INTEGRATED SAFEGUARDS DATA SHEET
CONCEPT STAGE

Report No.: ISDSC5570

Date ISDS Prepared/Updated: 22-May-2014
Date ISDS Approved/Disclosed: 27-May-2014

I. BASIC INFORMATION

A. Basic Project Data

<table>
<thead>
<tr>
<th>Country:</th>
<th>Russian Federation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project ID:</td>
<td>P147011</td>
</tr>
<tr>
<td>Project Name:</td>
<td>Russia Special Economic Zones Enhancement Project (P147011)</td>
</tr>
<tr>
<td>Task Team Leader:</td>
<td>Thomas Edward Haven</td>
</tr>
<tr>
<td>Estimated Appraisal Date:</td>
<td>20-Jan-2015</td>
</tr>
<tr>
<td>Estimated Board Date:</td>
<td>29-Jul-2015</td>
</tr>
<tr>
<td>Managing Unit:</td>
<td>ECSPF</td>
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<tr>
<td>Lending Instrument:</td>
<td>Investment Project Financing</td>
</tr>
<tr>
<td>Sector(s):</td>
<td>General industry and trade sector (50%), Public administration- Industry and trade (50%)</td>
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<tr>
<td>Theme(s):</td>
<td>Export development and competitiveness (100%)</td>
</tr>
<tr>
<td>Total Project Cost:</td>
<td>200.00</td>
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<tr>
<td>Total Bank Financing:</td>
<td>132.00</td>
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<tr>
<td>Financing Gap:</td>
<td>0.00</td>
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</table>

<table>
<thead>
<tr>
<th>Financing Source</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Borrower</td>
<td>68.00</td>
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<td>International Bank for Reconstruction and Development</td>
<td>132.00</td>
</tr>
<tr>
<td>Total</td>
<td>200.00</td>
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</tbody>
</table>

Environmental Category: B - Partial Assessment

Is this a Repeater project? No

B. Project Objectives

The project development objective is to attract investors to, and increase investment in, select pilot zones in the Russian SEZ program.

C. Project Description

The total expected size of the project is US$200 million. The IBRD share of the financing will be US$132 million and the borrower's share will be US$68 million. The project will have three
Component 1: Establishing an efficient system for SEZ management and operation and promoting Russian SEZs to international investors (US$47 million).

1.1 SEZ legal/regulatory environment and management systems

This component will improve legal and regulatory norms on SEZs including:

a) Development of appropriate mechanisms and agreements that allow the private sector (non-residents operating within SEZs and in areas adjacent to SEZs) to participate in the development of SEZ infrastructure.

b) Development of frameworks and agreements (including a package of the needed legislative amendments) enabling private sector management of SEZs, as well as deal-structuring advice on the transfer of SEZ management companies’ functions to private SEZ operators, negotiating terms and conditions, etc. With the appropriate body, this will include the development of PPP arrangements for SEZ development and operations.

c) Development of a framework for tendering out government land to private SEZ developers for the development, promotion and operation of the SEZ, negotiating terms and conditions, etc.

d) Development of a framework for licensing 100 percent private SEZs.

This component will also review and improve screening procedures for firms interested in locating in the zones. Screening procedures should be investor-friendly and include appropriate assessments of investor quality and growth prospects. The improvement process could include financing of financial and technical advisors to review investor applications.

Development of management capacity for the staff of federal and regional executive authorities, local government agencies, and SEZ management companies, as well as regional executive authorities and local government agency officials who play a role in the SEZs will also be part of this component. Activities in this theme will include developing training and guidance materials, programs, curricula, teaching aids, and activities; conducting training seminars and courses for upgrading thematic skills; and organizing foreign study tours to learn from international experience in SEZ operations. This will include assistance with developing and implementing investment promotion strategies.

Financing of SEZ management contracts may also be part of this component, although as this is not currently included in the budget allocation, funds could be reallocated from Component 2 if the appropriate conditions are in place to award one or more management contracts during project implementation.

1.2 Zone attractiveness and investment promotion

Surveys will be conducted of potential investors, and analysis carried out of investor needs and attitudes with respect to the current incentives and infrastructure offered in select zones. This could be done for pilot and non-pilot zones. Development of the value offered by the different types of SEZs (e.g. innovation, port, tourism) will also be an aim. Pursuit of this aim will include analysis of investor targets, incentives, infrastructure, administrative services, value-added services and
programs, and development phasing. There will also be a review of general and specific investment attraction strategies and management models for each type of SEZ. These will be consolidated into an overall piece that presents all of the SEZ options to investors.

Ways of improving the efficiency of administrative and regulatory procedures and controls for SEZ investors and companies will be considered. One way of doing so may be through establishing a single window system that allows potential and current investors to obtain all of the necessary zone residency permits, operating licenses, construction permits, etc.

Under this component the project will seek to improve investor awareness concerning investment in Russian SEZs through the design and preparation of new marketing collateral, and its presentation through press conferences and presentations, mass media, exhibitions and business fora, road shows, articles in the Russian and foreign media, and awareness-building on the Internet.

Through participation in international workshops and working groups, round tables, professional colloquia, congresses, and fora the SEZ stakeholders will gain more access to international experience and best practices.

1.3 Tourism zones strategy

Given the lack of a sound strategy for developing tourism zones in Russia and the low level of private investment in this sphere to date, the existing operational model of tourism SEZs needs a conceptual revision. The necessary revisions will be reviewed.

1.4 Automated information systems for SEZ operations and monitoring.

One or more online systems will be developed and deployed. The federal agencies will be assisted in installing systems that help them to automate some parts of their work, and the publicly-run zones to do the same. These systems would be initiated in the pilot zones and eventually rolled out to the entire SEZ program (if successful).

Component 2. Infrastructure, services, and business enabling environment in pilot SEZs (US$146 million).

This component would help to address challenges related to zone management, private participation in zones, planning and development of physical infrastructure, value-added services and facilities to stimulate private sector development, business environment, and worker skills. The challenges would be addressed in an estimated three pilot zones, whose selection will be approved by an interagency working group (comprising the Ministry of Finance (MoF)) to be established by the MoED.

2.1 Establishment and equipping of shared-use centers and other facilities in pilot zones (US$131 million)

The list of shared use and other facilities will be defined during the project preparation phase, and further refined through detailed feasibility and design studies during the implementation phase. The list will be defined based on well-measured investor demand, as well as considerations of what government and market failures the facilities are addressing and/or what market opportunities they will allow users to exploit.
Examples of different types of facilities include: (a) Office, manufacturing, and warehouse facilities for lease, e.g. factory shells; (b) Engineering centers, labs, testing facilities (e.g. for electronic components), and other types of technical specialized shared-use infrastructure; (c) Social infrastructure, including recreation facilities, conference/exhibition space, dining, and suchlike. Such social infrastructure can create a more attractive value proposition for investors and facilitate interactions among firms and researchers for clustering/agglomeration economy effects; and (d) Basic infrastructure, such as roads, power, water, sewerage, and telecommunications, could also be considered, although this appears to be adequately covered by government resources.

The MoED would like to construct 4-6 shared use centers across the pilot zones. Based on construction costs of existing facilities in the SEZ program, the MoED estimates that such facilities will cost an average of US$35 million apiece. Equipment purchases for these centers are also envisaged.

2.2 Design and provision of services to firms inside and outside the pilot zones. (US$10 million)

Programs and services to stimulate innovation, productivity, and entrepreneurship are critical for Russia’s economic growth and diversification. SEZs can serve as a focal point for new and existing programs and services in such areas, both for firms within and outside the zones. For each pilot zone, an assessment of existing programs and services (offered by the zone and other public agencies) that are relevant to the sectors of interest in the zone would be undertaken. Shortcomings in existing programs and needs for new programs would be identified. This component would then finance the design and implementation of new/improved programs and services. These would likely have a sector focus, e.g. IT or avionics components, in line with the focus of the pilot SEZs. Examples include technology transfer programs, helping firms with commercialization and internationalization of their products and services, market intelligence, specialized training, and other things.

2.3 Worker skills (US$5 million)

This subcomponent could finance on-the-job or other types of training to meet specific demands of zone companies. This subcomponent could receive more emphasis if investor surveys determine that the lack of workers with specialized skills is a key obstacle to attracting investment to the pilot zones.

Component 3: Project management, monitoring and evaluation (US$7 million).

Funds under this component will be used for managing the project implementation process in accordance with IBRD procedures, including procurement, disbursement, financial management, and the monitoring and evaluation of project results.

To coordinate and oversee the preparation and implementation of the project, an Interagency Working Group will be established. It will include representatives of the MoED, MoF, and other relevant federal and subnational executive authorities and organizations.

D. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The government has not yet determined which pilot zones will be chosen for the Project and how many zones will be included. The final selection of pilot zones will be determined by an interagency working group during project preparation. Once the SEZs will be selected and before approving any
civil works there, a “due diligence” environmental and social review will be carried out for any proposed pilot SEZs with the focus of ensuring that the SEZ was established and is operating in full compliance with all national environmental laws and regulations and that there are no pending legal actions or claims against relating to its environmental performance or impact of the SEZ or any of its existing tenants. On the social side the focus will be on past land acquisition, on compliance with occupational health and safety requirements, and on the status and nature of relations between the SEZ and nearby communities including whether there are acceptable mechanisms to identify and address any grievances that might arise. The EMF to be prepared should explain how this “due diligence” environmental review will be conducted and what issues should be specified in the report. Implementation of the specified environmental due diligence activities would be condition to finance selected SEZs further development.

Examples of zones that are promising candidates for selection include:

* SEZ "Tomsk" in Tomsk region
* SEZ "Dubna" in Moscow region
* SEZ "Ulyanovsk" in Ulyanovsk region.

Activities to be financed under the project include construction of 4 to 6 shared-use infrastructure/centers and other facilities. Types of infrastructure may include, but not be limited to, office buildings, factory shells, and shared facilities (exhibition space, conference halls, etc.). If chosen, potential activities in Tomsk and Dubna would be implemented in "innovation" zones, which are located in peri-urban landscapes. The Ulyanovsk zone is under construction in land adjacent to an airport.

E. Borrowers Institutional Capacity for Safeguard Policies

The Ministry of Economic Development (MoED) will be the responsible Implementing Agency for the Project. Project preparation, including preparation of safeguards documentation, will be performed by the MoED together with RusSEZ JSC and hired consultants, or possibly an external Project Implementation Unit (PIU).

Project implementation will be managed through an internal (to the MoED) or external PIU that will: (i) finance consultancy services, (ii) prepare bidding documents and tenders, (iii) undertake procurement activities, (iv) secure implementation of environmental and social safeguards requirements and, (v) monitor project implementation progress. If external, the PIU will be selected in the manner prescribed by applicable World Bank procurement regulations, as well as by Government of Russia Resolution No. 43, dated January 28, 2005. Assuming that the safeguards implementation capacity of the PIU will be very low, the proposed EMF will provide relevant capacity building measures to be included in the project.

F. Environmental and Social Safeguards Specialists on the Team

Alexei Slenzak (ECSEN)
Nicolas Perrin (ECSSO)
Arcadii Capcelea (ECSEN)
Jennifer Shkabatur (ECSSO)

II. SAFEGUARD POLICIES THAT MIGHT APPLY
<table>
<thead>
<tr>
<th>Safeguard Policies</th>
<th>Triggered?</th>
<th>Explanation (Optional)</th>
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| Environmental Assessment OP/BP 4.01         | Yes        | The project involves construction of shared-use infrastructure/centers and other facilities which might generate some environmental and social impacts and thus this OP is triggered. To address these impacts the client will prepare an EMF which will set out procedures for screening proposed investments to determine the requirements for an Environmental Impact Assessment (EIA) and/or Environmental Management Project (EMP), and provide information on the potential impacts and appropriate mitigation measures for the types of investments most likely to be financed by the project. These EIAs/EMPs will be prepared when the sites and the nature of investments are known. Any proposed high risk activities/investments (e.g. facilities for handling or disposing of hazardous wastes) which might generate significant or irreversible adverse environmental impacts and thus qualified as Category A projects, will be not supported under the project and the EMF will include relevant exclusion criteria. Once the SEZs will be selected and before approving any civil works there, a “due diligence” environmental and social review will be carried out for any proposed pilot SEZs with the focus of ensuring that the SEZ was established and is operating in full compliance with all national environmental laws and regulations and that there are no pending legal actions or claims against relating to its environmental performance or impact of the SEZ or any of its existing tenants. OP 4.01 also applies to technical assistance activities with environmental and social implications. Specifically, this is in relation to TA financed under the project which would have implications for potential environmental and/or social impacts either in the pilot SEZs or the SEZ program overall (e.g. regulatory aspects, design of environmental services such as sewerage, screening criteria for firms, etc.). The EMF should provide guidance for ensuring that the Terms of Reference for TA provided
Natural Habitats OP/BP 4.04 | Yes | While at this stage of the project development it is not expected the project will have impacts on important wildlife and wildlife habitats, on a precautionary basis this OP is triggered and the EMF will provide specific guidance for investments and operations in such cases.

Forests OP/BP 4.36 | Yes | While at this stage of the project development it is not expected the project will have impacts on forests, on a precautionary basis this OP is triggered and the EMF will provide specific guidance for investments and operations in such cases.

Pest Management OP 4.09 | No | No. The project will not support purchasing pesticides and its activities will not lead to their increased usage.

Physical Cultural Resources OP/BP 4.11 | Yes | While at this stage of the project development it is not expected the project will involve or have impacts on such resources, on a precautionary basis this OP is triggered and the EMF will provide specific guidance for investments and operations in such cases.

Indigenous Peoples OP/BP 4.10 | No | |

Involuntary Resettlement OP/BP 4.12 | Yes | The project involves construction of shared-use infrastructure/centers and other facilities. Involuntary Resettlement OP/BP 4.12 will be triggered and a Resettlement Policy Framework will be prepared as pilot zones and construction sites still need to be identified. Physical works on most of the project sites will take place in the existing SEZ footprint. Based on the current information, the physical works are not expected to result in resettlement, nor will they include involuntary land acquisition. However, loss or disruption of income sources or means of livelihood may occur due to physical works or other project activities. The government has not yet determined which pilot zones will be chosen for the Project and how many zones will be included in it. The final selection of pilot zones will be determined by an interagency working group during project preparation. Thus, specific location, type and scale of the construction will be defined later.
through implementation of activities under Component 2.
As noted above, once the SEZs are selected and before approving any civil works there, a “due diligence” environmental and social review will be carried out for any proposed pilot SEZs. The social review will be done in accordance with the Resettlement Policy Framework (RPF) to be prepared by the Client. Site-specific Resettlement Action Plans will be prepared, if needed, once specific sites for project activities are identified.

| Safety of Dams OP/BP 4.37 | No |
| Projects on International Waterways OP/BP 7.50 | No |
| Projects in Disputed Areas OP/BP 7.60 | No |

### III. SAFEGUARD PREPARATION PLAN

A. Tentative target date for preparing the PAD Stage ISDS: 10-Oct-2014

B. Time frame for launching and completing the safeguard-related studies that may be needed.

The specific studies and their timing¹ should be specified in the PAD-stage ISDS:

- Designing EMF and RPF - June 2014 - August 2014
- Draft RPF and EMF submitted to the WB - September 10, 2014;
- EMF and RPF disclosure and consultation – October, 2014

### IV. APPROVALS

| Task Team Leader: | Name: Thomas Edward Haven |

**Approved By:**

| Regional Safeguards Coordinator: | Name: Esma Kreso (RSA) | Date: 23-May-2014 |
| Sector Manager: | Name: Paloma Anos Casero (SM) | Date: 27-May-2014 |

¹ Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.