World Bank – Russian Federation Partnership
Country Program Snapshot

September 2011
RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

Growth

Russia emerged from the global crisis and returned to moderate growth with lower than expected unemployment and poverty, in part due to a large fiscal stimulus. The crisis has reduced the long-term trajectory of the Russian economy, reflecting more constrained post-crisis external environment (Figure 1). After the initial bounce back in 2010, on the heels of domestic demand and higher oil prices, growth has remained stable—despite recent global market turbulence and the slowdown in the US and the large European economies. But the economy remains dependent on fossil fuel exports and vulnerable to commodity price volatility. There has been some shift to services over the years but the economic structure is still dominated by large corporations with concentration in natural resources and low value added industries, while contributions from the SME sector are limited.

Figure 1: The impact of the crisis on the long-term development objectives in Russia: dynamics of GDP level in Russia 2006-2020, (q1-2006=100)

Against this background, since late 2010, global risks have risen and the global market turbulence in August 2011 resulted in a downward revision of the global outlook. Russia’s short-term economic and fiscal situation remains favorable because of high oil prices with an almost balanced budget this year and low public debt. But the balance of macroeconomic risks has shifted toward an uncertain growth path as inflation pressures subside and external risks rise sharply. The large non-oil fiscal deficit requires concerted medium-term fiscal adjustment to reduce vulnerability in the face of new shocks, to replenish fiscal buffers, and to move toward a longer-term sustainable level of non-oil deficits.

With heightened external risks because of the slowdown in the United States and the European Union, the sovereign debt crisis in Europe, and attendant decline in oil prices, Russia’s real GDP is likely to grow 4 percent in 2011 (down from 4.4 percent expected in June), moderating to 3.8 percent in 2012. With the inventory restocking cycle coming to an end, fixed capital investments grew at 2.7 percent in the first half (H1) of 2011 year-on-year, while private consumption growth appears to have been constrained by continued, low consumer confidence. Nevertheless, with low unemployment, continued credit growth and increases in real wages, consumption growth is likely to lead short-term growth even in the environment of more moderate growth and oil prices (Figure 2).

Figure 2: Demand Sources of Russia’s Real GDP Growth, by Quarter, 2008-2011 (%-change year-on-year)

In the medium and long-term, Russia’s growth will depend on the success of...
medium-term fiscal adjustment and remaining structural reforms. These are aimed at improving the performance of the public sector, upgrading infrastructure and skills and strengthening the investment climate.

Inflation

With receding pressures on food and energy prices, Consumer Price Index (CPI) inflation in Russia is now on a downward trend. In May 2011, the Central Bank of Russia (CBR) finished its tightening of monetary conditions. Inflation pressures began to recede in July-August 2011 following the stabilization of gasoline prices and a seasonal drop in prices on agricultural food products. Year-on-year August 2011 inflation was 8.2 percent, down from 9.5 percent in June 2011. This trend is expected to continue through October.

External Performance and Trade Integration

High oil prices have helped strengthen Russia’s current account, but the overall balance of payments (BoP) position deteriorated in the first half of 2011 because of large net capital outflows. With average oil prices remaining well above US$ 100 per barrel, trade balance improved substantially (Figures 3 and 4) and the external current account balance slightly improved to US$ 57.6 billion in the first half of 2011 from US$ 52.1 billion despite a surge in imports. In contrast, the capital account considerably weakened during the first half of 2011 because of increased capital outflows. As a result, the overall BoP surplus has considerably narrowed in the first half of 2011, compared with the first half of 2010, albeit allowing the Central Bank of Russia to accumulate about US$ 23 billion in foreign currency reserves.

Russia made important progress toward World Trade Organization (WTO) membership; if the remaining issues are resolved, membership can be anticipated in early 2012. At the same time, on July 1, 2011, the Customs Union between Russia, Kazakhstan, and Belarus became operational, reflecting Russia’s concerted efforts to increase trade, energy, and economic integration with countries in its vicinity.

Fiscal Sector

High oil prices and conservative expenditure execution resulted in a sizable surplus of the federal budget; this surplus, combined with the low public debt, suggests a favorable short-term fiscal outlook. According to preliminary estimates of the Ministry of Finance, the federal budget was executed with a surplus of 2.5 percent of GDP in January–July 2011, compared with the 1.3 percent annual deficit stipulated in the amended 2011 budget. The surplus was mainly due to higher revenues that amounted to 21.8 percent of GDP compared with a targeted 19.3 percent in the Budget Law. Execution of expenditures in the first seven months of 2011 has been slow, with federal spending amounting to 19.3 percent of GDP compared with 20.7 percent planned in the budget.
Nevertheless, the budget remains vulnerable to new, sudden drop in oil prices. The oil price outlook has been revised downward in September 2011 (Figure 5) with further downside risks associated with the weakening of global economic activity. Non-oil fiscal deficit remains at about 11 percent of GDP, much higher than the sustainable, long-term level of about 4.5 percent. The latest draft budget parameters for 2012-14 propose modest adjustment but large non-oil deficit and associated vulnerabilities will remain in medium term.

Financial Sector

With improved liquidity and a continued decline in lending rates, robust credit recovery continues, but the share of total credits to the private sector in GDP remains below pre-crisis level (Figure 6). In January–July 2011, the total stock of credit to the private sector increased 19 percent in nominal terms, year-on-year. Credit to households, in particular (for example, mortgages, consumer loans, and car loans), rose 25 percent during the first seven months of 2011, while credit to nonfinancial corporations increased 17.5 percent. But the share of total stock of credits in GDP remains relatively low — about 41 percent at end-July 2011 (only 10 percent for household credits).

Lending to small and medium-size enterprises (SMEs) – which suffered disproportionately during the crisis – is very slowly recovering. This suggests that banks still perceive SMEs and households as high-risk borrowers, often imposing prohibitive terms on consumer loans, limiting a more robust recovery of domestic consumption.

Poverty and Social Protection

Russia was making good progress in its medium-term development strategy prior to the 2008-2009 global financial and economic crises. Living standards and human development indicators showed positive gains, although still mostly remaining below international comparators.
The crisis resulted in poverty at end-2010 being broadly similar to that in 2007—indicating that the crisis has halted poverty reduction in the intermediate years. The poverty outcomes would have been worse had it not been for the massive countercyclical fiscal stimulus and increases in wages and pensions that cushioned the social impact. The official poverty rate at end-2010 is 13.1 percent (Figure 7). This rate means that the post-crisis growth rebound is yet to translate into tangible poverty reduction, despite recent improvements in labor market conditions. Large segments of the middle class remain vulnerable to new shocks to their fixed incomes (for example, inflation). Increased policy focus on better targeted programs, especially in the least advanced Russian regions, is needed.

Social insurance (mostly pensions) makes up 73 percent of total social protection expenditure in Russia. The orientation of Russia’s social protection system toward pensions is understandable given its history during the 1990s, but, together with the recent crisis-related increase in their size, raises a number of equity concerns and comes at a significant fiscal cost.

Social assistance, which only accounts for about 2.5 percent of GDP, is poorly targeted. 90 percent of this social assistance is spent on payments to specific categories of the population (privileges), while only 10 percent is spent on targeted programs (Figure 8). Privileges generally do not reach the poor well, and hence achieve little in terms of poverty reduction.

Russia still lacks a unified nation-wide pro-poor safety net program or a coherent social safety net strategy. Federal/regional overlaps also impede improved targeting of social assistance and this remains an important area for further reforms.

The World Bank is working with the federal and some regional governments on approaches to improve the efficiency of social expenditures. A World Bank Social Expenditures Review (2011) provided the Government with benchmarks and options for the improvement of social service delivery. Further lessons will be derived from pilot engagements on a fee basis now underway in Moscow City and the Republic of Tatarstan.

Employment

After a drop in unemployment in 2010 because of cyclical recovery, the labor market outcomes have been gradually improving during the first half of 2011. Economic activity and employment rates are gradually returning to
the pre-crisis levels, but unemployment remains elevated—about 1 percentage point higher than in pre-crisis July 2008—and labor demand is lower than before the crisis. The unemployment rate has been falling to reach 6.5 percent in July 2011 (figure 9).

Figure 9: Trends in Economic Activity Rate, Employment and Unemployment

![Economic Activity Rate Graph](image1)

Figure 10: Trend in Vacancies

![Vacancies Graph](image2)

The employment rate—expressed as the ratio of number of employees to the working age population—has improved. Over the last several months it finally reached the pre-crisis level of 64.6 percent in July 2011. The economic activity rate presented as share of the employed and unemployed to the working age population has reached its highest point of the last three years (69.1 percent) but this merely offset the absolute losses in employment during the crisis.

The number of vacancies, as an indicator of labor demand, is steadily growing but is still below the pre-crisis level (Figure 10).

Vacancies are increasing strongly in the large sectors such as manufacturing and finance.

Even before the crisis, skill mismatches in the labor market were turning into an increasingly important development constraint. The latest EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS) ranks skills as the number 1 concern for businesses in Russia. With the improving labor market conditions after the crisis, the issue is likely to gain importance in the country’s development agenda.

Health

Health indicators generally remain low in Russia in an international perspective and when compared to countries with similar levels of development (Figure 11). However, measures undertaken to improve the health of the population, including the fight against HIV/AIDS and Tuberculosis, have shown first positive results. Life expectancy at birth trended upwards according to the Human Development Report from 65.5 in 2005 to 67.2 years in 2010.

The differences in health outcomes across regions are profound. For example, in far northeast Chukotka, life expectancy is 58.7 years (54.1 years for men) and in Moscow city it is 72.5 years (68 years for men).

Figure 11: Healthy Life Expectancy compared to Per Capita Health Spending: Russian Federation and Selected Countries

![Health Expectancy Graph](image3)

Source: WHO
The Bank has provided wide-ranging support for the health sector, with good results. Regional health pilots managed by International Bank for Reconstruction and Development (IBRD) in Chuvashia and Voronezh provide a national model for restructuring health systems. Primary care and outpatient services increased as hospital beds in tertiary units declined; single payment channels are beginning to replace fragmented systems. For example, general practitioners delivered care to 65 percent of the population in Chuvashia in 2008, up from 13 percent in 2003. A World Bank Group (WBG) sub-national loan to Chuvashia financed complimentary medical equipment (loan by IBRD and IFC - the International Finance Corporation). The Bank has also supported adoption of 400 standards and protocols to increase federal stewardship over a highly decentralized health system.

Education

With public expenditure levels of about 4 percent of GDP in education, Russia invests less in education than the OECD average of 5.4 percent. Russia also allocates a somewhat smaller share of the overall government budget to education compared to the OECD country average (11.9 percent compared to 13.2 percent, respectively). Compared internationally, the structure of education spending in Russia is geared more toward tertiary education.

Relatively low spending on education in Russia achieves quite good outcomes compared to OECD countries. Russia’s achievements on international education tests vary. While Russian primary school students are the best readers internationally according to the results of the Program of International Reading Literacy Study (PIRLS), Russia’s achievements in Program for International Student Assessment (PISA) are modest (Figure 12).

Figure 12: Russia’s Educational Test Scores in an International Perspective

In recent years, new reforms have been implemented in the education sector, with support from the World Bank. These reforms aim at improving the quality of education and enhancing the efficiency of public spending on education through introduction of new fiscal incentive structures, measurement of results, changes in curricula, performance-based payments to teachers, and extension of e-learning nation-wide, including to children in rural areas.

Regional Development and Municipalities

Regional development continues to be a challenge for the largest country in the world by land area. Faced with significant contrasts in socio-economic, climatic, and geographic conditions across its 83 regions the Government has embarked on a series of reforms to provide access to social services and infrastructure of comparable quality all over the country.

Uniformly low population densities make it difficult to capture agglomeration economies in Russia. But there is measurable progress in convergence over the CPS period (FY2012-FY2016) when measured in gross regional product (GRP), as documented by the 2009 Country Economic Memorandum.

The infrastructure backlog on the other hand remains huge. The Bank supported Russia in a catalytic function with four fee-based service
agreements in St. Petersburg. This provided the basis for Pulkovo Airport to become Russia’s first public-private partnership (PPP) to receive international private investment in the transport sector, raising Euro 1.1 billion.

A model for delivery of better housing and communal services is evolving at the municipal level. A decade of support from the World Bank Group aided the creation of modern land and property markets, the mortgage industry, and financially-viable utilities. Bank lending for water quality and district heat established the principle that tariffs can be raised if quality and service are improved, while targeting housing subsidies to the poorest. Currently, the Housing and Communal Services Project is applying these lessons by providing investments for utility modernization in return for tariff and subsidy reform by municipalities.

Public participation is increasing in Bank-supported pilots of local self-government. A path-breaking fiscal and administrative decentralization program has created 10,000 new administrative units. In support, the Bank developed and tested replicable models of capacity-building in 21 rural settlements. The purpose was to increase the value of public hearings and public participation in budget decision-making. Based on the findings, the Bank is advising the Ministry of Regional Development on indicators of local government effectiveness.

Public Sector Management

Public expenditure effectiveness is high on the agenda. The Bank assisted the Government in developing a strategy for improving the effectiveness of public expenditures. The Bank also completed a Public Expenditure Review (July 2011) focusing on long-term fiscal risks and transport expenditures and public employment, identifying major opportunities for expenditure savings and streamlining public employment.

Efforts to improve the quality of public service have intensified. Streamlined standards for federal authorities in service delivery are beginning to induce cultural change in the bureaucracy. Nevertheless the modernization of public administration and the judiciary requires greater effort and civil service reform is incomplete. Some progress in service delivery is observable. For example, multi-functional service centers – where they already have been established – have helped to cut in half the waiting time for some administrative services. The Government has also started to roll out the first wave of e-government.

There is also improvement in performance and client satisfaction in several public agencies. Bank-supported projects in tax administration, customs, judicial reform and land administration have reduced processing time for key functions while also increasing public satisfaction.

Public Financial Management

Public financial management (PFM) has undergone significant reforms with decentralization and introduction of a 3-year budget framework. The Russian Government shows strong commitment to modern principles of sound fiscal management. The focus is now to follow-up the recent fiscal decentralization by improving performance at the municipal level.

The Ministry of Finance greatly modernized legal and institutional mechanisms in support of PFM reforms. These included systems for monitoring sub-national public finance, implementing Treasury principles of budget execution, creating budget authority at the municipal level, revising revenue and expenditure assignments, adopting legislation on insolvency of regional budgets, and operating a Regional Fiscal Reform Fund. Implementation of a 3-year fiscal framework was temporarily suspended during the crisis but resumed in 2010-11. The Government’s reform program also includes further implementation of performance and program budgeting. The Bank has supported all these efforts with lending and analytical and advisory services since 1998.

Russia’s Global Role

Russia has taken on important regional and global roles through its memberships in the Group of 8 and the Group of 20. Russia is becoming a significant provider of crisis response funds and development assistance. It contributed
US$ 7.5 billion to the EurAsEC Anti Crisis Fund and its Official Development Assistance (ODA) equivalent financial flows increased from US$ 102 million in 2006 to US$ 785 million in 2009, at the peak of the crisis, before declining in 2010 to an estimated US$ 492 million.

Russia's position on climate change is evolving slowly. It concentrated on energy efficiency measures and established the legal and financial framework for carbon finance. As yet it has not become an active participant in global climate change initiatives.

The Russian Federation's efforts to develop an ODA strategy are a key pillar of its partnership with the World Bank. The “Russia as a Donor Initiative”, with funding from DFID, supported the development of the main elements of the future Russian aid architecture. This included technical assistance to build Russia's ODA statistics system, support to establish a strategic communication program with regard to foreign aid, and cooperation with academia to establish a development aid-focused curriculum at the Russian universities.

Russia is also taking the lead in hosting global conferences on cutting-edge development issues. Supported by the Bank and the OECD, in February 2010, Russia sponsored the Moscow International Conference on New Partnerships in Global Development Finance. In November 2010, the Bank lent its support to the First International Tiger Forum hosted by Prime Minister Putin in St. Petersburg for the Tiger Range Countries, including China, international organizations, and civil society organizations. President Zoellick participated in both of these conferences.

With nearly one-quarter of the world's pristine forests, Russia has a major impact on the global climate agenda. The wildfires of 2010, following an unusual drought, highlighted weaknesses in the 2007 Forest Code. It decentralized the responsibility for fire fighting to regions. Federal agencies were unable to fully compensate and backstop regional weaknesses. In the Sustainable Forestry Project, the World Bank helped Russia improve forest fire monitoring and communications systems in 7 regions, using 45 newly-equipped and trained brigades. This resulted in improved response times and a better coordinated response leading to smaller areas burnt. Most of the regions affected by the recent wildfires were in eastern Russia where heavy fire damage is most common. The lessons will be applied in a new forestry project under preparation.

THE WORLD BANK PROGRAM IN RUSSIA

The Russian Federation joined the World Bank (IBRD and IDA) in 1992. The Bank has provided financing for 64 projects in different sectors totaling slightly over US$ 10.4 billion in IBRD loans. US$ 9.8 billion have already been disbursed which represents about 94 percent of the total portfolio. 100 percent of the Bank financing to Russia is provided in the form of investment lending operations.

The current IBRD Portfolio has shrunk from 22 to 10 projects for a total current commitment of US$ 987 million (as of September 21, 2011). Reimbursable technical assistance (RTA) and sub-national lending through the WBG facility (9 loans for US$ 162 million) emerged as new business lines.

Portfolio quality is relatively high, with two exceptions. The Judicial Reform and Registration projects are undergoing intensive restructuring or action plans to improve performance, particularly due to procurement issues. A Joint Program Results Review (JPRR) in FY08 reported significant results from on-going and closed projects in social and communal services, fiscal management, and public administration (tax, customs, and land cadastre).

The Country Partnership Strategy (CPS) for fiscal years 2007-2009 (FY07-FY09) was extended to FY11. It was initially approved by the Board in December 2006, when the Russian economy was at an historical apex of nearly one trillion US dollars equivalent. The strategy was extended just as the global financial crisis triggered sharp declines in GDP and fiscal revenues. The current strategy thus includes a focus on anti-crisis measures that are geared towards long-term growth objectives.
The new Country Partnership Strategy for FY12-16 is under preparation now. It will be aligned with the Government strategy 2020 and will cover four themes: (i) Increasing Growth with Diversification; (ii) Expanding Human Potential; (iii) Deepening Russia’s Global Role, and (iv) Improving Governance (cross-cutting theme).

The Russia program is distinguished by several unique cooperation initiatives. These include IFC-Bank sub-national lending, reimbursable technical assistance, and a joint strategy that gives IFC and MIGA (Multilateral Investment Guarantee Agency) a key role in private sector development.

Analytical and Advisory Services (AAA) have become even more critical to engagement in Russia since the Quality Assurance Group (QAG) validated the high value of Bank products to Russian clients in 2006. In close cooperation with the Government, joint AAAs are helping to modernize public finance and administration, prepare PPPs in infrastructure, and improve social service delivery. The policy dialogue and new lending are being shaped by the Social Expenditure Review (SER), Small and Medium Enterprises finance study, Public Expenditure Review, and policy reports on consumer finance and regional growth and development. A major WBG study on energy efficiency was the basis for a landmark law in 2009 and an investment operation (under preparation). Regular Russian Economic Reports (RER, three per year) provided the platform for timely anti-crisis policy advice and recommendations to address structural constraints to sustainable growth.

The Regional Doing Business, published in July 2009, has generated a request for follow-up work in 30 municipalities. This will meet the growing demand at the regional level to improve the investment environment for productivity-led growth.

Demand has grown rapidly for reimbursable knowledge services (Figure 13). Demand covers a wide range of activities that are well-aligned with Russia’s development challenges, from human development to social assistance, to PPPs and to capacity-building for ODA.

Figure 13: Bank’s Reimbursable Technical Assistance (RTA) for Russia (received revenue/number of projects)

![Graph showing RTA values for multiple years from FY07 to FY11](source: World Bank)

Total contract value of all 40 completed and signed projects for the period from FY07 through FY11 is approximately US$ 20 million. For example, an RTA agreement between the Russian Federation and IBRD of US$ 3 million will increase capacity for Russian donor assistance in education quality. Pricing of RTAs is based on individual evaluation of each request.

The new Country Partnership Strategy will further develop ongoing programs at the bilateral, regional and global level. Looking forward, the Bank plans to support new operations for financial sector development, infrastructure development, energy efficiency, forestry protection, and other priorities now under discussion for the new CPS. At the regional level, the Bank is partnering with Russia in programs for public financial management and on a global level; Russia’s priorities include education quality, infectious diseases, and energy and food security.
Key Dates:
Approved: December 7, 2010
Effective: June 10, 2011
Closing: July 31, 2017

Financing in million US Dollars*:

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*as of August 01, 2011.

The project is to support the rehabilitation and improvement of cultural heritage sites and institutions, conservation, safekeeping and promotion of cultural heritage assets in four of the country’s oblasts (regions): Leningrad, Pskov, Novgorod, and Tver oblasts. The Project will also help the participating oblasts to strengthen their internal capacity for cultural heritage management so that it could foster socio-economic development arising from the opportunities of cultural tourism. The Project builds on know-how and experience of the St. Petersburg Economic Development Project and its predecessor, the St. Petersburg City Center Rehabilitation Project.

The Project is in line with the key objectives of the Concept for the Long-Term Social and Economic Development of the Russian Federation until 2020, which refers to culture as one of the strategic sources for economic development, and to Russian regions’ cultural potential. Leningrad, Pskov, Novgorod and Tver oblasts - being located between St. Petersburg and Moscow - are rich in history and in national historic landmarks that are of universal significance. The Project aims to assist the Russian Government in its efforts to improve protection of Russia’s moveable cultural property by upgrading collection management, conservation and storage facilities, and museum security practices.

The Project Development Objectives are the following: (1) to support the conservation, safekeeping and promotion of cultural heritage assets in Leningrad, Pskov, Novgorod and Tver oblasts of the Russian Federation and (2) to strengthen regional capacity for cultural heritage management so it supports the socio-economic development of the participating oblasts.

The Project includes 3 components:

1. Integrated Heritage Site Development Component consists of two sub-components:
   - Rehabilitation and improvement of cultural heritage sites and institutions, and
   - Capacity building for integrated site development.

2. Component on Protection of Museum Assets, is designed to support the Russian Government’s efforts in protecting and promoting the moveable cultural heritage assets of Russia, and also consists of two sub-components:
   - Improvement of collection management, conservation and storage; and
   - Development and testing of museum security practices.


Key Partners:
- Ministry of Culture of the RF (responsible for project implementation);
- St. Petersburg Foundation for Investment Projects (acts as Project Implementation Unit under the Ministry of Culture);
- Inter-Ministerial Committee (led by the Ministry of Culture and composed of senior representatives of the Ministry of Culture, Ministry of Finance and Ministry of Economic Development, responsible for strategic issues and decisions during project preparation and implementation);
- Oblast Working Groups (based in the participating oblasts, composed of various officials and experts at the regional level for the preparation of sub-project proposals under the Integrated Heritage Site Development window).
Before the 1990s, Russian citizens had limited access to only a few financial services provided by State organizations. During the early 2000s, the financial industry in Russia expanded, following positive trends in economic growth and reforms in the financial and social sectors. Incomes and savings increased but financial literacy did not. A nationwide financial literacy survey conducted in June 2008 showed that financial literacy of the Russian citizens remained low, and that 40 percent of the population still believed the Government would compensate them for financial losses on personal investments.

Financial literacy is the ability to make informed decisions about the use and management of one’s financial resources. Financial education is a process to help financial consumers improve their understanding of financial products and concepts, and by obtaining information, instruction and/or objective advice, develop their skills and confidence to become more aware of financial risks and opportunities, make informed choices, know where to go for help, and take other effective actions to improve their financial well-being.

The Project Development Objectives are the following: (1) to improve the financial literacy of Russian citizens (especially, among the school-age and college students, and active and potential low- and middle-income users of financial services); and (2) to strengthen the foundations for improving consumer protection in financial services.

The Project includes 5 components:

- The first component is to be dedicated to the development of a national financial literacy strategy, strengthening the institutional and legal framework for the implementation of financial literacy and consumer protection policies, and development of the Project monitoring and evaluation framework.
- The second component concerns building institutional and human capacity for raising financial literacy in Russia at both federal and regional levels, and in the public and private sectors.
- The third component includes the development and implementation of educational programs, information campaign, and the scaling up of existing financial literacy improvement initiatives.
- The fourth component aims at strengthening consumer protection in financial services by strengthening capacity for financial consumer protection in the Consumer Protection Service, industry professional associations, and civil society.
- Finally the fifth component deals with project management, implementation, monitoring, and evaluation as set forth by the rules and procedures of the IBRD and Russian laws and regulations.

**Key Partners:** The proposed Project will be implemented by the Ministry of Finance with supervision and coordination provided by the Interagency Project Committee (IAPC). By the end of the proposed Project, Ministry of Finance would empower one of its organizational units with a long-run responsibility for the National Financial Literacy Improvement Strategy (NFLIS) and financial literacy improvement. The Expert Board of the IAPC will be established and made responsible for providing high-level expert support to the IAPC. Regional financial education programs will be implemented through the Regional Centers for Financial Literacy (RCFLs). The Consumer Protection Service (CPS) would participate in implementation of activities designated for developing consumer protection capacity. The Ministry of Education would participate in implementation of segments linked with capacity building in financial education and design of financial education programs. The “Fund of Good Ideas” (US$ 10 million) would support financial literacy and consumer protection improvement initiatives of civil society, NGOs, public and private sector entities, and individuals.
The Housing and Communal Services (HCS) sector – comprising housing, district heating, water supply and wastewater treatment -- remains one of the most inefficient segments of the Russian economy. Services often continue to be delivered in much the same way as they were during the Soviet era, with virtually no reliance on market-based mechanisms. During the economic turmoil of the 1990s, the housing stock and utility assets depreciated as maintenance and investment funds were diverted elsewhere by cash-strapped households and local governments. As a result, the quality and reliability of the HCS sector degraded, lowering living standards of the people. With economic recovery between the 1998 and 2008 crises, the federal authorities and municipal administrations began to implement a number of policy and institutional reforms in the sector and rehabilitate sector assets. The project aims to support that effort by financing technical assistance to the Ministry of Regional Development and participating cities, as well as investments in HCS infrastructure by the participating cities. The participating cities will implement an agreed set of reforms and then receive grants to upgrade infrastructure.

**The Project Development Objective** is to improve the quality and financial viability of HCS in the participating cities and thus, to raise living standards of the population.

**The project will support:**
- improvements in financial viability of communal services providers,
- strengthening social protection of HCS consumers, and
- creation of market competition in housing management and maintenance.
- Investments will focus on the water and sanitation, heating, and housing sectors. The project outcomes will be measured by a series of technical indicators, such as profitability of utilities; the level network losses; the share of multi-apartment buildings managed by professional management companies and the level of satisfaction with the quality of services by the population.

**Results:** Ten main and four reserve cities have been selected competitively to participate and half of them have already completed the necessary reform measures to be eligible for the investment phase of the project. There is active learning among the cities to study best practices of others. Three project cities have started implementation of their respective investment plans. In addition, the Ministry of Regional Development is using international experience provided under the project to review tariffs and to develop regional comprehensive development plans as part of the Technical Assistance component which is under active implementation.

**Key Partners:** Ministry of Regional Development of the Russian Federation is in charge of project implementation. An Inter-Agency Working Group composed of Ministry of Regional Development and representatives from the Ministries of Finance, and Economic Development is responsible for strategic issues and decisions during project implementation. The St. Petersburg Foundation for Investment Projects is non-commercial foundation which was selected on competitive basis to act as the Project Implementation Unit for the purposes of day-to-day assistance to the Ministry of Regional Development in project management.
SECOND STATE STATISTICAL SYSTEM DEVELOPMENT PROJECT

Key Dates:
Approved: June 28, 2007
Effective: April 22, 2008
Closing: August 25, 2012

Financing in million US Dollars*:

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*as of August 22, 2011

The Russian Federation’s development strategy implies a major increase in the demand for comprehensive, high quality statistics to provide the information for evidence-based decision making. Hence, the Federal State Statistical Service (Rosstat) faces important challenges and has developed the Federal Targeted Program (FTP) for Statistics for 2007 to 2011, envisaging the development of integrated statistical information capable of providing the timely, comprehensive, and reliable data needed in modern Russia. The program focuses on collaboration with other executive federal bodies, based on integration of all data sources on a countrywide scale to ensure effective use of statistics in policy making, management, and forecasting at federal and lower levels of governance. The Bank has been supporting the improvement of official statistics in Russia under several joint projects, including the first State Statistical System Development Project (STASYS), which has catalyzed reform of the primary statistical procedures and developed the main elements of the modern IT network for statistical system in the country, and the follow-up STASYS 2 project aimed to roll out the process of reforming as well as to advance the statistical methodology in specific areas of statistics, and upgrade the human capacities of the system in concurrence with the FTP for Statistics.

The Project Development Objective is to build a sustainable state statistical system, which provides timely, coherent, and trustworthy statistical data concerning the economy and social conditions in Russia, as required by government, business and society to make informed decisions.

The Project builds on what was achieved by STASYS and supports further improvements in the national statistical system, such as introduction of new methods of data collection and processing according to the international standards, and further development of the IT system of Rosstat tailored to the modern statistical needs, including regional statistical offices. It supports the implementation of Rosstat’s plans in areas such as: generation of the statistical data needed to support, monitor and evaluate performance management and performance based budgeting; municipal reform, and provides funding for IT infrastructure investments, training facilities, and the adoption of international standards and methods. These investments will contribute to strengthening the capacity of Rosstat to generate reliable and timely data and introduce modern dissemination principles.

Results: The project still has low disbursement; however the majority of its activities have been committed. A key indicators of performance are the availability of data conforming to international standards and increase in users’ satisfaction. Quantifiable indicators of project outcomes include:

- An increase in the level of conformity of the main macro-aggregates (such as SNA, BOP) and price indices as assessed by the IMF Data Quality Assessment Framework (DQAF);
- An increase of the number of the MDG indicators collected and processed by the State Statistical Service;
- An increase in the share of data which conform to the international standards in statistical questionnaires provided to international organizations;
- An increase in the number of data sets in public access supported by comprehensive meta data packages;
- Growth in the number of visits to the ROSSTAT websites;
- An increase in trained and re-trained staff, particularly at the regional level.
The Project Development Objective (PDO) is to assist the Russian Federation to strengthen judicial transparency and efficiency of selected courts through the implementation of information systems and judicial training.

Through project Component A this was envisaged to be done by:

- Institutionalizing judicial transparency and accountability;
- Research and analysis on further development of transparency, including obligatory publication of judicial decisions;
- The development and piloting of criteria, indicators and a policy to assess and periodically report on the effectiveness of the judicial system, and related capacity-building;
- Development and implementation of communications and change management strategies to promote judicial reform.

Component B activities include harnessing Information and Communication Technology (ICT) for judicial transparency and effectiveness, by:

- Modernizing, development and deployment of integrated information systems for courts to facilitate document flow, record management, information collection, and internal knowledge sharing;
- Improvement of public access to and availability of judicial information through online publication of judicial decisions and other relevant information;
- More effectively linking courts, Judicial Department offices, and relevant entities/facilities through integrated information systems by enhancing mobile capabilities of access to electronic information and video-conferencing.

Component C focuses on strengthening human capital by:

- Information technology-related education and training for judges and court personnel for all court systems and their administrations;
- Knowledge exchange, including seminars, workshops etc. for the judiciary.

Results: Owing to unanticipated implementation delays and governance issues, the Project has been rated “Unsatisfactory” on Development Objective and Implementation Progress since June 2009. But some intermediate results are promising: analytic outputs (e.g. a user survey, performance indicators) are being taken into account in reform design, and completed ICT investments are contributing to greater efficiency and transparency. In addition, the September 2010 project Mid Term Review (MTR) disclosed that the PDO remains relevant, and ownership of the project by the judicial leadership, MOED and MOF remains strong. Furthermore, the landmark 2009 Law no. 262 on Access to Information on the Activities of Courts which came into force from July 1, 2010 has increased the relevance of the project and the PDO since significant programmed ICT investments will support the publication of judicial decisions by 900 courts of general jurisdiction across the Russian Federation. Discussions are ongoing between the Bank and the Russian authorities on project restructuring to address identified issues and expedite implementation.

Key Partners. The implementing agency is the Ministry of Economic Development of the RF (MOED) which requested the Project in 2005 as a strategic instrument to strengthen transparency and complement Russia’s own $4 billion second Federal Targeted Program (2007-2011) for judicial modernization. The Project finances ICT investments and related training for the Constitutional Court; the Supreme Court, its Judicial Department (JD) and 900 courts of general jurisdiction (CGJ); and the Supreme Arbitration Court (SAC) and the commercial court system.
REGISTRATION PROJECT

Key Dates:
Approved: June 13, 2006
Effective: April 23, 2008
Closing: May 13, 2014

Financing in million US Dollars*:

<table>
<thead>
<tr>
<th>Financier</th>
<th>Financing</th>
<th>Disbursed</th>
<th>Undisbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD Loan</td>
<td>50.00</td>
<td>0.9</td>
<td>49.1</td>
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<tr>
<td>Government of RF</td>
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<td></td>
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<tr>
<td>Global Environment Facility</td>
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<td></td>
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<tr>
<td>Total Project Cost</td>
<td>101.50</td>
<td></td>
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</tbody>
</table>

* as of July 26, 2011.

The Russian law “On State Registration of Rights and Transactions in Immovable Property” places the responsibility on the Subjects of the Federation (the 83 republics, provinces, territories, and cities that make up the Federation) to set up and manage registration systems in accordance with federally established guidelines. In 2004, the Government federalized the regional registration systems, moving them into Federal ownership, and introduced more standardized procedures for operation of the system across the country. The legal framework is in need of significant improvements; and human capacity of the new agency needs to be considerably strengthened to meet these challenges. Electronic filing needs to be introduced to accommodate the large volumes of past transactions currently recorded in paper form. The reforms of the registration system are being implemented under enormous time pressure.

The Project Development Objective is to improve the system of registration of legal rights to immovable property by developing standardized, clear, and more efficient registration procedures, and by introducing an improved information management system for the registration offices.

The Project is designed to help support the process of reorganizing the system for registering property rights in the country and includes three components:

- Institutional development of the Federal Registration Services,
- Information and Communications System Development, and
- Improvement of Professional Skills

Results:
The Government has taken action to unify the Registration, Cadastre and Cartography under one agency, thus facilitating standardization and interaction among these services. Some action to standardize registration software and development of portals for federal registration services were also undertaken.
The Project was restructured in August 2010. Commitments have picked up during 2011 after the completion of the reorganization of the Federal Services for Registration, Cadastre and Cartography (RosReestr).

Key Partners:
The Bank team work closely with Russia’s Federal Services for Registration, Cadastre and Cartography and its network of offices at the regional and local levels.
HYDROMETEOROLOGICAL SYSTEM MODERNIZATION PROJECT

Key Dates:
Approved: March 17, 2005
Effective: December 12, 2005
Closing: August 31, 2012

Financing in million US Dollars*:

<table>
<thead>
<tr>
<th>Financer</th>
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<td>IBRD Loan</td>
<td>79.9</td>
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<tr>
<td>Government of Russia</td>
<td>92.3</td>
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<tr>
<td>Total Project Cost</td>
<td>172.2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*as of July 27, 2011.

Economic losses and human casualties resulting from floods, avalanches and torrential storms in the North Caucasus, Siberia, and the Far East have showed how vulnerable the Russian Federation has been with respect to weather hazards. While the Russian Hydromet has historically been a world leader in this sector, it was seriously weakened during the decade of transition. Today, as a result of the lack of resources and obsolete equipment, RosHydromet’s forecasts are substantially less accurate than they could be. The capacity of RosHydromet to provide hydro meteorological services in Russia as well as to the World Meteorological Organization (in which Russia has historically played a lead role) has been steadily deteriorating primarily due to lack of investment in modern technology and degradation of its observation networks. Since 1990, RosHydromet has been forced to close about 30 percent of its surface data collection stations. The stations that are still open record a more limited set of parameters, less frequently, using instruments that are aging and failing. More balanced interactions are needed with sectoral and other clients on the federal, regional and municipal levels. The result is that protection against weather hazards afforded to Russian citizens is significantly less than that technically possible given the capabilities and achievements of Russia’s forecasters.

The Project Development Objective is to increase the accuracy of forecasts provided to the Russian people and economy by modernizing key elements of RosHydromet’s technical base and strengthening its institutional arrangements. This would enable enterprise and household adjustments to protect lives and support economic growth.

The Project invests in RosHydromet’s priority needs, such as:
- modernization of computing, archiving and telecommunications facilities,
- upgrading of the meteorological and hydrological observational networks,
- institutional strengthening, improvement in output dissemination and emergency preparedness, intended to formulate, develop and test new operational principles drawn from worldwide experience, improve emergency warnings of dangerous weather conditions leading to emergency situations and improve provision of information to the clients.

Results: The Project’s Implementation and Development Objectives are rated satisfactory. Most of key project outcome indicators (such as increasing forecast lead time for national and regional weather forecasts, reaching higher spatial resolution of operational forecasts, increasing percentage of stations reporting to global telecommunication network on time, reducing average response time to users of national achieve) have already reached the agreed end target values. RosHydromet’s main clients - representatives of regional and municipal authorities and Ministries of Emergency, Transport, Energy, Water Resources Management, and Environmental Protection – confirm noticeable improvement of Roshydromet information products and express their strong support to the further development of Roshydromet services. So far, US$ 71.05 million or over 88% of the Loan proceeds have been disbursed. In 2011 the Government expressed its willingness to proceed with the second operation complementing the results of the Hydromet-1 project and addressing emerging priorities such as adaptation to climate change. The amendment of the existing Hydromet-1 Loan agreement was signed on July 18, 2011 to allow a reallocation of Loan proceeds and an extension of the Project’s Closing Date from October 31, 2011 to August 31, 2012.

Key Partners: RosHydromet, Ministry of Finance, Ministry of Natural Resources and Ecology, Ministry of Emergencies

Key Development Partners. US National Oceanographic and Atmospheric Administration (NOAA), WMO
ST. PETERSBURG ECONOMIC DEVELOPMENT PROJECT

Key Dates:
Approved: May 15, 2003
Effective: January 24, 2005
Closing: December 31, 2013

Financing in million US Dollars*:

<table>
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<th>Undisbursed</th>
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</tr>
<tr>
<td>Government of Russia</td>
<td>470.83</td>
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<tr>
<td>Total Project Cost</td>
<td>571.93</td>
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</table>

*as of August 01, 2011.

This project came forward at a time when Russia had pursued a decade of policy reforms aimed at achieving stabilization and transition to a market economy. By 2002, real economic growth was accelerating after Russia’s recovery from the 1998 crisis. But progress in regional areas of Russia was slower, and a major emphasis has been on decentralization of the public sector.

The Project Development Objective is to support St. Petersburg’s efforts to accelerate the implementation of key elements of its Strategic Plan, in particular by the rehabilitation and restoration of certain outstanding cultural monuments under federal jurisdiction, enhance St. Petersburg’s prospects for sustainable economic growth, and allow it to more fully exploit its position as Russia’s “Window to the West,” in particular, by enabling St. Petersburg to take greater advantage of its unique position as one of Russia’s most significant centers of culture and the arts and create the basis for developing tourism as a key element of future economic growth.

The Project was designed as a hybrid loan which consists of two components: a Development Policy loan (DPL) (City) Component (US$ 100.0 million) plus an Investment (Federal) Component (US$ 61.1 million). The DPL (City) component seeks to address the policy reform objectives, while the Investment (Federal) component finances restoration and rehabilitation of the federal cultural heritage assets located in St. Petersburg. The Investment (Federal) component also includes a sub-component creating a Cultural Investment Facility (CIF), an innovative financing mechanism for financing and building the capacity of cultural institutions and provides competitive, demand-driven grants to the cultural institutions located in St. Petersburg.

Results achieved:

- The city’s reform program under the DPL component was successfully completed in 2007. The number of new small and medium enterprises registered in St. Petersburg has been more than doubled since 2002 and far exceeded the target magnitude; the number of private transactions for land and real estate is also nearly double the target value. The creditworthy status of St. Petersburg continues to be confirmed by global ratings agencies. Standard & Poor’s, Moody’s and Fitch ratings. The city continues to attract an increasing number of tourists, growing by more than 150 percent since project approval, and in 2010 reached 5 million visitors per year. While St. Petersburg met all conditions of the first tranche (US$ 40 million) under DPL project’s component in 2006 and second tranche (US$ 60 million) in 2007, the City Administration decided not to draw down the money. Per request of the Borrower, the first tranche funds were reallocated from the City to the Federal component, and the second one was cancelled. Most of the reallocated funds of the first tranche came to the State Hermitage reconstruction sub-project – the biggest site to be rehabilitated under the Investment (Federal) component and the most complex and largest reconstruction project which is currently underway in St. Petersburg.

- The Investment (Federal) Component is proceeding well and leveraged a large amount of co-financing from the Borrower, far exceeding the loan amount. Restoration of landmark cultural heritage sites is underway. Eight out of nine sub-projects on rehabilitation of the cultural assets have been completed in full (Shostakovich State Academic Philharmonia, Peter and Paul Fortress, Temple of Friendship of Pavlovsk State Museum and Conservation Area, St. George Hall and Corps de Gardes Pavilions of Mikhailovsky Palace of the State Russian Museum, Winter Garden of the Marble Palace of the State Russian Museum, Turkish Bath Pavilion and Hermitage Kitchen and Park of the State Tsarskoe Selo Museum). Stage 1 of the State Hermitage Museum’s East Wing reconstruction (the largest and the most complex building reconstruction job currently underway in St. Petersburg) was completed in December 2010, with Stage 2 scheduled for completion in 2013. Cultural Investment Facility (CIF) grants also demonstrated high quality and impact. As a result of 7 rounds of competition, 33 grants have been awarded, of which 28 have been completed, three more are planned for completion in 2011 and the final two will be completed in 2012.

Key Partners: St. Petersburg City Government (responsible for implementing the City (DPL) component); Ministry of Culture of the RF (responsible for implementation of the Federal (Investment) component); Inter-Ministerial Committee (led by the Ministry of Culture, conducts regular monitoring of the project implementation, awards grants under CIF sub-component, and makes strategic decisions); St. Petersburg Foundation for Investment Projects (acts as the Project Implementation Unit under the Ministry of Culture).
The Customs Development Project was designed to address to modernize the Russian Federal Customs Service against a background of dramatically increased trade volumes and a desire to change customs operations from a focus on protection of the domestic economy to one of trade facilitation.

The Project Development Objective of the project is to support the reform and modernization of the Russian Customs administration with a view to (i) promote internationally acceptable practices for processing of international trade flows by Customs, so as to further integrate the country into the world trading community, improve the investment climate, and secure the benefits from foreign and domestic investments in the economy; and (ii) increase taxpayer compliance with the Customs Code and ensure uniformity in its application, to support macro-economic stability and increase transparency, timely transfer of collected revenues to the Federal budget, and equity and predictability in Customs operations.

The Project promotes internationally acceptable practices for processing of international trade flows by Customs by:

- adopting Customs standards that facilitate trade through the implementation of procedures to expedite the processing of low-risk transactions while improving the detection and prevention of contraband;
- facilitating international commerce and access to the WTO;
- promoting the participation of the trade community and other key stakeholders in the strategic planning of the government agency responsible for implementing the project, the Federal Customs Service (FCS), to foster a stronger partnership between Customs and participants of foreign economic activities;
- transforming the mindset of FCS officers towards the trade activity from one of protection of country economy to one of facilitating legitimate international commerce;
- modernizing the Information Technology infrastructure of the FCS, and instituting e-Government facilities for information and interaction with the trade community, including electronic filing of declarations; and
- increase the effectiveness of the Customs service and reduce the opportunities for rent seeking behavior.

The project increases taxpayer compliance with and uniformity of application of the Customs Code by: (a) adopting standardized and automated procedures countrywide to facilitate voluntary compliance and reduce the level of discretion by customs officers; (b) further developing the organization of the FCS and its management systems to facilitate the achievement of development objectives; (c) enhancing professional integrity and skills of FCS officers; (d) improving the conditions for countrywide training and retraining of FCS officers; (e) improving education and training of traders; (f) improving transparency and predictability of Customs actions; and (g) adopting efficient dispute resolution procedures.

Results achieved: Overall, the data from the Federal Customs Service as well as external indicators (BEEPS, World Economic Forum, Doing Business, and the Logistics Performance Index), show that the Russian Federation has made strides regarding the project objectives, specifically to increasing efficiency and reducing opportunities for rent seeking behavior. Progress on key project indicators:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Baseline value (year)</th>
<th>Most Recent Value (year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of Import Declarations Selected for Physical Inspection</td>
<td>30% (2003)</td>
<td>7.6% across all sites (2010)</td>
</tr>
<tr>
<td>Percentage of Non-energy Export Declarations Selected for Physical Inspection</td>
<td>15% (2003)</td>
<td>1.8% across all sites (2010)</td>
</tr>
<tr>
<td>Average Customs Clearance Times at the Border (Vehicle Customs Checkpoints)</td>
<td>45 min (2003)</td>
<td>17 min across all sites (2010)</td>
</tr>
<tr>
<td>Average Customs Clearance Times (from Lodging of Customs Declaration to Issuance of the Release Note)</td>
<td>40 hours (2003)</td>
<td>8 hours across all sites (2010)</td>
</tr>
</tbody>
</table>
The Treasury Development Project (TDP) is designed to improve the efficiency and transparency in public resource allocation and is an integral part of the PFM reform program initiated by the Ministry of Finance (MoF) since 2002. A key contribution of this project is the establishment and implementation of a Treasury Single Account regime where all Government financial resources are placed under the control of the Federal Treasury (FT) in a bank account held at the Central Bank. This ensures that all Spending unit transactions conform to specified budgetary controls. Ensuring budgetary control requires that:

- a network connecting more than 2,200 Treasury offices is set up across the country;
- payment requests are channeled through the appropriate designated treasury office; and
- the Treasury offices are equipped with an automated system that can process government expenditure and receipt transactions, ensure that they adhere to the required controls and then forward them to the Central Bank for payment.

The implementation of this country-wide, web-based Federal Treasury Automation System (FTAS) has been financed by the project.

The Project Development Objectives are to (i) ensure conditions for effective implementation of the budget, and enable the Ministry of Finance to maintain budget oversight; and (ii) provide a transparent system of accounting that shows the utilization of the financial resources of the Government and enables management and audit of these resources.

The Project has four components:

- **Component 1** is designed to provide advisory support services in key functional and technical areas: improving budget classifications and coding structures, and development and design of a revised chart of accounts; development of the legal, regulatory and operational framework, as well as detailed guidelines, procedures, forms, and operating manuals; developing methods to improve forecasting of expenditure requirements and cash management; developing technology architecture; and designing application software.
- **Component 2** finances supply and installation of information and communication technology (ICT) solutions to implement the new treasury system (FTAS).
- **Component 3** supports the training requirements.
- **Component 4** assists the FT for administration and management of the Project.

Results: The policy and institutional reforms associated with the formation of a Treasury have now been completed. In the present stage of the project, the technical infrastructure required for implementing the Treasury System is being rolled out across the country. What makes the TDP different from similar Bank initiatives in other countries is the scale and complexity of implementation. The FTAS is expected to support 30,000 active users in 83 regions spread across 11 time zones. In addition, the regional and local governments will also use FTAS to process payment requests which have been approved by them to ensure that these payments are made through similar systems established for their respective areas. The total number of transactions processed each day through the system would be several millions. To establish such a large countrywide system, the Government has made very significant investments in upgrading the telecommunications infrastructure and refurbishing 2,200 regional and local treasury offices. The FTAS roll-out was initiated in January 2010 and the system is currently used by 66 regions. The FTAS is expected to be rolled out to the rest of the country by December 2011.

Key Partners: The Ministry of Finance and Federal Treasury.

Key Development Partners. IMF during the preparation of the project.