

## EXECUTIVE SUMMARY

i. **Partnership of Choice.** The Russian Federation<sup>1</sup> entered the global financial and economic crisis strong and emerged from it stronger than most. The prudent macroeconomic management of the country's natural resources protected it from the worst effects of the economic downturn. A strong countercyclical package financed through revenues from oil and gas, saved for a rainy day, helped keep unemployment and poverty in check. But the crisis also served as a stark reminder for the Government that the country is too dependent on oil and gas and that it needs to free the economy from their own version of the "resource trap". Going forward, the World Bank Group (WBG) 2012-2016 Country Partnership Strategy (CPS) will support Russia's efforts to **(i) increase growth and diversification** through better management of public finances, improved investment climate and innovation, stronger financial sector, better infrastructure, and more effective protection of the environment, **(ii) expand human potential by strengthening skills and social services** through improvements in education, health, and social protection, **(iii) deepen Russia's global and regional role** related to its aspirations as a donor and the provision of global public goods and, as a cross-cutting theme, **(iv) improve governance and transparency** through more accountability and better service standards in public administration, procurement, and financial management. These four themes are at the core of the CPS results framework presented in Annex 1.

ii. **Three-dimensional Engagement.** The WBG's engagement with Russia is unique in the sense that it is three-dimensional: national, regional, and global. At the national level, the WBG will aim to maximize its development impact for the country mainly by trying to reach out to the poorer regions of Russia. IBRD will explore more direct lending to Russia's regions in exceptional cases, sometimes working in partnership with institutions with presence and reach across all of Russia, and innovative ways of supporting IBRD analytical work and technical assistance in poorer regions. IFC will focus for instance on developing infrastructure in Russia's regions and municipalities, including through public-private partnerships (PPPs). As the largest country in the world and a regional (Europe and Central Asia - ECA) growth and migration pole, Russia's national choices also have critical impact on regional and global challenges. At the ECA regional level, the WBG will focus on supporting "Russia as a donor" through technical assistance for capacity strengthening. The Government will likely concentrate its development aid on poorer countries in ECA with which it still has strong economic and historical links. At the global level, the WBG will provide quality advisory services and knowledge to support Russia's ambitions in providing global public goods. It will assist Russia in enhancing its voice in international forums such as the G8, G20 and the Asia-Pacific Cooperation (APEC), and will support the country's integration into the World Trade Organization (WTO).

iii. **Relevance through Innovation.** To stay relevant in an advanced Middle Income Country (MIC) like Russia, the WBG must innovate constantly. In a huge economy like Russia, traditional WBG finance is important but can only have a limited direct impact. The 2012-2016 CPS positions the WBG as a partner of choice for Russia based on its global knowledge leadership in development. IBRD has built up and will continue to grow a larger than usual portfolio of technical assistance and analytical activities, especially Reimbursable Technical Assistance (RTA<sup>2</sup>), that help strengthen capacity and transfer knowledge to Russian institutions. Flexibility

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<sup>1</sup> Russian Federation and Russia are used as synonyms throughout this document.

<sup>2</sup> Reimbursable Technical Assistance (RTA) is also being referred to as fee-for-service (FFS) or fee-based services (FBS).

and speed of WBG knowledge provision will be the key in the coming CPS period to meet the often short-term demand of Russian clients for advice and project support for their development priorities. While RTAs have the advantage of being fully driven by client demand, traditional AAA could be better instruments to develop important or emerging topics that WBG staff may wish to bring to the attention of the Russian authorities and public. A particularly innovative part of the program is the support for Russia as Donor, where WBG technical assistance for Russia will provide the Government with a kind of global positioning system for its development aid. This can help the country navigate its way through the establishment of a fully operational bilateral development agency while avoiding known pitfalls. The novel development aid partnership between Russia and the WBG also includes policy dialogues on aid policies and practices and financial cooperation on development assistance funded by Russia through IDA/IBRD-administered trust funds. Finally, innovation for the WBG can also simply mean using its toolbox of instruments more creatively than before. This is particularly relevant with regard to the WBG work in Russia's poorer regions. As the sub-national level is difficult to reach through regular channels, financial intermediary loans, and other new modalities of engagement will be further explored as novel instruments in the Russia program.

iv. **Challenges Ahead.** The WBG program will address Russia's longer-term economic, social and environmental challenges. As in many other major fossil fuel producers, Russia's resources are also the source of many of its development challenges. Indeed, the dominant concerns for Russia's economic and social development remain the dependency on fossil fuel production and exports and the associated challenge of using oil and gas revenues effectively and efficiently. To provide a platform for future economic growth, Russia needs to maintain stable macroeconomic conditions, despite its vulnerability to commodity price volatility, and create a diversified, efficient and sustainable product base. Existing competition rules and the business climate provide insufficient pressure or incentives for innovation and investment, while the financial system remains underdeveloped in terms of its capacity to mobilize and intermediate savings, and is vulnerable to macroeconomic volatility. In the labor market, skills mismatches are turning into an increasingly important development constraint. While general poverty levels have fallen, vulnerability to poverty remains a concern. Demographic and health trends are characterized by low fertility, high adult mortality and morbidity rates, and inefficient health spending. Governance and corruption are recognized as major problems in Russia. Recent and important reform efforts notwithstanding, the institutional structure and quality of public management are often weak.

v. **Strong and Coordinated WBG Program.** The indicative financing envelope for IBRD during the CPS period foresees total lending of up to US\$5 billion, plus the mobilization of counterpart funds. Actual lending volumes will depend on the country's performance and priorities, IBRD lending capacity, demand from other borrowers, and global economic developments. In accordance with the Government's preferences, all IBRD lending is foreseen in the form of investment projects. The IBRD financing program for the first two years of the CPS is reasonably defined and selective and includes projects in the areas of microfinance, financial sector development, energy efficiency, forestry protection, infrastructure development, and local government. IBRD will continue to provide knowledge products—Economic and Sector Work (ESW), Technical Assistance (TA) and RTA—in support of all CPS strategic themes, covering priority issues such as macroeconomic management, diversification, investment climate, innovation, urban transport, health finance, labor markets and migration, expenditure efficiency, and strengthening procurement. The majority of IBRD's technical assistance will be provided through RTAs. IFC foresees total investments between US\$3.8-4.8 billion for its own account during the five-year CPS period, plus significant mobilization of counterpart funds. IFC

investment and advisory operations are focused on improving Russia's competitiveness through greater resource efficiency, including use of renewable energy, broadening access to finance and infrastructure and increasing economic diversification (the first theme of the joint CPS). Actual commitment levels will depend on market conditions, demand from clients, IFC additionality, and appetite of counterparts to provide financing alongside IFC. **MIGA** will continue to support foreign investors through the provision of political risk guarantees.

vi. **Implementing the Program.** The WBG will set up a CPS implementation and results monitoring system that will be used to track progress in the WBG contributions towards achieving the country outcomes defined in the CPS results framework. This review process would also provide inputs for the planned CPS Progress Report in 2014 when adjustments in the CPS results framework would be made, if considered necessary.

vii. **Fostering Partnerships.** The WBG will continue to support Russia's growing and varied civil society in its public-private partnership roles. The WBG will also foster partnerships with leading Russian universities and academia. The WBG will cooperate closely with other multilateral institutions, such as the International Monetary Fund (IMF), Eurasian Development Bank (EDB), the European Union (EU), and the European Bank for Reconstruction and Development (EBRD).

viii. **Risks and Rewards.** The achievement of the intended results in this CPS faces political, economic, and implementation risks. Political continuity and stability are accorded high priority by the Government. The forthcoming presidential and parliamentary elections in 2011 and 2012 could lead to some policy uncertainty and delays in implementing reforms. Broad consensus on the key development challenges among most political contenders indicates that reform and institutional priorities will remain broadly constant, but the maintenance of prudent macroeconomic policies may be subjected to other political priorities. Growth prospects remain vulnerable to large drops in oil and gas prices. In the longer term, this risk is mitigated by the government focus on diversifying the economy and improving the fiscal non-oil balance. Nevertheless, if global conditions deteriorate, the focus of the WBG's program on longer-term development constraints would expand to help the authorities respond to the deteriorating economic circumstances. Many of the proposed IBRD engagements under the CPS are likely to be through RTAs, which typically take time, often involve unique arrangements for each contract, and hence introduce a measure of planning uncertainty into the program. Loan preparation in Russia is also lengthy. Staff will address these implementation risks through engagement and consultations with clients and stakeholders. Continued strong fiduciary controls, due diligence, and more transparency will be the main instruments to reduce governance-related risks. Staff will continue to advocate and support improvements in country systems.