Report Number: ICRR0022592

1. Project Data

Project ID P069063	**Project Name** ST. PETERSBURG ECON DEVT
Country Russian Federation	**Practice Area(Lead)** Urban, Resilience and Land

L/C/TF Number(s) IBRD-46940	**Closing Date (Original)** 31-Aug-2009	**Total Project Cost (USD)** 98,786,666.27
Bank Approval Date 15-May-2003	**Closing Date (Actual)** 14-Apr-2020	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	161,100,000.00	0.00
Revised Commitment	98,786,666.27	0.00
Actual	98,786,666.27	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
Ranga Rajan Krishnamani	Fernando Manibog	Victoria Alexeeva	IEGSD (Unit 4)

2. Project Objectives and Components

a. Objectives

The Project Development Objectives (PDOs) as stated in the Loan Agreement dated August 4, 2004 (Schedule 1, page 22) are:

" To support St. Petersburg's efforts to accelerate the implementation of key elements of its Strategic Plan, in particular by 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 top centers of culture and the arts and create the basis for developing tourism as a key element of future economic growth".

The Project Appraisal Document (PAD, Annex 1, page 45) specified that the project was to contribute to: (a) ensuring that the policy and regulatory environment is conducive to the expansion of the private sector; (b) ensuring larger and more efficient market for land and real estate; (iii) improving the fiscal management capacity of St. Petersburg (hereafter referred to as the City); and (iv) enabling the City to preserve its comparative advantage in culture and the arts.

The PDO, as stated in the Loan Agreement dated August 4, 2004, is unpacked in this review as follows:

PDO I. To support St. Petersburg's efforts to accelerate the implementation of its strategic plan.

PDO 2. To enhance St. Petersburg's prospects for sustainable economic growth.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

This hybrid operation consisted of a Development Policy Loan (DPL) and investment lending. The activities are as follows (PAD, pages 19 - 20):

DPL component. The estimated cost at appraisal was US$100.0 million, which was not disbursed (reasons discussed in section 2e). This component aimed to provide budget support in two tranches of US$40 million and US$60 million, subject to the city implementing a series of the agreed policy reforms outlined in a Letter of Development Policy and Policy Matrix. These reforms aimed to: (i) improve the business climate and stimulate private sector participation, and develop land and real estate markets; and (ii) strengthen the fiscal management of the city.

The investment portion had four components.

1. Rehabilitation of Cultural Assets in the city. The estimated cost at appraisal was US$93.6 million. The actual cost was US$585.0 million (reasons discussed in 2e). This component planned to rehabilitate historical buildings of eight major cultural institutions: (i) the East Wing of the General Staff Building of the State Hermitage Museum; (ii) the State Mariinsky Museum; (iii) the State Russian Museum; (iv) the Peter and Paul Fortress Museum; (v) the State Shostakovich Philharmonic Academy; (vi) the State Rimski-Korsakov Conservatory; (vii) the Tsarskoye Selo Palace State Museum; and (viii) the Pavlovsk Palace State Museum.

2. Cultural Investment Facility (CIF). The estimated cost at appraisal was US$7.3 million. The actual cost was US$9.4 million. This component aimed to provide cultural investment grants (CIGs) on a competitive basis, to eligible cultural institutions in the city for small-scale investments and institutional strengthening activities.

3. Institutional Strengthening. The estimated cost at appraisal was US$0.6 million. The actual cost was US$0.36 million. This component planned to provide Technical Assistance (TA) and training the staff of two major institutions (the State Mariinsky Theater and the State Russian Museum) on financial management, operation and maintenance, marketing and business development.

4. Project Implementation. The estimated cost at appraisal was US$8.8 million. The actual cost was US$47.4 million. This component provided implementation support, through financing the operating costs of the Project Implementation Unit (PIU), design studies, and providing technical expertise on rehabilitating historic buildings. Nearly 75% of the actual cost for this component was to prepare a new project and was financed by Borrower funds.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project cost. The estimated cost at appraisal was US$212.0 million. The actual cost was US$644.1 million.

Project financing. The project was to be financed by an IBRD loan of US$161.1 million. This included US$100.0 million through budget support in two tranches of US$40.0 million and US$60.0 million respectively, and US$61.1 million for investment activities. There were no disbursements under the budget support. US$40 million of the first tranche was reallocated for investment activities, and US$60 million of the second tranche was cancelled (reasons discussed below). With this, the revised estimate for the IBRD loan was US$101.1 million. The actual amount disbursed was US$98.7 million.

Borrower contribution. The borrower contribution was estimated at US$50.9 million. The contribution at closure was significantly more than planned at US$543.0 million.

Dates. The project was approved on May 15, 2003, became effective about two years later on January 24, 2005, and was scheduled to close on August 31, 2009. The DPL activities were to be implemented in the first two years, followed by investment activities in four years. The project closed about ten years behind schedule on April 14, 2020.

Other changes. Changes were made to the total loan amount, share of the IBRD and Borrower's financing, extension of the loan closing date, a revised list of investments and additional intermediate indicators, through 16 amendments to the original Loan Agreement dated August 4, 2004 and seven Level two restructurings. The most significant changes are presented below.

Reallocation of funds from the adjustment component to the investment component.

By 2005, the City had implemented the reforms required for release of the first tranche of US$40 million under the DPL component, and the Bank was ready to disburse the first tranche. However, the City's fiscal situation had improved significantly since appraisal, and the City decided not to withdraw the tranche. In 2007, at the request of the government, funds from the first tranche were reallocated to the investment component to expand the scope of its activities. This reallocation was processed via a formal level 2 project restructuring on August 6, 2007, and amendment to the original Loan Agreement dated August 4,

2004. With this, the estimate for the investment component was revised from US$61.1 million to US$101.1 million.

Cancellation of the 2nd tranche under the DPL component.

In December 2007, the Bank acknowledged that the City had completed the reform program under the DPL component fully and was in compliance with the conditions of the 2nd tranche. However, the City had a budget surplus for the fourth year in a row, and did not want to withdraw the 2nd tranche and US$60 million of the 2nd tranche was cancelled. With this cancellation, the loan amount was reduced from US$161 million to US$101 million. This cancellation was processed as a partial loan cancellation through an amendment to the original Loan Agreement dated August 4, 2004, and did not trigger a formal project restructuring, as per the provisions of the Bank policies in effect in 2008. The cancellation of the 2nd tranche did not change the project objectives and associated outcomes because even though none of the tranches under the DPL component were withdrawn by the City, the City implemented the policy measures in full and qualified for both the 1st and the 2nd tranche.

Dropped subprojects.

The project design was significantly changed during implementation. Financing of three subprojects was dropped from the list of investments under subcomponent (a) Rehabilitation of cultural assets. The dropped subprojects were: the State Marinsky Theater historic building rehabilitation; (it comprised half of the original investment component cost or US$48.4 million out of US$93.6 million, and was excluded from the project in August 2007); rehabilitation of the English Church building of the State Rimski-Korsakov Conservatory, and the two inner courtyards of the Mikhailovsky Palace of the State Russian Museum (both excluded in August 2006). There was an attempt to return financing of rehabilitation of the Russian Museum's inner courtyards to the project scope, and the respective project restructuring was processed in December 2017, with the share of the borrower's co-financing increased by an additional US$20 million. However, since the Russian Museum was unable to vacate the premises adjoining the inner courtyards on time to allow timely start of rehabilitation works, this subproject was hence dropped through the project restructuring in July 2019.

Increase in scope of selected activities financed from the investment component and increased share of Borrower's co financing.

The scope of the project was re-scaled to include: (i) scaling up activities pertaining to rehabilitation of the entire East Wing of the General Staff building of the Hermitage Museum (since the original design only intended to rehabilitate the museum's front entrance); (ii) expansion of the scope of the Cultural Investment Facility to support a larger number of cultural institutions (32 instead of 20); and (iii) institutional strengthening activities under subcomponent (c) were extended beyond just two cultural institutions to any cultural institution located in the City and its vicinity. All these changes were made through formal amendments to the original Loan Agreement dated August 4, 2004, and processed in line with the Bank policies that were in effect at the time of the Loan amendments and Level 2 project restructurings as needed.

Extensions of the loan closing date. The loan closing date was extended seven times.

- The firs extension from the original closing date of August 31, 2009 to July 31, 2012, was intended for rehabilitating the entire East Wing of the State Hermitage General Staff Building.

- The closing date was further extended from July 31, 2012, to December 31, 2013, for completing the 2nd stage of the contract for the State Hermitage General Staff Building.
- The closing date was extended from December 31, 2013, to December 31, 2014, for preparing an Additional Financing (AF) loan to finance the rehabilitation of the State Marinsky Theater's Historic building and the two inner courtyards of the Russian Museum's Mikhailovsky Palace.
- The closing date was further extended from December 31, 2014, to December 31, 2015, and further from December 31, 2015, to December 31, 2016, to ensure sufficient time for Board approval and effectiveness of the AF loan. The AF did not eventually materialize, due to geopolitical considerations beyond the Bank's control.
- The closing date was extended from December 31, 2016, to December 31, 2017, for finalizing the updated design for the Russian Museum inner courtyards subproject.
- The closing date was extended from December 31, 2017, to April 15, 2020, for completing the restoration works of the Russian Museum inner courtyards subproject.

Revised PDO indicators.

Additional intermediate indicators were added through a Level 2 restructuring in 2017 to better track implementation progress of the investment component activities.

3. Relevance of Objectives

Rationale

Country context. Although the Russian Federation had recovered from the financial crisis of 1998 at appraisal, the recovery was driven by the depreciation of the RUB, and rise in prices for its exports of natural resources (oil and gas). This dependence rendered the economy vulnerable to adverse external shocks, and diversification was required for sustaining economic growth. The government adopted a strategy of having a broad-based private sector, and increasing the contribution of small and medium-sized enterprises (SMEs) in the economy.

City context. St. Petersburg, is the second largest urban agglomeration in Russia. Designated by the UNESCO as a World Heritage Site in 1990, it has some of the world's most important art and religious architecture. Virtually all of the city's key cultural landmarks belonged to the Russian Federation and outside the city's mandate. Many of these art treasures were in fragile physical condition as a result of years of neglect, and ill-equipped to handle larger number of visitors. Exploiting the opportunity provided by the city's geographical position and its rich historical heritage, was important to the city's strategy for sustaining economic growth in the medium and long run.

Government Strategy. The PDOs were aligned with the National *Medium-Term Program of Social and Economic Development* for 2002-2004 at appraisal. This program aimed at realizing the objectives of reducing poverty through: (i) improving the regulatory frameworks for private sector-led growth: (ii) better financial management: and (iii) improving efficiency of funding. The program also highlighted the need for structural reforms at the sub-national level for equitable development. The PDOs are relevant to the 2018 Russian Presidential Order " *On National Goals and Strategic Objectives to the Development of the Russian Federation up to 2024",* and the National Project "*Culture*" approved in December 2018. The

Russian Presidential Order on the National Development Goals up to 2030, approved in July 2020, reiterated the need for increasing SMEs for sustaining growth.

City strategy. St. Petersburg as early as in 1997 had a detailed road map and a strategic plan for future development, when this operation was prepared. This plan provided a blue print of institutional and policy reforms that were considered indispensable for promoting private sector development. The current *St. Petersburg Strategy for Social and Economic Development* (2019-2035) focused on: (i) sustaining growth through diversification; (ii) leveraging the global competitive advantages of the city through developing tourism; (iii) creating a favorable business climate for supporting SMEs. The relevance of the PDO to the city is further demonstrated by the ten-fold increase in recipient contribution to this operation, from an initially planned US$50.9 million to US$543.0 million. About three quarters of this contribution was for preparing a new project.

Bank strategy. The PDOs were aligned with two priorities of the Bank's Country Assistance Strategy (CAS) for 2002 -2004 at appraisal: (i) improving the policy and regulatory framework for private sector development, creating conditions for developing real estate markets, and facilitating growth of SMEs; and (ii) strengthening fiscal management. The PDOs continued to be relevant to the two strategic themes of the latest available Bank Country Partnership Strategy (CPS) for 2012 - 2016; (i) increasing growth and diversification, through better management of public finances; and (ii) improving governance and transparency for better service standards in public administration.

Prior Bank experience. The Bank has financed prior projects in Russia, including through the Fiscal Federalism and Regional Fiscal Policy Reform Loan. The Bank has also financed operations in the City, including through the St. Petersburg City Center Rehabilitation Project. While investments and technical assistance components were carried out satisfactorily under the City project, only a few of the targeted policy reforms were actually implemented when the project closed.

This operation used a hybrid approach with a policy loan and investment components. The operation was designed for a six year period with the DPL reforms preceding investment activities. The justification for using such an approach were: one, a hybrid loan was deemed to be better suited to the City conditions, where achieving the broad objective of sustainable economic growth, required dealing simultaneously with issues of policy and regulatory reforms and promoting tourism through preserving the cultural heritage assets; two, a separate investment lending operation was considered to be inadequate for leveraging policy reforms, given the experience with the prior lending operation. Further, the city still lacked a suitable multi-year capital investment programming system, an issue addressed by the DPL part of the loan; And three, the sequencing operations, with the adjustment component in the first two years prior to commencing the investment component was expected to provide an opportunity for monitoring the actual effects of sector reforms in the medium term.

That said, the PDO stated in the original Loan Agreement dated August 4, 2004, was cumbersome and reflected the over-arching long-term goals, and lacked clarity about the concrete development outcomes during the project period. The wording about "to fully exploit its position" and "to take greater advantage of its unique position" is qualitative and repetitive. It is unclear whether the PDOs are currently relevant (as the guidelines require), given the major geopolitical changes in Russia during the latter half of the implementation period. It is not clear why the PDOs were not modified for clarity during the long project execution period of 17 years. The team clarified that the Bank in consultation with the Borrower, attempted to harmonize the PDO language in the Loan Agreement and the PAD, and make the PDO language more specific as part of the project restructuring associated with preparing for the AF loan in 2014. The negotiated AF package included amendment to the parent Loan dated August 4, 2004, for harmonizing the PDO. However, the AF did not materialize, due to geopolitical reasons beyond the Bank's control. The relevance of the PDO is assessed as substantial.

Rating

Substantial

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

To support St. Petersburg's efforts to accelerate the implementation of its strategic plan.

Rationale

This component supported St. Petersburg's efforts to accelerate the implementation of its strategic plan. This PDO had as its operational goals the rehabilitation and restoration of certain outstanding cultural monuments of St. Petersburg under federal jurisdiction.

Theory of change. The enhancement of St. Petersburg's global comparative advantage as a top destination for culture and the arts was expected to result from the rehabilitation of the City's cultural heritage facilities with improved facilities, small scale investments to improve and modernize security and safety, sound and lighting systems, training of the staff of the cultural institutions and the development of a methodology to improve the cultural institutions performance. Assuming that the implementing agencies had the requisite capacity to ensure the high quality of rehabilitation works, these activities were expected to lead to the development of tourism as a key element in the City's future economic growth.

Outputs

- Nine cultural heritage sites were rehabilitated with improved visitor facilities as targeted. These sites were: (1) the entire East Wing of the State Hermitage Museum (as compared to the original design of only the front entrance zone of the Museum); (2) the Winter Garden in the Marble Place; (3) restoration of the St. George Hall of the Mikhailovsky Palace including, restoration of the adjacent historic sites (the Laocoon Gallery and the Oval Hall) and the entrance zone; (4) Two Corps-de-Garden Pavilions; (5) the Peter and Paul Fortress Museum; (6) the State Shostakovich Philharmonic Academy; (7) restoration of the Tsarskoye Selo Palace State Museum, including restoration works in the entire Hermitage Grove area; The ICR (paragraph 46) notes that these sites are currently being used for a number of national and international events.
- 32 subprojects were carried out under the Cultural Investment Facility subcomponent, exceeding the target of 20.

- 51 specialists of the City's cultural institutions were trained under the Staff Reserve Program for preparing feasibility studies and business plans for submitting funding applications. 80% of the specialists assessed the impact of the training program as excellent.
- Capacity building initiatives were conducted for employees of the rehabilitated facilities. The number of permanent employees in the facilities increased from 3,968 at the start of the project, to 4,488 at project closure. A survey conducted at closure indicated that 94% of the respondents were satisfied with the training.
- Jobs created under the project included: (i) 130 jobs between July 2005 and December 2008 through restoration works at the St. George Hall of the Russian Museum's Engineering Castle; (ii) 140 jobs through works of the Russian Museum's Corps-de-Guards; and (iii) 1300 jobs between 2008 - 2013 through the State Hermitage East Wing subproject.
- The Automated Management Information System (AMIS) was developed as targeted and used by the Cultural Committee for preparing its budget.

The following activities were not completed as targeted and dropped through amendments to the Loan Agreement.

- Rehabilitation of the State Marinsky Theater historical building, of the English Church building of the State-Rimsky-Korsakov Conservatory, the two inner courtyards of the Mikhailovsky Palace of the State Russian Museum.

Outcomes.

The outputs of the activities supported by the project were expected to contribute to an eight percent growth of tourists per annum to the City.

- In absolute numbers, tourists to the City increased from 2,737, 685 in in 2002 to 10,400,000 in 2019 (representing an eight percent growth per annum as targeted). However, the tourist numbers to the City cannot be attributed to the project activities as such, given that these activities only financed rehabilitation of selected sites in the City. According to the team, the growth in visitor numbers to the project rehabilitated cultural heritage sites and supported cultural institutions increased by 22% per annum on average.
- The team clarified that, while no extensive "difference-in-difference" assessment was undertaken, a comparison was done between two major project supported museums in the City and other museums in Moscow of comparable significance (comparison with other museums in the City was not feasible, as they were of smaller scale and significance). This comparison showed that visitor numbers in the State Hermitage Museum (supported by the project) grew from 3.6 million visitors in 2015 to 4.9 million in 2019, and the visitor numbers to the State Russian Museum increased from 1.5 million to 2.4 million in 2019. For the same period, the State Museum of Art in Moscow, which did not benefit from any upgrades, had 1.2 million in 2015 and just 1.48 million in 2019, and the State Historic Museum in Moscow actually saw a drop of visitors from 1.4 million in 2015 to 1.15 million in 2019.

While the number of tourists to the City is not fully attributable to the sub-projects supported by the project, it is reasonable to accept that the activities made an important contribution to the PDO of allowing St. Petersburg more fully exploit its position as Russia's "Window to the West" and to the development of tourism as a key element in the city's future economic growth.

Rating
Substantial

OBJECTIVE 2

Objective
To enhance St. Petersburg's prospects for sustainable economic growth.

Rationale
The project aimed to enhance the city's prospects for sustainable economic growth, through policy reforms aimed at: (i) increasing the involvement of the private sector; and (ii) strengthening financial management. The two types of reforms are separately discussed below in sequential order.

(i) Increasing the involvement of the private sector.

The policy reforms in this area aimed at supporting the city to implement its strategic plan for sustaining growth through improving the regulatory framework for private sector development. Specifically, the reforms aimed at addressing the barriers to entry faced by business enterprises in general, and SMEs in particular.

Theory of change. As output activities, the establishment of information centers for business enterprises, were expected to result in the intermediate outcome of resolving the informational barriers to entry faced by private sector enterprises (such as on registration of enterprises). The output of developing a SME financing program was expected to lead to the final outcome of decreasing or eliminating the barriers faced by SMEs in accessing credit. The activity of divesting City-owned/controlled enterprises were to result in addressing the barriers faced by SMEs in accessing land and real estate. Reforms as input activities for improving the City's system for awarding public contracts, which in turn would have the longer-term outcome of stimulating competition, were to aid in facilitating entry of private businesses. Assuming that city remains committed to enforcing the reforms, these reforms were likely to aid in improving the business climate for sustainable economic growth.

Outputs and legislation

- The City allocated funds for establishing information centers offering consultation services for assisting SMEs, following the budgetary allocation in the City for setting up such centers (a policy action) . Seven centers were established in 2003. The number of SMEs assisted by these centers increased tenfold (from 500 in 2003 to 5000 in 2007). The ICR notes that in 2020 one center is functioning and this center provides about 5000 consultations per year to potential SMEs.
- The City Governor established a Council for SMEs, and a unified center in the city for assisting potential SMEs with the process of registering companies. The ICR (page 76) notes that to date, an entrepreneur can register a company within five days.
- The City administration developed a program in partnership with the local banks for assisting potential SMEs with access to credit.
- The city signed 44,855 public sector contracts with SMEs during 2004-2005, and the number of public contracts allocated to SMEs increased by RUB 6.37 million during this time. SMEs annual turnover

increased from RUB 133,047 million in 2004 to RUB 1,257,204 million in 2019. This was following the enactment of the Federal Law on public procurement of July 21, 2005 (policy action #94 - FZ).

- The city divested its interests in 104 city-owned entities and 2, 280 properties by 2007.
- 801,190 private land and real estate transactions were registered in the city in 2019, as compared to 212,352 in 2003.
- The city enacted legislation to reduce the price distortive practices in land and real estate as a policy action (Law #692-101 "*On Establishment of Land Prices in St. Petersburg City*"). This law set market prices as the basis for valuing land prices. The ICR notes that prior to this law, City-owned properties were set in normative terms and set in equivalent of a land tax multiplied by 30. This dropped to a multiplier of nine after this legislation.
- The City adopted legislation for enhancing regulatory certainty in land use decisions as a policy action. For instance, the Legislative Assembly adopted the Urban Planning Law as a policy action (# 778-116) on December 17, 2003 to regulate land uses, and subsequently adopted the St. Petersburg General Plan in 2005 to set clear rules for major land uses and site development. This legislation also defined development and functional zones for development and investment. In 2006, the city adopted the Rules for Land Use and Development, establishing construction boundaries and regulations for different land uses, such as residential, industrial, etc.
- The City developed the General Urban Plan as a policy action in 2006 for informing capital investments in public infrastructure such as engineering services and transport. This plan is reviewed and updated regularly, with the latest update conducted in 2019.

Outcomes (ICR, paragraphs 39 and 41, and pages 34 -35).

The policy reforms enumerated above were aimed at improving the regulatory framework and addressing the constraints faced by existing and potential SMEs in accessing information, finance, land and real estate. The policy reforms were expected to lead to a 10% annual increase in the number of registered SMEs, and an annual 5% increase in private land and real estate transactions in the city during the lifetime of this DPL operation. The City demonstrated its commitment to the sector reform, by enacting the policy reforms and was eligible for the two tranches, even though the City chose not to withdraw the tranches under the DPL.

- The number of registered SMEs increased from 96,900 in 2003 to 280,000 between 2003 and 2007, far exceeding the target of 117,249. This upward trajectory was maintained with the St. Petersburg Committee for Entrepreneurship listing 359,700 SMEs in 2019 (representing a 73% increase relative to the 2003 baseline).
- The number of private land real estate transactions in the City increased from 90,402 in 2003, to 212,352 in 2007, nearly twice the target of 115,379. This upward trajectory was maintained, with 801,190 private land and real estate transactions registered in the City in 2019. According to the Federal Service for State Registration, Cadaster and Cartography (Rosreyestr), the percentage of privately-owned land in the total land area of St. Petersburg increased from 12.9% in 2003 to 23.9% in 2018, with privately-owned residential properties increasing from 61.1% in 2003 to 92.4% in 2018.

The team clarified that this project was prepared when the Russian federal government promoted significant macroeconomic reforms outlined in the Russian Federation Medium Term Program for Social and Economic Development for 2002-2004. This program recognized that sustained economic growth would require policy and regulatory frameworks for fostering private sector development in general and developing SMEs in particular. However, while external factors at the national level may have been at work in influencing the significantly exceeded outcomes, it is reasonable to assume that the policy measures undertaken by the City and supported by the project played a role in addressing some of the underlying systemic challenges faced by the private sector in general and SMEs in particular by the City. While it is difficult to ascertain the extent to which the outcomes were attributable to the project, it is reasonable to accept that the project made a contribution to realizing the PDO.

Strengthening financial management.

Policy reforms in this area aimed at supporting key reforms of St. Petersburg's Strategic Plan pertaining to the City's financial management. Specifically, the reforms were keyed to providing a more predictable fiscal environment for private sector development and attracting investors, both domestic and foreign.

Theory of change. As output activities, adopting medium-terms financial plans to track fiscal performance against set prudential limits set by the City and federal legislation and monitoring the budgets of City organizations, were expected to lead to stability of the City's fiscal base, thereby creating a stable and predictable investment environment. This was expected to send the correct signals to the private sector. This in turn was expected to contribute to the longer-term objective of enhancing St. Petersburg's prospects for sustainable economic growth. Assuming that city remains committed to enforcing the reforms, these reforms were likely to aid in improving the business climate for sustainable economic growth.

Outputs and legislation.

- The City adopted medium-term financial plans to track fiscal performance against set prudential limits set by the City and federal legislation (following the adoption of the law #47-p on April 12, 2004 " *On Some issues Related to St. Petersburg Budget Execution*"). Following this legislation, three-year rolling plans were adopted for 2004 - 2006, 2005 - 2007, 2006 -2008 and 2008 -2010. The ICR (paragraph 42) notes that the three year plans are adopted to date.
- The percentage of the City organizations whose budgets were monitored increased from 50% in 2003 to 98% in 2006.
- The City adopted legislative acts to regulate the budgeting processes relating to public debt management (Law # 57 on January 28, 2004). This law intended to ensure that the City's aggregate public debt was within the limits set by the City and federal legislation.
- The City established independent audits of the procurement procedures and adopted standard bidding procedures in July 2005 (order # 48). The ICR (paragraph 83) notes that the City continues to update the procurement documents, and these are regularly updated on the City websites to date. According to the clarifications provided by the team, improving the transparency of the procurement processes made it easy for the private entities to do business with the City administration. This contributed to the local economic development. More efficient finance management made it possible for the City to reduce the amount of debt and borrowings, fulfill all obligations to creditors in full and ahead of schedule.
- The City adopted the medium term investment plan that was linked to the Strategic Plan and the General Urban Plan.

Outcomes

The policy reforms described above aimed at strengthening the financial management of the City for creating a more stable and predictable fiscal environment for private sector development in the City. This was to be monitored by the creditworthy status of the City, based on the credit rating by international credit rating agencies.

- Despite economic crises, St Petersburg maintained a stable credit rating by the three international ratings agencies - Moody, Fitch and Standard and Poor (S&P) - since 2003.
- Moody's periodic review in July 2020 attributed the city's Baa1 (stable) rating to a combination of factors including, its wealth and the city's prudential fiscal discipline and low debt burden. The Moody's review further stated that the City has strong fiscal resilience against possible shocks to the national economy. Fitch's commentary in April 2020 affirmed the City's BBB (stable) rating and assessed the City's risk profile as "midrange". S&P rated the overall credit position of the city as BBB (stable). The team clarified that the high credit rating of the City contributed to a higher assessment of the creditworthiness of enterprises in which the City participates as a share holder or sole owner.

While external factors at the national level may have been at work in influencing the outcome, it is reasonable to assume that the policy measures undertaken by the City and supported by the project played an important role in strengthening the City's financial management.

Rating

Substantial

OVERALL EFFICACY

Rationale

Overall efficacy is assessed as substantial.

The PDO 1 - to support St. Petersburg's efforts to accelerate the implementation of its strategic plan through rehabilitation of the key cultural artifacts of St. Petersburg is assessed as substantial. While it is difficult to determine the extent to which the project activities contributed to realizing the PDO, it is reasonable to conclude that the project activities significantly contributed to realizing the PDO.

PDO 2 - to enhance St. Petersburg's prospects for sustainable economic growth through policy reforms aimed at greater involvement of the private sector and financial strengthening is assessed as substantial. While it is difficult to ascertain the extent to which the outcomes could be attributed to the project given the macroeconomic changes in Russia, it is reasonable to conclude that the project supported activities significantly contributed to realizing the PDOs.

Overall Efficacy Rating

Substantial

5. Efficiency

Financial analysis. The activities financed under the project entailed restoration of the cultural and historical artifacts of the City. The ICR (paragraph 56) notes that the restoration works did not increase the size of the buildings, as the intention was to preserve the artifacts in their original shape and to protect the historical integrity. Hence, although revenue was expected to increase through tourists, this increase was expected to be significantly less than the amounts invested for rehabilitating the cultural artifacts. The project as a whole had a negative Financial Net Present Value of US$337.0 million. The negative value meant that the project as a whole was not commercially viable, and did not pay for itself in financial terms. Hence public funds were required to finance such investments.

Economic analysis. A cost-benefit analysis was conducted at closure for activities associated with rehabilitation of the cultural artifacts (there was no economic analysis at appraisal). These activities accounted for 82% of the actual cost. Since the rehabilitated activities were not commercial in nature, but rather assets that offered services with cultural value and societal benefits, a willingness-to-pay (WTP) approach was used to demonstrate efficiency. WTP is an indicator of demand and shows how much people are willing to pay for a good or service. The WTP was assessed through two surveys (i) in the museums that underwent restoration works under the project using the availability sampling method; and (ii) a telephone-based interview using the representative sampling method. The surveys were administered for 2,427 respondents (56% of the respondents were women). The ex post Economic Internal Rate of Return (EIRR) was 25%. The WTP approach was rather inadequate, given that several of the rehabilitated cultural artifacts assets were free for local tourists (who constituted the main tourists) for the cultural artifacts. It would have been more appropriate to combine this approach with other approaches, given that the ICR did not convincingly establish that the WTP was the appropriate or best approach for this kind of project.

Administrative and Operational issues. There were several administrative and operational shortcomings. The operation approved in 2003, only became effective about two years later due to administrative changes at both the federal and City level and delays in reviewing and approving the operation. Further, investment components in this operation were tied to tranche payments under the adjustment component. This contributed to delays in implementing the investment activities, and the approach complicated implementation and results monitoring, as it entailed two distinct implementing agents (city and federal), and differently-paced components in a single operation.

The actual project cost was over three times higher than estimated at appraisal. The cost of the rehabilitated cultural artifacts was over six times the appraisal estimate. The scope of some activities (like the State Hermitage and restoring the George Hall of Mikhailovsky Castle of the Russian Museum) was expanded substantially from their original design during implementation (with the scope of the State Hermitage subprojects exceeding the size of the initially planned interventions by more than 14 times); these were offset by non-completion of some activities envisioned at design (such as rehabilitation of the State Marinsky Theater historical building, which accounted for around half the investment cost, the English Church building of the State-Rimsky-Korsakov Conservatory, and the two inner courtyards of the Mikhailovsky Palace of the State Russian Museum). The project closed over ten years behind schedule. This increased supervision costs, which continued beyond 2014, despite the fact that the disbursements had reached almost 99%. According to the clarifications provided by the team, the reasons for continuing implementation beyond 2014 went beyond the standard operational and administrative issues, and related to the challenges posed by the sensitive geopolitical situation that were beyond the control of this project.

On balance, while recognizing the project's physical achievements in key cultural institutions, the major administrative and implementation delays and inefficiencies lead to an overall efficiency rating of modest.

Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐ Not Applicable
ICR Estimate	✓	25.00	82.00 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The relevance of the PDO and the efficacy are assessed as substantial. Efficiency is however assessed as modest, in view of the rather weak economic justification for the project and some administrative and operational shortcomings during implementation. Taking these ratings into account, outcome is moderately satisfactory.

a. Outcome Rating

Moderately Satisfactory

7. Risk to Development Outcome

Government/City commitment and macroeconomic risk. The ICR (paragraph 39) notes that improving the environment for SMEs remains a priority for the city. The city's strategic plan for 2035 advances the goal of promoting SMEs, by setting a target that at least "80% of the entrepreneurs were satisfied with the conditions of conducting business in the City". The team clarified that the rehabilitated cultural and historical artifacts of the project are owned by the federal government, and that financing for operation and maintenance of these assets and the staff of the cultural institutions is secured in the federal budget on an annual basis. The risk associated with the related policy reversal is low.

8. Assessment of Bank Performance

a. Quality-at-Entry

The analytical underpinnings of the operation were sound and based on: (1) Foreign Investment Advisory Services (FIAS) report on *Administrative barriers to entry in Russia; (2)* a 2002 World Bank study - *Barriers to Business Transactions in Russian Region*s - that examined day-to-day impediments to business transactions in thirteen regions in Russia, including St. Petersburg; (3) Economic and Sector Work (ESW) on land management and real estate issues (*Commercial Real Estate Market Development*, World Bank Discussion Paper No 109, 1995); (4) ESW on intergovernmental Finance (*Russia and the Challenge of Fiscal Federalism*, 1994); and (5) the Bank's 1999 framework paper on "*Culture and Sustainable Development*", which recommended that Bank financing for rehabilitation of cultural heritage operations should be considered for Bank financing, only if these activities supported the core development objectives of the Bank, such as sustaining growth or generating local employment.

The investment components of the project were based on the experiences from the Bank-financed, St. Petersburg City Center Project. Lessons incorporated at design, included: (i) a hybrid approach for leveraging policy reforms (discussed in Section 3); (ii) preservation of physical cultural assets as a critical component in an operation, whose primary objective was to further the economic development of the city through diversifying the sources of growth; and (iii) complementing physical rehabilitation works with advisory assistance to help the cultural institutions improve their financial management and business planning. The operation was prepared in collaboration with the relevant stakeholders.

The implementation arrangements were appropriate. The Russian Federation's Ministry of Finance was overall in charge of executing the project. The Governor of St. Petersburg was in charge of the adjustment component at the city level. The Ministry of Culture - the entity responsible overseeing federal cultural institutions in the city - was in charge of the investment components. The St. Petersburg Foundation for Investments (FISP) - the agency created for implementing the prior Bank-financed project - was responsible for day-to-day project management. FISP was familiar with the Bank's fiduciary procedures.

Several risks were identified at appraisal, including possible resistance to changes in the city bureaucracy where officials could undermine the operation's investment activities and procurement delays. Mitigation measures incorporated at design, included developing training programs in coordination with institutions and selecting design consultants with international experience. Even with mitigation measures, the operation risk was rated substantial at appraisal (PAD, page 42). The arrangements made at appraisal for safeguards and fiduciary compliance were appropriate (discussed in section 10).

There were inconsistencies in formulation of the PDO in the Loan Agreement (LA) and PAD, as well as different sections of the PAD.

Quality-at-Entry Rating

Satisfactory

b. Quality of supervision

Thirty-three Implementation Status Results Reports (ISRRs) were filed over an implementation period of seventeen years. The continuity of leadership was maintained across four task team leaders (TTLs) during the project lifetime. Excepting for the last two years, the TTLs were based in the country. The supervision team proactively alerted the federal authorities (the Ministry of Finance (MOF) and the Ministry of Culture (MOC)) and city government to challenges, and helped in resolving them in a timely manner and in collaboration with the Borrower, as reported in the ICR (paragraph 105). The supervision team was responsive to the emerging project needs. For instance, the team obtained the Bank Managing Director's waiver to allow extension of the contract for stage two of the restoration of the State Hermitage's General Staff Building. This aided in completion of this subproject (ICR, paragraph 84). The Borrower's ICR (ICR, Annex Five) notes that the Bank issued timely no-objections to the implementation, procurement and disbursement plans, and visited the project sites regularly. The support provided by the team aided in safeguards and fiduciary compliance (discussed in Section 10).

There were some supervision shortcomings. One, the PDOs as stated in the LA and in the PAD were not harmonized during implementation. The team clarified that the Bank attempted to harmonize the PDO language between the Loan Agreement and the PDO, as part of the project restructuring associated with preparation of the AF loan in 2014. However, the AF did not materialize for sensitive geopolitical reasons beyond the control of this project. Two, given that the project was executed over seventeen years, the team explained that an interim ICR was prepared as required. However, the interim ICR was not released, since the AF did not materialize. The team also clarified that the prepared ICR was duly filed in the World Bank documents and kept in the operational portal until it was replaced by the final ICR, as the portal does not provide the opportunity to keep both documents. And three, the ICR provides no convincing reasons for continuing supervision from 2014 until the 2020 closing date, despite the disbursement rate at almost 99% in 2014. According to the clarifications provided by the team, the decision for continuing supervision from 2014 to 2020 went beyond the standard operational considerations and related to the challenges posed by the sensitive geopolitical situation, that were not under the Bank's control.

In sum, overall Bank performance is assessed as satisfactory.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The results framework was logical and the indicators chosen for monitoring the DPL component (increase in the number of SMEs, increase in the number of private land and estate transactions in the city, and monitoring the creditworthy status of the city through independent credit rating agencies), were appropriate. The key indicator for the investment component - overall growth in tourist numbers to the city - were inadequate, as it ignored other exogenous factors that may positively or negatively impact tourism growth. The ICR (paragraph 89) notes that there were two financial crises during the implementation period, which would have impacted the economy more broadly and tourism specifically. A more appropriate method for monitoring would have used the "difference-in-difference" approach. The ICR itself acknowledges in various places that results were not fully attributable to the project.

b. M&E Implementation

The ICR (paragraph 91) notes that M&E data was collected regularly during implementation. The actual values of indicators associated with the DPL component were provided by the City. A knowledgeable local consultant was also hired to provide reviews of the city's macroeconomic situation and verify the values of the PDO indicators relating to the city reform program of providing a conducive environment for private sector development and strengthening financial management of the City. Although the DPL component was completed in 2007, the performance of the DPL component was monitored up to the end of the project implementation in 2020. The St. Petersburg Foundation for Investment Projects (FISP) provided the data for monitoring the investment component of the operation.

With the City doing much on its own and with its own funds, no credible effort was during the 17 implementation period to correct the shortcomings in M&E design and the indicators for monitoring project performance.

c. M&E Utilization

The ICR (paragraph 92) notes that the M&E was utilized for monitoring project performance. During implementation, the M&E data was used to introduce necessary adjustments thorough additional intermediate indicators.

Overall, M&E is rated modest, taking into account the shortcomings in M&E design.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

The project was classified as a category F (Financial Intermediary Assessment) project for the DPL components of the project under the World Bank safeguard policies. Two safeguard policies were triggered at appraisal for the project investment activities: Environmental Assessment (OP/BP 4.01), and Cultural Property (OP 4.11) (PAD, page 40).

Environmental Assessment: The possible adverse environmental impacts, included temporary effects on the environment from construction activities (such as dust, noise and increase of heavy vehicle traffic). An Environmental Management Plan (EMP) to address environmental issues was prepared and publicly-disclosed at appraisal.

The ICR (paragraph 95) notes that environmental performance throughout the project life was rated either Satisfactory of Highly Satisfactory. Minor effects caused by construction works were addressed as per the EMP. For complex subprojects such as the Hermitage, additional mitigation measures were implemented, such as specific guidance on waste handling, transportation and disposal. In 2011, based on the results of the environmental audit, the Consultant was ISO 14001 - 2004 certified. The compliance with environmental safeguards was verified regularly by the Bank environmental specialist. The ICR (paragraph 97) notes that the Operations Manual contained a framework for handling complaints. In response to public concerns that simultaneous work in the two inner courtyards of the Russian Museum's Mikhailovsky Palace may require closure to visitors, the palace rehabilitation was done in two stages to avoid closure of the entire museum's building.

Physical Cultural Safeguards. The PAD (page 40) notes that since the project was to be carried out with advisory assistance from the Ministry of Culture and its experts and the project focused exclusively on preserving existing cultural properties, no issues regarding cultural property were expected. The ICR notes that there were "chance finds" of archeological discoveries, during the rehabilitation of the State Hermitage's General Staff Building. To verify compliance with the Physical Cultural Safeguards policy, the Bank's Cultural Management expert reviewed the Russian regulatory framework (at Federal and City levels) on chance finds, and found them compliant with Bank policies.

b. Fiduciary Compliance

Financial Management. A financial management assessment of the St. Petersburg Foundations for Investment (FISP) at appraisal, concluded that the financial arrangements were adequate (PAD, page 35). The Financial Department had adequate skilled staff during implementation. The quarterly monitoring and annual unqualified audits were submitted in a timely fashion. There were no ineligible expenditures (ICR, paragraph 98).

Procurement. A procurement assessment of FISP at appraisal for the investment activities of the project conducted at appraisal, concluded that the arrangements were satisfactory (PAD, page 35). The ICR (paragraph 99) notes that for civil works contracts, quality and cost compliance was given by competitively procured independent engineering firms. There was no case of mis procurement.

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment

Outcome	Satisfactory	Moderately Satisfactory	Relevance of PDO and efficacy were assessed as substantial. Efficiency was however modest in view of the weak economic justification for the project and some administrative and operational shortcomings during implementation.
Bank Performance	Satisfactory	Satisfactory	
Quality of M&E	Substantial	Modest	Significant weaknesses in M&E design.
Quality of ICR	---	Substantial	

12. Lessons

IEG uses the following main lessons from the experience of implementing this project, with some adaptation of language.

1. The hybrid project design needs to be applied with caution as it can add complexity to supervision and could contribute to delays. In this project, this approach (with adjustment and investment lending) was used, as the growth prospects of the city were linked to rehabilitating cultural artifacts, and policy and regulatory frameworks were required for involving the private sector in the rehabilitation activities. The DPL and investment components were implemented by different government agencies (at the federal and city level). Further, as there were to be no disbursements for the investment component until the DPL operations were completed, there were delays in implementing the rehabilitation activities.

2. Proper maintenance of rehabilitated cultural monuments and sites is required for sustainability of the sites. In this project, the cultural and historical artifacts were under federal jurisdiction and the Federal Government had annual budgets allocated for maintaining the artifacts. The lesson for projects of this type is that the administration of rehabilitated cultural sites should take care to ensure that there is a secure basis of funding for the maintenance of these sites.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provides a clear description of a hybrid approach under this operation. It candidly acknowledges the practical difficulties associated with using such an approach and the issues associated with the wording of the Project Development Objectives in this project. The theory of change provided in the ICR provides a clear link between the project activities, their outputs and the outcomes. The ICR draws good lessons from the experience of this project. The ICR appropriately uses photographs of the works before and after rehabilitation on the historical buildings to show the scope of activities financed under the project, and includes a Borrower's ICR.

However there were minor shortcomings. The ICR should have clarified that an interim ICR was prepared at the time of processing the Additional Financing, but was not released when the AF did not materialize. Another issue is the length of the ICR. The main text of the ICR is almost twice the normally recommended length of 15 pages.

a. Quality of ICR Rating

Substantial