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Report No.: 25044

PROJECT PERFORMANCE ASSESSMENT REPORT

RUSSIAN FEDERATION

EMPLOYMENT SERVICES AND SOCIAL PROTECTION LOAN
(LOAN 35320-RU)

AND

SOCIAL PROTECTION ADJUSTMENT LOAN
(LOAN 42030-RU)

OCTOBER 29, 2002

Country Evaluation and Regional Relations
Operations Evaluation Department

Currency Equivalents (annual averages)

Currency Unit = Ruble ($$)

1993	US$1.00	$1.25
1994	US$1.00	$3.55
1995	US$1.00	$4.64
1996	US$1.00	$5.56
1997	US$1.00	$5.96
1998	US$1.00	$20.65
1999	US$1.00	$27.00

Abbreviations and Acronyms

CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CBR	Central Bank of Russia
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia Region
ESSP	Employment Services and Social Protection Loan
ESW	Economic and Sector Work
FDI	Foreign Direct Investment
FES	Federal Employment Service
FES	Federal Employment Services
GDP	Gross Domestic Product
GNP	Gross National Product
ICR	Implementation Completion Report
IFC	International Finance Corporation
IMF	International Monetary Fund
LFS	Loans-for-Shares
MESI	Minimum Elderly Subsistence Income
MIGA	Multilateral Investment Guarantee Agency
MPP	Mass Privatization Program
MSI	Minimum Subsistence Income
MSP	Ministry of Social Protection
OED	Operations Evaluation Department
PPAR	Project Performance Assessment Report
PPF	Project Preparation Facility
RLMS	Russia Longitudinal Monitoring Survey
SAR	Staff Appraisal Report
SECAL	Sector Adjustment Loan
SME	Small and Medium Enterprise
SPAL	Social Protection Adjustment Loan

Fiscal Year

Government: July 1 – June 30

Director-General, Operations Evaluation	:	Mr. Gregory K. Ingram
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The World Bank
Washington, D.C. 20433
U.S.A.

Office of the Director-General
Operations Evaluation

October 29, 2002

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Project Performance Assessment Report on Russian Federation Employment Services And Social Protection Loan (Loan 35320-RU) and Social Protection Adjustment Loan (Loan 42030-RU)

Attached is the Project Performance Assessment Report (PPAR) by the Operations Evaluation Department (OED) on the Employment Services And Social Protection Project (ESSP, approved in November 1992 and closed in April 2000) and Social Protection Adjustment Loan (SPAL; approved in June 1997 and closed in September 2000).

The ESSP began as a project to strengthen the capacity of (i) the Federal Employment Service (FES) to deliver unemployment benefits and (ii) the Ministry of Social Protection to design reforms of the pension and social safety net systems. A two-year delay in effectiveness led to a refocusing of its objectives. The revised project focused on building the capacity of the employment service to deliver active labor market services and the capacity of the local social protection offices to deliver pension benefits. The loan financed staff training and equipment to enhance employment services and the purchase of computers to assist in pension delivery.

The objectives of the SPAL were to (i) improve the targeting of social benefits, (ii) demonstrate the feasibility of creating a new program of cash assistance for the working poor, (iii) strengthen the financing of unemployment, pension and child allowance benefits, (iv) strengthen the institutions responsible for collecting social charges, particularly in the financial management area, (v) reform the pension system, and (vi) reform the labor code. These objectives were to be achieved through conditions attached to three tranches for budget support.

The outcome of the ESSP can be considered to be moderately satisfactory. It was successful in achieving its revised objectives. Given the scope of the social protection reform challenge facing Russia, however, the relevance of the revised objectives can only be judged to be modest. The ESSP had a substantial impact on institutional development by improving the efficiency and effectiveness of the labor market and pension payment institutions. The project's achievements are likely to be sustained. Bank performance was satisfactory. Borrower performance was also rated satisfactory, but only barely so, due to the scaling down of the original objectives to which it had subscribed and other problems that caused delays with effectiveness and implementation.

The SPAL's outcome was moderately unsatisfactory. Although it succeeded by end-2000 in achieving a number of the reforms envisioned, it failed to achieve several of the most important. Reforms that have been enacted include improvements to unemployment, sickness and child allowance benefits. Efforts to demonstrate the feasibility of targeted cash benefits led to greater acceptance of targeting existing social benefits, but not to the creation of a new cash benefit for working age families. Pension and labor law reforms were not achieved in the timeframe originally envisioned. In each case, legislation was submitted to the Duma, as required by the conditions of the loan. In both cases, however, the legislation was unacceptable to the Duma and reform efforts stalled through mid-2001, when they were revived.

The institutional development impact of the SPAL was rated modest, owing primarily to the failure to achieve pension and labor law reform in anything like the original timeframe. The gains that were realized, however, are likely to be sustained. The general objectives of the SPAL were highly relevant to the social protection problems of Russia, but the timeframe envisioned was unrealistic and the conditionalities failed to link disbursements to the adoption and implementation of major reform laws. In view of these design flaws and the failure to adopt key reforms within the timeframe originally envisioned, the performance of both the Bank and the Borrower under this loan has been rated unsatisfactory.

Since the SPAL's closing in September 2000, the Bank has remained engaged with timely advice and technical assistance. Current prospects for meeting the Bank's objectives in the sector appear greatly improved. Reflecting a broad new consensus on pension and labor market reform, the Duma is expected to approve new legislation in 2002. Some aspects of the proposed reform (e.g., the fiscal viability of the new pension system and the readiness of the financial sector to get involved in the funded pillar) still pose concerns, but implementation rather than policy design has come to the forefront. The Bank has also begun working with the Government on improving the quality of household budget surveys and poverty estimates.

A major lesson from these two projects is the need to have reasonable expectations about the pace at which a democratic society can reform its social protection institutions and to tailor Bank assistance strategy accordingly. A second lesson is the need to reconsider carefully the wisdom of proceeding with a loan when there is no or little consensus on reform and the Borrower wants to drop or does not carry through on elements that are important to achieving the longer-term reform agenda.

Gregory K. Ingram
by Nils Fostvedt

OED Mission: Enhancing development effectiveness through excellence and independence in evaluation.

About this Report

The Operations Evaluation Department assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, OED annually assesses about 25 percent of the Bank's lending operations. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons. The projects, topics, and analytical approaches selected for assessment support larger evaluation studies.

A Project Performance Assessment Report (PPAR) is based on a review of the Implementation Completion Report (a self-evaluation by the responsible Bank department) and fieldwork conducted by OED. To prepare PPARs, OED staff examine project files and other documents, interview operational staff, and in most cases visit the borrowing country for onsite discussions with project staff and beneficiaries. The PPAR thereby seeks to validate and augment the information provided in the ICR, as well as examine issues of special interest to broader OED studies.

Each PPAR is subject to a peer review process and OED management approval. Once cleared internally, the PPAR is reviewed by the responsible Bank department and amended as necessary. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors.

About the OED Rating System

The time-tested evaluation methods used by OED are suited to the broad range of the World Bank's work. The methods offer both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. OED evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (more information is available on the OED website: http://worldbank.org/oed/eta-mainpage.html).

Relevance of Objectives: The extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). *Possible ratings:* High, Substantial, Modest, Negligible.

Efficacy: The extent to which the project's objectives were achieved, or expected to be achieved, taking into account their relative importance. *Possible ratings:* High, Substantial, Modest, Negligible.

Efficiency: The extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. *Possible ratings:* High, Substantial, Modest, Negligible. This rating is not generally applied to adjustment operations.

Sustainability: The resilience to risk of net benefits flows over time. *Possible ratings:* Highly Likely, Likely, Unlikely, Highly Unlikely, Not Evaluable.

Institutional Development Impact: The extent to which a project improves the ability of a country or region to make more efficient, equitable and sustainable use of its human, financial, and natural resources through: (a) better definition, stability, transparency, enforceability, and predictability of institutional arrangements and/or (b) better alignment of the mission and capacity of an organization with its mandate, which derives from these institutional arrangements. Institutional Development Impact includes both intended and unintended effects of a project. *Possible ratings:* High, Substantial, Modest, Negligible.

Outcome: The extent to which the project's major relevant objectives were achieved, or are expected to be achieved, efficiently. *Possible ratings:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry and supported implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of the project). *Possible ratings:* Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower assumed ownership and responsibility to ensure quality of preparation and implementation, and complied with covenants and agreements, towards the achievement of development objectives and sustainability. Possible ratings: Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

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This report was prepared by Mr. Lawrence Thompson (Consultant) under supervision of Mr. Gianni Zanini (Task Manager), who also updated Mr. Thompson's original draft. Ms. Roziah Baba provided administrative support.

Ratings and Responsibilities

Performance Ratings

	ECA Region	OED	
	ICR	*EVM/ES**	*PPAR*
Employment Services and Social Protection Loan (Ln. 35320-RU))	*Nov. 10, 2000*	*June 13, 2001*	*October 29, 2002*
Outcome	Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Sustainability	Likely	Likely	Likely
Institutional Development Impact	Substantial	Substantial	Substantial
Borrower Performance	Satisfactory	Satisfactory	Satisfactory
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Social Protection Adjustment Loan (Ln. 42030-RU)	*June 19, 2001*	*August 8, 2001*	*October 29, 2002*
Outcome	Unsatisfactory	Moderately Unsatisfactory	Moderately Unsatisfactory
Sustainability	Likely	Likely	Likely
Institutional Development Impact	Modest	Modest	Modest
Borrower Performance	Unsatisfactory	Unsatisfactory	Unsatisfactory
Bank Performance	Unsatisfactory	Unsatisfactory	Unsatisfactory

* While OED conducts an in-depth assessment of only a fraction of closed projects, it reviews all ICRs, validate their ratings, and update its database with information and judgments on various aspects of project performance. The summary findings of these desk reviews by OED evaluators are recorded for each project in a free-format Evaluation Memorandum (EVM) and, since 2001, in its successor template, the Evaluation Summary (ES).

Key Staff Responsible

Employment Services and Social Protection (Loan 35320-RU)

	Country Director	*Sector Manger*	*Task Manager*
Appraisal	Russell Cheetham	Robert Liebenthal	Timothy King
Completion	Michael F. Carter	Michal J. Rutkowski	Hjalte Sederlof

Social Protection Adjustment Loan (Loan 42030-RU)

	Country Director	*Sector Manger*	*Task Manager*
Appraisal	Michael F. Carter	Robert Liebenthal	Hjalte Sederlof
Completion	Julian F. Schweitzer	Michal J. Rutkowski	Mansoora Rashid

Preface

This is a Project Performance Assessment Report (PPAR) for two social protection loans to the Russian Federation:

1. The Employment Services and Social Protection Project (ESSP), financed by a loan approved on November 24, 1992, in the amount of $70 million. The project closed on April 30, 2000, four years later than the original closing date, and ultimately disbursed $55.6 million.

2. The Social Protection Adjustment Loan (SPAL) of $800 million approved on June 25, 1997. The loan closed on September 30, 2000, 21 months after the original closing date. It was fully disbursed.

The PPAR is based on the President's Reports for the projects, summaries of the Board discussions, project files, related economic and sector work, discussions with World Bank officials and consultants and with Russians officials involved in the respective loans, Implementation Completion Reports (ICRs) on the ESSP and the SPAL prepared by the Europe and Central Asia (ECA) Region and issued in January 2001 and June 2001, respectively.

The PPAR focuses exclusively on the effectiveness of these two loans from 1992 to their respective closing dates. The projects are evaluated against revised criteria that guided each project at its completion, even though the ESSP revisions were not officially approved by the Board.

An OED mission for the Country Assistance Evaluation (CAE) visited Russia in February 2001 to discuss the effectiveness of Bank country assistance, including of these two loans, with government officials and other stakeholders. Their cooperation and assistance in preparing this report is gratefully acknowledged.

In 2001, the authorities reviewed and commented on a background paper for the CAE that evaluated Bank assistance for social protection and which anticipated the findings of this PPAR.

Following standard OED procedures, copies of the draft PPAR were sent to the relevant government officials and agencies for their review and comments. No comments were received from the government agencies.

1. Introduction: Russia's Transition From Plan To Market [1]

An Extraordinary Challenge

1.1 The transition that took place during the past decade in the countries of Central Europe and the Soviet Union has led to unprecedented political, economic, and social change. The obstacles which Russia, its Governments, and outside supporters faced in the transition to a market economy were formidable: deep economic distortions, major trade disruptions, serious environmental damage, and a total lack of market institutions. In the mid-1980s, economic stagnation and productivity declines had led the Soviet Government to launch an economic restructuring process (perestroika) in parallel with political openness (glasnost). Perestroika allowed private small-scale initiative, and granted state enterprises considerable autonomy, but did not create mechanisms to ensure management accountability. As a result, many "insiders" began to take over state enterprises and their assets in a process referred to as "spontaneous" privatization. A banking sector was created, initially by divesting commercial activities from the State Bank. With inadequate regulation and supervision and low barriers to entry, the number of banks climbed to the thousands. Public investment and social expenditures increased, but there were no adjustments to prices and taxes.

1.2 These policies led to the abolition of central planning, but they also contributed to higher fiscal deficits, large external borrowings, high inflation, and loss of control by central authorities over economic management (Mau 2000). The collapse of the Soviet Union in 1991 exacerbated the shifts in relative prices and the disruption of inter-enterprise linkages. An antiquated payment and legal system, the dismemberment of the ruble zone, and soft budget constraints induced a sharp rise of inter-enterprise arrears and the spread of barter trade.

1.3 The Russian Federation (Russia) that emerged in 1991 inherited weak institutions, a complex federal system, and a distorted economic structure dominated by oil and gas, heavy industry, and military production. Through late-1999 many observers feared policy backsliding with serious potential human and geo-political consequences, as the authorities were split over the speed and scope of market reforms and the Duma opposed most of the economic and legislative initiatives of the executive branch. This led to frequent Government shakeups and to increasing regional autonomy. In turn, low trust in state institutions underpinned weak ownership of the reforms among the Russian people. The need to build market institutions and reorient public attitudes, as well as the overwhelming priority of creating a democratic political order out of the ruins of centuries of autocratic rule, combined with the social impact of population movements

[1] For a fuller discussion of Russia's transition challenges and achievements, see Annex 1 and 2 of the *Russian Federation Country Assistance Evaluation* (CAE) (Report No. 24875), Operations Evaluation Department, World Bank, Washington, D.C., September 23, 2002.

and with chronic environmental and demographic burdens, compounded the transition challenge.[2]

1.4 Since 1991 transition to an open market economy was the key goal of successive administrations. The initial steps were price liberalization, unification of the exchange rate, and privatization. Trade liberalization proceeded in most areas, but with some export restrictions remaining in the energy sector. Other Government goals were regulatory reform, anti-monopoly policies, financial sector strengthening, and provision of an effective social safety net to protect the most vulnerable; but these were slower in getting started.

1.5 The Soviet system had no programs for dealing with either the unemployed or working-age families with inadequate incomes, because it was assumed that neither would exist in the socialist system. Many social programs were designed to reward favored groups rather than provide minimum levels of protection, and social benefits for working-age families were often delivered through enterprises, rather than by Government agencies.

1.6 Social protection reform involved creating new programs for the unemployed and working poor and improving the targeting of existing social benefits. It also required changing the benefit structure and delivery mechanisms of existing programs, to improve targeting of benefits and adapt their structure to a market economy.

Institutional and Economic Performance

1.7 The Bank's country policy and institutional assessment puts Russia in the middle among transition economies, with high scores for the shift of production towards the private sector and price liberalization, but low scores for financial sector development, competition policy, enterprise reform, corporate governance, environmental sustainability, property rights, and public sector governance (transparency, accountability, and corruption). European Bank for Reconstruction and Development (EBRD) transition indicators portray a similar picture.

1.8 Several stabilization programs were launched during 1992-94. But these were short-lived, as the authorities lacked the instruments to tighten fiscal and monetary policies. In 1995 a stabilization program adopted with International Monetary Fund (IMF) support succeeded in reducing inflation for almost three years. It rested on three legs: fixing the exchange rate as a nominal anchor, tightening credit to enterprises, and limiting Central Bank of Russia (CBR) credit. But the Government could not hold to the program's fiscal policy nor implement the supporting structural reforms, due to the opposition of key stakeholders. The fiscal slippage and low world prices for Russia's exports required increasing external borrowing to keep the progressively uncompetitive fixed exchange rate. In August 1998 the stabilization and structural adjustment program

[2] In its comments on the February 11, 2002 draft Russia CAE, the Government disputed that there was a risk of backsliding, pointing to the statement in para 5.1 that "*throughout the 1990s Russia stayed the course in its economic and social transformation.*" It also finds the summary treatment of socio-political trends in the CAE simplistic and objects to its negative depiction of the conflicts between the parliament and the executive inherent in a democratic system.

collapsed, triggered by declines in oil prices and the spillover of the East Asia crisis that undermined investor confidence.[3] Russia had to default on its debt, the ruble was floated (depreciating by over 60 percent), leading to the insolvency of most banks, a spike in inflation, and a severe, albeit short-lived, recession.

1.9 Over the past decade, Russia's GNP per capita declined substantially, by more than 50 percent according to official statistics (see Table 1.1), although the large changes in relative prices and the rise of a large unofficial economy make comparisons of economic estimates before and after 1990 unreliable. While the decline in consumption was more modest, the impact on poverty, income distribution, equity, and human development has been large, both in absolute terms and relative to other transition economies.

Table 1.1 Selected Macroeconomic Indicators (1990–01)

Russia Fiscal Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
GDP growth (annual %)	-3.0	-5.0	-14.5	-8.7	-12.6	-4.1	-3.4	0.9	-4.9	5.4	9.0	5.0
GNP per capita growth (annual %)	-3.6	-5.5	-15.3	-8.4	-12.5	-4.4	-3.5	0.7	-6.4	3.3	11.2	7.5
GNP, Atlas method (US$, billion)	..	$569	$469	$412	$343	$333	$348	$383	$331	$256	$246	$253
Inflation, consumer prices (annual avg. %)	5.6	92.6	1354.1	895.3	303.2	188.7	47.5	14.8	27.7	85.7	20.6	21.5
REER index (1997 = 100)	161.2	121.5	16.5	34.0	56.6	68.0	91.7	100.0	72.0	46.0	58.9	70.4
Real Wage Rate (annual growth)					-8.0	-28.0	6.0	4.7	-13.4	-22.0	20.9	
Gross Dom. Fixed Invest. (% of GDP)	29	23	24	20	22	21	21	19	18	16	18	18
Exports (annual % growth)	..	-30.0	-28.7	2.1	3.3	10.3	8.7	4.6	-2.3	-1.7	2.7	2.8
Current account balance (% of GDP)	..	..	0.1	0.7	2.0	1.7	2.5	0.4	0.3	10.5	16.1	11.2

Source: Official statistics and World Bank Unified Survey, 2002.

1.10 By the mid-1990s the private sector was contributing more than 70 percent of GDP. Most enterprises had been sold or otherwise transferred out of state hands, mostly to their workers, but without prior restructuring and break-up to enhance competition. Much of this transfer was done through a mass privatization program (MPP). Eager to stop the looting of state property by insiders, the reformers saw the voucher option for the MPP as the only realistic method to privatize quickly and fairly. Transferring economic assets to private hands was expected to create a strong constituency for the necessary legislative and institutional changes that would underpin enterprise restructuring. But involvement by outside investors was minimal, due primarily to management's opposition and the decision to allow majority employee ownership. Enterprise managers eventually succeeded in controlling most privatized enterprises.[4] Subsequent efforts at case-by-case, cash privatization included the loans-for-shares (LFS) scheme, through which the Government divested itself in 1995-96 of 13 large and valuable companies, mostly in the petroleum and metals sectors. This divestiture was done in a non-transparent way, and for only a fraction of the market value of the companies involved.

[3] The ECA Region notes that Russia could well have been on a path of sustained growth two years earlier, had not been for the impact of the East Asia crisis.

[4] For the critical reviews by Stiglitz and Ellerman and their suggested alternative, see Annex 1 and 7 of the Russia CAE.

1.11 Enterprise development and foreign direct investment (FDI) have been discouraged by corruption, poor macroeconomic management, unreliable enforcement, and unclear and conflicting laws and regulations, particularly those related to property and shareholders' rights. The high costs of entry and doing business, including bureaucratic harassment, discouraged small and medium enterprise (SME) growth. The same factors have constrained International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) activities and, thanks also to continuing soft budget constraints, allowed enterprise restructuring to proceed very slowly. Through 1998, the energy sector was at the center of a growing nonpayment problem, which complicated economic management.

Social Performance

1.12 Neither wages nor social protection benefits were able to keep pace with rising price levels (see Table 1.2). The average real wage fell by over 40 percent in four years, from 3.2 times the level of the per capita minimum subsistence income (MSI) in 1992 to 1.8 times MSI in 1995. After recovering briefly in 1996 and 1997, real wages declined again as a result of the 1998 fiscal crisis, reaching the lowest level of the decade in 1999.

Table 1.2: Selected Social Indicators

	1992	1993	1994	1995	1996	1997	1998	1999
Household Unemployment (%)[2]	4.7	5.5	7.4	8.5	9.6	10.8	11.9	12.7
Registered Unemployment (%)[3]	0.8	1.1	2.3	3.3	3.6	1.9	2.9	1.8
Ratio:								
Average wage to MSI	3.2	2.8	2.5	1.8	2.1	2.3	2.1	1.7
Average pension to MESI	1.2	1.4	1.3	1.0	1.2	1.1	1.1	0.7
Minimum pension to MESI	0.85	0.78	0.66	0.48	0.73	0.76	0.67	0.40
Poverty Rate: (%)								
Goskomstat[1]	33.5	31.5	22.4	24.7	22.1	20.8	23.8	29.9
RLMS	26.8	36.9	37.6	41.1	43.2		49.0	

[1] 1991 values: Real GDP (-5.0); CPI (93); Goskomstat poverty rate (11.7); [2] ILO concept; [3] Registered with the employment service

Sources: Real GDP, CPI, Government Balance, from IMF "Russia Country Report, 2000" (1993-1999) and Goskomstat, "Russian Statistical Yearbook, 1994" (1992); Unemployment Rates from Goskomstat, "Russian Statistical Yearbook, 1994 and 2000"; wage and pension ratios from Goskomstat, "Russian Statistical Yearbook, 1994" and "Social Conditions and Living Conditions of the Population, 1999"; Poverty rates from World Bank, "Poverty in Russia" and "Targeting the Long-term Poor."

1.13 The incidence of poverty appears to have tripled between 1991 and 1992 (based on Goskomstat data) and to have doubled between 1992 and 1999 (based on RLMS data).[5] In mid-1999, 55 percent of the population as living in absolute deprivation.[6] As

[5] Goskomstat revised its methodology in 1994, which appears to have produced a one-time drop in their measure of the poverty rate for 1993 and subsequent years.

[6] The corresponding share for 1997 was 32 percent. Given methodological changes, these poverty estimates are not comparable with those available for previous years.

in many other countries, poverty rates are highest among large families, children, single elderly and the disabled. Inequality had doubled by 1993, with the Gini coefficient reaching 0.47. Human development indicators, which had deteriorated between the mid-1980s and the early 1990s, recovered only modestly (see Tables 1.1 and 1.2). Health and education indicators dropped, the quality of services worsened, and social and geographical disparities in access grew.

1.14 Average pensions were kept just above the level established as the minimum elderly subsistence income (MESI) over most of the decade, at least when pensions were actually paid. Minimum pensions were allowed to decline, however, from 85 percent of MESI in 1992 to 48 percent of MESI in 1995. Although minimum pensions were increased in 1996 and 1997 to levels approaching those prevailing in 1992-93, they declined again after the 1998 fiscal crisis. By 1999, both the average and the minimum pensions had fallen to their lowest levels of the decade.

1.15 Actual benefits were often substantially less adequate than these numbers suggest, however, owing to payment delays. Government and enterprise fiscal problems caused delays in the payments of both wages and social benefits. Pension arrears emerged in 1994 and 1995 and again in 1998. In many parts of the country, both unemployment benefits and children's allowances were in arrears continuously beginning in 1994.

1.16 By 1998 gains from the transition included the elimination of shortages of consumer goods; greatly improved quality and variety of goods and services; ownership titles to housing for most households; greater social mobility no longer shackled by pervasive administrative restrictions; and expanded access to the domestic political process and global information. New employment services were established, administration of pension benefits improved and social assistance became better targeted. However, proposed reforms of the labor laws and the pension system had not been adopted, and absolute levels of social benefits remained low.

Recent Achievements

1.17 The Primakov Government that came to power following the 1998 crisis was widely expected to pursue lax monetary and fiscal policies. Instead, it improved fiscal discipline, kept a lid on inflation, allowed only a moderate amount of food aid so as not to damage agricultural producers' incentives, and abstained from reversing liberalization and other reforms. Unlike other countries which experienced financial crises during the 1990s, Russia overcame the 1998 crisis quickly and without international financial assistance. In mid-2000 the Kasyanov Government endorsed a comprehensive medium-term program of policy and institutional reforms. Important reforms have since been adopted, including in tax policy, urban land sales, pension system, land code, and business deregulation. Some, including tax reform, have been successfully implemented.

1.18 The last three years have seen strong economic performance. Good fiscal management, large balance-of-payments surpluses, and an impressive output recovery have been accompanied by an improvement in business confidence and a drastic reduction of barter and enterprise payment arrears. Poverty incidence has declined sharply (from its peak in mid-1999 to 33 percent by end-2000, according to official estimates). The economy has been boosted by higher world energy prices and improved competitiveness of the non-oil export sector, thanks to the 1998 devaluation. Political stability and a broader consensus on reform have also played significant roles. Russia has effectively moved from a centrally planned to a market economy, albeit with considerable distortions and weak social services and safety net. Policy, institutional, and ownership changes have gone too far to be reversed.

2. World Bank Assistance

Sector Assistance Strategy

2.1 Russia joined the World Bank in 1992, and received its first loan in July. From the start, the Bank has viewed assistance for reform of social protection programs as an important element of its assistance strategy. The first country assistance strategy (CAS) for Russia was sent to the Board in May 1992, five months prior to its consideration of the ESSP. The strategy identified four medium term objectives: (1) transforming the economy to a market-oriented system, (2) supporting sector-specific reforms, particularly in areas where a quick supply response was essential (e.g., agriculture and energy), (3) strengthening the social safety net to protect the disadvantaged during the reform process and assist in labor force restructuring, and (4) developing the human resource skills and institutional capacity needed for a market economy.

2.2 The Bank's advice in social protection focused on improved targeting of social assistance programs, enhancement of institutional capability, redesign of the social security system, and modernization of the labor code. The strategy has been implemented through its economic and sector work (ESW) and the 1992 *Employment Services and Social Protection* (ESSP) loan, the 1997 *Social Protection Adjustment* loan (SPAL), the *Coal Sector Adjustment* loan (SECALs) of 1996 and 1997, and the 1998 *Social Protection Implementation* loan (SPIL). The three Structural Adjustment loans (SAL I Ln. 4180-RU; SAL II Ln. 4261-RU; and SAL III Ln. 43820-RU) also had social components.

2.3 The combination of domestic economic and political difficulties and lack of familiarity with Bank procedures caused substantial delays in effectuating and disbursing most of the early loans, including the ESSP, causing the Russian portfolio to be one of the worst performing in the Bank by the middle of the decade.

2.4 Bank actions were coordinated closely with the IMF. Much of the social protection agenda ultimately included in the SPAL had originally been suggested by the Fund as conditions to be attached to an Extended Financing Facility agreed to early in 1996. But all parties agreed at that time that the Bank would pursue the social protection reform agenda in the context of a separate adjustment loan.

Employment Services and Social Protection Loan (ESSP)

2.5 As originally conceived, the ESSP was to be a $70 million investment loan to enhance the capacity of two important social protection institutions in support of both elements of the third CAS objective. The major portion of the loan would finance computerization of the unemployment claims registration and benefit payment processes, preparation of a labor market information system, and development of active labor market programs at the Federal Employment Service (FES). This would help the FES prepare for the rapid increase in unemployment then expected. A smaller segment of the project would help the Ministry of Social Protection (MSP) prepare proposals for reforming pensions and introducing targeted social assistance, carry out pilot programs for the computerization of the pension payment function, and prepare a master plan for the computerization of the entire social security scheme.

2.6 Effectiveness of the ESSP was delayed almost two years. At the request of the Government, but without formal approval of the Bank Board, the loan's objectives were revised to delete the funding for computerization of the FES and the preparation of reform plans and proposals, but to increase the funding for computerization of additional MSP pension payment offices and for introducing active labor market programs.

Social Protection Adjustment Loan (SPAL)

2.7 The Bank was not able to engage in a meaningful dialogue with the Government over social protection reform for the next several years. The third and fourth country assistance strategies, discussed in July 1994 and June 1995, respectively noted that social reforms were important for addressing rising poverty levels and maintaining public support for the economic reform process in general, but that the Government had not been receptive to discussing reform of national-level social programs and, in particular, was unwilling to assume fiscal responsibility for a new social assistance program. The 1995 CAS included several social sector objectives, but the 1996 Progress Report admitted that there was not sufficient consensus in the Government to pursue any of them.

2.8 The 1997 CAS, adopted almost simultaneously with the approval of the SPAL, listed three reform areas considered most critical to restoring economic growth: (1) fiscal consolidation, (2) private sector initiatives and (3) reform of the social safety net. The strategy for reform of the social safety net was to support policy reforms through the SPAL, followed by institution building or adjustment lending for longer-term support of pension reform. Monitorable actions were to be: (1) maintaining the real minimum pension at an acceptable level, (2) eliminating pension arrears, and (3) introducing pilot regional programs of means-tested poverty benefits.

2.9 The objectives of the SPAL were to "....pursue poverty alleviation by raising and protecting minimum benefits, and through better targeting," and to "....help establish a viable social safety net by introducing structural reforms in pensions and welfare programs."[7] It was a three-tranche budget support loan. Disbursements were linked to

[7] *Report of the President on the Proposed Social Protection Adjustment Loan*, P-7148-RU, June 5, 1997, p. 14.

the fulfillment of conditions covering policy and institutional reforms in the area of pensions, unemployment assistance, child allowances, maternity and sickness payments and general social assistance. Major elements included: (1) clearing pension arrears, (2) maintaining adequate minimum pension and unemployment benefits, (3) improving pension contribution collections, (4) initiating financial reviews of the pension and employment funds, (5) reforming the mechanisms for financing and targeting child allowances and unemployment assistance, for delivering child benefits, and for financing sickness benefits, (6) developing a systemic pension reform proposal and a new labor code, and (7) piloting a new program of targeted cash assistance. A $28.6 million Social Protection Implementation Loan (SPIL) was approved later in 1997 to assist in financing the actions needed to meet these conditions.

3. Implementation Experience

Employment Services and Social Protection Loan

3.1 The ESSP project that was approved by the Board would have allocated $62.7 million for project administration and the activities at the FES and $7.3 million for the activities and the Ministry of Social Protection. The loan was approved on November 24, 1992 and was to be closed on April 30, 1996. However, effectuation of the loan was delayed until September 9, 1994, almost two years after board approval. The delay was caused by a combination of civil unrest, fiscal problems, the Government's lack of familiarity with Bank procedures and difficulties the Bank experienced in managing the acquisition of personal computers.

3.2 By the time the loan had become effective, the FES has used its own resources to computerize its claims registration and benefit payment processes. It had also used Project Preparation Facility (PPF) funds and funds provided by the U.K. Know How Fund to design and begin implementing the active labor market programs. The Government and the Bank agreed, therefore, to increase the scope of the active labor market program development by increasing the number of model offices to be created, introducing a career counseling component, and introducing a vocational rehabilitation component. Also, by effectiveness, the Ministry of Social Protection had used PPF funds to complete the computerization of the three pilot regions. The Government and the Bank agreed, therefore, to reallocate loan funds to expand the local pension office computerization, initially to cover 30 regions and subsequently to cover 56 regions. At the Government's request, funding to assist in developing a pension reform, introduce targeted social assistance, develop a master computerization plan and design a labor market information system was dropped.

3.3 The computerization portion of the project encountered additional delays as a result of a change in Government tax policy in 1995. Whereas activities carried out under an international project had previously been tax exempt, under the new policy the recipient institution was responsible for the payment of customs duties on imported equipment. The policy change required each local government scheduled to participate in the pension computerization component to find the resources needed to cover the customs duties, an expenditure that had not be budget for and was not easily financed in many regions of the country. Further delays occurred as a result of difficulties in obtaining regional customs clearances in some parts of the country, frequent changes in the structure and management of the Ministry of Social Protection, and the generally unstable fiscal situation in Russia. The MSP had 7 different ministers between 1994 and 2000 and absorbed the FES in a Government reorganization in 1997. Twice, financial crises closed the bank accounts that the project had been using for financial management.

3.4 The closing date of the loan was extended several times. At the original closing date, only $13.5 million had been disbursed; only $26 million had been disbursed by the summer of 1997. The loan finally closed on April 30, 2000, some four years after the original plan. In the end, the employment service portion of the loan program, including project administration, accounted for only $15 million, the pension computerization portion accounted for $45 million, and $10 million was canceled. Of the $60 million total, some $55.6 billion was actually disbursed. Other donors contributed a total of $1.2 million, primarily in assistance to the FES in developing active labor market programs.

3.5 The employment service portion of the loan resulted in the creation of 39 model employment offices designed to offer a full list of services to the unemployed and the training of over 2,600 staff of other local offices to disseminate the expertise created in the model offices. Over 300 trainers were developed and 34 regional vocational training centers equipped, reportedly with a record of placing some 76 percent of trainees in 1999. Career counseling units were established in 20 regional employment centers, over 200 staff were trained as job club leaders, six mobile employment offices were developed for sparsely settled regions and four model centers for vocational rehabilitation of the disabled were established.

3.6 The pension component financed the acquisition of 14,000 work stations in 2266 rayon and regional social protection offices in 77 regions of the country. The new technology reduced the time required to process new pension applications from 30 days to 2 days and made similar reductions in the time required to implement recalculations. In one region, annual complaints about pension calculation errors fell from 700 to 5 after the equipment was installed.

Social Protection Adjustment Loan

3.7 The SPAL was an $800 million budget support loan to be disbursed in three tranches. The expectation was that a first tranche of $300 million would be disbursed in July 1997 (upon loan effectiveness), a second tranche $250 million would be disbursed in December 1997 and a third tranche of $250 million would be disbursed in June 1998. The first two tranches were disbursed as originally planned, but the Government was unable to meet the original conditions for the third tranche. Agreement was reached in July 1999 on a revised set of third tranche conditions, which were met in August 2000. At that point, the SPAL was fully disbursed. The loan was originally scheduled to close on December 31, 1998 and actually closed on September 30, 2000.

3.8 The Government succeeded in meeting most of the conditions associated with the SPAL, taking into account the revised conditions for the third tranche, but it is too soon to know the impact that some of their actions will have on the social protection system. In some cases, Government actions have already produced the policy result intended when the SPAL was negotiated. In other cases, however, including those involving some of the most important issues, technical compliance with specific SPAL conditions did not produced the desired policy change during the life of the loan, although some labor law and pension reforms may finally be adopted late in 2001.

3.9 Areas in which the intended policy result appears to have been achieved include: (i) elimination of pension arrears (which emerged again temporarily after the 1998 financial crisis, but were cleared again by August 2000), (ii) improvement of the financial arrangements for and targeting of unemployment benefits and child allowances, (iii) conduct of financial reviews of the pension, employment and social insurance funds,[8] (iv) improvement in collection procedures and implementation of individual account record keeping at the pension fund, and (iv) enactment of legislation authorizing and regulating voluntary pensions.

3.10 Areas in which the intended policy changes did not occur during the life of the loan include several instances where the condition required only that legislation be submitted to the Duma. In these cases, although the Government met the loan condition, the legislation required to implement social protection reform was not enacted. Examples included: (i) adoption of systemic pension reform, (ii) improvements in targeting of sickness benefits, and (iii) adoption of a new labor code.[9] The original objective of assuring that the minimum pension was at least 80 percent of MESI was achieved initially, but had to be abandoned after the 1998 financial crisis. Under the revised third tranche, the Government commitment was reduced substantially, leaving the minimum pension substantially below the original target.[10] Finally, although the social assistance pilots were completed, they have not lead to the adoption of new programs of cash assistance for the working age poor.

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[8] Although a subsequent decision to eliminate the employment fund and assign responsibility for collecting pension contributions to the Ministry of Taxation limits any gain from the financial review of these two institutions.

[9] By the Summer of 2001, the Government had developed proposals for both pension and labor law reform that had received at least preliminary approval from the Duma.

[10] In February 2001, the Government announced an increase in the minimum pension to 600 rubles, which is 64 percent of the most recent MESI estimate then available. However, the Government revised its methodology for calculating MESI effective the beginning of 2000, which appears to have increased the estimated figure by some 20 percent. Thus, the new minimum pension is close to 80 percent of the MESI figure calculated using the previous methodology.

4. Outcome

Relevance: Were project objectives right?

4.1 Both the ESSP and the SPAL set out to address major social protection challenges that had been identified in Bank sector work and included in the country assistance strategies, although each was probably too ambitious. The objectives of the ESSP were scaled back significantly when the project was redesigned, and the SPAL made less progress in achieving the desired social protection reforms than its designers had hoped for.

4.2 The ESSP loan was developed quickly to respond to the expectation that economic restructuring would soon produce substantial labor market dislocations. The CAS saw strengthening of the labor service as an important facilitator of the market transformation. The loan was also to provide technical assistance to help Russia redesign its social protection system, which the Government's 1992 "Memorandum on Economic Reform" promised would be achieved by the end of 1993.[11]

4.3 The labor market challenge did not materialize as expected. Registered unemployment never reached a significant level and the kind of labor market adjustments for which active employment programs are designed did not materialize, at least in the time frame originally contemplated by the ESSP project. Moreover, the Government soon lost interest in fundamental reform of the social protection system, leading to the elimination of the elements of the loan that would have helped to design such a reform.

4.4 The 1992 CAS had provided that, following "emergency operations" designed to address the problem of mass layoffs, the Bank should support the establishment of a modern system of social security. In effect, the "emergency operations" had been implemented before the ESSP was effective and the revised ESSP dropped the elements most useful in supporting social protection reform. The remaining project focused exclusively on strengthening the capacity of the institutions that delivered employment services and pension benefits.

4.5 The objectives of the SPAL were substantially relevant to the Bank's development strategy. Bank analytical work and country assistance strategies consistently called for social protection reforms that would improve the targeting of existing benefits in order to make them more effective at reducing poverty and free up resources for a new program of direct cash assistance. They also recognized the need to reform the labor code in order to facilitate labor market adjustments. Many of the elements of the SPAL shared the targeting objective, particularly those involving increasing minimum pension and unemployment benefits, the reforms of the unemployment, social insurance, and child allowance programs, and the cash assistance pilots. The SPAL also addressed the need for labor law reform.

[11] Annex 1, *Report of the President on a Proposed Rehabilitation Loan*, July 22, 1992, Report P-5834-RU.

4.6 The SPAL designers faced several major challenges in trying to advance this agenda, however. As noted in several mid-1990s CASs, the Russian political system at that time was not particularly receptive to the proposals for creating a new program of cash assistance, reductions in existing programs, or rewriting the labor code. Thus, fully achieving many of the objectives articulated in the CAS and set forth in the SPAL memorandum was simply not politically feasible in the mid 1990s. Even if the political situation had been more favorable, moreover, the one-year time frame of the SPAL project was too short to allow to allow a fundamental reform of a pension system, basic employment legislation, or cash assistance to be designed and enacted by a democratic Government.

4.7 The SPAL implicitly acknowledged these challenges in the way that the conditions were structured. Where agreement was likely and legislation was possible, the conditions required enactment of legislation.[12] Where enactment of legislation was unlikely in the time frame of the SPAL, the conditions called for the executive branch to develop and submit reasonable proposals to the Duma.[13] Presumably, these proposals would form the basis for subsequent debate and legislative action. In the case of the targeted cash assistance, where Government acceptance of the desirability of the reform was still open to question, the condition focused on conducting pilots. Presumably, successful pilots would help convince the Government to implement a national cash assistance program. Since the Duma was not actually required to enact legislation in some of the most important areas, the resulting project involved a set of actions that might enhance the prospects for reform, but did not guarantee that reform occurred.

Box 4.1: Bank Assistance for Gender Equality

The *Feminization of Poverty* report (World Bank, 2000) argues that the rise in unemployment, the drop in average earnings, and the deterioration of social services during the 1990s affected women more severely than men. Male life expectancy, however, deteriorated more sharply than women's, with the gap widening from 10 years in the late 1980s to 16 years in 1994 (it since has fallen to 12 years). At the same time, the collection of data disaggregated by gender declined in quality and coverage.

The Bank sponsored a number of studies and conferences on the impact of the transition on women and their changing roles, but never articulated an assistance strategy to deal with gender issues. The 1997 *Health Reform Pilot* project included a component targeted at women and children, and several components of the SPAL package also benefited mostly women. Chief among these were increases in minimum pension and unemployment benefits. However, the Bank did not address other aspects of the proposed pension reform (such as the funded second pillar, with a close linkage of work earnings to retirement benefits) that may have a more negative impact on women than on men. It also did not address the issue of lower male life expectancy.

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[12] For example, maintaining the real value of the minimum pension, adequate funding of extra expenditures mandated on the pension fund, enacting legislation authorizing voluntary pensions, increasing the share of the employment fund that was centralized, authorizing the targeting of child allowances, and providing a federal guarantee of the allowance to children under three.

[13] For example, systemic pension reform, labor law reform, and reform of the financing of sick leave.

4.8 A qualification to the relevance of the SPAL's objectives relates to the nature of the systemic pension reform that it envisioned. That reform specified changes that had not previously been contemplated as part of the economic reform program and did not specify other changes that had previously been suggested. Instead, it set forth a vision that was consistent with the Bank's 1994 analysis of pension reform elsewhere in the world.[14] Another qualification relates to the rationale for a large quick-disbursing loan, which was meant to foster macroeconomic stabilization. OED's Russia Country Assistance Evaluation as well as the PPAR for SAL I have argued (over ECA's strong objections) that the Government's commitment to fiscal discipline was inadequate and thus the minimal conditions for a budget support loan were not present.

4.9 Prior to 1998, CAS discussions of the pension system typically treated reform as a means to improve targeting by increasing the benefits for the lowest earners proportionately more than those of the highest earners and reducing the fraction of the population drawing benefits by such measures as raising retirement ages. In contrast, the conditions contained in the SPAL focused on creation of a three-tier pension system with the middle tier fully or partially capitalized and make no mention of producing a flatter benefit structure or reducing aggregate pension outlays. While the SPAL approach need not have been in conflict with previous analyses of the nature of the needed reforms in Russia, it was not necessarily consistent with them either. Moreover, while the introduction of a partially capitalized tier may well have positive long term impacts, it increases the short-term cost of the program, making it more difficult to clear pension arrears or avoid increasing the aggregate cost of the social protection system. With respect to this one element, therefore, the SPAL objective may have been somewhat inconsistent with the country assistance strategies articulated between 1992 and 1997.

Efficacy: Did the projects achieve their stated objectives?

4.10 The ESSP project objectives were never officially adjusted to reflect the changes made in the program, but the revised objectives were achieved. In fact, with respect to the installing of active labor market programs and the computerization of the pension payment function, actual achievements exceeded the original objectives, since the funds freed up when the other elements were dropped allowed an expansion of the remaining two elements of the package. However, with no preparatory work conducted on reforming pension and social assistance programs and on a comprehensive information technology system under this loan, its efficacy is only modest when compared to its original, highly relevant objectives, against which the project needs to be formally evaluated according to current Bank and OED guidelines.

4.11 The SPAL also had modest efficacy. It accomplished two of the three measurable actions set out in the 1997 CAS (see para 4.12) and was also effective in achieving the actions specified as conditions in the policy matrix. However, it failed to maintain an acceptable minimum pension benefit and was not particularly effective in obtaining enactment of several of the particular social protection reforms it contemplated in the time frame that it envisioned (see para 4.13). Nonetheless, even where reform efforts

[14] World Bank, *Averting the Old Age Crisis*, New York: Oxford University Press, 1994.

failed, the processes set in motion under the SPAL improved the prospects for eventual adoption of meaningful social protection reforms.

4.12 The SPAL achieved the desired reforms of unemployment benefits and child allowances, in each case improving both the targeting and financial viability of the program. The Government also cleared the pension arrears, improved pension collections, introduced individual pension accounting, created an acceptable legislative framework for voluntary pensions, and conducted financial reviews of three major social protection funds.

4.13 In other areas, the Government satisfied the SPAL conditions, and the prospects for implementing reform are improving, but the reforms implied by the SPAL program are not yet in place. These include the improvements in targeting of sickness and maternity benefits in particular and of social benefits in general and the reform of the pension system. The cash assistance pilots have not led to the adoption of a new program of cash assistance for working age families, but the effort has increased the acceptance of targeting other social benefits, such as housing and utility allowances and transportation preferences. The pension reform effort appears to have succeeded in educating political leaders about the issues that have to be tackled in a reform and the realistic options available to them. Although pension reform legislation is now being debated in the Duma, it is still not clear whether that legislation will produce a pension reform that is fiscally sound and can be effectively administered.

4.14 SPAL conditions involving labor law reform were also met by submitting draft legislation to the Duma. As with pension reform, however, that draft was never considered seriously in the Duma. A new labor law reform effort is now pending before the Duma and may be enacted by the end of 2002, although many of its key details remain unclear at this time. Finally, macroeconomic stabilization was not achieved in 1998. Instead, Russia suffered a major crisis that entailed a drastic devaluation of the ruble and debt default.

Efficiency: Was the project cost effective?

4.15 Although there are no objective criteria for judging the cost-effectiveness of the pension computerization element of the ESSP, the project appears to have had a substantially positive impact on the quality of service delivered with a relatively modest investment. The project could have been more efficient if implementation throughout the Federation had been planned from the beginning, however. In particular, since nation-wide implementation was not a part of the original plan, no plans were made for how software would be updated to incorporate legislative changes or how the computers could be used to support other programs run by the same local social protection offices. The local offices appear to have responded to these two challenges on an ad hoc basis, which, though effective, was probably not as efficient as it could have been.

4.16 Efficiency does not appear to be an appropriate concept for the SPAL, as there was no link between the reforms contemplated under the loan, which in principle were supposed to be fiscally neutral, and the amount of general budget support provided through it. The initiating memorandum for the project contemplated a loan of $500 million; the increase to $800 million occurred for macroeconomic reasons having nothing to do with the substance of the SPAL policy agenda. The Bank's administrative expenses were $940,200, which appear to be broadly in line with other operations in Russia and with other comparators.[15]

Overall Outcome Assessment

4.17 On balance, this review finds that the ESSP had a moderately satisfactory outcome and that the SPAL had a moderately unsatisfactory outcome. The ESSP was only moderately satisfactory because, although it was quite successful in achieving its revised objectives, the revised objectives were of more limited relevance to the Bank's social protection reform agenda. The achievements (efficient pension payment mechanisms and competent employment offices) under the more focused and realistic restructured project were nonetheless significant.

4.18 While the SPAL achieved some relevant objectives with a positive impact, it failed to achieve the spirit of two major, explicit objectives in anything like the original timeframe.[16] The failures were pension reform and labor law reform, notwithstanding the technical compliance with the conditionalities in each case and the fact that the Bank can take some credit for having helped educate the policy elite and advancing the debate. Moreover, the loan did not help achieve macroeconomic stabilization in 1998.[17]

4.19 The child allowance and unemployment insurance reforms were entirely successful and the sickness insurance reforms are likely to be successful. The social assistance pilots should also be judged a partial success, even though they have not led to the enactment of programs of cash assistance in more than a handful of locations. The pilots did further the acceptance of greater targeting of the current social benefits, a long-time objective of the Bank's analytical prescriptions for social protection reform.

[15] See Russia CAE, Table R.10 on page 111.

[16] The ECA Region agreed with this assessment of the SPAL when OED reviewed the ICR. Note that the ICR 4-point rating scale does not offer the choice of ratings falling between satisfactory and unsatisfactory as OED's 6-point scale. This PPAR, moreover, views the result of the targeting pilots somewhat more favorably than does the ICR.

[17] While a sound macroeconomic framework was not listed explicitly among the objectives of this project in the President's Report to the Board (No. P-7148-RU) at the time of approval, it is implicit for a quick disbursing loan for general budget support. Also, it was indeed included in the first section of the project's Policy Matrix (in Annex 2, on page 33) that detailed tranche release conditionalities.

5. Sustainability and Institutional Development

Are the projects' results likely to last?

5.1 Most of the accomplishments of these two projects are likely to be sustainable. The most serious threat to the sustainability of the ESSP was the absence of a plan for replacing obsolete equipment. At least at the moment, the Pension Fund is in a better position than are many of the regional Governments to finance equipment maintenance and replacement, and the transfer of the local offices to the pension fund will likely solve this problem. It should also lead to standardization of the software and a more efficient procedure for updating computational routines as pension legislation changes.

5.2 The active labor market programs installed in the FES appear to be spreading beyond the original pilot locations, indicating that sustainability is highly likely. For example, job clubs now exist in every region of the Federation.

5.3 Most of the accomplishments from the SPAL are also likely to be sustained. The principle of targeting of social benefits appears to be gaining increased acceptance in both branches of Government. For example, the executive branch cited the need to better target existing housing and utility preferences as part of its 2000-2001 reform agenda.[18] Moreover, the Duma has mandated targeting of child allowances and has enacted legislation authorizing local governments to extend the principle of targeting to a large number of other social benefits. Reforms in the financing of child allowances are not likely to be reversed, and the Government appears more sensitive to the need to maintain an adequate minimum benefit, at least in the pension program. At the same time, there remains little prospect that the Government will introduce a national program of cash assistance for the working-age population anytime soon.

5.4 This review finds that the sustainability of the ESSP project was likely, but is troubled by the fact that there appears to have been no plan for replacement of the computer equipment as it became obsolete. The sustainability of the employment service element is substantial.

5.5 Where the SPAL was successful, its achievements are likely to be sustained. The reforms in the child allowance program are highly likely to be sustained. The recent action to increase the minimum pension closer to the target originally set in the SPAL indicates increased Government acceptance of the need for a minimum more adequate than that existing before SPAL, a result that is also likely to be sustained. Reforms involving the structure of unemployment benefits and the probable improvements in the targeting of sickness benefits are likely to be sustained, and it is likely that the increased acceptance of targeting of social benefits will continue, even if the prospects for adoption of a national program of cash assistance are not particularly bright at this time.

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[18] "Social Policy and Economic Modernization Action Plan of the Government of the Russian Federation for 2000-2001," Directive 1072-r of the Government of the Russian Federation, July 26, 2000.

5.6 On the other hand, several of the institutional achievements of the SPAL have already been lost as a result of subsequent Government reorganizations. Any improvements in the collection function of the Pension Fund and most gains from the financial review of that institution are likely lost as a result of the shifting of the collection function to the Ministry of Taxation. Likewise, any gains from the financial review of the Employment Fund were probably lost when this fund was abolished.

Has the project led to better management of human and financial resources?

5.7 This review agrees with the ICR assessment of the institutional development impact of both the ESSP and the SPAL. The ESSP had a substantial impact on the ability of both the employment service and the local social protection offices to serve their clients. The ESSP increased the FES capacity to deliver labor market services and local social protection offices' capacity to serve their pension and other program clients.

5.8 A beneficiary survey conducted to evaluate the impact of the ESSP project found that employment offices had become more client-oriented, had improved interactions with employers and the community, and had enhanced capacities to deliver training, counseling and related labor market services. The computerization of the social protection offices improved the quality of their services, including services to clients of programs other than pensions. The institutional development impact of this portion of the project could have been even greater with better planning of the computerization effort. There was no coordinated effort to use computerization to build more effective information systems for policy and management control or to redesign processes at the local level.

5.9 The SPAL was less effective in achieving the legislative and regulatory changes that it contemplated, and therefore has only a modest institutional development impact. The institutional development impact of the SPAL lies primarily in the legal and regulatory changes it produced and secondarily in the reforms of the operations of particular social protection institutions that it encouraged. As noted previously, legislation was adopted to improve the child allowance and unemployment programs and provide an improved basis for voluntary pensions. On the other hand, efforts to reform pensions, the labor code and the sickness and maternity benefits did not produce concrete legislative changes not only in the time frame originally envisioned, but also through 2001.

5.10 Activities conducted under the SPAL appear to have had a positive impact in encouraging greater targeting in the delivery of social benefits in many localities throughout Russia, even though it did not succeed in convincing the Government to adopt a new program of targeted cash assistance. Greater targeting, even if only applied to current benefits, will more effectively utilize Russia's public sector financial resources. In two instances, the SPAL encouraged changes that had the potential for positive institutional development impacts, had the Government not decided subsequently to reorganize its social protection institutions. One is improved collection methods and the financial review at the pension fund and the other is the financial review at the employment fund. The lasting value of the financial review at the social insurance fund is harder to assess at this time.

6. Bank and Borrower Performance

6.1 Bank performance under the ESSP was satisfactory, but that under the SPAL was unsatisfactory. Particularly in the areas of labor law and pension reforms, the Bank agreed to conditions that allowed the Government to draw down the loan without having developed effective reform proposals. The reform effort essentially started over after the SPAL was completed. As noted below, however, the criticism of the Government's performance under the SPAL should not be taken as criticism of many of the agency personnel who strongly supported the SPAL's objectives and found that it had a positive impact on their own agencies policies and operations.

6.2 Both the ESSP and the SPAL projects were generally consistent with the Bank's economic and sector work as well as its country assistance strategies, although the link was less clear for the systemic pension reform than with the other elements of the two loan packages. At the same time, the SPAL's timeframe was unrealistic and its objectives too ambitious, given the inherent difficulties in forging a political consensus to reform major social institutions in any democracy, the particular political situation in Russia, and the policy development capacity of the Government. They were based on the premise that a consensus could be developed around a particular strategy for reform of a major social protection institution and a reform could be designed in a relatively short period of time, perhaps has little as a year. The actual steps required and supported under the project were of a preparatory or pilot nature, for which the companion SPIL, rather than a quick-disbursing loan for general budget support, was the better instrument.

6.3 In each project, Bank staff worked with government officials in the design phase in an attempt to assure sufficient ownership on the part of the Borrower. The effort was successful for some components only. Despite substantial efforts during all phases of the SPAL project, for instance, ownership remained a problem for some of the higher profile elements, such as pension and labor law reform. The Bank staff team responsible for the SPAL project, nonetheless, deserves credit for maintaining the focus of the project despite unusually rapid turnover of higher-level government officials during its life.

6.4 The Bank team that supervised each project was technically competent. The composition of the team remained constant throughout the SPAL project and during the first several years of the ESSP. Each team was effective in adjusting the respective projects to unforeseen developments, the delay in effectiveness in the ESSP project, and the impact of the 1998 fiscal crisis in the SPAL project.

6.5 Borrower performance was similar to the Bank's, that is, generally satisfactory under the ESSP (but barely so) and unsatisfactory under the SPAL. Nonetheless, the combination of the Government's scaling down the original objectives to which it had subscribed, its abrupt change in its policy on customs duties, excessive bureacracy, unclear lines of authority, and its unwillingness to assist localities in paying the new tax significantly caused delays with effectiveness and slowed the implementation of the ESSP. On the other hand, officials at the Federal Employment Service and at the local social protection offices were strong supporters of the ESSP and worked closely with Bank staff to overcome the implementation problems encountered in that project.

6.6 Both projects were hurt by turnover of high-level officials in Government, a problem that appears to have been particularly acute during the SPAL implementation period. The Government failed to produce acceptable pension and labor law reforms within the time period of the loan, despite its commitments to do so. Moreover, it followed through on its commitment to finance the assistance targeting pilots only after being threatened with cancellation of the second tranche of the SPAL.

6.7 At the same time, the acceptance of the idea of greater targeting of social benefits following the experience in the pilots is due in part to active support among high officials at the Ministry of Labor and Social Protection. Officials at the Social Insurance Fund and the Federal Employment Service also were supportive of the SPAL-related activities for which their agencies were responsible.

7. Lessons

7.1 A major lesson to be learned from these two projects is the need to have reasonable expectations about the pace at which a democratic society can reform its social protection institutions and to tailor Bank assistance strategy accordingly. Conditions attached to adjustment loans appear to be an effective way to encourage action in an area where a reasonable consensus already exists about the need for and general direction of change. The experience with the SPAL suggests that they are unlikely to be effective where no such consensus yet exists. This implies that the Bank should restrict itself to providing analytical and advisory services and a small technical assistance loan until such time as a reasonable consensus has finally emerged around a reform that the Bank is willing to support. At that point, larger loan assistance to help cover any transition or institutional investment costs is appropriate. Whether budget support linked to policy conditions is also appropriate in that situation depends on the Government's commitment to the overall macroeconomic and structural reform program.

7.2 A second lesson is the need to reconsider carefully the wisdom of proceeding with a loan when the Borrower wants to drop elements that are important to achieving the longer-term reform agenda. Arguably, the Bank could have refused to finance the computerization of the local social protection offices in the absence of progress toward a pension reform plan that covered both the policy aspects of the reform and the institutional aspects of the reform. While such a stand might have diminished the quality of service supplied by the local pension offices for at least a year or two, it might also have forced the dialogue about pension reform to have started some three years prior to the initiation of the SPAL project. It might also have forced the Government to decide earlier on a pension administration strategy, saving it from the wasted effort of enhancing the collections and financial management of the pension fund in the late 1990s only to transfer the functions to the Ministry of Taxation in 2001.

Annex A

PERSONS INTERVIEWED

Government of the Russian Federation

Mr. Valery Janvariov, Deputy Minister of Labor and Social Protection
Mr. Alexander Zhukov, Chairman, Budget Committee, State Duma
Mr. Boris A Dudenkov, First Deputy President, Social Insurance Fund
Mr. Grigory Y. Glazkov, Head of Department, Ministry of Finance
Mr. Mikhail Dmitriyev, Deputy Minister of Economy
Dr. Evgueni Gontmacher, Head of Department of Social Development, Aparat
Mr. Mikhail Lopatin, Advisor on Social Affairs to the First Deputy Prime Minister
Mr. Vladimir Zinin, Chief of Department, Ministry of Labor and Social Protection
Ms. Ludmila Rau, Chief of Department, Social Insurance Fund
Ms. Loubov Eltsova, Deputy Head, Federal Employment Services
Mr. Anatoly Kolesnik Deputy Chairman, Russian Pension Fund
Ms. Natalia Petrova, Head of Department of Accounting, Russian Pension Fund
Mr. Vladimir Dubrovski, Deputy Chairman, Social Insurance Fund

Tula Oblast Government

Mr. Yury Pavlovich Semyonov, Director of the Tula Regional Social Insurance Fund
Mrs. Natalia Vyacheslavovna Nikolayeva, Deputy Director of the Tula Social Insurance Fund
Mr. Alexander Petrovich Rybalchenko, Deputy Director of the Department for Social Protection of Population, Tula Oblast Administration
Mrs. Tatiana Nikolayevna Bukolova, Head of the Department for Automatic Communication Systems, Department for Social Protection of the Population.

Former Government Officials

Mr. Dmitry Vasiliev, Former Deputy Minister for Privatization
Mr. Yegor Guidar, Former Prime Minister
Mr. Sergei Kalashnikov, Former Minister of Labor and Social Protection
Mr. Oleg N. Sysuev, Former Minister of Labor and Social Protection and Deputy Prime Minister

Russian Private Sector

Mr. Igor V. Kolosnitsin, Institute for the Economy in Transition
Mr. Mikhail Shmakov, President, Federation of Independent Trade Unions of Russia
Mr. Igor Shanin, Secretary of Federation of Independent Trade Unions.

World Bank

Mr. Andrei Darusenkov, Moscow Office
Mr.Vadim Voronin, Moscow Office
Mr. Andrei Markov, Moscow Office
Mr. Joseph Procak, Russian Anchor Unit
Mr. Tim King, retired ECHDS
Ms. Anastossia Alexandrova, Moscow Office
Ms. Elena Zotova, Moscow Office

PERSONS INTERVIEWED (CONT'D)

World Bank (cont'd)

Mr. Andre Markov, Former Head of Social Protection, Moscow Office
Mr. Michael Carter, Former Head of Moscow Office
Ms. Kathryn Dahlmeier, Task Team Leader, ECHDS
Mr. Hjalte Sederlof, Former Project Director, ECHDS
Ms. Mansoora Rashid, Protect Director, ECHSD
Ms. Jeanine Braithwaite, Senior Economist, PREM
Ms. Donna Edgerton, Information Technology Consultant, ECHDS

BASIC DATA SHEETS

RUSSIAN FEDERATION: EMPLOYMENT SERVICES AND SOCIAL PROTECTION PROJECT (LOAN 35320-RU)

Key Project Data

	Appraisal Estimate	*Actual or Latest estimate*	*Actual as % of appraisal estimate*
Total project costs (US$)	133.0	80.6	60.6
Loan amount (US$M)	70.0	55.6	79.4
Cancellation (US$)		10.0	
Date physical components completed:			

Cumulative Estimated and Actual Disbursements *(US$ million)*

	FY93	*FY94*	*FY95*	*FY96*	*FY97*	*FY98*	*FY99*	*FY00*
Appraisal estimate	21	70						
Actual[a]	-	-	2	14	27	31	36	56
Actual as % of estimate	0	0	3	20	39	44	51	84

Project Dates

Steps in project cycle	*Original*	*Actual*
Identification	–	1992
Preparation	–	1992
Appraisal	–	October 1992
Negotiations	–	November 1992
Board presentation	–	November 24, 1992
Signing	–	
Effectiveness	–	September 9, 1994
Closing	April 30, 1996	April 30, 2000
Project Completion		

Staff Inputs (staff weeks)

Stage of Project Cycle	*Planned*		*Revised*		*Actual*	
	Staff Weeks[a]	*US$[a]*	*Staff Weeks[a]*	*US$[a]*	*Staff Weeks*	*US$000*
Identification/Preparation	–	–	–	–	59.0	179.1
Appraisal/Negotiation	–	–	–	–	43.6	132.7
Supervision	–	–	–	–	313.0	900.0
Completion	–	–	–	–	6.0	25.0
Total	–	–	–	–	424.4	1236.9

Annex B

Mission Data

Stage of Project Cycle/ Month/year	*Number of missions*	*Specialties of Mission Members*	*Performance Rating*	
			Imple-mentation Status	*Develop-ment Objectives*
Identification/ Preparation May-July, 1992	2	Task manager Labor market economist Employment specialist Information technology specialist Legal counsel		
Appraisal/ Negotiation September, 1992	1	Economist (task manager) Operations officer Employment specialist Information technology specialist Legal counsel Operations Analyst		
Supervision January 1993- October 1997	13	Economist (task manager) Operations officer Vocational educational specialist Employment specialist Information technology specialist Implementation specialist	S	S
Nov 1997- March 2000	4	Field based supervision missions, usually combined with other operations Task manager Operations officer Operations analyst	S	S
ICR April 2000	1	Task manager Operations analyst Employment specialist Information technology specialist Operations officer		

BASIC DATA SHEET

RUSSIA: SOCIAL PROTECTION ADJUSTMENT LOAN (LOAN 42030–RU)

Key Project Data

	Appraisal estimate	*Actual or Latest estimate*	*Actual as % of appraisal estimate*
Total project costs (US$)	800.0	800.0	100.0
Loan amount (US$M)		800.0	
Cancellation (US$)			
Date physical components completed:			

Cumulative Estimated and Actual Disbursements *(US$ million)*

	FY98	*FY99*	*FY00*	*FY01*
Appraisal estimate	550	800		
Actual	550	550	550	800
Actual as % of estimate	100	68	68	100
Date of final disbursement: August 8, 2000				

Project Dates

Steps in project cycle	*Original*	*Actual*
Identification	–	1995
Preparation	–	1995/97
Appraisal	–	April 1997
Negotiations	–	May 1997
Board presentation	–	June 25, 1997
Signing	–	June 26, 1987
Effectiveness	–	June 26, 1987
Closing	December 31, 1998	September 30, 2000
Project Completion		

Staff Inputs (staff weeks)

Stage of Project Cycle	*Actual*	
	Staff Weeks	*US$000*
Identification/Preparation	234.6	529.0
Appraisal/Negotiation	33.5	63.5
Supervision	165.4	329.1
Completion	8.0	18.6
Total	441.5	940.2

Annex B

Mission Data

Stage of Project Cycle/	*Month/ year*	*Specialties of Mission Members*	*Performance Rating*	
			Imple-mentation Status	*Develop-ment Objectives*
Identification/ Preparation	June 1995	Chief, Human Resources Division Human resource specialist (2) Country officer		
	October 1995	Team leader Health specialist (2) Pension and social assistance speciaist Employment specialist Education specialist (2)		
	April 1996	Team leader Poverty specialist Labor economist (2) Pension specialist Consultant—social protection Economist Social protection specialist		
	June 1996	Team leader Labor economist (2) Operations officer Pension specialist Senior human resources officer Social protection economist Economist (fiscal)		
	October 1996	Team leader Poverty specialist Labor economist Legal advisor (2) Pension specialist Pension modeling specialist Social protection specialist Economist (fiscal) Human resource/operations officer (2)		
	December 1996	Team leader Consultant – legal matters Pension modeling specialist Senior human resources officer Operations officer		
	March 1997	Team leader Poverty specialist Pensions specialist Labor economist Economist Operations officer		
Appraisal/ Negotiation	March 1997	Chief, Human Resources Division Human resource specialist (2) Poverty specialist Legal advisor		

Supervision	December 1997	Team leader Labor market/employment specialist Social sector economist Actuary/pension specialist Human development specialist Pension specialist Social protection specilist Pension modeling specialist Poverty economist	S	S
	June 1998	Team leader Social protection specialist Pension specialist (2) Labor market/employment specialist	S	S
	December 1998	Team leader Human development economist Pension specialist (2) Labor economist Operations officer Human development specialist	S	S
	February 1999	Team leader Country director Legal counsel (2) Human resource specialist Operations officer (2)	S	S
	April 1999	Team leader Social protection specialist Pension specialist Human development specialist	S	S
	February 2000	Team leader Social protection officer (2)	S	S
ICR	February 2001	Operations officer		

Other Project Data

Borrower/Executing Agency

Follow-on Operations

Operation	*Credit no.*	*Amount (US$ million)*	*Board Date*
Social Protection Implementation Loan	**Ln. 42340**	**28.6**	**October 7, 1997**

Annex C

Federal Center for Project Finance's Comments on CAE Background Paper

Summary Comments on
Mr. Thompson's Background Evaluation Report for the Russia CAE [19]
By Vladimir Gimpelson,
Consultant to the Federal Center for Project Finance

Mr. Gimpelson agreed with much of the analysis of the report, including the importance of the political and economic environment in influencing the Bank's social protection projects. Mr. Gimpelson's differed somewhat with the assessment presented here of the Bank's two major social protection loans during this period. His assessment of the Employment Services and Social Protection Loan was less favorable than that presented in this report, while his assessment of the Social Protection Adjustment Loan and the associated Social Protection Implementation Loan was more favorable.

With respect to the ESSP loan, Mr. Gimpelson noted that both the Bank and the Borrower should have recognized that the emphasis on active labor market policies was misplaced prior to 1994, since it was clear by then that the Russian transition was not going to lead to rapid and significant increases in unemployment in a manner similar to the experience in Eastern Europe. He also argues that the decision to drop the pension reform components from the loan robbed it of most of its potential for institution building.

With respect to the SPAL, Mr. Gimpelson faults the Bank for establishing what it should have known was an unrealistic timeframe for the pension and labor law reforms. He faults the Government for agreeing to undertake these reforms when, prior to the 1998 crisis, development of a consensus around either reform was not possible. He notes, however, that the SPAL process has had a positive longer-term impact, leading to action in the Duma in 2001 that is likely to produce reforms in both areas. His more favorable assessment of the SPAL-SPIL effort is primarily due to this longer term impact.

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[19] The Federal Center for Project Finance of the Russian Federation asked Vladimir Gimpelson, a consultant, to comment on an earlier version of the background paper for the Russia CAE on Bank assistance for social protection.

IMAGING

Report No.: 25044
Type: PPAR