Russian Federation:
A Partnership for Development, Knowledge and Investment

SYNOPSIS

A decade of robust growth prior to 2008 helped Russia cut the poverty rate nearly in half. Through concerted reforms, public finances and the financial sector were put back on a sound footing after 1998 – a major achievement. In 2010, Russia’s economy is poised for a robust but relatively jobless recovery from the global crisis, and the International Bank for Reconstruction and Development (IBRD) will continue to play a role through policy guidance, and targeted projects that range from strengthening the role of local government to restructuring the health sector to better fight disease.

Challenge

Russia, the world’s largest country by area, presents significant contrasts in socio-economic, climatic and geographic conditions across its 83 regions. Headcount poverty rates in 2008 ranged from 38 percent in Kalmykia in the south to 7.4 percent in oil-rich Khanty-Mansiysk. Hence, a principal development challenge is providing access to social services and infrastructure of comparable quality across this expansive terrain. Health outcomes remain well below comparators in Europe. A major decentralization reform in 2006 has increased the scope to improve regional and local approaches to governance, public sector management and public service delivery.

Given Russia’s successful stabilization effort after 2008, which built upon solid macroeconomic management over the previous decade, another major challenge is to achieve sustainable diversification and modernization of the economy – while maintaining stability – in a country with large oil and gas exports. Russia’s “2020 Development Strategy” emphasizes the need to create a competitive institutional environment and places a priority on the importance of strengthening public sector management.

Russia also has important regional and global roles through its membership of the Group of 8 and Group of 20. Russia represents three quarters of the Commonwealth of Independent States’ (CIS) GDP and affects regional economic prospects. As a strategic partner of the World Bank, Russia is also becoming a significant provider of development assistance for low-income countries in the region and at the global level, through the International Development Association (IDA). Russia is also a critical partner in addressing global public goods. With its vast pristine territory (encompassing 22 percent of the world’s undisturbed ecosystems) and as the third-largest emitter of greenhouse gases, Russia is essential to solutions for climate change.

Approach

Russia was making good progress in its medium-term development strategy prior to the latest financial crisis. Living standards, human development indicators, and regional development all showed positive gains. More focus is needed on structural reforms, targeting of social assistance, and diversification of the economy through promotion of entrepreneurship. Despite efforts to improve the investment climate, corruption continues to be
reported as an issue for firms, and administrative barriers in public governance remain substantial. The crisis renewed Russia’s commitment to modernize and diversify the economy.

Given Russia’s size and strong financial position, engagement with the World Bank Group has been selective and strategic. By working in partnership, the Bank has increasingly found innovative delivery mechanisms for the specialized knowledge services most in demand from Russian counterparts. While IBRD-funded projects continue to combine investment and knowledge services, there has been growing emphasis on analytical and advisory activities, and in particular, fee-based advisory services. An example is the Kazan (Tatarstan) Higher Education fee-based technical assistance, which sought to enable authorities to implement reforms and strengthen higher education institutions. Another example is the Pulkovo Airport Public-Private Partnership in St. Petersburg, in which the Bank provided advisory services for knowledge transfer and best practices as the city designed and implemented an investment in the airport.

Results

Maintaining prudent macroeconomic policies. Russia saved large oil windfalls in reserve funds and also repaid a significant portion of its external debt, thereby reducing external vulnerabilities. This fiscal buffer helped Russia weather the crisis by financing a large stimulus package that stabilized the banking sector and contained unemployment and poverty. Moreover, fiscal reforms improved the use of expenditures through better budget planning and execution. The Bank’s analytical work and policy dialogue – for example, on long-term fiscal sustainability, performance-based budgeting, and periodic Russian Economic Reports – are supporting government efforts.

Making public administration more efficient. Several projects are increasing transparency and service orientation of public agencies for business and citizens. For example, in the Cadastre Agency, the number of land plot registrations has increased to 45.4 million at the beginning of 2009 from 14.8 million in 2004. In pilot regions, the time needed to complete real estate transactions declined during the same period to 59 days from four months, and waiting time for clients was cut in half, to 59 minutes from two hours to 59 minutes. In the Customs Administration between 2003 and 2009, the average customs clearance time at the border in project posts declined 43 percent (to 17 minutes from 45); items selected for physical inspection of imports in the Northwest Region fell to 2.7 percent from 30 percent.

Engaging citizens in budget decisions. With technical assistance financed by the Bank, a major decentralization reform took place in 2006. Local self-government was adopted, municipalities received budgetary autonomy, and public participation in decision-making increased. For example, in Stavropol, a high-unemployment region in the Northern Caucasus, the Local Initiatives Support Program involved 80 percent of all rural municipalities in planning and financing more than 50 local micro-projects. From 2007-2009, these saved 250 jobs and created 100 permanent and 300 temporary additional jobs.

Restructuring the health sector. Since 2003, Russian authorities, local institutions, and international partners have worked together to address Russia’s poor health profile, yielding significant results, particularly in fighting tuberculosis and HIV/AIDS. With support from the World Bank, between 2003 and 2007, tuberculosis (TB) mortality declined by 18 percent and the rate of growth of HIV/AIDS prevalence declined by 5 percent. In the health reform project over 2003-2009, pilot regions with 2.5 million people (Chuvash Republic and Voronezh) significantly restructured health services. The budget share for primary care doubled and

“The Russian Federation keeps an eye on, analyzes and generally pays a lot of attention to all analytic materials prepared by the World Bank. The World Bank Russian Economic Report is of great interest to us in the Ministry. We realize that the Bank, as a creditor, needs to analyze all economic processes in Russia as well as macroeconomics, economic perspectives, balance of payments and fiscal balance. We think their work is very professional, performed at a high economic level. We value it highly and apply it in practice.” – Dmitry V. Pankin, Deputy Minister of Finance, Ministry of Finance of the Russian Federation.
access to rural health services and patient satisfaction improved. In addition, federal regulation of a highly decentralized system became more effective through the adoption of nation-wide protocols.

**Educating children for the global information society.** The E-Learning Support Project increased competence in information and communication technologies (ICT). Seven pilot regions became leaders in applying ICT in education, leading to adoption by 30 regions. Since 2005, ICT skills of advanced teachers doubled, while the number of inexperienced users declined by 200 percent. Ninth graders performing above average on use of ICT increased to 63 percent from 48 percent. Benefits are equal in urban and rural schools.

**Delivering better communal and social services, with cost savings.** Pilot infrastructure investments and institutional reforms in municipal heat and water projects demonstrated that citizens can be served better and more efficiently. In 13 municipalities good quality water is now supplied 24 hours a day in 100 percent of the pilot projects, benefitting 4.2 million people. All utilities improved energy efficiency and financial ratios. In municipal heating pilots, targeting of housing allowances was improved (20.3 percent versus 100 percent of population) and municipal heating subsidies were eliminated, putting the utilities and municipalities on a stronger financial footing.

**Bank Contribution**

In recent years, there has been a significant shift in traditional cooperation activities from financing to knowledge services. As of August 2010, there are 12 active IBRD projects totaling US$1.1 billion, while fee-based services (22 contracts valued at US$10.2 million) and sub-national lending are emerging as new business lines.

Fundamentally, the partnership with Russia is founded on sharing international knowledge. Since 2007, selected examples of Bank contributions include periodic *Russian Economic Reports* and analysis on:

- Energy Efficiency in Russia: Untapped Reserves
- Regional Development and Growth Agglomerations: the Longer-Term Challenge of Economic Transition in the Russian Federation
- Better Outcomes through Health Reforms in the Russian Federation: The Challenge in 2008 and Beyond
- Infrastructure Financing Options for Russia
- Increasing the Supply of Affordable Housing in the Russian Federation

**Partners**

As Russia is an IBRD borrower and advanced middle-income country, the Bank considers its counterparts in the government as lead partners. Building on strong relations with key ministries and agencies at the federal level, the Bank is increasingly working with counterparts at the regional and sub-regional level, including governors, municipalities and local communities. The Bank also coordinates closely in Russia with many partner groups, including international organizations such as the World Health Organization, The Global Fund to Fight AIDS, TB and Malaria, Food and Agriculture Organization, and European Bank for Reconstruction and Development; It also works with bilateral agencies including the United Kingdom’s Department for International Development (DFID), United States Agency for International Development, and the Canadian International Development Agency, as well as technical partners such as World Wildlife Fund, and the United States National Oceanic and Atmospheric Administration.

An example of partnership is the World Bank-DFID Trust Fund on Support to Public Admi-
nistration and Governance in Russia which funds a broad range of activities at the federal and regional levels. The trust fund also supports the Development Partners’ Secretariat in Moscow, which facilitates dialogue, coordination, and dissemination of expertise and good practices on governance among international and Russian counterparts, including the federal government, regional administrations, independent experts, and development partner countries. The Secretariat also has a branch in Rostov-on-Don (Southern Federal District).

Moving Forward

The Bank will continue to support Russia in four areas: (i) diversifying the economy for sustainable development and growth; (ii) improving public sector management and performance; (iii) improving the delivery of communal and social services; and (iv) supporting Russia’s global role. New IBRD assistance will be selective, with the choice of instruments aligned with the government’s modernization priorities and external position. The program will be supported with more intensive use of new instruments that leverage the Bank’s knowledge, project management skills, private sector expertise, and financial instruments. The focus on regional development and decentralization will continue. The Bank will also continue to support capacity building for Russia’s development aid program.

LEARN MORE

World Bank in Russia
- Website of the World Bank Office in Russia: www.worldbank.org/russia
- Russian Economic Reports: http://go.worldbank.org/6HRB5YQ7G0
- Development Topics in Russia: http://go.worldbank.org/8T1W3M4XJ0

Official Russia
- President of Russia: http://eng.kremlin.ru/
- Government of Russia: http://government.ru/eng/
- Ministry of Regional Development: http://www.minregion.ru/
- Ministry of Natural Resources: http://www.mnr.gov.ru/part/?pid=397
- Ministry of Culture: http://mkrf.ru/
- Ministry of Health and Social Development: http://www.minzdravsoc.ru/
- Ministry of Transport: http://www.mintrans.ru/
- Ministry of Justice: http://www.minjust.ru/ru/

Regional Governments and Administrations
- Administration of the City of St. Petersburg: http://gov.spb.ru/
- Government of the Republic of Tatarstan: http://prav.tatar.ru/eng/
- Government of Voronezh Region: http://eng.govsvn.ru/wps/portal/AVO_ENG
- Chuvash Republic: http://gov.cap.ru/hierarhy_cap.asp?page=./25505

UN Extended Family
- Delegation of the European Union to Russia: www.delrus.ec.europa.eu
- USAID in Russia: http://russia.usaid.gov/
- UNDP: http://www.undp.ru/
- UNICEF: http://eng.unicef.ru/homepage
- WHO: http://www.who.int/countries/rus/en/
- UNIC: http://www.unic.ru/
- UN AIDS in Russia: http://www.unaids.ru/

Civil Society
- WWF-Russia: http://www.wwf.ru/eng
- Greenpeace-Russia: http://www.greenpeace.org/russia/en/
- Center for Fiscal Policy: http://english.fpcenter.ru/
- Russian Regional Environmental Centre: http://www.rusrec.ru/en
- Perspektiva - Regional Society of Disabled People: http://eng.perspektiva-inva.ru/
- Healthy Russia Foundation: http://www.fzr-eng.ru/

Multimedia

Photos:


Russian Economic Report is highly valued by members of business societies. Presentation of report to the Association of European Business. Photo by AEB: http://www.flickr.com/photos/worldbankrussia/sets/72157623722238415/
Videos:


