
April 2015
RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

Growth

Russia’s economy experienced two shocks in 2014. On top of the structural crisis that began in 2012, a sharp drop in oil prices, together with massive uncertainty about geopolitical tensions and sanctions, hit the economy. As a result of the terms-of-trade shock when oil prices more than halved between July and December 2014, the ruble depreciated, and the ensuing monetary tightening made credit expensive, dampening domestic demand. The second shock was related to the geopolitical tensions that began in March 2014 and led to economic sanctions. Heightened risk perceptions and the financial sanctions imposed on Russia in late July all but extinguished investment. However, the economy was stabilized successfully, and much of the impact of the oil price slump and stricter sanctions will be borne out only this year and in 2016.

Russia avoided a recession with growth of 0.6 percent. This was the result of the large carry-over effect from the 1.3 percent growth in 2013 and the constructive policy responses of the Government and the Central Bank of Russia (CBR). The planned switch to a free float of the ruble was advanced to November 2014, and other measures to support financial stability were introduced promptly, such as the recapitalization of banks in December. Moreover, because the oil price slump and stricter sanctions came late in 2014, their impact began to affect the economy only in the final quarter of 2014. The effects are likely to be more profound this year and in 2016.

Russia’s growth trajectory in 2014 continued to diverge from that of other high-income and emerging economies (figure 1). The global economy has been slowly gathering momentum. Other emerging economies experienced relatively high growth in 2014, and Organisation for Economic Co-operation and Development (OECD) countries held on to a small, though fragile, recovery. In the first quarter of 2014, Russia’s growth sank from 2.0 percent in the previous quarter to 0.9 percent and stayed at around that level for the rest of the year.

As a result of the two shocks, domestic demand weakened further throughout 2014 and the economy was devoid of growth momentum, with seasonally adjusted quarterly growth persistently near zero. Investment demand remained depressed for the second year in a row. Business sentiments also continued to deteriorate in 2014, due to the increased policy uncertainty and persisting structural impediments. Low domestic demand and increasing borrowing costs as a result of financial sector sanctions and monetary policy tightening further limited investment activities. Without major public investment projects, fixed investment contracted. The contribution of fixed investment to GDP turned negative compared to the positive contribution in 2013 and 2012 (figure 2).

Consumption remained the main growth engine in 2014, yet its contribution to growth more than halved relative to 2013. The ruble depreciation, high indebtedness, and accelerated inflation eroded household income and led to a considerable slowdown in household consumption. Public consumption was negatively affected by higher than expected inflation.

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1 OECD oil exporters: Australia, Canada, Chile, the Netherlands, Norway, and the United States.
Demand for Russian exports deteriorated significantly, and the contribution of exports to GDP growth turned negative compared to the positive contribution in 2013. Yet this was balanced out by a 6.8 percent contraction in imports, largely resulting from the ruble depreciation that had already started at the onset of geopolitical tensions in the first half of 2014 and continued more dramatically during the second half of the year.

In 2014, the tradable sector became the main growth engine, while activity in non-tradable sectors slowed. Tradable industries were supported by the weaker ruble and trade restrictions, which led to a contraction in imports and some natural substitution. Growth in manufacturing industries benefited also from large increases in military-related production. As consumption slowed further in 2014, the non-tradable sectors continued to see demand for their services fall while the aggregate contribution of non-tradables to growth fell sharply (figure 3).

Figure 3. Tradable Sector Growth, y-o-y, percent of GDP

![Figure 3. Tradable Sector Growth, y-o-y, percent of GDP](Image)

Source: Rosstat.

Outlook

Russia’s medium-term growth prospects are threatened by the recent downward trend in oil prices and the continued impact of sanctions. The growth outlook for Russia projects that these two shocks will push the Russian economy into a recession in 2015. The baseline scenario sees a contraction of 3.8 percent in 2015 and a modest decline of 0.3 percent in 2016. The baseline assumes a projected average oil price for 2015 of US$53 per barrel and US$57 for 2016. Both upside and downside risks to the underlying oil price projection remain, as the global oil market continues to search for a new equilibrium price. To account for this, the outlook is a growth spectrum with two alternative scenarios straddling Russia’s baseline scenario, one reflecting an upper-bound oil price (of US$45 per barrel in 2015 and US$50 in 2016) and the second a lower-bound oil price (of US$65 per barrel in 2015 and US$69 in 2016) (figure 4).

Figure 4. Real GDP Growth, y-o-y, percent

![Figure 4. Real GDP Growth, y-o-y, percent](Image)

Source: World Bank staff estimates.

Investment demand is projected to continue to be deeply depressed in 2015, and consumption to contract for the first time since 2009. In 2015, the Government is planning to scale down or delay some large infrastructure projects due to revenue shortfalls, price pressures, and the high cost of borrowing. It is expected that private investors are also cutting back on investments, as increased credit costs put pressure on profit margins. Consumer demand could be undermined by deteriorating confidence, still-high household debt, and slowing income growth, which is also impacted by high inflation.

In the medium term, the economy will need to adjust to new oil prices and continued uncertainty about geopolitical tensions and sanctions. Both new realities will have the potential to alter the structure of the Russian economy and the ways Russia interacts with the rest of the world. Early glimpses of a changing Russian economy are already visible, notably a shift in orientation away from Europe and the West and toward East Asia, and the efforts at closer integration with the countries of the former Soviet Union. Other changes may be in a more protectionist direction and a growing footprint of the state on the economy.

Regardless of the shape of the new economic era in Russia, there is a need for strategic policies designed to balance old and new risks to the economy. First, Russia will continue to depend on its natural resource exports and will need to ensure progress in adopting technology that can support the exploration of less easily accessible oil and gas fields. Second, future growth in productivity may well be threatened if natural resource revenues are not invested effectively so as to counterbalance restricted access to external financing. Specifically, less foreign direct investment could limit the innovation and technology transfer that is critical to heightening
Russia’s growth potential. Finally, as long as access to foreign exchange continues to be a constraint, careful management of financial sector risks and buffers must be a paramount policy goal. Adhering to inflation targeting within a flexible exchange rate regime will help keep international reserves at adequate levels. A focus on the efficiency of spending and prudent management of fiscal buffers would ensure continued fiscal sustainability at all administrative levels.

**Inflation and the Exchange Rate**

The Russian currency experienced extreme volatility in 2014, and a massive depreciation in the second half of the year motivated the CBR to advance its switch to the ruble free-float. In 2014, the ruble lost 46 percent of its value against the U.S. dollar compared to 17.7 percent in 2008. During the second half of 2014, the dynamics of the ruble exchange rate reflected the sharp downward adjustment in oil prices, but sanctions and speculations around the planned shift in the CBR’s exchange rate policy also had a significant impact, and massive interventions were required in October to support the ruble (figure 5). On November 10, the CBR switched to the ruble free-float, with the goal of putting an end to the drain on its reserves.

**Figure 5. Oil Prices and the Ruble Exchange Rate (right hand axis in reverse order)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Oil Price Rub/USD</th>
<th>Rub/SRD (right hand axis)</th>
</tr>
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<tbody>
<tr>
<td>2011</td>
<td>110</td>
<td>100</td>
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<tr>
<td>2012</td>
<td>120</td>
<td>110</td>
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<td>2013</td>
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<tr>
<td>2014</td>
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<td>130</td>
</tr>
<tr>
<td>2015</td>
<td>150</td>
<td>140</td>
</tr>
</tbody>
</table>

Source: Haver database and the Central Bank of Russia.

The year ended in a currency crisis that prompted the CBR and the Government to implement coordinated measures to enhance financial stability. Following the OPEC decision in November not to cut oil production, the ruble entered a free fall that required the CBR to resume its interventions. Massive capital outflows, exporter hoarding of foreign exchange proceeds due to restricted access to external finances for sanctioned banks and corporations, and a dollarization of the population’s savings added to the pressure on the ruble. Volatility increased to unprecedented levels and motivated the CBR to raise the policy rate by 650 basis points on December 16 and to start urgent coordinated measures to enhance financial stability.

Despite monetary tightening by the CBR, inflation nearly doubled during 2014 from 6.5 percent at end-2013 to 11.4 percent in December 2014 (figure 6), exceeding the initial CBR target of 5.0 percent. Core inflation increased from 7.5 percent in June (year-on-year) to 11.2 percent in December. Food inflation increased from 9.2 percent in June to 15.4 percent in December (year-on-year), especially for meats (20.1 percent), milk products (14.4 percent), and fresh fruit and vegetables (22.0 percent). Inflation soared in March 2015 to 16.9 percent (year-on-year), driven up by 23.1 percent food inflation and the strong pass-through effect of the ruble devaluation from the December currency crisis. To anchor inflation expectations, the CBR tightened monetary conditions by increasing its key policy rates five times in 2014 by a total of 1,150 basis points to 17 percent. In January 2015, the CBR started to cut its policy rates by 200 basis points and in March by another 100 basis points to 14.0 percent, citing risks to growth as the key reason for its decision.

**Figure 6. CPI Inflation by Component, y-o-y, percent**

Source: Rosstat and World Bank staff estimates.

**Trade and Capital Flows**

In the fourth quarter of 2014, Russia's balance of payments suffered a severe terms-of-trade shock due to falling oil prices, though it was neutralized by a significant drop in imports. The current account strengthened (figure 7), with the non-oil current account deficit improving to an equivalent of 14.2 percent of GDP compared to a deficit equivalent to 15.2 percent of GDP in 2013. The current account surplus nearly doubled back to 2012 levels for a number of reasons. Despite a reduction in the value of exports in the first three quarters of 2014, the trade balance shifted in Russia’s
favor. Import demand weakened as the economy grew more slowly and the ruble depreciated. The restrictions Russia imposed in August on the import of food products from a number of Western countries contributed to a decrease in imported goods, and in the fourth quarter of the year, falling oil prices produced a terms-of-trade shock that was mostly absorbed by the drop in imports.

The balance of payment’s real crisis in 2014 was the massive capital outflow it experienced due mainly to uncertainties about geopolitical tensions and sanctions. Russia’s capital and financial accounts deficit quadrupled to 7.8 percent of GDP in 2014 compared to a deficit of 2.2 percent in 2013. High geopolitical uncertainty and the flight from the sharply depreciating ruble led to a more than doubling of net capital outflows from the private sector to US$130.5 billion in 2014. Massive capital outflows created substantial pressure on the ruble and led to CBR interventions of US$86.5 billion in 2014 compared to US$21.8 billion in 2013 (and US$155.3 billion spent in international reserves during the 2008–09 crisis).

External borrowing practically vanished by the end of 2014, as the cost of borrowing skyrocketed due to sanctions that restricted access to international financial markets and also to the drop in oil prices. Sanctions introduced in July targeting large state companies and banks, together with heightened geopolitical risks, limited Russian external borrowing in the third quarter of 2014.

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Figure 7. Current Account Balance, percent of GDP

![Figure 7. Current Account Balance, percent of GDP](image)

Public Finance

The Ministry of Finance estimates that the 2014 federal budget was executed at a deficit of 0.5 percent of GDP, the same as the previous year. In the June 2014 budget revision, a slight surplus was projected, but when the Treasury issued bonds (OFZ) in the amount of 1 trillion rubles (1.4 percent of GDP) on December 30, 2014 to recapitalize the Russian banking system, the budget turned into a deficit. As a result of the Treasury bond issuance, higher spending on defense, and higher federal transfers, spending rose to 20.9 percent of GDP. Federal budget spending year-on-year went down for social services, education, health, and housing and utilities. Government revenue rose to 20.4 percent of GDP from 19.7 percent in 2013, as oil revenues grew from 9.9 percent of GDP to 10.5 percent due to the ruble depreciation. Non-oil revenue saw a moderate increase from 2013 of 0.1 percent of GDP, reaching 9.9 percent in 2014 due to higher value added tax (VAT) proceeds. However, import tariffs fell by 3 percent in nominal terms due to a sharp decrease in imports. The non-oil deficit increased to 11.0 percent of GDP (figure 8).

Figure 8. Federal Budget Revenue and Balance in 2007–2014, percent of GDP

![Figure 8. Federal Budget Revenue and Balance in 2007–2014, percent of GDP](image)

Russia’s main fiscal buffer, the Reserve Fund, was replenished during 2014, but the second buffer, the National Welfare Fund (NWF), was increasingly committed to boosting investment demand and helping stabilize the financial system. The Reserve Fund reached US$87.9 billion (4.7 percent of GDP) by the end of 2014 compared to US$87.4 billion (4.2 percent) last year. The NWF declined to US$878 billion by the end of 2014 (4.2 percent of GDP) compared to US$88.6 billion (4.3 percent) at the end of 2013. In June 2014, the Government changed NWF investment rules, raising the limit on resources that could be used to finance domestic infrastructure projects from 40 to 60 percent. It also released an additional 20 percent for the purchase of debt securities and the stock of companies implementing projects with the participation of the Russian Direct Investment Fund.
(RDIF)\textsuperscript{2} and the state corporation Rosatom.\textsuperscript{3} In December, the Government allowed the NWF to invest in the stocks of three major state-owned banks for recapitalization and to invest up to 10 percent of its resources in subordinated bank deposits for financing government-approved real sector investment projects. In January 2015, the Government announced an anti-crisis plan that also envisions some financing from the NWF.

In early March, the Ministry of Finance submitted amendments to the 2015 federal budget for discussion with the Government. The new budget is based on a more conservative oil price assumption of US$50 per barrel. Preliminary numbers suggest that federal budget revenue will fall sharply to 17.0 percent of GDP from 20.6 percent in 2014, and expenditure will decrease much less to 20.8 percent of GDP from 21.2 percent in 2014. In nominal terms, expenditures would remain at the same level as in 2014 but shrink by about 11 percent in real terms.

Financial Sector

International sanctions limiting the access of many of Russia's larger banks to medium-term, low-cost financing, the weakness of the ruble, and tighter monetary policy have put considerable stress on the banking system. Several banks with non-ruble debt to external creditors now have higher debt servicing costs and thus lower net cash flows and profits. Meanwhile, the currency depreciation and the ensuing tighter monetary policy have caused a severe increase in bank funding costs. As a result, the growth of credit has declined (figure 9) and interest rates are higher.

It is likely that the current health of the financial sector is overstated, given the regulatory forbearance the CBR is exercising to carry banks through this volatile period. The CBR has allowed some flexibility in the classification of overdue loans and their provisioning during this crisis. This means in effect that nonperforming loans are much higher than the reported 7 percent and banks would have larger capital shortfalls if they were to classify and provision their credit portfolios adequately. The CBR has allowed regulatory forbearance by not requiring banks to mark all their assets to market value (i.e., letting them use original book value) so that they can avoid having to recapitalize balance sheets immediately. The policy is based on the authorities' expectations and hopes that the losses in value will be temporary and reversible in the short run.

To assure financial stability, the CBR and the Government have injected liquidity and capital into the banking system, though these injections have gone only to selected banks and not to the entire system. The Government's anti-crisis program incorporates measures to support bank recapitalization through the budget and the NWF. Though these and other measures are giving banks some relief, they may also be heightening systemic risks because they mean bank liabilities are increasing in relation to their liquid assets or their assets' real earning potential.

Jobs, Unemployment, and Poverty

The labor market stayed tight, with unemployment barely moving from its historically low levels as the demographics of aging continue to put pressure on the labor supply. The seasonally adjusted vacancy rate (number of vacancies to the total number of jobs) decreased only slightly in the third and fourth quarters of 2014 and was not accompanied by a corresponding growth in unemployment (5.2 percent seasonally adjusted in the fourth quarter of the year) (figure 10). Female unemployment remained below male unemployment levels (4.8 and 5.2 percent, respectively, for the second half of 2014), yet the gap decreased slightly. Urban unemployment is lower than rural unemployment, which stood at 4.2 percent

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\includegraphics[width=\textwidth]{figure9.png}
\caption{Credit Growth, y-o-y, percent}
\label{fig:creditgrowth}
\end{figure}

\textit{Source:} CBR, World Bank staff calculations.

\textsuperscript{2} The RDIF was established in June 2011 on the initiative of the president and prime minister to attract foreign investment in leading sectors of the Russian economy.

\textsuperscript{3} Rosatom is the state corporation established to develop a variety of civil and military nuclear energy projects, including the production, research, design, and construction of power stations, and the extraction and enrichment of uranium.
Real disposable income contracted in 2014 for the first time since 1999. It declined by 1 percent in annual terms but dropped particularly sharply in the fourth quarter of the year. Real wages and pensions were decelerating gradually in 2014 with a rapid contraction in December. According to preliminary data, the contraction in November–December was mainly driven by public wages and wages in the tradable sector, while wages in the non-tradable sector were more resistant (figure 11). Income growth was significantly impacted by other factors, such as wages in small enterprises and the informal sector and also currency operations. The disposable income resources of households were under pressure due to increasing borrowing costs and limited debt rollover opportunities for consumer debt, which forced them to higher debt repayment.

Low income growth resulted in less positive poverty dynamics during 2014. The total poverty rate in Russia is low compared to other countries in the Europe and Central Asia (ECA) area, yet the variation across regions of Russia remains significant. Among the regions with the lowest poverty rate are the resource-rich Yamalo-Nenets autonomous okrug (6.9 percent) and Republic of Tatarstan (7.2 percent), as well as Belgorod oblast (7.6 percent) and Moscow oblast (7.7 percent). The highest poverty rates are in the Tyva (35.1 percent) and Kalmyk republics (35.4 percent). There was a small increase in the absolute number of poor in 2014 and a small uptick in the poverty rate to 11.2 percent from 10.8 percent in 2013.

In recent years, the shared prosperity indicator has worsened in Russia. This shared prosperity indicator measures the average income growth of people in the bottom 40 percent of the income distribution. Real income growth of the bottom 40 percent of the population significantly decelerated in 2012–13 to around 3 percent from almost 10 percent in 2005–11. This real income growth for the bottom 40 percent was lower than for the whole population, which was relatively stable at the level of 4–5 percent. Decelerating income growth at the bottom has already negatively affected poverty reduction and is likely to limit further the evolution of the shared prosperity indicator in the future.

Gender

Gender equality is high in Russia overall, yet gaps remain in health and access to economic opportunities. The egalitarian socialist legacy and relatively high and growing levels of income have translated into fairly equal gender outcomes in Russia along many dimensions. There are no significant differences in education levels between men and women, and women do not seem to have difficulties in transitioning from school to work or remaining employed over the life cycle. Female labor force participation is significantly above the levels observed in other countries in ECA as well as among OECD countries. However, high sector segregation and gender income gaps remain, with women earning on average 30 percent less than men. And while improvements in health delivery services have had a positive impact on reducing maternal mortality levels, they have not been sufficient to reduce excess male mortality, which is deeply rooted in social norms about gender and a strong division of gender roles.

Low female participation in decision-making bodies reduces the ability of women to influence policy making. The number of women in the Federation Council has declined in both absolute and
relative terms; in 2005 there were 10 women (5.7 percent) among 175 members of the Council, while in 2010 there were only seven women (4.3 percent) among 164 senators. The share of women in the State Duma (the lower house of the Russian parliament) has increased slightly but at 14 percent remains low in comparison to other countries. The lack of policy action in areas such as domestic violence, including the lack of reliable data in terms of victims, would likely see a change if the representation of women were to increase.

**Health**

Health indicators generally remain low in Russia from an international perspective and compared to countries with similar levels of development (figure 1). However, measures undertaken to improve the health of the population, including the fight against tuberculosis, have shown some positive results. Life expectancy at birth trended upward according to the United Nations Development Programme’s *Human Development Report*, from 65.5 in 2005 to 67.2 years in 2010, although male life expectancy remains low in comparison to the OECD average.

**Figure 12. Healthy Life Expectancy compared to Per Capita Health Spending: Russian Federation and Selected Countries**

Source: World Health Organization (WHO).

The differences in health outcomes across regions are profound. For example, in far northeast Chukotka, life expectancy is 58.7 years (54.1 years for men), and in Moscow city, it is 72.5 years (68 years for men).

The World Bank has provided wide-ranging support to the health sector, with good results. The Bank provided support to the Federal Compulsory Health Insurance Fund to improve provider payment methods for outpatient and inpatient care and to stimulate the efficiency and effectiveness of the health system. For the first time, a Russian Diagnosis-Related Group (DRG) model was developed in 2012 and piloted in the Kirov, Lipetsk, and Tomsk regions. The DRG model was officially recommended for the reimbursement of hospital care by the Russian Ministry of Health, substituting the old extensive provider payment methods based on input indicators such as bed-days.

Regional health pilots managed by the International Bank for Reconstruction and Development (IBRD) in Chuvashia and Voronezh provide a national model for restructuring health systems. The Bank provided support to the Kirov region in implementing comprehensive reform of the regional health care system, aiming at strengthening primary and preventive health care, especially in the countryside, consolidating the regional health care facilities network to improve the quality and accessibility of specialized care, and linking expenditures to health outcomes. A World Bank Group subnational loan to Chuvashia, provided by IBRD, financed complementary medical equipment. The International Finance Corporation (IFC) has also made a number of investments to expand the operations and reach of private sector health care providers. Those efforts include the first health care public-private partnership (PPP) in the Republic of Tatarstan and a loan to support the geographic expansion of a privately held independent chain of in-vitro diagnostic medical laboratories.

**Education**

With public expenditure levels of about 4.6 percent of GDP in education, Russia invests less in education than the OECD average of 6.1 percent. Russia also allocates a somewhat smaller share of the overall government budget to education compared to the OECD country average (10.9 percent compared to 12.9 percent, respectively). Compared internationally, the structure of education spending in Russia is geared more toward tertiary education.

Relatively low spending on education in Russia achieves quite good outcomes compared to OECD countries. Russia’s achievements on international education tests vary. While primary school students are among the best readers and demonstrate a high level of math and science literacy
according to the results of the Progress in International Reading Literacy Study (PIRLS) and Trends in Mathematics and Science Study (TIMSS), Russia’s achievements on the Program for International Student Assessment (PISA) are modest (figure 13), most notably in the area of knowledge adaptation and problem solving.

In recent years, several reforms have been implemented in the education sector, with support from the World Bank. These reforms aim at improving the quality of education and enhancing the efficiency of public spending on education through the introduction of new fiscal incentive structures, the measurement of results, changes in early childhood development curricula, the extension of e-learning nationwide (including to children in rural areas), the orientation of vocational education to labor market demands, and the internationalization of higher education.

Figure 13. Russia’s Educational Test Scores from an International Perspective

The infrastructure backlog, on the other hand, remains huge. The Bank supported Russia in a catalytic function with four fee-based service agreements in St. Petersburg. This provided the basis for Pulkovo Airport to become Russia’s first PPP to receive international private investment in the transport sector, raising €1.1 billion, including €70 million provided by IFC and a further €190 million syndicated jointly by IFC and the European Bank for Reconstruction and Development (EBRD).

A model for the delivery of better housing and communal services is evolving at the municipal level. Two decades of support from the World Bank Group has aided the creation of modern land and property markets, the mortgage industry, and financially viable utilities. Bank lending for and IFC investment in water quality and district heating 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 in utility modernization in return for tariff and subsidy reform by municipalities.

Public participation is increasing in Bank-supported pilots of local self-government. A path-breaking fiscal and administrative decentralization program has created 10,000 new administrative units. In support, the Bank developed and tested replicable models of capacity building in 21 rural settlements. The purpose was to increase the value of public hearings and public participation in budget decision making. Based on the findings, the Bank is advising the Ministry of Regional Development on indicators of local government effectiveness.

IFC supports municipal development in Russia via a subnational lending program. Since 2006, IFC has invested about US$550 million in 14 subnational projects in Russia. The financing has helped to improve municipal infrastructure services in the Chuvash Republic (including roads, health care, kindergartens), the Republic of Mariy El (roads), Petropavlovsk-Kamchatsky municipality (roads, health care, education, housing, and communal services), the city of Ufa (water and wastewater treatment), Mytischi municipality (district heating), and the Samara region (kindergartens and schools). Funding, including debt financing, partial credit guarantees, and risk sharing, has been provided on commercial terms to credit-worthy municipalities and related entities, often in local currency. In 2013, IFC

Regional Development and Municipalities

Regional development continues to be a challenge for the largest country in the world by land area. Faced with significant contrasts in socioeconomic, climatic, and geographic conditions across its 83 regions, the Government has embarked on a series of reforms to provide access to social services and infrastructure of comparable quality all over the country.

Uniformly low population densities make it difficult to capture agglomeration economies in Russia. However, there is measurable progress in convergence over the Country Partnership Strategy (CPS) period (FY12–16) when measured in gross regional product (GRP), as documented by the 2009 Country Economic Memorandum.

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made its first investment in a private district heating company in the frontier regions\( ^4 \) of Tula and Kemerovo.

**Public Sector Management**

Public expenditure effectiveness is high on the agenda. The World Bank has assisted the Government in developing a strategy for improving the effectiveness of public expenditures. The Bank also completed a Public Expenditure Review (July 2011), focusing on long-term fiscal risks, transport expenditures, and public employment; identifying major opportunities for expenditure savings; and streamlining public employment.

Efforts to improve the quality of public services have intensified. Streamlined standards for federal authorities in service delivery are beginning to induce cultural change in the bureaucracy. Nevertheless, the modernization of public administration and the judiciary requires greater effort, and civil service reform is incomplete.

Some progress in service delivery is observable. For example, multi-functional service centers—where they have already been established—have helped to halve the waiting time for some administrative services. The Government has also started to roll out the first wave of e-government initiatives, including the signing of the first Memorandum of Understanding with Ulyanovsk oblast.

There has also been an improvement in performance and client satisfaction in several public agencies. Bank-supported projects in tax administration, customs, judicial reform, and land administration have reduced the processing time for key functions while also increasing public satisfaction.

**Public Financial Management**

Public financial management (PFM) has undergone significant reforms, involving decentralization and the introduction of a three-year budget framework. The Russian Government shows strong commitment to modern principles of sound fiscal management. The focus is now to follow up on the recent fiscal decentralization by improving performance at the municipal level.

The Ministry of Finance has greatly modernized legal and institutional mechanisms in support of PFM reforms. These included systems for monitoring subnational public finance, implementing Treasury principles of budget execution, creating budget authority at the municipal level, revising revenue and expenditure assignments, adopting legislation on the insolvency of regional budgets, and operating a Regional Fiscal Reform Fund. The implementation of a three-year fiscal framework was temporarily suspended during the financial crisis but resumed in 2010–12. The Government’s reform program also includes further implementation of performance and program budgeting. The Bank has supported all of these efforts with lending and Analytical and Advisory Services since 1998.

**Deepening Russia’s Role in Global and Regional Development**

Russia has taken on an important regional and global role through its memberships in the Asia-Pacific Economic Cooperation (APEC) and the Group of 20 (G20) and is shaping its own unique profile in addressing the major challenges of the 21st century as the chair of these global forums.

During the past decade, levels of Russia’s Official Development Assistance (ODA) have been steadily growing and rose from about US$50 million in 2002–03 to US$610 million in 2013. Favorable macroeconomic conditions based on strong economic growth and changes in the emphasis of Russia’s foreign policy have had a notable impact on the country’s growing role in development cooperation and the increasing levels of ODA. Russia officially started to report its level of development assistance to the OECD Development Assistance Committee (DAC) in 2011.

In April 2014, the Concept Document of Russia’s State Policy in the Area of International Development Assistance was adopted, replacing the Concept of Russia’s Participation in International Development Assistance (approved in 2007). The new document presents a vision of the goals, principles, priorities, and main directions of Russia’s

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\( ^4 \) IFC’s definition of “frontier” includes those regions where GDP per capita is below 80 percent of the national average.
state policy in the area of international development assistance.

The majority of Russian development assistance is currently being channeled through multilateral institutions, including the World Bank Group. The World Bank is a partner of choice for Russia’s development cooperation with the poorest countries. In particular, Russia has been a partner to the International Development Association (IDA) since the ninth replenishment (referred to as “IDA9”) in 1997 and has shown growing support and commitment to World Bank development programs and trust funds. Russia pledges to 17 IDA/IBRD trust funds, with contributions reaching a total of over US$248 million.

Figure 14. Russia’s Official Development Assistance

Russia has increased its regional role and is one of the largest trust fund donors in ECA at the World Bank. Russia has five trust funds (US$74 million, or 30 percent of total Russian trust fund pledges), exclusively targeting ECA countries: (i) Public Expenditure Management and Peer-Assisted Learning (PEMPAL), (ii) Public Financial Management (PFM) Trust Fund, iii) ECA Statistical Capacity Building Trust Fund, (iv) ECA Capacity Development Trust Fund, which finances program and project preparation, and (v) the Global Food Price Crisis Response Program for Tajikistan and the Kyrgyz Republic.

Russia is increasing its regional role in ECA also through the Eurasian Development Bank (EDB), a multilateral organization focused on Commonwealth of Independent States (CIS) countries, and the Eurasian Economic Community (EurAsEC) Anti-Crisis Fund managed by EDB. The Anti-Crisis Fund received resources in the amount of US$8.514 billion, of which US$7.5 billion was contributed by the Russian Federation to support CIS countries in response to the 2008–09 crisis. On March 14, 2011, the World Bank and the EDB signed a Framework Agreement that outlines their collaboration with regard to the projects of the EurAsEC Anti-Crisis Fund via the parallel cofinancing of investment projects and joint analytical work.

Deepening Russia’s role in global and regional development is one of four strategic themes of the World Bank Group-Russia 2012–16 Country Partnership Strategy (CPS). The World Bank Group has been involved in development assistance policy dialogue with Russia since the 2006 G8 St. Petersburg Summit. An up-to-date capacity-building program for the Russian development aid system started in 2009 as the “Russia as a Donor Initiative (RDI),” funded by the UK’s Department for International Development (DFID), and has been extended by the World Bank. The capacity-building program has laid the foundation for Russia’s system of development assistance by providing support in the areas of ODA statistics (resulting in Russia’s reporting its ODA in November 2011 for FY10), ODA strategic communications, and the elaboration of a learning curriculum on international development cooperation for Russian universities. During Russia’s presidencies in APEC in 2012 and the G20 in 2013, the Bank supported the Russian Federation through expert advice and organizational assistance focused on strengthening Russia’s provision of global public goods.

THE WORLD BANK GROUP STRATEGY AND PROGRAM IN RUSSIA

The current 2012–16 CPS was discussed by the Board of Executive Directors on December 20, 2011. It is aligned with government priorities and covers four themes: (i) Increasing Growth and Diversification, (ii) Expanding Human Potential, (iii) Deepening Russia’s Global and Regional Role, and (iv) Improving Governance and Transparency (as a cross-cutting theme). The strategy endorsed an envelope of up to US$5 billion in IBRD lending to support the program over the five-year period. IFC committed to invest between US$3.8 and US$4.8 billion for its own account, plus the significant mobilization of counterpart funds. The Multilateral Investment Guarantee Agency (MIGA) continues to support foreign investors through the provision of political risk guarantees.
Russia is a strategic partner for ECA. The World Bank Group engagement with the country is unique in that it is three-dimensional: global, regional, and national. At the global level, Russia has increased its contributions to IDA and supports the provision of global public goods through contributions to global funds. In addition, the Bank offers its expertise to help prepare Russia for the presidency of international forums. At the regional level, the World Bank Group supports Russia as an emerging donor for less-developed countries in ECA. Russia is already a significant provider of development assistance through a growing portfolio of IDA/IBRD-administered trust funds. At the national level, the World Bank Group aims to maximize its development by reaching out to the regions in Russia with the most development needs.

The World Bank

The Russian Federation joined the World Bank (IBRD and IDA) in 1992. The Bank has provided financing for 70 projects in different sectors totaling slightly over US$10.5 billion in IBRD loans. About 95 percent of the total portfolio has already been disbursed.

The current IBRD portfolio consists of 10 projects with a total current commitment of US$668.3 million (as of March 2015). All of the Bank’s financing to Russia is currently provided in the form of investment project financing. Reimbursable Advisory Services (RAS) show steady demand, with continued interest from the regions and growing demand from the federal government.

Portfolio quality is relatively high. Except for the Financial Education and Financial Literacy Project, which holds a moderately unsatisfactory rating in implementation progress, all other projects are rated at the moderately satisfactory or satisfactory level. The Judicial Reform Support Project went through two intensive restructurings and has been upgraded to moderately satisfactory. The current disbursement ratio is around 11 percent. The average project age is 5.7 years, attributable to the fact that the majority of the projects are designed as five-year investment operations.

The Russia program is distinguished by several cooperation and innovation initiatives. These include IFC and IBRD subnational lending, IBRD RAS, and IFC advisory programs. The World Bank Group is in constant search of innovative engagement opportunities and instruments, such as direct lending to regions with a sovereign guarantee and a mechanism to fund analytical work and technical assistance to poorer regions. For IFC, Russia serves as a platform for innovations, and advisory solutions developed in Russia have been replicated in many other countries within the ECA region as well as across the globe. These, among others, include advisory services on resource efficiency, cleaner production, and sustainable energy finance. IFC and IBRD are now in the process of developing new “one-World Bank Group” solutions for solid waste management.

Analytical and Advisory Services (AAA) remain an important part of IBRD’s engagement in Russia. In close cooperation with the Government, AAA products are helping to modernize public finance and administration and improve social service delivery and the investment climate. The Bank expanded its technical assistance to areas of early childhood development and social development, such as technical assistance on indigenous people and social accountability. In FY15, along with two traditional flagship Russia Economic Reports, the World Bank plans to present a report on Social Mobility and Opportunity and another on Aging.

In October 2015, the World Bank and IFC presented “Doing Business 2015: Going beyond Efficiency.” The report found that the Russian Federation has made starting a business easier by eliminating the requirement to deposit the charter capital before company registration as well as the requirement to notify tax authorities of the opening of a bank account—a reform applying to both Moscow and St. Petersburg. In addition, it made transferring property easier by eliminating the requirement for notarization and introducing tighter time limits for completing the property registration. This reform also applies to both Moscow and St. Petersburg. Russia’s ease of doing business ranking in Doing Business 2015 was 62, and its 2014 back-calculated ranking was 64. Its distance to frontier score in Doing Business 2015 was 66.7, and the 2014 back-calculated score was 65.0, with an improvement of 1.6.

Demand has grown rapidly for RAS. Since 2007, the World Bank has entered into more than 80 RAS.
Agreements cover a wide range of activities that are well aligned with Russia’s development challenges. RAS are also of increasing importance for Russia’s regions, as more than 30 of Russia’s subnational governments have signed at least one RAS with the World Bank (15 currently active in nine different regions).

Innovative RAS products allow the World Bank Group to build and keep a lead in global knowledge provision. One of the areas of early demand for RAS was in support of a large-scale infrastructure project in which the World Bank Group advisory services supported the St. Petersburg Pulkovo airport expansion based on a PPP. Pulkovo attracted more than €1.2 billion in 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 critical success factors for education, health, and social protection, demand from clients has led to the widespread use of RAS in associated global practices as well. During the past two years, RAS are also in demand for improving the investment climate, providing economic policy advice, and bolstering the local initiatives support program.

International Finance Corporation

Russia became an IFC member in 1993. Since then, IFC’s long-term investments in Russia have totaled US$10 billion, including US$3.5 billion in syndicated loans across 263 projects. IFC’s current committed investment portfolio in Russia is US$1.5 billion in about 100 projects with roughly 70 clients. In FY14, IFC committed US$655 million for its own account and mobilized US$104 million from partners. Since the beginning of FY15, IFC has committed about US$60 million for its own account.

In line with the World Bank Group CPS, IFC continues to support economic diversification and growth in Russia by helping its private sector clients realize long-term development potential, with a particular focus on maximizing impact in less-developed regions. These efforts include the creation of new high-skilled jobs; the expansion of high value-added manufacturing; and the improvement of transport and social infrastructure to provide people and companies with better access to goods and services. In addition, IFC provides Russian companies and banks with strategic advice on achieving long-term sustainable growth, increasing energy and resource efficiency, and improving corporate governance, and also advises Russian regions on structuring municipal infrastructure projects.

Multilateral Investment Guarantee Agency

MIGA’s gross exposure in Russia was US$804 million as of February 2015 (MIGA’s third-largest gross and net exposure). MIGA is involved in eight projects in finance, infrastructure, manufacturing, agribusiness, and services. In dollar terms, MIGA’s exposure is concentrated in Russia’s financial sector (some 80 percent of MIGA’s gross exposure), supporting the investments of global financial institutions in their banking, mortgage, and leasing subsidiaries in Russia. Five out of MIGA’s eight projects are in non-financial sectors, some of them in Russia’s regions, such as agribusiness in Russia’s “black earth” regions of Penza and Tambov and manufacturing in Novochehrask.

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5Previously IFC reported the total volume of investments, including short-term and long-term. Due to changes in accounting of short-term instruments, they are no longer included in the total investment volume.
MAP OF THE RUSSIAN FEDERATION
The Project supports the rehabilitation and improvement of cultural heritage sites and institutions, as well as the conservation, safekeeping, and promotion of cultural heritage assets in four of the country’s oblasts (regions): Leningrad, Pskov, Novgorod, and Tver. The project will also help the participating oblasts to strengthen their internal capacity for cultural heritage management so that they can foster socioeconomic development arising from the opportunities of cultural tourism. The project builds on the know-how and experience of the St. Petersburg Economic Development Project and its predecessor, the St. Petersburg City Center Rehabilitation Project. The project is in line with the key objectives of the Concept for the Long-Term Social and Economic Development of the Russian Federation until 2020, which refers to culture as one of the strategic sources of economic development, and to the cultural potential of Russia’s regions. Leningrad, Pskov, Novgorod, and Tver oblasts, located between St. Petersburg and Moscow, are rich in history and in national historic landmarks that are of universal significance. The project aims to assist the Government in its efforts to improve the protection of Russia’s movable cultural property by upgrading collection management and conservation and storage facilities and improving museum security practices.

The Project Development Objectives are: (1) to support the conservation, safekeeping, and promotion of cultural heritage assets in Leningrad, Pskov, Novgorod, and Tver oblasts of the Russian Federation and (2) to strengthen the regional capacity for cultural heritage management so it supports the socioeconomic development of the participating oblasts.

The Project includes three components: 1. The Integrated Heritage Site Development Component supports (i) large-scale, integrated site development and management of subprojects consistent with regional (oblast level) development plans and the financing of the conservation of heritage sites in federal ownership (so-called Large Window subprojects); and (ii) small-scale local subprojects aiming at improving existing cultural heritage sites and institutions and enhancing their appeal to visitors and value for local populations (so-called Small Window subprojects). Among the subprojects selected under the first call of the Large Window are: the Historical, Architectural, and Natural Museum-Reserve “Mon Repos Park” and the House of the Station Master Museum in Leningrad oblast; the White (Alekseevskaya) Tower of Roundabout City and the Church of the Annunciation at RyurikGorodische of the XII–XIV Centuries in Novgorod oblast; the Museum Quarter and Pokrovskaya Tower in Pskov oblast; and the Tver Imperial Putevoy (Traveling) Palace in Tver oblast. The work on the rehabilitation of the Tver Imperial Putevoy Palace is successfully proceeding and to be completed in May 2015. Designs for the rehabilitation of White Tower and Church of the Annunciation at the RyurikGorodische have been completed and the works are planned to start in mid-2015. Preparation of design documentation for other subprojects under the first call is on track. Under the Large Window second call, the following sites were approved by the Inter-Ministerial Committee for the preparation of design documentation: the Priyutino Estate Museum and Vyborg Castle in Leningrad oblast; the Former Deputies’ Assembly Building, the Vitoslavlity Wooden Architecture Museum, and the Travel Palace in Korostyn in Novgorod oblast; and Varlaam Corner of the Pskov Kremlin and Postnikov’s Court in Pskov oblast. Preparation of designs for these subprojects has been started. Progress under the Small Window subcomponent is very satisfactory and largely exceeds the planned targets. 33 Small Window subprojects have been approved by the Inter-Ministerial Committee to date, and 12 of them have already been successfully completed. The third call for Small Window proposals with a deadline in mid-November 2014 resulted in 14 more subprojects that are being developed. In addition, the Integrated Heritage Site Development component includes a capacity-building subcomponent to build the capacity of project-participating oblasts, municipalities, and state cultural institutions with a view to improving cultural development via a combination of long- and short-term training activities. 2. The Component on the Protection of Museum Assets is designed to support the Government’s efforts to protect and promote the movable cultural heritage assets of Russia. In particular, it supports a pilot construction of a Multifunctional Museum Facility in Leningrad oblast for conservation, research, and training purposes, including laboratories and studios for various types of items and materials, which serves as a regional hub for providing professional culture and art services. The component also finances the development of practical guidelines and specifications to promote the installation of modern security systems based on the specific categories and characteristics of cultural institutions; and the installation and testing of modern security equipment and the provision of related training in selected cultural institutions in participating oblasts. 3. The Project Management and Monitoring and Evaluation Component.

**Key Dates:**
- **Approved:** December 7, 2010
- **Effective:** June 10, 2011
- **Closing:** July 31, 2017

**Financing in million US Dollars:**

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*As of March 2015*

The Project aims to assist the Government in its efforts to improve the protection of Russia’s movable cultural property by upgrading collection management and conservation and storage facilities and improving museum security practices.
Despite considerable accomplishments under the RU Hydromet-1 project, the Government recognized that one relatively modest project could not possibly address the entire gamut of shortcomings resulting from two decades of disinvestments. The estimated priority investment needs in the meteorological and hydrological observation infrastructure according to the most conservative estimates are more than US$0.5 billion. The first project supported the most critical modernization needs of this observation infrastructure, ensuring interim fulfillments of Russia’s international obligations in weather and climate data sharing, and also supported testing and implementing technical and technological approaches and solutions.

The second project will support Roshydromet in achieving its mid-term modernization goals set up in Strategy 2030 by further strengthening the hydrological networks and services (less than 7 percent of the network was modernized by the first project), and enhancing the information systems for weather, climate, and hydrological forecasting.

The Project Development Objective is to increase the accuracy of forecasts provided to the Russian people and economy by modernizing key elements of Roshydromet’s technical base and strengthening its institutional arrangements. Project results were analyzed and reflected in the Implementation Completion Report (ICR). The implementation of the project was consistently rated satisfactory.

The project invested in four components:  
The first component is strengthening the information and communications technology (ICT) infrastructure and systems delivering weather, climate, and hydrological data and information. This component will strengthen the ICT infrastructure and technical capabilities in order to improve operational forecasting and other hydrometeorological products, support research on climate change, and improve access to Roshydromet’s data and information, including to archived data.  
The second component is the modernization of observation networks. The main objective of this component is the modernization of the equipment and technologies of key elements of Roshydromet’s observation networks and the integrated modernization of the hydrological network in the Volga river basin.  
The third component is institutional and regulatory strengthening, improvement of service delivery to clients, and better preparedness for emergencies. The objective of this component is to improve the performance of Roshydromet service in line with international experience, through the capacity building of operational and research staff, the improvement of service delivery in response to growing societal needs, and better preparedness for emergency situations.  
The fourth component is project management. It will finance the provision of consultant services and equipment to be used by the Bureau of Economic Analysis (BEA) as well as operating costs, all in relation to the management of project implementation.

Results Anticipated:

- Increased accuracy and timeliness of basic weather forecasts. At the end of the project, forecasts with 168 hours lead time will exceed 70 percent accuracy for the main administrative centers of Russia (against a baseline of 2011, which is less than 120 hours lead time);
- Increased accuracy of seasonal river flow forecasts in the reservoirs in the Volga river basin whereby at the end of the project, the accuracy of forecasts will exceed 85–90 percent (against the baseline of 2011 at 75–80 percent);
- Increased number of sectoral users of Roshydromet’s data (annual growth of 5 percent);
- Client satisfaction index measured by a sociological survey carried out in year five (expected client satisfaction at the end of the project 75 percent versus 65 percent in 2011).

Intermediate results indicators include, inter alia: (i) increased accuracy of severe weather warnings (from 88 percent in 2011 to 92 percent at the end of the project); (ii) improved coverage of the Russian territory by hydrological observation sites (measured by percentage of the recommended World Meteorological Organization [WMO] standards); (iii) increased spatial resolution of weather forecasts (up to 6–7 kilometer resolution for the 72 hour lead-time forecasts for large cities); (iv) increased number of Roshydromet centers providing operational access to data and information (measured in numbers compared with 2011); and (v) increased number of scientists and specialists who participated in scientific assignments and study courses at leading institutes and research organizations outside Russia (measured in numbers of specialists who completed such assignments).

**Key Partners:** Roshydromet (in charge of project implementation); and Project’s Inter-Agency Committee, composed of Roshydromet and representatives from the Ministries of Natural Resources and Environment, Finance, and Economic Development are responsible for strategic issues and decisions during project implementation; and the Bureau of Economic Analysis, a noncommercial foundation that was selected on a competitive basis, which acts as the Project Implementation Unit for the purposes of day-to-day assistance to Roshydromet in project management.

**Key Beneficiaries:** The primary beneficiary of the project is Roshydromet, which will enhance its operational, technological, and institutional capacity and strengthen its position as a modern weather service organization capable of providing accurate and timely information, services, and research on weather, climate, and hydrology in compliance with national strategic development goals and international commitments and obligations. Equally prime beneficiaries of the project are the regional and municipal governments, and the weather-, water-, and climate-dependent economic sectors, such as emergency, disaster reduction/civil protection, water resources management, civil aviation and transport, agriculture, health, energy, forestry, communal services, tourism, and maritime planning. Consequently, the agencies representing these sectors are the key stakeholders who assign high priority to the need for further improvement of hydrometeorological services. The project has multiple beneficiaries in Russia in the regions prone to natural disasters and within the global hydrometeorological community. The project will bring considerable benefits to the international hydrometeorological community in two ways: by providing better access to reliable and abundant observation data from the vast territory of Russia and thus contributing to more accurate global forecasting, and by facilitating access of Roshydromet to global weather and climate data.
RUSSIAN FEDERATION: FOREST FIRE RESPONSE PROJECT

Key Dates:
Approved: September 20, 2012
Effective: December 5, 2013
Closing: January 31, 2018

Financing in million US Dollars*:

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As of March 2015

This project supports the Government in its forest fire prevention and management efforts. The Bank continues a long-standing and comprehensive engagement with Russia on forest management, where efforts have centered on policy development, institutional strengthening, information and land-use planning systems, and strengthened regional forest inventory and pest protection organizations.

The Project Development Objectives are to improve forest fire prevention and suppression in select forest ecosystems, including targeted protected areas, and to enhance forest management in pilot regions. The project supports both forest fire management and sustainable forest management, given their close linkages. Thus, forest policy, legislation, and silviculture play important roles in the likelihood, extent, and severity of forest fires.

Components. The project is divided into two primary components:

Component 1 aims to improve the effectiveness of forest fire prevention and management by (i) improving the capacity for early detection and quick response to fight forest fires and (ii) reducing the number of fires of human origin through awareness raising and environmental education programs. Forest fire detection will be strengthened in five selected pilot regions and in targeted Protected Areas through developing fire preparedness and management plans, upgrading the fire danger rating and hazard index system, and piloting early fire detection systems. To improve the ground-based forest fire response, fire stations will be rehabilitated, local fire brigades established, and firefighting and communications equipment provided. In addition, public awareness programs and media campaigns will be conducted to advocate forest fire safety rules and reduce the incidence of forest fires of human origin.

Component 2 aims to address the current perverse incentives that drive both illegal logging and the willful and accidental setting of forest fires to modify silvicultural practices so as to reduce the extent and intensity of fires once they are ignited, to improve forest regeneration, and to improve the efficiency of forest management, both nationally and in Protected Areas. This component will provide: technical assistance to support the institutional framework by the identification of key policy and legislative issues, as well as voluntary certification; targeted investments to improve forest regeneration and restoration; the development of an integrated forest management information system; the development of model forests; and the training of forest administration and management agencies, including Protected Area fire management units.

Results Anticipated:

Progress toward achieving the objectives will be measured against the average area of fire at detection, the percentage of fires suppressed within 24 hours after detection, and the new silvicultural systems developed and trialed in project pilot regions and Protected Areas. The project aims to support the Government of Russia in reducing the possibilities that a fire season like that of 2010 is repeated. As such, it is expected that project results will indicate that fires that occur in the pilot regions, Protected Areas, and those areas monitored by regional forest fire management coordination centers are better controlled (and hence reduced in extent and severity), as they will be detected sooner, response time will be reduced due to better communications, firefighting capacity in terms of equipment and trained personnel will have been increased, and interagency and interregional firefighting coordination and cooperation will be enhanced.

Key Partners. There are two implementing agencies for the project: the Federal Forestry Agency (FFA), which covers the extensive area of the forest fund, and the Ministry of Natural Resources and Environment (MNRE), which implements the
project in Protected Areas. Overall project management (for both implementing agencies) is being undertaken by a single Project Implementation Unit (the Foundation for Enterprise Restructuring, FER). In addition, an Interagency Committee has been established to support interagency coordination, monitor project progress on a quarterly basis, and settle controversies that might arise during implementation. The Committee consists of representatives from FFA, MNRE, the Ministry of Economic Development, and the Ministry of Finance.

**Project Beneficiaries.** By improving early fire detection, firefighting, and control, as well as forest regeneration and restoration following forest fires, the project is expected to directly benefit a wide range of stakeholders, including forest lessees, timber harvesters, hunters, fishermen, farmers, and staff of the Protected Areas, populations using forests for recreational activities, and populations living near forest areas. The nature of the benefits will be financial, economic, environmental, ecological, institutional, and social. Economic benefits include increased timber income from reduced commercial timber losses from fire and more rapid growth of forest from improved generation. Ecological benefits include those from better conservation of forest ecosystems through improved fire protection and overall forest management. Institutional benefits include those from better training. Social benefits include reduced health- and injury-related losses, as well as increased employment and increased awareness among local communities and youth on forest fire prevention.
Over the past few years, the Russian Federation has undertaken significant public financial management and institutional reforms, incorporating good international practice and laying the foundations for a modern public financial management system. The most notable achievements will include; (i) the successful implementation of a modern Treasury Accounting System and a single treasury account, (ii) the regulation of the overall budget process and introduction of three-year federal budgets, (iii) the creation of the Oil Stabilization Fund, (iv) the reform of regional fiscal relations and the establishment of fiscal rules for the subnational governments, and (v) the modernization of tax administration, leading to a cultural shift from the traditional command-and-control approach to a modern service-oriented approach.

The Project Development Objective is to improve transparency and the results focus in public financial management and to build institutional foundations for improved budget efficiency, effectiveness, and accountability. This will be achieved through support to four main areas of activity:

i. Enhancing the economic efficiency of the tax system through changes in key areas of tax policy and improving the services provided by the Federal Tax Service;

ii. Streamlining the methods of financing subnational governments, strengthening their focus on results at all stages of the budget cycle, and building their capacity to manage public finances;

iii. Enhancing the quality, flow, and accessibility of budget information through implementation of the E-Budget system, contributing to improved transparency and accountability;

iv. Strengthening budget preparation, control, and monitoring processes to ensure greater focus on expenditure efficiency, effectiveness, and results.

The Project is organized into four substantive components supported by a project management component. The four substantive components address budget sustainability and efficiency in a comprehensive manner. The four components are closely interrelated and mutually supportive:

- Component 1: Improving the Economic Efficiency of Tax Policy and Administration (US$39.744 million)
- Component 2: Improving the Efficiency of Inter-Governmental Fiscal Relations and Subnational Public Finance Management (US$24.840 million)
- Component 3: Supporting the Development of the E-Budget System (US$39.148 million)
- Component 4: Enhancing Budget Efficiency (US$24.840 million)
- Component 5: Advancing Project Management (US$5.000 million)
**Results:** The realization of the Project Development Objectives will be assessed using selected quantifiable results indicators. The expected results associated with these strategic objectives are as follows:

(a) Reduced time spent by small and medium-sized enterprises (SMEs) on tax calculation and payment
(b) Increased number of regions with satisfactory public financial management performance
(c) Improved budget transparency scores
(d) Improved coverage of the federal budget with performance measures

**Key Partners:** The direct partners in the project are the Ministry of Finance, the Federal Tax Service, the Federal Treasury, and the Ministry of Economic Development. Indirect partners are expected to include federal line ministries and subnational governments.
Before the 1990s, Russian citizens had limited access to only a few financial services provided by state organizations. During the early 2000s, the financial industry in Russia expanded, following positive trends in economic growth and reforms in the financial and social sectors. Incomes and savings increased but financial literacy did not. A nationwide survey conducted in June 2008 showed that the financial literacy of Russian citizens remained low, and that 40 percent of the population still believed that the government would compensate them for financial losses on personal investments.

**Financial literacy** is the ability to make informed decisions about the use and management of one’s financial resources. Financial education is a process to help financial consumers improve their understanding of financial products and concepts, and by obtaining information, instruction, and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, make informed choices, know where to go for help, and take other effective actions to improve their financial well-being.

**The Project Development Objectives** are: (1) to improve the financial literacy of Russian citizens (especially, among school-age and college students, and active and potential low- and middle-income users of financial services); and (2) to strengthen the foundations for improving consumer protection in the financial services.

**The Project** includes five components:

- The first component is the development of a national financial literacy strategy, strengthening the institutional and legal framework for the implementation of financial literacy and consumer protection policies, and the development of a project monitoring and evaluation framework.
- The second component concerns building institutional and human capacity for raising financial literacy in Russia at both the federal and regional levels, and in the public and private sectors.
- The third component includes the development and implementation of educational programs, an information campaign, and the scaling-up of existing financial literacy improvement initiatives.
- The fourth component aims at strengthening consumer protection in the financial services industry by strengthening the capacity for financial consumer protection in the Consumer Protection Service, industry professional associations, and civil society.
- The fifth component deals with project management, implementation, and monitoring and evaluation as set forth by the rules and procedures of the International Bank for Reconstruction and Development (IBRD) and Russian laws and regulations.

**Key Partners:** The proposed project will be implemented by the Ministry of Finance, with supervision and coordination provided by the Interagency Project Committee (IAPC). By the end of the proposed project, the Ministry of Finance would empower one of its organizational units with the long-run responsibility for the National Financial Literacy Improvement Strategy (NFLIS) and financial literacy improvement. The Expert Board of the IAPC will be established and made responsible for providing high-level expert support to the IAPC. Regional financial education programs will be implemented through the Regional Centers for Financial Literacy (RCFLs). The Consumer Protection Service (CPS) would participate in the implementation of activities designated for developing consumer protection capacity. The Ministry of Education would participate in the implementation of segments linked to capacity building in financial education and the design of financial education programs. The “Fund of Good Ideas” (US$10 million) would support financial literacy and the consumer protection improvement initiatives of civil society, nongovernmental organizations (NGOs), public and private sector entities, and individuals.
The Housing and Communal Services (HCS) sector—comprising housing, district heating, and water supply and wastewater treatment—remains one of the most inefficient segments of the Russian economy. Services often continue to be delivered in much the same way as they were during the Soviet era, with virtually no reliance on market-based mechanisms. During the economic turmoil of the 1990s, the housing stock and utility assets depreciated, as maintenance and investment funds were diverted elsewhere by cash-strapped households and local governments. As a result, the quality and reliability of the HCS sector degraded, lowering the living standards of the people. With the economic recovery between the 1998 and 2008 crises, the federal authorities and municipal administrations began to implement a number of policy and institutional reforms in the sector and rehabilitate sector assets. The project aims to support that effort by financing technical assistance to the Ministry of Regional Development and participating cities, as well as investments in the HCS infrastructure by the participating cities, which will implement an agreed set of reforms and then receive grants to upgrade infrastructure.

**The Project Development Objective** is to improve the quality and financial viability of HCS in the participating cities, thus raising the living standards of the population.

**The project will support:**

- improvements in the financial viability of communal services providers
- the strengthening of the social protection of HCS consumers
- the creation of market competition in housing management and maintenance
- investments that will focus on the water and sanitation, heating, and housing sectors. Project outcomes will be measured by a series of technical indicators, such as the profitability of utilities, the level network losses, etc.
- the share of multi-apartment buildings managed by professional management companies, and the level of satisfaction with the quality of services by the population

**Results:** Ten main and four reserve cities have been selected competitively to participate, and all of the cities have completed the necessary reform measures and moved to the investment phase of the project. To date, the project funds are fully committed. The disbursement that was slowed in 2013 due to delays in the signing of the completed procurement packages because of the reorganization of the Ministry of Regional Development structure now demonstrates visible improvements. The project has had a significant impact on the reform agenda of the participating cities, which are making efforts to study the best practices of others. The positive impacts, among others, include an almost complete elimination of social payment arrears, the preparation of municipal investment plans, and additional increases in the number of multi-family buildings managed by professional management companies. Thanks to these and to the communications campaign carried out under the project, the customer satisfaction rating of HCS quality has improved consistently in participating cities and is now above 70 percent in almost all of them, surpassing 80 percent in two (Naberezhnye Chelny and Chevoksary). Further significant improvements with regard to quality of services (measured in terms of pipe brakes and pollution load reductions) are expected once ongoing contracts are completed. After a government reorganization in fall 2014, the Ministry of Regional Development was abolished, and the Ministry of Construction and HCS took over the responsibilities of HCS project implementation.

**Key Partners:** Ministry of Construction and HCS of the Russian Federation is in charge of project implementation. An Inter-Agency Working Group composed of the Ministry of Construction and HCS and representatives from the Ministries of Finance and Economic Development is responsible for strategic issues and decisions during project implementation. The St. Petersburg Foundation for Investment Projects is a noncommercial foundation that was selected on a competitive basis to act as the Project Implementation Unit for the purposes of day-to-day assistance to the Ministry of Construction and HCS in project management.
RUSSIAN FEDERATION: SECOND STATE STATISTICAL SYSTEM DEVELOPMENT PROJECT

Key Dates:
Approved: June 28, 2007
Effective: April 22, 2008
Closing: December 31, 2015

Financing in million US Dollars*:

<table>
<thead>
<tr>
<th>Financier</th>
<th>Financing</th>
<th>Disbursed</th>
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</tr>
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<td>10.0</td>
<td>9.4</td>
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<tr>
<td>Government of Russia</td>
<td>42.5</td>
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<tr>
<td>Total Project Cost</td>
<td>52.5</td>
<td></td>
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</tr>
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</table>

*As of March 2015

The Russian Federation’s development strategy implies a major increase in the demand for comprehensive, high-quality statistics to provide information for evidence-based decision-making. Hence, the Federal State Statistical Service (Rosstat) faced important challenges and developed the Federal Targeted Program (FTP) for Statistics for 2007–11, envisaging the development of integrated statistical information capable of providing the timely, comprehensive, and reliable data needed in modern Russia. The program focused on collaboration with other executive federal bodies, based on the integration of all data sources on a countrywide scale, to ensure the effective use of statistics in policy making, management, and forecasting at federal and lower levels of governance. The Bank has been supporting the improvement of official statistics in Russia under several joint projects, including the first State Statistical System Development Project (STASYS), which has catalyzed the reform of primary statistical procedures and developed the main elements of a modern IT network for statistical systems in the country; and the follow-up STASYS 2 project, which aimed to roll out the process and advance the statistical methodology in specific areas of statistics, as well as upgrade the human capacities of the system in concurrence with the FTP for Statistics.

The Project Development Objective is to build a sustainable state statistical system that provides timely, coherent, and trustworthy statistical data about economic and social conditions in Russia, as required by government, business, and society to make informed decisions.

The Project builds on what was achieved by STASYS and supports further improvements in the national statistical system, such as the introduction of new methods of data collection and processing according to international standards and the further development of the IT system of Rosstat tailored to modern statistical needs, including regional statistical offices. It supports the implementation of Rosstat’s plans in areas such as the generation of the statistical data needed to support, monitor, and evaluate performance management and performance-based budgeting; municipal reform; and funding for IT infrastructure investments, training facilities, and the adoption of international standards and methods. These investments will contribute to strengthening the capacity of Rosstat to generate reliable and timely data and introduce modern dissemination principles.

Results: The project still has low disbursement; however, the majority of its activities have been committed. Key performance indicators are the availability of data conforming to international standards and an increase in user satisfaction. Quantifiable indicators of project outcomes include:

- An increase in the level of conformity of the main macro-aggregates (such as a system of national accounts, balance of payments) and price indices as assessed by the International Monetary Fund (IMF) Data Quality Assessment Framework (DQAF)
- An increase in the number of the Millennium Development Goals (MDG) indicators collected and processed by the State Statistical Service
- An increase in the share of data that conform to international standards in statistical questionnaires provided to international organizations
- An increase in the number of data sets in public access supported by comprehensive meta data packages
- Growth in the number of visits to the Rosstat website
- An increase in trained and retrained staff, particularly at the regional level
RUSSIAN FEDERATION: JUDICIAL REFORM SUPPORT PROJECT

Key Dates:
Approved: February 15, 2007
Effective: November 15, 2007
Closing: December 31, 2016

Financing in million US Dollars*:

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<tr>
<td>Total Project Cost</td>
<td>172.4</td>
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</tr>
</tbody>
</table>

*As of March 2015

The Project Development Objective (PDO) is to assist the Russian Federation in strengthening the judicial transparency and efficiency of selected courts through the implementation of information systems and judicial training.

The project finances information and communications technology (ICT) investments and related training for the Constitutional Court; the Supreme Court, its Judicial Department, and courts of general jurisdiction; and the Supreme Arbitration Court and the commercial court system.

Component A focuses on:
- Institutionalizing judicial transparency and accountability;
- Providing research and analysis on the further development of transparency, including the obligatory publication of judicial decisions;
- Developing and piloting criteria, indicators, and a policy to assess and periodically report on the effectiveness of the judicial system and related capacity building.

Component B harnesses ICT for judicial transparency and effectiveness, by:
- Modernizing the development and deployment of integrated information systems for courts to facilitate document flow, record management, information collection, and internal knowledge sharing;
- Improving public access to, and the availability of, judicial information through online publication of judicial decisions and other relevant information;
- More effectively linking courts, Judicial Department offices, and relevant entities/facilities through integrated information systems by enhancing the mobile capabilities of access to electronic information and video-conferencing.

Component C focuses on strengthening human capital by:
- IT-related education and training for judges and court personnel for all court systems and their administrations;
- Knowledge exchange, including peer-to-peer learning through seminars and workshops, for the judiciary.

Results: The project is rated “moderately satisfactory” on development objectives and implementation progress. Most project activities implemented by the Constitutional Court, the Supreme Court, and the Supreme Arbitration Court have been completed and project results applicable to these entities remain strong. There is sustained high-level ownership from the leadership of these courts and from the Ministry of Economic Development (the implementing agency) and the Ministry of Finance. Despite such progress, activities administered by the Judicial Department (to support the courts of general jurisdiction) have lagged behind and were recently cancelled to support a more strategic priority; the ongoing constitutionally mandated merger of the Supreme Court and the Supreme Arbitration Court. The closing date of the project has been extended for about 3 years until December 31, 2016 so as to develop a more detailed restructuring proposal, including the addition of new activities to support the above merger (including an expected move of the merged Supreme Court to St. Petersburg), the reallocation of loan proceeds, and a further extension of the closing date by two years. The merger—intended to avoid forum-shopping, harmonize the interpretation of laws, and improve the operational efficiency of the judiciary—is expected to strengthen the project’s strategic impact. The activities during the proposed project extension period are expected to improve judicial transparency, accountability, and efficiency to strengthen PDO achievement, the efficient use of loan proceeds, and the sustainability of project results and impact.

Key Partners. The implementing agency is the Ministry of Economic Development, which requested the project in 2005 as a strategic instrument to strengthen transparency and complement Russia’s successive judicial modernization Federal Targeted Programs from 2007 with international experience and applicable good practices.
RUSSIAN FEDERATION: REGISTRATION PROJECT

Key Dates:
Approved: June 13, 2006
Effective: April 23, 2008
Closing: February 29, 2016

Financing in million US Dollars*:

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<th>Undisbursed</th>
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<tr>
<td>Total Project Cost</td>
<td>65.4</td>
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</tbody>
</table>

*As of March 2015

The Russian law “On State Registration of Rights and Transactions in Immovable Property” puts the responsibility to set up and manage registration systems on the subjects of the Federation (the 83 republics, provinces, territories, and cities that make up the Federation) in accordance with federally established guidelines. In 2004, the Government federalized the regional registration systems, moving them into federal ownership, and introduced more standardized procedures for the operation of the system across the country. The project supports the introduction of the standardized information system and procedures across the Federation.

The Project Development Objective is to improve the system of registration of legal rights to immovable property by developing standardized, clear, and more efficient registration procedures, and by introducing an improved information management system for the registration offices.

The Project is designed to help support the process of reorganizing the system for registering property rights in the country and includes three components:

- Institutional development of the Federal Registration Services
- Information and Communications System Development
- Improvement of Professional Skills

Results:
The Government has unified registration, cadastre, and cartography under one agency, the Federal Services for Registration, Cadastre and Cartography (RosReestr), thus facilitating standardization and interaction among these services. The implementation of a Unified Information System is ongoing, providing standardized services across the Russian Federation. The provision of online services and other customer services is steadily expanding with project support. The project was restructured in August 2010 and was restructured again in 2014 to cancel financing in areas where it is no longer required. Procurement of the Unified Information System has been finalized and is in its final stages of implementation. The project was extended by one more year to allow for completion of two major IT packages and other remaining activities, in particular staff training. The project development objective results have already been achieved, including the following: time to process registration requests has been reduced from 30 to 12 working days, staff registration productivity has increased from 700 to 1,557 registrations per staff, and client satisfaction has increased from 60 to 79 percent.

Key Partners:
The Bank team works closely with Russia’s Federal Service for Registration, Cadastre and Cartography and its network of offices at the regional level, in collaboration with the Ministry of Economic Development.

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RUSSIAN FEDERATION: ST. PETERSBURG ECONOMIC DEVELOPMENT PROJECT
This project came forward at a time when Russia had pursued a decade of policy reforms aimed at achieving economic stabilization and transition to a market economy. By 2002, real economic growth was accelerating after Russia’s recovery from the 1998 crisis. But progress in Russia’s regions was slower, and a major emphasis has been on decentralization of the public sector.

**The Project Development Objective** is to support St. Petersburg’s efforts to accelerate the implementation of key elements of its Strategic Plan, in particular by rehabilitating and restoring certain outstanding cultural monuments under federal jurisdiction and by enhancing St. Petersburg’s prospects for sustainable economic growth. This will allow it to more fully exploit its position as Russia’s “Window to the West,” in particular, by enabling St. Petersburg to take greater advantage of its unique position as one of Russia’s most significant centers of arts and culture and create the basis for developing tourism as a key element of future economic growth.

**The Project** was designed as a hybrid loan. Support included facilitating key changes to the city’s business environment through a Development Policy Loan component (DPL Component, US$100.0 million); and investing in cultural heritage assets and institutions so that these could be used as a basis for developing and enhancing tourism as a key element of local economic growth (Investment Component, US$61.1 million). The Investment (federal) component also includes a (i) subcomponent creating a Cultural Investment Facility (CIF), an innovative financing mechanism for financing and building the capacity of cultural institutions and providing competitive, demand-driven grants to the cultural institutions located in St. Petersburg, and a (ii) subcomponent on Institutional Strengthening.

**Results achieved: The city’s reform program under the DPL component was successfully completed in 2007.** The number of new small and medium-sized enterprises registered in St. Petersburg has more than doubled since 2002 and far exceeded the target magnitude; the number of private transactions for land and real estate is also nearly double the target value. The creditworthiness of St. Petersburg continues to be confirmed by global ratings agencies. The city continues to attract an increasing number of tourists, growing by more than 150 percent since project approval and reaching 6 million visitors per year. While St. Petersburg met all the conditions of the first tranche (US$40 million) under the DPL project component in 2006 and the second tranche (US$60 million) in 2007, the city administration decided not to draw down the money. At the request of the Borrower, the first tranche funds were reallocated from the City to the Federal component, and the second one was cancelled. Most of the reallocated funds of the first tranche came to the State Hermitage reconstruction subproject—the biggest site to be rehabilitated under the Investment (Federal) component and the most complex and largest reconstruction project currently underway in St. Petersburg.

**The Investment (Federal) Component is nearing completion** and has leveraged a large amount of cofinancing from the Borrower, far exceeding the loan amount. All nine subprojects on the rehabilitation of cultural assets have been completed in full (Shostakovich State Academic Philharmonia, Peter and Paul Fortress, Temple of Friendship of Pavlovsk State Museum and Conservation Area, St. George Hall and Corps de Garde Pavilions of Mikhailovsky Palace of the State Russian Museum, Winter Garden of the Marble Palace of the State Russian Museum, the Turkish Bath Pavilion and the Hermitage Kitchen and Park of the State Tsarskoe Selo Museum, and the East Wing of the former General Staff building of the State Hermitage). All activities under the Cultural Investment Facility (CIF) and Institutional Strengthening subcomponents have also successfully been completed. Restoration of the nine cultural heritage assets complemented by the CIF program and Institutional Strengthening activities significantly increased the number of viable tourism assets in the city, enhanced their use and accessibility for all types of visitors, including for the physically disabled, and notably improved revenues for heritage institutions. Restoration works also created over 1,500 low-skilled jobs (2 million labor days) between 2008 and 2011. In response to a request of the Russian Federation, the Bank initiated preparation of an Additional Financing loan for the project in July 2013. To complete preparation of the Additional Financing, the St. Petersburg Economic Development Project has been extended until December 31, 2015.

**Key Partners:** St. Petersburg city government (was responsible for implementing the City [DPL] component); Ministry of Culture of the Russian Federation (responsible for implementation of the Federal [Investment] component); Inter-Ministerial Committee (led by the Ministry of Culture and composed of representatives of the Ministry of Culture, Ministry of Finance, and Ministry of Economic Development, conducts regular monitoring of project implementation, awards grants under the CIF subcomponent, and makes strategic decisions); and St. Petersburg Foundation for Investment Projects (acts as the Project Implementation Unit).
RUSSIAN FEDERATION: CENTER INVEST BANK

Key Dates:

Approved: December 3, 2012
Signed: February 15, 2013

IFC financing (million US Dollars):

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<th>Financier</th>
<th>Amount</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Loan</td>
<td>29.0</td>
<td>2013</td>
</tr>
</tbody>
</table>

Supporting small and medium-sized enterprises (SMEs) is a key priority for the International Finance Corporation (IFC) in Russia, especially in remote and frontier regions. Headquartered in Rostov on Don, Center Invest is one of the largest private banks in southern Russia. This long-term, local currency funding will help the bank to sustain its leading market position in SME lending in its home region of Rostov and also to widen its lending program in three neighboring regions where the bank now has a substantial footprint: Krasnodar krai, Stavropol krai, and Volgograd. All these regions are classified as frontier regions, with per capita incomes significantly lower than the national average.

IFC will play a strong developmental role in the project by:

- Providing an alternative private sector solution to SMEs in accessing short-term working capital funding;
- Supporting a well-run, privately owned bank operating in the frontier regions of Russia;
- Supporting the expansion of Center-Invest’s short-term loan portfolio and the diversification of funding sources, thereby lowering its liquidity and funding risks;
- Fostering competition in the Russian financial sector.

Center Invest is IFC’s long-standing partner. In 2002, IFC provided the bank with its first secured senior loan. Since then, Center Invest has been a recipient of IFC agribusiness and residential energy-efficiency funds and has participated in the IFC Russia Sustainable Energy Finance Program, accompanied with advisory services.

The Project Development Objective. With two-thirds of its corporate portfolio comprising SMEs, the bank has the platform to increase access to finance for SMEs in underserved rural areas, therefore spurring private sector–led growth.

Key Expected Results:

- Increase access to financing for SMEs by tripling the number of outstanding SME loans and increasing the bank’s portfolio of SME loans by 70 percent
- Support jobs created or preserved by 1,740 client SMEs

Key Partners: N/A.
RUSSIAN FEDERATION: KYIBYSHEV AZOT

Key Dates:

Approved: June 22, 2012
Signed: June 25, 2012

IFC financing (million US Dollars):

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<tbody>
<tr>
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<td>10.0</td>
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</table>

Located in Togliatti, Samara region, KyibyshevAzot, known as KuAz, is the leading Russian manufacturer of caprolactam, the raw material for synthetic fibers, engineering plastics, and automotive and other downstream products, and one of the top Russian producers of nitrogenous fertilizers. In early 2009, in the midst of the financial and economic crisis, IFC approached KuAz to support the company in its cost-cutting measures and in adopting more efficient energy use practices. IFC aimed not only to help KuAz reduce costs, but also to increase competitiveness and improve environmental performance. With IFC’s guidance, KuAz developed a modernization investment plan to be financed by IFC.

The Project Development Objective is to support a long-standing IFC client in capacity expansion, improving cost competitiveness and reducing greenhouse gas emissions, thus contributing to the overall growth and diversification of the Russian economy.

Key Achieved and Expected Results:

With IFC’s investment and advisory support, KuAz has already achieved the following results:

- US$9 million in costs savings per year
- 470.3 gigawatts per hour (GWh)/year of energy use savings
- 115,000 metric tons/year of greenhouse gas savings, equivalent to taking 23,000 cars off the road every year
- Preservation of 5,000 quality jobs (150 additional jobs are expected to be created during the new project’s implementation)
- US$2.5 billion in purchases from domestic suppliers
- US$25 million allocated for community development

Key Partners: N/A.
### Key Dates:

**Program starts:** February 2013  
**Completion Date:** June 30, 2016

### The Project Development Objective:

IFC will prepare feasibility studies and/or technical documentation for up to five small hydropower plants (SHPP) included in the CJSC «Nord Hydro» project pipeline.

Russia has about 2 million small rivers, totaling almost 6 million kilometers in length. Sixty years ago, the country had about 5,000 SHPPs. Today, fewer than 300 of those plants remain, with many in their last years of operation. This is despite the fact that SHPPs do not significantly damage the environment or distort the local fish population.

The first SHPP built by NordHydro, in the Karelian village of Ljaskelja in 2011, has a capacity of 4.8 megawatts (MW). This is enough to power 10 settlements such as Ljaskelja (pop: 3,500) or 8,500 standard apartments. With IFC support, the Ljaskelja SHPP officially qualified as the first renewable energy installation by the Russian Government.

### Key Expected Results/Impact:

As per the agreement framework, IFC will help NordHydro prepare feasibility studies and/or technical justification for five more projects similar to Ljaskelja. Ultimately, some 30 additional megawatts of green electricity will be injected into the Russian grid—enough electricity for 500 multi-family buildings with 100 apartments each.

### Key Partners:

Key Partners: CJSC «Nord Hydro», which works in eight regions of Russia, with plans to expand to four more.
Developing social infrastructure in frontier regions is one of IFC’s major priorities in Russia. In this context IFC provided two long-term loans, RUB 500 million each, to the Chuvash Republic to finance the construction and renovation of preschool facilities, expanding access to quality preschool education in Russia’s frontier Volga region.

This long-term investment will support the Chuvash Republic’s capital expenditure program in the preschool education sector in 2012–14 to build and renovate 47 kindergartens. The program is expected to add over 7,000 new places to the region’s preschool network.

Chuvashia is a long-term IFC partner and client. Starting in 2006, when IFC partially guaranteed a regional bond issue, IFC has also supported the development of roads and the health care network in the republic. This initiative is part of IFC’s strategy in Russia to support private sector development and encourage economic growth.

**The Project Development Objective.** The project aims to improve access to essential preschool education services in a frontier region of Russia by increasing the number and capacity of the centers for preschool education. The project is also expected to improve the quality standards of preschool education in the republic.

**Key Expected Results:**

IFC’s investment will help the Chuvash Republic expand access to preschool education by increasing coverage from 68 to 77 percent. The project will also have a significant demonstration effect for other regions of Russia looking for opportunities to expand capacity and improve the quality of health care and education.

**Key Partners:** N/A.
Promoting private sector participation in infrastructure, including basic utility services, is an important part of IFC’s strategy in Russia. To support this priority, IFC provided long-term debt and equity in the amount of RUB 425 million rubles (around US$14 million) to KKS Group, an independent utility, to support the company in supplying energy-efficient space heating and hot water to customers in the Tula and Kemerovo regions of Russia.

IFC’s long-term financing package is comprised of an equity investment of RUB 175 million (US$6 million) and a long-term subordinated loan of RUB 250 million (US$8 million). It will help the company upgrade heating assets with modern technology, thus improving the overall quality and reliability of service to its customers in central Russia and Siberia. This financing will also help raise efficiency and reduce losses, thus reducing greenhouse gas emissions and mitigating climate change.

**The Project Development Objective.** The proposed IFC investment will help to:

- Improve heat service for customers in the Tula and Kemerovo regions. KKS will significantly upgrade heating assets with modern technology, therefore improving the overall quality and reliability of the service.
- Ease constraints on municipal capital budgets. KKS will undertake long overdue investments and capital expenditures on assets formerly owned or currently leased by municipalities.
- Significantly reduce greenhouse gas emissions. By raising efficiency and reducing losses, the project contributes to the mitigation of climate change.

**Key Expected Results:**

This project will demonstrate to other private sector players and investors that with modern rehabilitation technologies, utilities can be a profitable business, benefiting municipalities, service providers, and their customers. The project is especially important given the sector’s enormous capital needs.

**Key Partners:** N/A.
Developing social infrastructure is one of IFC’s major priorities in Russia. In this context, IFC provided a long-term loan worth RUB 2 billion (US$63.5 million) to finance the construction and renovation of the preschool, primary, and secondary education infrastructure in the Samara region, expanding access to quality education.

This investment supports the region’s spending program in the education sector in 2012–16, which aims to build and renovate 51 preschools and 11 other schools. The program is expected to add about 5,000 new places to the region’s preschool network and improve learning conditions for about 7,000 children. The project will also create jobs for preschool teachers and caregivers.

**The Project Development Objective.** The project aims to improve the access and quality of essential social infrastructure in the Samara region by increasing the number, capacity, and quality of education facilities. The project also aims to contribute to female inclusion in the workforce by creating direct jobs for preschool educators and caregivers and increasing labor force participation among young mothers.

**Key Expected Results:**

- The coverage of children by preschool education is expected to increase from 64 to 66 percent, and the total waiting list for preschool education services will decrease by 6 percent.
- The project will also have a demonstration effect for the other regions of Russia looking for opportunities to expand capacity and improve the quality of preschool, primary, and secondary education.

**Key Partners:** N/A.
RUSSIAN FEDERATION: TRANSCAPITALBANK

Key Dates:

Approved: October 16, 2012
Signed: December 30, 2013

IFC financing (million US Dollars):

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<tr>
<td>Loan</td>
<td>50</td>
<td>2014</td>
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IFC provided a long-term US$50 million senior loan to CJSC Transcapitalbank (TCB) to help the bank expand lending to SME and corporate customers to support their investments in eligible energy-efficiency projects and/or to women-owned or controlled SMEs.

TCB is a medium-sized universal bank, established in 1992. The bank focuses on lending to mid-size corporates and SMEs with a strong presence in regional markets in the Russian Federation.

The Project Development Objective. The project is expected to have a significant developmental impact by:

a) improving access to finance for mid-size Russian companies and contributing to a reduction in greenhouse gas;

b) strengthening a well-managed Russian bank and supporting its portfolio growth and diversification, and

c) providing financing to women-controlled SMEs.

Donor Partners: N/A
The Multilateral Investment Guarantee Agency (MIGA) issued a guarantee to WTE Wassertechnik GmbH of Germany (WTE), a member firm of the Austrian EVN Group, for its €47.5 million equity investment in WTE Süd-West of the Russian Federation. The guarantee covers a period of 13 years and provides coverage against the risks of expropriation and breach of contract. The guarantee replaces a previous shareholder loan and equity guarantee.

**The Project Development Objective:** The project addresses the increase in demand for water supply faced by the growing city of Moscow. The project consists of the construction of a greenfield water treatment plant that will increase Moscow’s potable water supply capacity by 4 percent. The project enterprise will be responsible for the construction (begun in September 2003) of a 250,000 cubic meters per day water treatment plant under a 13.5-year build, own, operate, and transfer (BOOT) concession scheme. Water will be channeled from the Moskva River to a processing plant where it will be filtrated using state-of-the-art technologies. The purified product will then be distributed through the municipal water system by Mosvodokanal, the city-owned utility.

The project addresses MIGA’s priority of supporting basic infrastructure.

**Key Expected Results:**

The city of Moscow is projected to garner more than US$10 million a year (five-year projected annual average) in tax revenues from the project. The project enterprise expects to employ an estimated 170 local workers during construction and about 70 employees on a permanent basis. The average worker’s wages will be 10–20 percent higher than the domestic sector standard and will include social security benefits. In addition to training local management and employees, the project enterprise also expects to transfer operating know-how to Mosvodokanal employees before the transfer of ownership at the end of the concession period. Moreover, the plant’s clean water is expected to improve local health, environmental, and safety conditions and create positive business externalities.

**Key Partners:** Mosvodokanal, WTE Wassertechnik GmbH of Germany (WTE).
MIGA has issued a guarantee of US$285 million to SociétéGénérale S.A. of France for its US$300 million shareholder loan to its subsidiary in the Russian Federation, Commercial Bank DeltaCredit Closed Joint Stock Company (DCB). The guarantee is for a period of 10 years against the risks of transfer restriction and expropriation of funds.

The Project Development Objective: This is MIGA’s first guarantee in support of a specialized mortgage bank in the Russian Federation. MIGA will play a catalytic role in this transaction, as political risk mitigation is a requirement for the shareholder loan. Mortgage penetration in Russia is among the lowest in emerging European markets. The shareholder loan will finance a portion of DCB’s expansion plan to meet the rapidly growing demand for residential mortgages, which is driven by increasing incomes, low mortgage penetration, and inadequate housing stock.

MIGA’s support for this project is in line with the World Bank Group’s Country Partnership Strategy for the Russian Federation. The strategy recognizes the rapid development of the banking sector but acknowledges that the level of financial intermediation is small relative to the needs of the economy. This investment will support the development of private financial intermediation and contribute to the increased provision of specialized banking projects, such as mortgage financing, thus broadening the range of financial services available to the population.

Key Expected Results: The shareholder loan will finance a portion of DCB’s expansion plan to meet the rapidly growing demand for residential mortgages, which is driven by increasing incomes, low mortgage penetration, and inadequate housing stock. DCB, Russia’s largest private provider of mortgages, plans to fund this expansion by using various financing sources, which may include corporate bonds, syndicated loans, additional shareholder loans from SociétéGénérale, and securitizations.

RUSSIAN FEDERATION: OOO SUNTY

**Key Dates:**
- **Approved:** Fiscal Year 2010
- **Period:** up to 20 years
- **Guarantee holder:** Campestres Holdings Limited
- **Investor country:** Cyprus
- **Host country:** Russian Federation
- **Environmental category:** B
- **Sector:** Manufacturing
- **Project type:** Non-SIP

**MIGA Guarantee (million US Dollars):**

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<tr>
<td>Guarantee</td>
<td>30.2</td>
<td>2010</td>
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</table>

MIGA has issued a guarantee of US$30.2 million to Campestres Holdings Limited (TOHL) of Cyprus, covering its investment to acquire partial ownership of Russian packaged coffee and tea product manufacturer, OOO Sunty. The coverage is for a period of up to 20 years against the risks of transfer restriction, expropriation, and war and civil disturbance. MIGA’s guarantee covers Campestres’ investments of equity, goodwill, future retained earnings, and dividend entitlement in OOO Sunty.

**The Project Development Objective:** Expected developmental impacts of the project include: increased competition in the Russian packaged coffee and tea product business stemming from of the global Tata Group coffee and tea brands’ improved production processes and product quality; expertise in the areas of production efficiency and tea buying and tasting; and human resource best practices.

MIGA’s guarantee for this investment is consistent with the first pillar of the World Bank Group’s Country Partnership Strategy for Russia, which focuses on sustaining rapid economic growth.

**Key Expected Results:** Campestres will be effecting its investment in OOO Sunty in conjunction with the European Bank for Reconstruction and Development (EBRD), and the two will invest an estimated US$26.3 million in a combined 51 percent ownership in OOO Sunty, with the deal involving a working capital investment for OOO Sunty, transfer of trademark ownership in the Commonwealth of Independent States and Europe, long-term lease agreements for production facilities and warehouses, and additional improvement measures for infrastructure and environmental protection. A US$3 million portion will be applied to the purchase of additional equipment and computer system enhancements to OOO Sunty’s operations. Currently OOO Sunty, via its predecessor entity, “Grand Group Russia,” has estimated market shares of 6 percent and 5 percent, respectively, of the total Russian market for packaged coffee and tea products, by volume.

**Key Partners:** Campestres Holdings Limited (TOHL) of Cyprus, OOO Sunty of the Russian Federation.
RUSSIAN FEDERATION: LINXTELECOM MODULE 5 AND SKYTRADE DATA CENTERS

Key Dates:
Approved: Fiscal Year 2011
Period: up to 6 years
Guarantee holder: Linx Telecommunications B.V., ABN AMRO Bank N.V.
Investor country: the Netherlands
Host country: Russian Federation
Environmental category: B
Sector: Services
Project type: SIP

MIGA Guarantee (million Euros):

<table>
<thead>
<tr>
<th>Financier</th>
<th>Gross Exposure</th>
<th>Fiscal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guarantees</td>
<td>0.5</td>
<td>2011</td>
</tr>
<tr>
<td></td>
<td>6.9</td>
<td></td>
</tr>
</tbody>
</table>

MIGA issued a guarantee of €500,000 to Linx Telecommunications B.V. (Linx) of the Netherlands, covering its shareholder loan to its subsidiary, Linx LLC Svyaz VSD of the Russian Federation. MIGA also issued two guarantees for a total of €6.9 million, covering ABN Amro’s non-shareholder loans to the subsidiary. The coverage is for up to six years against the risks of transfer restriction, expropriation, and war and civil disturbance.

The Project Development Objective: The project hopes to leverage shared infrastructure and data management in order to reach economies of scale, thereby stimulating the growth of technology-intensive and knowledge-based industries in Russia. Specifically, the project expects the following development results: improvement of information and communications technology (ICT) infrastructure and access to information; a lower cost of entry into the ICT market; increased competition in the ICT market; rapidly expanding data/telecom networks; and local employment opportunities.

The World Bank Group’s current Country Partnership Strategy for Russia notes a need for increased private sector development and diversification of the economy, to which this project will contribute.

The project was underwritten through MIGA’s Small Investment Program.

Key Expected Results: This project consists of the construction and operation of a Tier 3 data center in St. Petersburg and the operation of a Module 5 data center in Moscow, both of which will provide state-of-the art data centers and connectivity services to primarily international customers.

Key Partners: Linx Telecommunications B.V., ABN AMRO Bank N.V., Linx LLC Svyaz VSD of the Russian Federation, cities of Tver, St. Petersburg, and Moscow.
RUSSIAN FEDERATION: VOLGA FARMING PROJECT

Key Dates:
Approved: Fiscal Year 2012
Period: 15 years
Guarantee holder: FG Volga Farming Ltd.
Investor country: Cyprus
Host country: Russian Federation
Environmental category: B
Sector: Agribusiness
Project type: Non-SIP

MIGA Guarantee (million US Dollars):

<table>
<thead>
<tr>
<th>Financier</th>
<th>Gross Exposure</th>
<th>Fiscal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guarantees</td>
<td>49.5</td>
<td>2012</td>
</tr>
</tbody>
</table>

MIGA issued a guarantee of US$49.5 million to FG Volga Farming Ltd. (VF), a Cyprus-incorporated company, for its agriculture investment in central and southern Russia. The coverage is for a period of 15 years against the risks of expropriation, inconvertibility, and transfer restriction.

The Project Development Objective: The project is expected to have numerous developmental impacts. VF’s investment will expand the land area under cultivation, since part of the leased land is currently fallow. The conversion of derelict agricultural land into modern production will increase soil fertility and result in an expansion of grain production.

In addition, VF’s investments in management, equipment, storage, safety, technology, and infrastructure will establish a farming operation in line with international standards. In particular, the project is expected to transfer knowledge in the areas of agricultural technology, business processes, project management, organizational development, and land administration to employees. Dissemination of such knowledge and experience through local institutions of higher and professional education is also envisaged.

The project will impact regional development through the recruitment of local personnel, as well as the repair and maintenance of local road infrastructure. The project is also expected to support local processing industries, fodder industries for livestock and biotechnology, storage, logistics, and trade.

The project is also in line with the World Bank Group’s Country Partnership Strategy, which notes a need to strengthen Russia’s global competitiveness in traditional economic sectors, including agriculture.

Key Expected Results: The project involves an investment by VF in agribusiness operations in Russia. VF plans to lease up to 90,000 hectares of agricultural land in the black earth region in central and southern Russia and purchase up to 50 hectares of non-agricultural land with buildings and/or facilities to be used for the farming business. VF also plans to operate, modernize, and expand farms and related agribusiness operations on this land in order to produce, store, process, and sell grain and other crops such as barley, sunflower, and peas.

Key Partners: FG Volga Farming Ltd. (VF), a Cyprus incorporated company; agriculture sector and business in central and southern Russia.
On December 31, 2013, MIGA issued guarantees of €285.0 million ($390.0 million) covering a shareholder loan by RCI Banque S.A. of France to RN Bank (RNB) in the Russian Federation. The guarantees are for a period of up to seven years against the risk of transfer restriction.

**The Project Development Objective:** The project involves the establishment of RNB in Russia. RNB is a captive-finance bank offering car financing for retail and corporate customers to purchase Renault-Nissan Alliance vehicles as well as financing for the inventories of local brand dealers.

The project is in line with the World Bank Group’s Country Partnership Strategy, one of the main objectives of which is to support the development of the country’s financial sector, especially access to finance.

**Key Expected Results:** The project will enhance access to finance for individuals and businesses across a number of cities and towns in Russia. A growing share of credit will be for cars in the medium to lower end of the market, servicing customers for whom personal ownership of a new vehicle thus far might have been unaffordable. As RNB’s operations grow, it is anticipated that the bank would offer more products. The addition of new outlets where RNB will operate, together with an envisaged increase in employment opportunities at the bank’s headquarters in Moscow, is expected to result in an increase of around 200 staff in the next five years. The project is also expected to enhance knowledge and experience through the provision of up-to-date training to some 800 credit managers across the country.

**Key Partners:** RCI Banque S.A. of France and RN Bank (RNB) in the Russian Federation.
On July 29, 2014, MIGA issued guarantees totaling US$61.8 million covering an equity investment in, and two shareholder loans by Tapon France S.A.S. of France to, OOO Ken-Pak Zavod Upakovki (KPZU) in the Russian Federation. KPZU is a Russian wholly owned subsidiary of Tapon France S.A.S. The coverage is for a period of up to 11 years against the risks of transfer restriction, expropriation, and war and civil disturbance. MIGA’s new coverage represents continued support to the project, which began in 2009 and consisted of guarantees issued for the construction of an aluminum beverage can facility in Volokolamsk.

The Project Development Objective: The project will expand to include a second factory in Novochehrassk in the Rostov region. The new investment will support the installation, assembly, and startup of a beverage can production line and the conversion of existing buildings to provide sufficient space for production and warehousing. The second plant is expected to double production capacity from the current 950 million to 1,900 million cans per year. The project’s expansion will build on the success of the company’s first plant in Russia. The Volokolamsk plant introduced competition into an otherwise monopolistic market, resulting in lowered can prices, better product innovations, and enhanced service. The company’s adherence to sound environmental and social practices as well as its transfer of state-of-the-art technology and management systems have added significant value—and had a demonstration effect inside the country.

The project is aligned with the World Bank Group’s Country Partnership Strategy for Russia, which calls for promoting economic diversification for sustainable growth, facilitating investment in nontraditional sectors, and supporting technological modernization in the manufacturing sector.

Key Expected Results: The expansion will create additional local jobs, demand for servicing of advanced technologies employed in KPZU’s production process, and the local sourcing of other services and goods.

Key Partners: Tapon France S.A.S (“Tapon”), and OOO Ken-Pak Zavod Upakovki.