I. Project Context

Country Context

In 2012, Russia’s economy appeared strong and expanded, at 3.4 percent, faster than in Brazil, South Korea and Turkey. Poverty also fell markedly. High oil prices accounted for a fair share of the 2012 achievements translating into strong export receipts, buoyant fiscal revenues, and rapid increases in public wages and transfers. Strong labor markets and price stability reduced poverty: the number of poor people in Russia declined to 15.6 million in 2012 – a drop of more than two million in less than a year.

Since then, the growth momentum in the Russian economy has slowed. Real GDP grew around 1.3 percent in the first three quarters of 2013 year-to-year, the lowest rate since 2009. In the third quarter of 2013, industrial performance measured by aggregate industrial production fell by 0.1 percent compared to a 2.5 percent growth in the third quarter of 2012. Economic activity in major services sub-sectors also slowed: retail trade reported growth of 3.6 percent in the third quarter of 2013 compared to 5.6 percent in third quarter of 2012; transportation services grew by only 0.7 percent.
percent in the third quarter of 2013 compared to 4 percent in third quarter of 2012. Fixed capital investment decreased by 1.4 percent in the first nine months of 2013 compared to 9.6 percent growth in the same period of the previous year. Consumption, the main growth driver in the past, expanded at a much slower pace than a year ago, despite low unemployment levels and increases in wages and credit. In early November 2013 the Russian Ministry of Economic Development sharply revised downwards its projection for the medium-term growth rate, indicating that the current slowdown is unlikely to be short-lived.

The Russian Government’s own strategy outlined in Medium-Term Program (2008, updated in 2011) and Long-Term (2020) Concept for Social and Economic Development places priority on diversifying economy and sharing the growth and development more widely across Russia’s regions and population. Russian cultural heritage can play an important role in this diversification and growth sharing. In particular, the Concept for the Long-Term Social and Economic Development of the Russian Federation to 2020 indicates that culture is a strategic resource that can be used to promote economic diversification and economic development. The Concept Note stresses the importance of building on Russian regions’ cultural potential and advocating actively preserving and conserving Russia’s cultural and historical heritage; integrating cultural heritage into tourism development strategies; developing capacity to manage cultural sites; supporting integrated local development; promoting Russian cultural heritage abroad; increasing the amount of users of cultural services in Russia; and ensuring the dynamic development of public/private partnerships to support the development of cultural activities.

The May 2012 Presidential Executive Order “On Measures to Implement State Social Policy” aims, among other things, at supporting preservation and development of Russia’s culture. In December 2012 the Government approved the state program “Culture and Tourism Development, 2013–2020” led by the Ministry of Culture (MoC) and the Federal Tourism Agency (which is now subordinate of the MoC). This state program integrates the Federal Targeted Programs “Culture of Russia (2012-2018)” and “Developing Domestic and Inbound Tourism in Russia (2011-2018)” and is aimed at preserving and making accessible Russia’s cultural and historical heritage, improving the quality and availability of domestic and international tourism services, and creating a favorable environment for the sustainable development of culture and tourism, providing equal access to cultural heritage and art education for citizens.

**Sectoral and institutional Context**

By 2000, the City of St. Petersburg was one of the few Russian regions (along with Moscow, St. Petersburg is not just a municipality, but has a status of a Russian Federation’s subject (Region)) that already possessed a detailed roadmap for the future development. Namely, in 1997 the City’s Government prepared and adopted the Strategic Plan that identified support for new businesses, privatization of City-owned state enterprises, improved land use, and tourism development as the main pillars for the future economic growth of the city. The cultural heritage is one of the key ecosystemic components of the urban development strategy of St. Petersburg. St. Petersburg Government regards the performance of cultural heritage development projects as a tool for urban economic development expanded in various sectors of economics, such as tourism, recreation, the arts, entertainment and the media, on the one hand, and as the city’s identity and cultural image, on the other hand. In order to sustain the reform efforts of St. Petersburg, the Russian Federal Government approached the Bank with the request to provide a loan to support the implementation of the St. Petersburg’s Strategic Plan and finance rehabilitation of key federal cultural heritage
monuments located in the City.

The SPEDP loan (original amount US$161.1 million, revised amount US$101.1 million) was approved by the World Bank Board of Executive Directors on May 15, 2003, signed on August 4, 2004 and became effective on January 24, 2005. The Project was designed as an innovative hybrid loan, consisting of two Components including a Development Policy loan (DPL) (City) Component for US$100.0 million and an Investment (Federal) Component for US$61.1 million.

The DPL (City) component was to provide budget support to St. Petersburg for a set of agreed policy reforms implemented by the City and envisaged two disbursement tranches of US$40.00 million and US$60.00 million respectively. The city’s reform program under the DPL component was successfully completed in 2007. While St. Petersburg met all DPL conditions of the 1st tranche (US$ 40 million) in 2006 and of the 2nd tranche (US$60 million) in 2007, the Government of St. Petersburg decided not to draw down the money due to the significant city budget surplus not forecasted at the project’s preparation/approval stage. Per request of the Borrower, the 1st tranche was reallocated to the Investment component to support the scale up of its activities, while the 2nd tranche was canceled.

The Investment (Federal) Component financed: A: Rehabilitation of Cultural Assets in St. Petersburg; B: Cultural Investment Facility which provided competitive, demand-driven grants to the cultural institutions located in St. Petersburg and its vicinity to support small-scale priority investments; C: Institutional Strengthening which supports provision of technical assistance and training to the St. Petersburg Cultural Committee and cultural institutions located in St. Petersburg and its vicinity, with a view to strengthening their institutional capacity and management skills, broadening network coordination between cultural institutions and improving interaction between the Committee and its subordinate entities; and D: Project Implementation. All activities under CIF and Institutional Strengthening programs have been successfully completed. Under Subcomponent on Rehabilitation of Cultural Sites, eight out of the nine sub-projects has been completed. Stage 1 of the remaining subproject on the State Hermitage East Wing reconstruction was completed in December 2010. Stage 2 of the State Hermitage East Wing reconstruction is expected to be completed with formal hand-over of the building to the Hermitage museum by July 2014 which fits within the SPEDP closing date (December 31, 2014). The technical quality of works at all rehabilitated sites meets the Project requirements and is of high standard.

The reconstruction and restoration of the historic building of the Mariinsky Theater and two inner Courtyards of the Mikahilovsky Palace (the Russian Museum) were originally appraised under SPEDP and included in the list of cultural sites to be restored under Sub-component on Rehabilitation of Cultural Assets. The design documentation for both sites was prepared in 2006 (Mariinsky theater) and 2005 (Russian Museum). However, both sub-projects had to be subsequently dropped at the request of the Borrower due to the inability of the administrations of these sites to vacate the premises for the works. As of now the impeding issues described above have since been resolved. The physical condition of both sites have deteriorated since the original project was prepared, which makes the importance of restoration and rehabilitation even more critical for the Borrower.

The Russian Federation requested the Bank to provide Additional Financing (AF) loan in the amount of US$ 200 million for SPEDP to scale up the project activities and finance the costs associated with the reconstruction and restoration of the historic building of the State Academic
Mariinsky Theater and the rehabilitation of two inner Courtyards of the Mikhailovsky Palace of the State Russian Museum to allow their use and accessibility and create conditions for their sustainable functioning in the long term. The Russian Federation will provide counterpart funding in the amount of US$50 million. The implementation of the AF project is estimated at 5 years.

II. Proposed Development Objectives

A. Current Project Development Objectives – Parent
1) Policy and regulatory environment is conducive to the expansion of private sector enterprises; 2) Larger and more efficient private market for land and real estate; 3) Improved City fiscal management capacity; 4) City to preserve its comparative advantage in culture and the arts.

B. Proposed Project Development Objectives – Additional Financing (AF)
The Project Development Objectives (PDO) are to support St. Petersburg in (i) promoting conducive policy and regulatory environment to the expansion of private sector enterprises, (ii) facilitating larger and more efficient private market for land and real estate; (iii) strengthening City fiscal management capacity; and (iv) preserving and enhancing cultural assets in St. Petersburg.

III. Project Description

Component Name
Rehabilitation of Cultural Assets in St. Petersburg

Comments (optional)
Cost of the component include the AF loan funds to finance reconstruction and restoration of the Mariinsky Theater historic building and rehabilitation of 2 inner Courtyards of the Russian Museum

Component Name
Cultural Investment Facility (CIF)

Comments (optional)
All activities under CIF component have been successfully completed with full utilization of the funds allocated for this component

Component Name
Institutional Strengthening

Comments (optional)
All activities under the Institutional Strengthening component have been successfully completed with full utilization of the funds allocated for this component

Component Name
Project Implementation

Comments (optional)
The project implementation costs include operating costs of the Project Implementation Unit (PIU) for day-to-day management and implementation of the AF operation

IV. Financing (in USD Million)

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<th>Amount</th>
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<td>For Loans/Credits/Others</td>
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V. Implementation

Progress towards the achievement of the Project Development Objective (PDO) for St. Petersburg Economic Development Project (SPEDP) has been satisfactory since the Project effectiveness, and the PDO remained unchanged. There are no outstanding audits for this Project and all audit reports were received on time and were acceptable to the Bank.

The AF will cover two main activities: restoration of the historic building of the Mariinsky theater and inner Courtyards of the Russian museum. The designs for both sites are being revised to reflect present realities and comply with recent Russian legislation on safety and fire protection, and are expected to be ready by the project effectiveness. For the Mariinsky Theater, the update of designs is financed from the SPEDP. The updated design of the inner Courtyards is being financed by the Ministry of Culture of the Russian Federation.

Financing will be provided for the restoration works on these sites as well as for the preparation of the technical parts of pre-qualification and tender documents, working documents, for technical, scientific and architectural supervision. Besides that, the loan proceeds will be used for conducting monitoring, evaluation and auditing of the above activities. Procurement for the AF SPEDP will be carried out in accordance with the World Bank’s "Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 (Procurement Guidelines) and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 (Consultant Guidelines) and the provisions stipulated in the Loan Agreement. To select contractors and consultants for the above contracts the Borrower will use the following procurement methods identified in the tentative procurement plan: ICB for works and QCBS, LCS and SSS for consultants. However, during implementation of the project the need in other procurement and selection mat arise, therefore, it is suggested to include NCB, shopping and direct contracting for procurement of goods and works and CQS and hiring of individual specialists under Consultancy category.

The proposed AF would not require changes in the financial management arrangements. Financial Management (FM) functions under the proposed AF, including flow of funds, staffing, accounting, reporting and auditing will remain the responsibility of FISP, as under the original Project. Audit arrangements similar to the audit arrangements under the original Project would be adopted for the proposed AF. The audit will be conducted by an independent private auditor in accordance with terms of reference acceptable to the World Bank, and procured by FISP.

The proposed AF would follow the flow of funds and disbursement arrangements established under the original Project, i.e., reimbursement, direct payment, advances, and special commitments including the use of Statement of Expenditure procedures.

Given these factors, and taking into account that the implementation arrangements have proven effective during the parent project implementation, the overall implementation readiness is high.

VI. Safeguard Policies (including public consultation)
### Safeguard Policies Triggered by the Project

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### Comments (optional)

As in case of the SPEDP Investment component, the AF is assigned Environmental Category B. Expected negative impacts are standard for reconstruction and restoration activities. The Environmental Management Plan (EMP) prepared for SPEDP was updated and will be used for AF activities.

The project client is the Russian Ministry of Culture and the substance of the interventions under AF was developed with strong focus on protection/preservation of cultural and historic assets. As the AF operation focuses exclusively on preservation of existing cultural heritage assets, the project does not raise any issues in the sense of OP 4.11 "Physical cultural resources". As in case of the SPEDP, the AF supported activities are aimed to protect some of the highest priority cultural heritage from further deterioration, increase the exhibition and activities capacity of the respective cultural institutions, improve the operational safety and efficiency of the facilities for both visitors and personnel; and ensure a high safety of artworks on display and other cultural assets from physical damages, theft or other hazards. The rehabilitation and restoration works will mainly include primarily repair and upgrading of buildings and will also cover some interior utility networks (electricity, water, heating, a/c, etc). Each site will be developed and managed in accordance with principles of good practice in the cultural heritage field. As the project aims on the cultural heritage protection itself, there is no need to prepare a separate cultural management plan. From the technical perspective, the rehabilitation and conservation works will follow the conservation and rehabilitation guidelines established by the Russian Legislation. The guidelines are in line with the International Conservation Standards established in the BURRA charter provided by ICOMOS (International Council on Monuments and Sites) that is an advisory body to the 1972 UNESCO World Heritage Convention, of which Russia is a signatory, and are in line with the requirements of the OP/BP 4.11. The Bank task team includes specialists knowledgeable in all aspects of heritage preservation and heritage site management.

### VII. Contact point

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