



<b>1. Project Data:</b>		<b>Date Posted :</b> 08/08/2001	
<b>PROJ ID:</b> P038573		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name :</b> SPAL	<b>Project Costs (US\$M)</b>	800	800
<b>Country:</b> Russian Federation	<b>Loan/Credit (US\$M)</b>	800	800
<b>Sector(s):</b> Board: SP - Compulsory pension and unemployment insurance (43%), Other social services (28%), Central government administration (19%), General industry and trade sector (6%), Non-compulsory pensions insurance and contractual (4%)	<b>Cofinancing (US\$M)</b>		
<b>L/C Number:</b> L4203			
	<b>Board Approval (FY)</b>		97
<b>Partners involved :</b>	<b>Closing Date</b>	12/31/1998	09/30/2000
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
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**2. Project Objectives and Components**

**a. Objectives**  
(1) mitigate the adverse effects of transition on poor and vulnerable population groups through raising and protecting minimum benefits and through better targeting; and (2) begin to build up an effective and sustainable social safety net compatible with fiscal constraints, to meet the requirements of a market economy .

**b. Components**  
(1) Pension Reform. To support the development of a viable and effective pension system through : (a) higher minimum pension levels; (b) improved Pension Fund (PF) operations; and (c) systemic reform to create a fiscally sustainable pension system for the long term; (2) Unemployment Assistance. To support the development of: (a) policy, legislation and institutions to ensure benefit provision for all laid -off workers and facilitate re-entry into the system, focussing on improving the transparency, efficiency and redistribution of funds among rich /poor regions in the Employment Fund and (b) The introduction of a new Labor Code; (3) Child Allowances. To support reforms so that benefits would be delivered more efficiently and would be targeted to the most vulnerable (either families with very young children or with low income); (4) Social Insurance Fund. To support a review of SIF benefit scope and magnitude in order to reduce benefits to an affordable level and provide an incentive to employees to monitor the use of sick leave; and (5) Social Assistance. To support development of Government programs for a means -tested poverty benefit system.

**c. Comments on Project Cost, Financing and Dates**  
The loan was for US\$800 million to be disbursed in three tranches for general budget support . The first tranche was released in June, 1997, the second in December, 1997, and the third (which was amended and approved by the Board) in August, 2000. The loan was appraised in April, 1997, approved by the Board on June 25, 1997, made effective on June 26, 1997, and closed on September 30, 2000, one year and nine months after the original closing date.

**3. Achievement of Relevant Objectives:**  
(1) pension reform: (a) A minium pension equivalent to 80% of the minimum elderly subsistence income was established in principle. Payment arrears were initially eliminated but re-emerged in the wake of the 1998 crisis, with continuing shortfalls subsequently. (b) PF operations were subject to a comprehensive audit . (c) Government proposed a systemic pension reform that the Bank accepted . Draft legislation was submitted to the Duma . However, the Duma never approved the proposed legislation . The Government subsequently decided on changes but never re-submitted legislation to the Duma so that systemic pension reform has not been introduced . (d) Legislation has

been enacted to establish a non-state pension system. (2) Unemployment Assistance: (a) Improvements in collections, redistribution and use of resources to support the unemployed appear to have been implemented but when the Employment Fund was then integrated into the Federal Budget, in line with Bank /Fund recommendations, it made assessment difficult. (b) A revised Labor Code was submitted to Parliament but never adopted. (3) Child Allowances: (a) Responsibility for these was successfully transferred from enterprises to State offices and (b) they were targeted to the vulnerable. (4) Social Insurance Fund. Parliament has approved on first reading the Government's proposal to limit monthly sickness benefits and transfer part of the responsibility for payment of benefits to the employer; these reforms are being implemented under a Presidential decree until the legislation is enacted. A comprehensive financial review of SIF has begun. (5) Regarding Social Assistance, pilot studies were implemented but with mixed results on piloting means -testing benefits, and no clear methodology has been established.

#### **4. Significant Outcomes/Impacts:**

1. The definition of a minimum pension is an important step towards establishing a credible system. The PF has established accounts for 80% of all individual workers. The PF has been audited. A non-state pension system is being developed. 2. The operation of the Employment Fund was improved regarding collection, re -distribution and the use of resources to support the unemployed. Although the ICR note that this improvement was difficult to assess because the Employment Fund was subsequently integrated into the budget in line with IMF /Bank recommendations, this is still a significant outcome. 3. Child allowances are now targeted based on reasonable criteria. 4. The operations of the Social Insurance Fund have been improved and a more credible system of sick benefits is in place.

#### **5. Significant Shortcomings (including non-compliance with safeguard policies):**

1. The minimum pension, although now clearly defined by government, is not yet being implemented. This is a major shortcoming. 2. Although SPAL conditionality only called for the Government to submit to the Duma legislation to address shortcomings in the system, which was achieved, legislation has not been enacted and the pension system has not been reformed. 3. The country does not yet have a new labor code. This inhibits labor mobility, a key aspect of the reform. 3. Only minimum progress has been made towards establishing a more -poverty-focused social assistance program and an adequate methodology has not yet been formulated. 4. As cited in the ICR, macroeconomic conditionality was not met and the Bank relied too heavily on the IMF's assessment of the macroeconomic framework in proceeding with this loan. This undermined much of the progress which would have otherwise been made in the Pension reform component of the SPAL.

<b>6. Ratings:</b>	<b>ICR</b>	<b>OED Review</b>	<b>Reason for Disagreement /Comments</b>
<b>Outcome:</b>	Unsatisfactory	Moderately Unsatisfactory	The Pension Reform and Unemployment Insurance components were extremely important and only partly implemented with important shortcomings. Offsetting these shortfalls to some extent, the outcome of the Child Allowances component and the Social Insurance Fund Component appear as satisfactory, On balance, OED rates the outcome of the package as Moderately Unsatisfactory.
<b>Institutional Dev .:</b>	Modest	Modest	
<b>Sustainability:</b>	Likely	Likely	Progress under the child allowances component and the Social Fund Component, as well as elements of the other components, is likely to be sustained.
<b>Bank Performance:</b>	Unsatisfactory	Unsatisfactory	The ICR states that the Bank was unduly influenced by the IMF's positive view of macroeconomic framework, and that this is normal. The Bank should be guided by its independent judgement, taking IMF views into account in forming that judgment. Other considerations include focus on design shortcomings: (a) an unduly compressed time frame for implementation, (b) failure to focus conditionality on adoption of pension reform and a new labor law by the Duma,

			and (c) the lack of any provision for implementing an assistance program that might have emerged from the pilots.
<b>Borrower Perf.:</b>	Unsatisfactory	Unsatisfactory	The Borrower failed to maintain a satisfactory macroeconomic framework, and was not able to organize a policy development process to produce reasonable pension reform and labor law reform in the agreed time frame. The assistance targeting pilots were only funded after the threatened cancellation of the second tranche.
<b>Quality of ICR:</b>		Satisfactory	

NOTE: ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

#### 7. Lessons of Broad Applicability:

1. While the Bank should be guided by the IMF's assessment of a country's macroeconomic framework, it needs to rely on and be accountable for its own assessment. The failure of the Borrower to implement the SPAL's conditionality regarding payment of minimum pensions relates to the failure of both the Borrower and the Bank to appreciate weaknesses in the macroeconomic framework. 2. While a broadly based project such as the SPAL may increase the visibility of sector reforms, there is an important trade-off to be considered between this visibility and achieving specific goals of a project. 3. A strong outreach program, in support of Government, is important in promoting wide ranging reforms.

#### 8. Assessment Recommended? ☒ Yes ☐ No

**Why?** This is a large operation to an important borrower, and lessons need to be carefully developed from an audit to help guide future reforms in this sector, particularly in view of the lack of results of this operation.

#### 9. Comments on Quality of ICR:

The ICR is very clearly written, and carefully treats a complex operation. In addition, it discusses to an unusual extent the relationship of the Borrower's macroeconomic framework to implementation problems, especially regarding shortfalls in the payment of minimum pensions.