the implementation of reform. Additionally, recurrent cost financing would be provided only if there is a clear demonstration of the sustainability of the activities in question.
Local cost financing. Are the requirements for the Bank financing of local expenditures met, namely that: (i) financing requirements for the country's development program would exceed the public sector's own resources (e.g., from taxation and other revenues) and expected domestic borrowing; and (ii) the financing of foreign expenditures alone would not enable the bank to assist in the financing of individual projects	Yes	The two criteria are met. Therefore Bank may finance local costs in the proportion required in individual projects.
Taxes and duties. Are there any taxes and duties that the Bank would not finance?	None	There are no taxes and duties that have been identified as unreasonable or discriminatory. At the project-level, the Bank would consider whether taxes and duties constitute an excessively high share of project costs.

Russian Federation at a glance

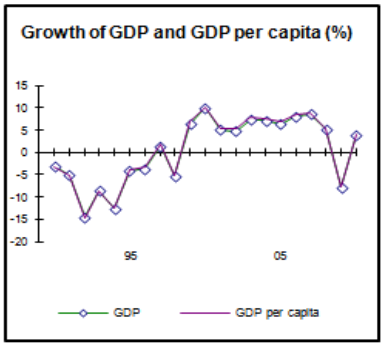
11/17/11

Key Development Indicators	Russian Federation	Europe & Central Asia	Upper middle income
(2010)			
Population, mid-year (millions)	141.8	403	2,435
Surface area (thousand sq. km)	*17,098*	23,614	59,328
Population growth (%)	-0.1	0.4	0.7
Urban population (% of total population)	73	64	57
GNI (Atlas method, US$ billions)	1,412.3	2,766	12,787
GNI per capita (Atlas method, US$)	9,960	6,855	5,251
GNI per capita (PPP, international $)	19,190	12,682	9,204
GDP growth (%)	4.0	-6.0	1.9
GDP per capita growth (%)	4.1	-6.4	1.2
(most recent estimate, 2004-2010)			
Poverty headcount ratio at $1.25 a day (PPP, %)	<2	4	..
Poverty headcount ratio at $2.00 a day (PPP, %)	<2	9	..
Life expectancy at birth (years)	69	70	73
Infant mortality (per 1,000 live births)	9	20	17
Child malnutrition (% of children under 5)	..	..	4
Adult literacy, male (% of ages 15 and older)	100	99	96
Adult literacy, female (% of ages 15 and older)	99	97	91
Gross primary enrollment, male (% of age group)	97	99	111
Gross primary enrollment, female (% of age group)	97	98	111
Access to an improved water source (% of population)	96	95	92
Access to improved sanitation facilities (% of population)	87	89	68





Net Aid Flows	**1980**	**1990**	**2000**	**2010**
(US$ millions)				
Net ODA and official aid	..	254	1,553	..
Top 3 donors (in 2008):				
n.a.	..	..	..	..
n.a.	..	..	..	..
n.a.	..	..	..	..
Aid (% of GNI)	..	0.0	0.6	..
Aid per capita (US$)	..	2	11	..



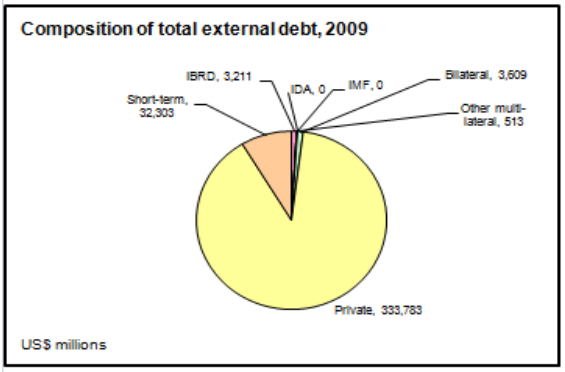
Long-Term Economic Trends					**1980-90**	**1990-2000**	**2000-10**
					(average annual growth %)		
Consumer prices (annual % change)	..	5.6	20.8	6.9			
GDP implicit deflator (annual % change)	..	15.9	37.7	11.4			
Exchange rate (annual average, local per US$)	..	0.0	28.1	30.4			
Terms of trade index (2000 = 100)	..	..	100	247			
Population, mid-year (millions)	139.0	148.3	146.3	141.8	0.6	-0.1	-0.3
GDP (US$ millions)	..	516,814	259,708	1,479,819	..	-4.7	5.4
		(% of GDP)					
Agriculture	..	16.6	6.4	4.0	..	-4.9	1.5
Industry	..	48.4	37.9	36.7	..	-7.1	4.1
Manufacturing	..	..	*17.1*	16.4	..	..	..
Services	..	35.0	55.6	59.3	..	-4.7	6.5
Household final consumption expenditure	..	48.9	46.2	49.4	..	2.0	10.4
General gov't final consumption expenditure	..	20.8	15.1	19.5	..	-2.2	2.0
Gross capital formation	..	30.1	18.7	22.8	..	-19.1	7.6
Exports of goods and services	..	18.2	44.1	30.0	..	0.8	6.5
Imports of goods and services	..	17.9	24.0	21.7	..	-6.1	14.5
Gross savings	..	..	..	..			

Note: Figures in italics are for years other than those specified. 2010 data are preliminary. .. indicates data are not available.

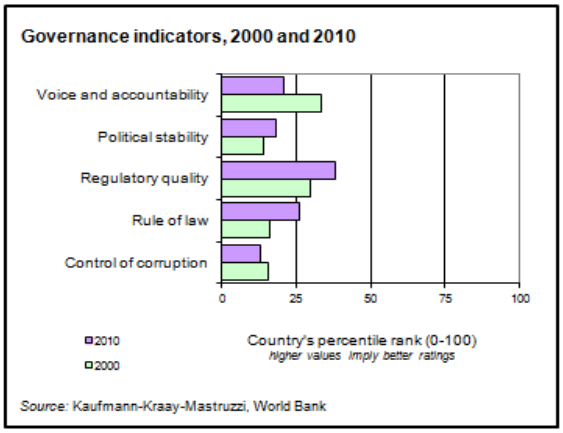
Development Economics, Development Data Group (DECDG).

Russian Federation

Balance of Payments and Trade	**2000**	**2010**
(US$ millions)		
Total merchandise exports (fob)	105,033	400,419
Total merchandise imports (cif)	47,192	257,240
Net trade in goods and services	53,506	122,484
Current account balance	46,839	70,599
as a % of GDP	18.0	4.8
Workers' remittances and compensation of employees (receipts)	1,275	5,264
Reserves, including gold	27,970	479,379
Central Government Finance		
(% of GDP)		
Current revenue (including grants)	35.9	35.4
Tax revenue	34.1	32.2
Current expenditure	28.0	36.4
Overall surplus/deficit	3.1	-3.5
Highest marginal tax rate (%)		
Individual	*13*	*13*
Corporate	*43*	*20*
External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	156,397	395,862
Total debt service	18,964	95,156
Debt relief (HIPC, MDRI)	-	-
Total debt (% of GDP)	60.2	26.8
Total debt service (% of exports)	15.9	19.7
Foreign direct investment (net inflows)	-463	*-9,607*
Portfolio equity (net inflows)	-10,334	*-1,399*



Private Sector Development	**2000**	**2010**
Time required to start a business (days)	-	30
Cost to start a business (% of GNI per capita)	-	3.6
Time required to register property (days)	-	43
Ranked as a major constraint to business (% of managers surveyed who agreed)	**2000**	**2010**
Economic and regulatory policy uncertainty	..	*25.8*
Tax administration	..	*24.2*
Stock market capitalization (% of GDP)	15.0	67.9
Bank capital to asset ratio (%)	12.1	*15.7*



Technology and Infrastructure	**2000**	**2010**
Paved roads (% of total)	*67.4*	*80.1*
Fixed line and mobile phone subscribers (per 100 people)	24	*194*
High technology exports (% of manufactured exports)	17.2	*9.3*
Environment		
Agricultural land (% of land area)	13	*13*
Forest area (% of land area)	49.4	49.4
Terrestrial protected areas (% of land area)	9.0	*9.0*
Freshwater resources per capita (cu. meters)	*29,683*	*30,352*
Freshwater withdrawal (billion cubic meters)	*66.2*	..
CO2 emissions per capita (mt)	9.9	*10.8*
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	2.0	*3.1*
Energy use per capita (kg of oil equivalent)	4,233	*4,838*

World Bank Group portfolio	**2000**	**2010**
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	6,844	2,618
Disbursements	540	135
Principal repayments	266	731
Interest payments	412	30
IDA		
Total debt outstanding and disbursed	-	-
Disbursements	-	-
Total debt service	-	-
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	275	2,029
of which IFC own account	226	1,764
Disbursements for IFC own account	33	270
Portfolio sales, prepayments and repayments for IFC own account	20	372
MIGA		
Gross exposure	274	939
New guarantees	71	10

Note: Figures in italics are for years other than those specified. 2010 data are preliminary. 11/17/11
.. indicates data are not available. - indicates observation is not applicable.

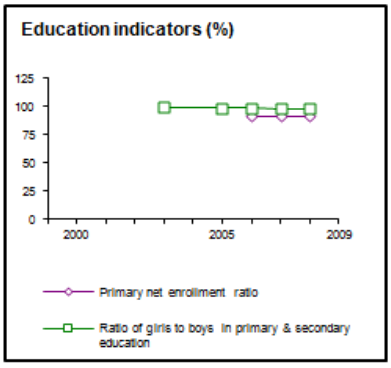
Development Economics, Development Data Group (DECDG).

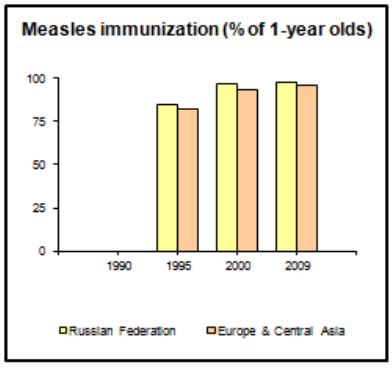
Millennium Development Goals

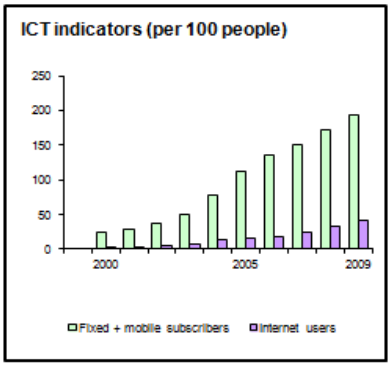
Russian Federation

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Russian Federation			
Goal 1: halve the rates for extreme poverty and malnutrition	**1990**	**1995**	**2000**	**2010**
Poverty headcount ratio at $1.25 a day (PPP, % of population)	*<2*	*2.6*	*<2*	*<2*
Poverty headcount ratio at national poverty line (% of population)*	..	24.8	*29.0*	*12.8*
Share of income or consumption to the poorest quintile (%)*	..	*6.1*	*5.9*	*5.2*
Prevalence of malnutrition (% of children under 5)	..	..	..	..
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	..	92	..	*92*
Primary completion rate (% of relevant age group)	..	91	94	*95*
Secondary school enrollment (gross, %)	95	*87*	..	*85*
Youth literacy rate (% of people ages 15-24)	*100*	..	*100*	*100*
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	101	*106*	..	*98*
Women employed in the nonagricultural sector (% of nonagricultural employment)	*51*	50	50	*51*
Proportion of seats held by women in national parliament (%)	..	*10*	8	14
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	27	26	23	12
Infant mortality rate (per 1,000 live births)	22	21	18	9
Measles immunization (proportion of one-year olds immunized, %)	*83*	85	97	*98*
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	74	72	57	*39*
Births attended by skilled health staff (% of total)	..	..	*99*	*100*
Contraceptive prevalence (% of women ages 15-49)	..	63	..	*80*
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	0.1	0.1	0.3	*1.0*
Incidence of tuberculosis (per 100,000 people)	107	107	124	*106*
Tuberculosis case detection rate (%, all forms)	32	53	77	*84*
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	93	94	95	*96*
Access to improved sanitation facilities (% of population)	87	87	87	*87*
Forest area (% of land area)	49.4	..	49.4	49.4
Terrestrial protected areas (% of land area)	8.2	8.8	9.0	*9.0*
CO2 emissions (metric tons per capita)	*13.9*	10.5	9.9	*10.8*
GDP per unit of energy use (constant 2005 PPP $ per kg of oil equivalent)	2.1	1.8	2.0	*3.1*
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	14.0	16.9	21.9	*31.6*
Mobile phone subscribers (per 100 people)	0.0	0.1	2.2	*162.5*
Internet users (per 100 people)	0.0	0.1	2.0	*42.1*
Personal computers (per 100 people)	0.3	1.8	6.4	*13.3*







Note: Figures in italics are for years other than those specified. .. indicates data are not available. *Source: Rosstat. 11/17/11

Development Economics, Development Data Group (DECDG).

Russian Federation
Selected Indicators* of IBRD Portfolio Performance and Management

As of August 15, 2011

Indicator	2009	2010	2011	2012
Portfolio Assessment				
Number of Projects Under Implementation [a]	14	12	10	10
Average Implementation Period (years) [b]	6.5	7.1	5.0	5.3
Percent of Problem Projects by Number [a, c]	35.7	16.7	30.0	30.0
Percent of Problem Projects by Amount [a, c]	23.9	8.8	11.1	11.1
Percent of Projects at Risk by Number [a, d]	35.7	16.7	30.0	30.0
Percent of Projects at Risk by Amount [a, d]	23.9	8.8	11.1	11.1
Disbursement Ratio (%) [e]	15.4	15.1	23.1	5.2
Portfolio Management				
CPPR during the year (yes/no)[f]	yes	yes	yes	yes
Supervision Resources (total US$000)	2,123	1,755	1,549	1,400
Average Supervision (US$000/project)	118	125	111	110

Memorandum Item	Since FY80	Last Five FYs
Proj Eval by OED by Number	55	9
Proj Eval by OED by Amt (US$ millions)	9,096.42	562.4
% of OED Projects Rated U or HU by Number	35.8	11.1
% of OED Projects Rated U or HU by Amt	53.6	7.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated Unsatisfactory (U) or highly unsatisfactory (HU) on development objectives (DO) or implementation progress (IP).
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
f. The project portfolio is reviewed on a monthly basis and periodically discussed with counterparts.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects that exited during the fiscal year.

Russian Federation
IBRD Indicative Financing Program, 2012-2016*

	Strategic Themes	Project Title	Indicative Amount (US$M)	Strategic Rewards (H/M/L)**	Implementation risks (H/M/L)**
2012-2013 Projects					
1	ST1/ST3	Forest Fire Response Project	40	H	H
2	ST1	Microfinance Development Project	21	H	M
3	ST1/ST3	Energy Efficiency Financial Intermediary Project	300	H	M
4	ST1	VEB Infrastructure Financial Intermediary Project	500	H	H
5	ST2	North Caucasus South Okrug Local Initiatives Support Project	20	M	H
6	ST1	Financial Sector Development	40	H	M
7	ST1/ST3/ST4	Fiscal and Public Finance Modernization Project	27	M	M
8	ST2	Preschool Education Project for Yakutia	118	H	H
9	ST2	Social Inclusion Through Sport	70	H	M
10	ST1/ST3	Hydromet Modernization Project 2	70	M	L
11	ST1/ST3	Environmental Monitoring Project	70	H	M
2014-2016 Projects					
The lending program for the outer years of the CPS will be determined jointly with the Government and will be presented for Board discussion in the CPS Progress Report. It is expected that the program will include operations in infrastructure, human development, regional development, and environmental management, as well as possible follow-on operations in land registration and customs management.					

Notes:
* Lending volumes will depend on the country's performance and priorities, IBRD lending capacity, demand from other borrowers, and global economic developments.
** H - high, M – moderate, L - low

ST1 - Strategic Theme 1: Increasing Growth and Diversification
ST2 - Strategic Theme 2: Expanding Human Potential
ST3 - Strategic Theme 3: Deepening Russia's Global and Regional Role
ST4 - Strategic Theme 4 (cross-cutting): Improving Governance and Transparency

Russian Federation
IFC Investment Operations Program

	2009	2010	2011	2012*	2013*	2014-16*
Original Commitments (US$m)						
IFC and Participants	1,082.54	1,041.35	1,223.98	1,200.00	1,200.00	1,200.00
IFC's Own Accounts only	537.54	784.58	839.10	760-960	760-960	760-960
Original Commitments by Sector (%)- IFC Accounts only						
AGRICULTURE AND FORESTRY	5.58		2.98	8.00	9.00	10.00
CHEMICALS	13.20					
COLLECTIVE INVESTMENT VEHICLES	18.60					
CONSTRUCTION AND REAL ESTATE	7.44	4.26		2.00	2.00	2.00
FINANCE & INSURANCE	40.46	46.60	78.81	55.00	50.00	46.00
HEALTHCARE SERVICES				2.00	2.75	3.50
INFORMATION			0.00	3.00	4.00	4.00
OIL, GAS AND MINING		6.37		2.00		
OTHER (FOR NON-INVESTMENT PROJECTS)	2.92		0.63			
PRIMARY METALS		8.92				
PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES	3.72	0.32		3.00	3.25	2.50
TRANSPORTATION AND WAREHOUSING	2.50	26.61	11.62	12.00	14.00	16.00
UTILITIES		2.19		5.00	5.00	6.00
Total	100.00	100.00	100.00	100.00	100.00	100.00
Original Commitments by Investment Instrument (%) - IFC Accounts only						
Equity	36.06	3.89	22.85	25.00	26.00	27.00
Guarantee	18.10	32.20	47.88	35.00	30.00	25.00
Loan	44.91	50.61	20.33	30.00	32.00	34.00
Quasi loan	0.93	12.41	8.94	10.00	12.00	14.00
Risk product		0.89				
Total	100.00	100.00	100.00	100.00	100.00	100.00

*Projected totals for Fiscal Years 2012-2016. The projections for Fiscal Years 2014-16 are on an annual basis.

Russian Federation
IBRD/IFC Indicative Knowledge Services Program, 2012-2013*

Project Title	2012	2013
Strategic Theme 1: Increasing Growth and Diversification		
Area of Engagement 1.1: Effective Management of Public Finances		
ESW Russian Economic Reports	x	x
TA Public Expenditure Performance Review	x	x
RTA E-Budget Systems	x	x
Area of Engagement 1.2.: Investment Climate/Innovation		
ESW Policy notes on growth, jobs and productivity	x	x
TA Investment Climate/Doing Business	x	
TA Economic Diversification	x	
TA Diversification and Innovation	x	x
RTA Sub-national Doing Business	x	
RTA Investment Climate	x	
RTA Tatarstan Innovation Support	x	
RTA Tomsk Innovation Strategy	x	
RTA Regional Innovation Action Plan	x	x
Area of Engagement 1.3: Financial Sector Development		
TA Financial Sector Development	x	x
RTA Development of Moscow as International Financial Center		x
IFC: Russia Financial Markets Crisis Management Project	x	
Area of Engagement 1.4: Sustainable Development and Effective Protection of the Environment		
ESW Urban Transport Sector Overview	x	x
ESW Environmental Performance Overview	x	x
TA Intelligent Transport System for St. Petersburg	x	
RTA St. Petersburg Urban Transport	x	
RTA Improving Public Transport (in cooperation with the Ministry of Transport)	x	x
RTA Strengthening the Institutional and Management Capacity of Avtodor	x	x
RTA Improvement of Urban Transport in Russia	x	x
RTA Support to Institutional Strengthening and PPP Project Preparation		x
IFC: Russia Sustainable Energy Finance Program	x	
IFC: Russia Residential Energy Efficiency Program	x	x
IFC: Russia Renewable Energy	x	x
IFC: Russia Cleaner Production	x	
Strategic Theme 2: Expanding Human Potential		
Area of Engagement 2.1: Education, Health, and Social Protection		
TA Health Financing	x	
TA Regional Human Development	x	x
ESW Health Provider Survey	x	x
RTA E-Education Project	x	x
RTA Russian Academy of National Economy and Public Administration Program (RANEPA)	x	x
RTA Krasnoyarsk Technical Vocational Education and Training Program	x	x
RTA READ	x	x
RTA Higher School of Economics II	x	x
RTA READ II		x

Project Title	2012	2013
RTA Yakutia Early Childhood Development Program	x	
RTA Provider Payment Reforms in Regions	x	x
RTA Primary Health Care Provider Payment Reform in Kirov Region	x	
RTA Tatarstan Social Protection		x
RTA Local Initiatives Support in Kirov	x	
RTA Local Initiatives Support in Stavropol	x	
Area of Engagement 2.2: Skills for Economic Development		
ESW Professional Education and Skills	x	
ESW Poverty, Opportunity and Social Mobility	x	x
Area of Engagement 2.3: Socially Inclusive Development		
Support for Migration and Remittances Peer-Assisted Learning (MIRPAL) Network Initiative	x	x
RTA Cultural Heritage and Cultural Tourism Development in Tatarstan	x	x
Strategic Theme 3: Deepening Russia's Global and Regional Role **Area of Engagement 3.1: Global Public Goods**		
TA Support to Strategy 2020	x	x
TA Support to Russia 2012 APEC Presidency	x	
TA WTO Monitoring and Analysis and Trade in Services	x	x
RTA Eurasian Center for Food Security	x	x
RTA International Water Academy		x
Area of Engagement 3.2: Russia as a Donor		
TA Development Aid Program	x	x
Strategic Theme 4 (cross-cutting): Improving Governance and Transparency **Area of Engagement 4.1: Public Administration, Procurement, and Financial Management**		
TA Program Budgeting and Expenditure Efficiency	x	x
TA Procurement System Development	x	x

* The knowledge services program for the outer years of the CPS will be determined in the CPS Progress Report.

Russian Federation Social Indicators

	Latest single year			Same region/income group	
	1980-85	**1990-95**	**2003-09**	**Europe & Central Asia**	**Upper-middle-income**
POPULATION					
Total population, mid-year (millions)	143.9	148.1	141.9	404.2	1,001.7
Growth rate (% annual average for period)	0.7	0.0	-0.3	0.2	0.9
Urban population (% of population)	72.0	73.4	72.8	64.0	74.9
Total fertility rate (births per woman)	2.1	1.3	1.6	1.8	2.0
POVERTY					
(% of population)					
National headcount index	..	24.8	13.2	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
INCOME					
GNI per capita (US$)	..	2,650	9,260	6,793	7,502
Consumer price index (2000=100)	..	10	152	141	127
Food price index (2000=100)	..	22	151	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	48.3	42.3	..	..
Lowest quintile (% of income or consumption)*	..	6.1	5.1	..	..
Highest quintile (% of income or consumption)*	..	46.3	47.8	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	3.9	3.5	3.9	3.8
Education (% of GDP)	..	..	3.9	4.1	4.3
Net primary school enrollment rate					
(% of age group)					
Total	..	92	..	92	93
Male	..	92	..	93	93
Female	..	92	..	92	92
Access to an improved water source					
(% of population)					
Total	..	94	96	95	95
Urban	..	98	98	98	98
Rural	..	83	89	89	86
Immunization rate					
(% of children ages 12-23 months)					
Measles	..	85	98	96	93
DPT	..	78	98	95	93
Child malnutrition (% under 5 years)	..	..	..	..	..

	Latest single year			Same region/income group	
	1980-85	**1990-95**	**2003-09**	**Europe & Central Asia**	**Upper-middle-income**
Life expectancy at birth *(years)*					
Total	68	65	69	70	72
Male	63	58	63	66	69
Female	73	73	75	75	75
Mortality					
Infant (per 1,000 live births)	25	23	11	19	19
Under 5 (per 1,000)	30	27	12	21	22
Adult (15-59)					
Male (per 1,000 population)	332	466	396	286	201
Female (per 1,000 population)	127	169	147	123	122
Maternal (modeled, per 100,000 live births)	..	72	39	32	82
Births attended by skilled health staff (%)	..	..	100	97	96

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

World Development Indicators database, World Bank - 15 April 2011.

Russian Federation – Key Economic Indicators

	Actual				Estimate		Projected					
Indicator	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
National accounts (as % of GDP)												
Gross domestic product[a]	100	100	100	100	100	100	100	100	100	100	100	100
Agriculture	5	5	4	4	5	4	..	..	..	..	..	..
Industry	38	37	36	36	34	37	..	..	..	..	..	..
Services	57	58	59	59	62	59	..	..	..	..	..	..
Total Consumption	66	66	67	65	73	69	67	69	71	72	73	73
Gross domestic fixed investment	18	19	21	22	22	22	24	25	25	25	26	26
Government investment	3	3	3	3	3	3	5	5	5	5	5	5
Private investment	15	16	18	19	19	19	19	20	20	20	21	21
Exports (GNFS)[b]	35	34	30	31	28	30	31	27	26	25	25	25
Gross domestic savings	34	34	33	35	27	31	33	31	29	28	27	27
Gross national savings[c]	31	31	30	32	23	28	30	28	27	26	25	25
Memorandum items												
Gross domestic product	764,016	989,932	1,299,703	1,660,848	1,221,989	1,479,823	1,756,479	1,929,702	2,072,937	2,162,654	2,256,253	2,353,904
(US$ million at current prices)												
GNI per capita (US$, Atlas method)	4,460	5,820	7,590	9,710	9,260	9,960	10,610	12,480	14,060	14,950	15,690	16,410
Real annual growth rates (%, calculated from 00 prices)												
Gross domestic product at market prices	6.4	8.2	8.5	5.2	-7.8	4.0	4.0	3.8	3.5	3.5	3.5	3.5
Gross Domestic Income	15.2	14.8	10.3	13.6	-24.1	15.0	12.0	2.2	2.3	2.5	2.6	2.6
Real annual per capita growth rates (%, calculated from 2000 prices)												
Gross domestic product at market prices	6.9	8.6	8.8	5.4	-7.7	4.1	4.2	3.9	3.7	3.7	3.7	3.7
Total consumption	11.6	14.1	17.2	13.1	-14.0	8.7	14.1	10.7	8.3	5.6	5.4	5.4
Balance of Payments (US$ millions)												
Exports (GNFS)[b]	268,768	334,652	393,658	522,781	344,982	444,762	540,815	524,821	534,109	547,891	564,246	581,654
Merchandise FOB	243,798	303,550	354,401	471,603	303,388	400,419	491,973	476,124	483,299	494,785	508,740	523,638
Imports (GNFS)[b]	164,299	209,120	281,631	367,329	253,232	322,278	401,425	438,003	484,862	520,465	558,681	599,704
Merchandise FOB	125,434	164,281	223,486	291,861	191,803	248,738	308,569	336,686	372,705	400,072	429,448	460,982
Resource balance	104,469	125,532	112,027	155,452	91,750	122,484	139,389	86,817	49,246	27,426	5,565	-18,050
Net current transfers	-1,038	-1,538	-3,506	-2,765	-2,421	-3,186	3,223	3,416	3,624	3,733	3,895	4,063
Current account balance	84,482	94,562	77,769	117,886	49,790	70,599	89,856	45,165	16,224	-929	-22,192	-45,669
Net private foreign direct investment	118	6,550	9,158	19,409	-7,165	-9,607	-7,026	-7,719	-8,292	-6,488	-4,513	0
Long-term loans (net)	10,541	-30,454	80,670	-16,630	43,310	12,846	10,818	7,556	16,547	13,740	11,494	9,697
Official	-20,089	-25,474	-2,968	-1,302	-1,183	-1,091	-1,650	-560	-150	-390	-220	-170
Private	30,630	-4,980	83,638	-15,328	44,494	13,938	12,468	8,116	16,697	14,130	11,714	9,867

	Actual				Estimate			Projected				
Indicator	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Other capital (net, incl. errors & ommissions)	-33,935	50,834	7,433	-173,146	-72,766	-33,909	-63,400	-33,401	-21,329	-4,077	17,239	33,660
Change in reserves[d]	-61,206	-121,492	-175,030	52,481	-13,169	-39,929	-30,248	-11,602	-3,150	-2,246	-2,028	2,312
Memorandum items												
Resource balance (% of GDP)	13.7	12.7	8.6	9.4	7.5	8.3	7.9	4.5	2.4	1.3	0.2	-0.8
Real annual growth rates (2000 prices)												
Merchandise exports (FOB)	0.5	1.4	1.6	-2.2	-1.1	2.8	3.5	2.3	3.3	3.9	4.3	4.3
Primary	-0.3	1.3	1.7	-0.7	-1.8	2.1	..	..	..	..	..	..
Manufactures	12.1	1.9	-0.1	-22.5	11.5	13.4	..	..	..	..	..	..
Merchandise imports (CIF)	29.0	28.9	29.9	21.3	-31.2	29.8	20.4	12.7	10.3	6.8	6.8	6.8
Public finance (as % of GDP at market prices)[e]												
Current revenues	39.6	39.2	39.9	38.5	34.4	35.4	37.5	36.3	36.3	36.2	36.2	36.1
Current expenditures	29.0	28.4	31.0	30.6	37.6	36.4	33.5	33.3	33.1	33.1	33.2	33.0
Current account surplus (+) or deficit (-)	10.6	10.7	8.9	7.8	-3.3	-1.0	4.0	3.1	3.2	3.1	3.0	3.1
Capital expenditure	2.6	2.7	3.2	3.2	3.2	2.8	4.5	5.0	5.0	5.0	5.0	5.0
Foreign financing	-3.6	-2.7	-0.5	-0.3	-0.2	0.2	0.3	0.1	0.1	0.1	0.1	0.1
Monetary indicators												
M2/GDP	33.4	37.6	42.8	39.4	49.2	52.9	57.3	63.8	70.3	76.8	83.3	89.8
Growth of M2 (%)	36.4	40.4	40.6	14.3	17.3	24.6	27.1	24.8	22.0	18.7	17.9	17.2
Private sector credit growth / total credit growth (%)	1,131.1	210.1	196.3	215.9	13.0	53.8	101.3	100.0	110.4	110.8	110.4	109.9
Price indices (2000 =100)												
Merchandise export price index	185.3	227.5	261.6	356.1	231.6	297.3	352.9	333.9	328.2	323.4	318.9	314.8
Merchandise import price index	110.1	111.9	117.2	125.0	119.8	120.6	126.5	122.5	122.9	123.5	124.1	124.7
Merchandise terms of trade index	168.2	203.4	223.3	284.9	193.4	246.6	279.0	272.7	267.2	261.9	257.0	252.4
Real exchange rate (US$/LCU)[f]	149.3	163.4	172.7	184.5	171.6	187.6	214.1	224.9	231.7	228.9	226.0	223.2
Consumer price index (% change)	12.7	9.8	9.1	14.1	11.8	6.9	7.5	6.5	5.0	5.0	4.5	4.5
GDP deflator (% change)	19.3	15.2	13.8	18.0	1.9	11.4	13.0	8.0	7.0	5.0	5.0	5.0

a. GDP at factor cost
b. "GNFS" denotes "goods and nonfactor services."
c. Includes net unrequited transfers excluding official capital grants.
d. Includes use of IMF resources.
e. General government.
f. "LCU" denotes "local currency units." An increase in US$/LCU denotes appreciation.
Note: Component percentages may not add up to 100 due to rounding

Russian Federation - Key Exposure Indicators

	Actual				Estimated			Projected				
Indicator	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Total debt outstanding and disbursed (TDO) (US$m)[a]	216,396	251,600	387,155	402,500	381,500	395,862	409,879	427,986	455,434	484,825	512,020	537,418
Net disbursements (US$m)[a]	13,559	-11,794	94,889	-25,969	23,787	24,934	21,018	23,106	32,447	34,390	32,194	30,398
Total debt service (TDS) (US$m)[a]	59,725	83,551	86,691	107,043	88,769	95,156	92,885	91,965	94,027	98,552	102,471	105,808
Debt and debt service indicators (%)												
TDO/XGS[b]	75.4	68.9	87.6	69.2	100.5	82	71.4	76.5	79	82	84.2	85.9
TDO/GDP	28.3	25.4	29.8	24.2	31.2	26.8	23.3	22.2	22	22.4	22.7	22.8
TDS/XGS	20.8	22.9	19.6	18.4	23.4	19.7	16.2	16.4	16.3	16.7	16.9	16.9
Concessional/TDO	..	..	..	..	..	..	..	..	..	..	..	..
IBRD exposure indicators (%)												
IBRD DS/public DS	2.9	2.9	9.3	11.9	15.2	12.6	14.2	15.7	15.3	14.8	14.8	14.8
Preferred creditor DS/public DS (%)[c]	13.6	3.2	10.5	13.5	16.9	13.8	14.5	16.7	16.9	16.9	17.4	17.6
IBRD DS/XGS	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
IBRD TDO (US$m)[d]	5,091	4,800	4,300	3,800	3,200	2,600	2,110	1,970	2,130	1,990	1,850	1,710
Of which present value of guarantees (US$m)		..	..	..	..	..	..	..	..	..	..	..
Share of IBRD portfolio (%)	4	4	4	3	3	2	2	2	2	2	2	1
IDA TDO (US$m)[d]	0	0	0	0	0	0	0	0	0	0	0	0
IFC (US$m)												
Loans	766	1,247	1,796	1,923	1,411	1,359	1,430	1,500	1,500	1,500	1,500	1,500
Equity and quasi-equity /c	75	121	133	498	428	405	582	600	600	600	600	600
MIGA												
MIGA guarantees (US$m)	271.0	563.3	845.7	880.4	10,440.0	977.3	938.6					

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
b. "XGS" denotes "exports of goods and services," including workers' remittances.
c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank of International Settlements.
d. Includes present value of guarantees.
e. Includes equity and quasi-equity types of both loan and equity instruments.

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Russian Federation
Operations Portfolio (IBRD/IDA and Grants)
As of October 24, 2011

Closed Projects **59**

IBRD/IDA

Total Disbursed (Active)	471.35
of which has been repaid	145.91
Total Disbursed (Closed)	1 ,358.24
of which has been repaid	6,523.1
Total Disbursed (Active + Closed)	1,829.27
of which has been repaid	6,669.73
Total Undisbursed (Active)	512.21
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	512.21

-

Active Projects

Project ID	Project Name	Last PSR Supervision Rating: Development Objectives	Last PSR Supervision Rating: Implementation Progress	Fiscal Year	Original Amount in US$ Millions: IBRD	IDA	Grant	Cancel.	Undisb.	Difference Between Expected and Actual Disbursements a/: Orig.	Frm Rev'd
P064508	Treasury Development Project	S	S	2002	231.0				54.7	54.7	54.7
P072960	Customs Development Project	S	S	2003	140.0				24.7	24.7	24.7
P069063	St. Petersburg Economic Development Project	S	S	2003	161.1			60.0	13.7	73.3	1.4
P082239	Hydrometerological System Modernization Project	S	S	2005	80.0			0.1	4.4	4.5	4.2
P093050	Registration Project	MS	MU	2006	50.0				48.7	41.0	6.7
P089733	Judicial Reform Support Project	U	U	2007	50.0				40.6	39.8	
P092429	Second State Statistical System	MS	MU	2007	10.0				7.3	5.4	
P079032	Housing and Communal Services Project	MS	MS	2008	200.0				195.4	105.7	14.4
P120219	Cultural Heritage 2 Project	S	S	2011	100.0				98.0		
P120338	Financial Education & Financial Literacy Project	S	S	2011	25.0				24.7	-0.3	
Overall Result					1,047.1			60.1	512.2	348.8	106.1

a/ Intended disbursements to date minus actual disbursements to date as projected at appraisal.

Russian Federation
IFC Committed and Disbursed Outstanding Investment Portfolio
As of June 30, 2011 (In US$ Millions)

		Committed					Disbursed Outstanding				
FY Commitment	**Company**	**Loan**	**Equity**	****Quasi Equity**	***GT/RM**	**Partici pant**	**Loan**	**Equity**	****Quasi Equity**	***GT/RM**	**Partici pant**
2006	ALD Automotive Russia	5.57	-	-	-	-	5.57	-	-	-	-
2009/ 2010/ 2011	Asian Pacific Bank (ATB)	13.56	10.87	-	14.13	-	13.56	7.73	-	13.95	-
2006	Air Transport Systems (ATS)	-	-	1.23	-	-	-	-	1.23	-	-
2006/ 2007/ 2008	Absolut Bank	6.74	4.27	-	-	-	6.74	4.27	-	-	-
2009/ 2010/ 2011	Asteros	20.00	2.50	-	-	-	10.00	2.50	-	-	-
2008	Ava Peter	12.50	-	-	-	-	4.50	-	-	-	-
2010	Avtokran	13.94	-	10.00	-	-	13.94	-	10.00	-	-
2010/ 2011	Brunswick Leasing (BLL)	-	54.88	-	-	-	-	54.88	-	-	-
2001	Baring Vostok Fund (BVF)	-	0.13	-	-	-	-	0.00	-	-	-
2005	Baring Vostok Private Equity Fund III (BVPEF III)	-	6.07	-	-	-	-	5.29	-	-	-
2011	Brunswick Wagon Leasing (BWL)	49.64	-	-	-	49.24	15.14	-	-	-	14.74
2011	Bank St. Petersburg (Bank SP)	-	-	-	25.52	-	-	-	-	25.52	-
2008/ 2009	Belgrankorm	21.00	46.21	-	-	-	21.00	46.21	-	-	-
2010	Borets	50.00	-	-	-	-	30.00	-	-	-	-
2006/ 2008	Brunswick Cptl	52.80	-	-	-	-	52.80	-	-	-	-
2011	Commerce Bank Otkritie	-	106.95	-	-	-	-	106.95	-	-	-
2007/ 2008	CapMan Russia	-	15.78	-	-	-	-	10.72	-	-	-
2002/ 2005/ 2010/ 2011	Center-Invest	32.27	-	-	0.64	-	23.31	-	-	0.64	-
2006/ 2009	Chuvash Republic	4.78	-	-	8.25	-	4.78	-	-	8.25	-
2007	Chuvashavtador	31.07	-	-	-	-	31.07	-	-	-	-
2006	Cinema Park	12.31	-	-	-	-	12.31	-	-	-	-
2007/ 2008	Concordia Ltd.	28.08	-	-	-	-	28.08	-	-	-	-
2008	Daido Metal Rus	2.98	-	-	-	-	2.98	-	-	-	-
2002/ 2003/ 2006	Delta Credit	37.89	-	-	-	-	13.89	-	-	-	-
2010/ 2011	FactorRus	5.00	5.00	-	-	-	-	1.88	-	-	-
2006	Fora Bank	0.65	-	-	1.57	-	0.65	-	-	-	-

		Committed					Disbursed Outstanding				
FY Commitment	**Company**	**Loan**	**Equity**	****Quasi Equity**	***GT/RM**	**Partici pant**	**Loan**	**Equity**	****Quasi Equity**	***GT/RM**	**Partici pant**
2005	GrandHotelEurope	7.31	-	-	-	17.57	5.59	-	-	-	11.79
2008	Home Center RUS	-	-	10.00	-	-	-	-	10.00	-	-
2011	Idavang A/S	-	24.32	-	-	-	-	-	-	-	-
2006	Kinross	-	29.70	-	-	-	-	29.70	-	-	-
2004/ 2005	Kronospan Russia	47.68	-	-	-	-	47.68	-	-	-	-
2004/ 2005/ 2009	Kronostar	38.87	-	-	-	-	38.87	-	-	-	-
2005/ 2008/ 2009	Kuibyshevazot Open Joint Stock Company (KuAz)	17.50	19.50	-	-	-	17.50	19.50	-	-	-
2010	Kulon Yugros	6.95	-	7.31	-	-	-	-	7.14	-	-
2006/ 2007/ 2008/ 2009/ 2010/ 2011	Locko	33.85	19.26	-	37.26	30.00	33.85	19.26	-	37.26	30.00
2009	Logopark Ob	14.34	-	6.52	-	4.78	14.34	-	6.52	-	4.78
2010	Logopark Rostov	20.00	-	10.66	-	12.34	20.00	-	10.66	-	12.34
2007/ 2008/ 2009/ 2010/ 2011	MDM Bank	-	-	-	18.00	-	-	-	-	18.00	-
2009	Macquaire Rennaissance Infrast. Fund (MRIF)	-	70.23	-	-	-	-	23.14	-	-	-
2009/ 2011	MUP UZ ZhKKh	16.13	-	-	-	-	10.76	-	-	-	-
2008	Medicina	8.96	-	-	-	-	8.96	-	-	-	-
2010/ 2011	Monocrystal OAO	40.00	-	-	-	-	10.00	-	-	-	-
2005/ 2006/ 2007/ 2008/ 2009/ 2010/ 2011	Moscow Credit Bk	41.67	-	-	128.77	130.00	32.97	-	-	128.50	130.00
2002/ 2003/ 2004/ 2006/ 2008/ 2010	NBD	5.00	-	-	-	-	5.00	-	-	-	-
2010/ 2011	Northern Capital Gateway (NCG)	101.33	-	-	-	144.76	-	-	-	-	-
2001	NMC	0.16	-	-	-	-	0.16	-	-	-	-
2009	Nitol Solar	-	25.81	-	-	-	-	25.81	-	-	-
2010	OJSC MDM Bank	88.93	73.37	10.00	-	-	88.93	73.37	10.00	-	-
2011	Orient Express	-	81.93	-	-	-	-	81.93	-	-	-
2005/ 2006	Petropavlovsk	-	13.98	-	-	-	-	13.90	-	-	-
2008	Petropavlovsk K	16.73	-	-	-	-	16.73	-	-	-	-
2004	Pilkington Rus	35.37	-	-	-	-	35.37	-	-	-	-
2007	Promek	153.50	-	-	-	-	153.50	-	-	-	-

Committed **Disbursed Outstanding**

FY Commitment	Company	Loan	Equity	**Quasi Equity	*GT/RM	Partici pant	Loan	Equity	**Quasi Equity	*GT/RM	Partici pant
2010/ 2011	Promsvyaz	-	-	-	12.98	-	-	-	-	12.98	-
2005/ 2007	Quadriga Capital	-	19.99	-	-	-	-	18.16	-	-	-
2010	Russia Hotel Investments (RHI) BV	-	1.60	-	-	-	-	-	-	-	-
2010	RHI Kaliningrad	3.62	-	-	-	-	-	-	-	-	-
2010	RHI Krasnoyarsk	4.85	-	-	-	-	-	-	-	-	-
2010	RHI Samara	4.56	-	-	-	-	-	-	-	-	-
2010	RHI Yaroslavl	3.33	-	-	-	-	-	-	-	-	-
2003/ 2011	Raiffeisenbank Austria (RZB) Russia	56.73	-	-	13.27	-	56.73	-	-	13.27	-
2007	RZB Rus 2007-1	-	-	11.58	-	-	-	-	11.58	-	-
2009/ 2010/ 2011	Rep. Mariy El	54.50	-	-	-	-	54.50	-	-	-	-
2010/ 2011	RosEvroBank	-	-	-	4.61	-	-	-	-	4.61	-
2003	Ru-Net	-	0.00	-	-	-	-	0.00	-	-	-
1996	Russ Tech Fnd	-	0.00	-	-	-	-	0.00	-	-	-
2004/ 2005	Russkiy Mir	7.50	-	-	-	0.00	7.50	-	-	-	-
2005	RussiaPartnersII	-	8.89	-	-	-	-	8.89	-	-	-
2007	Rus MBS 2006-1	-	-	4.67	8.77	-	-	-	4.67	-	-
2004/ 2010	Sevtekhnotrans	30.00	-	-	-	-	30.00	-	-	-	-
2009/ 2010/ 2011	TransCapitalBank	48.20	41.80	-	23.78	52.00	30.00	-	-	19.68	52.00
2006	Trio	13.33	-	-	-	-	13.33	-	-	-	-
2010	Ufavodokanal	17.93	-	-	-	-	17.93	-	-	-	-
2003/ 2010/ 2011	UralTransBank	-	-	-	(0.00)	-	-	-	-	-	-
2005	Volga Shipping	9.38	-	-	-	5.92	9.38	-	-	-	5.92
2008	Vostok	-	16.11	-	-	-	-	16.11	-	-	-
2006/ 2010	Vyksa	25.71	-	70.00	-	-	25.71	-	-	-	-
2005	Yandex	-	4.00	-	-	-	-	4.00	-	-	-
2011	ZAO Energomera	20.00	-	-	-	-	-	-	-	-	-
	Total Portfolio:	**1,394.73**	**703.16**	**141.96**	**297.53**	**446.60**	**1,075.63**	**574.21**	**71.79**	**282.65**	**261.57**

* Denotes Guarantee and Risk Management Products.
** Quasi Equity includes both loan and equity types.

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Norwegian Sea
Barents Sea
Kara Sea
Laptev Sea
East Siberian Sea
Bering Strait
UNITED STATES OF AMERICA
NORWAY
SWEDEN
FINLAND
DENMARK
GERMANY
POLAND
BELARUS
UKRAINE
RUSSIAN FED.
ESTONIA
Kola Pen.
Franz Josef Land
Severnaya Zemlya
Novaya Zemlya
New Siberia Islands
Taymyr Peninsula
Yamal Pen.
Gyda Pen.
Ural Mts.
Central Siberian Plateau
West Siberian Plain
Lowland
Khatanga
Lena
Yenisey
Ob
Angara
Amur
Alden
Dzhugdzhur Range
Cherskiy Range
Indigirka
Kolyma
Kolyma Range
Andayr Range
Sea of Okhotsk
Sea of Japan
Black Sea
Caspian Sea
Lake Baikal
Sikhote-Alin
Gora El'brus (5,633 m)
KAZAKHSTAN
UZBEKISTAN
AZERBAIJAN
GEORGIA
MONGOLIA
CHINA
D.P.R. OF KOREA
REP. OF KOREA
JAPAN
Murmansk
Kaliningrad
Karelia
St. Petersburg
Pskov
Novgorod
Petrozavodsk
Arkhangel'sk
Nar'yan Mar
Vorkuta
Salekhard
Khanty-Mansiysk
Magadan
Petropavlovsk-Kamchatskiy
Okhotsk
Yakutsk
Anadyr
Smolensk
Tver'
Vologda
MOSCOW
Yaroslavl
Kostroma
Ivanovo
Kotlas
Syktyvkar
Bryansk
Kaluga
Orel
Tula
Kursk
Belgorod
Lipetsk
Vladimir
Nizhny Novgorod
Ryazan
Kirov
Cheboksary
Yoshkar-Ola
Tambov
Voronezh
Penza
Saransk
Kazan'
Izhevsk
Perm'
Ul'yanovsk
Saratov
Samara
Ufa
Yekaterinburg
Chelyabinsk
Tyumen
Kurgan
Orenburg
Omsk
Tomsk
Novosibirsk
Kemerovo
Krasnoyarsk
Barnaul
Novokuznetsk
Abakan
Ust' Ordynskiy
Irkutsk
Ulan Ude
Chita
Aginskoye
Blagoveshchensk
Birobidzhan
Khabarovsk
Yuzhno-Sakhalinsk
Vladivostok
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Volgograd
Astrakhan
Elista
Cherkessk
Nal'chik
Vladikavkaz
Nazran
Groznyy
Makhachkala
Gorno-Altaysk
Kyzyl
RUSSIAN FEDERATION
0 200 400 600 Kilometers
0 200 400 600 Miles
70°N
80°N
80°N
60°N
50°N
40°N
30°N
90°E
100°E
110°E
120°E
130°E
RUSSIAN FEDERATION
OBLAST CENTERS
FEDERAL CITIES
NATIONAL CAPITAL
RIVERS
MAIN ROADS
RAILROADS
OBLAST, KRAI, REPUBLIC, AUTONOMOUS OBLAST, OR AUTONOMOUS OKRUG BOUNDARIES
INTERNATIONAL BOUNDARIES
MAY 2009
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