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The World Bank

Report No: ICR00001343

**IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IBRD-46110)**

ON A

LOAN

IN THE AMOUNT OF US\$ 80 MILLION

TO THE

RUSSIAN FEDERATION

FOR A

NORTHERN RESTRUCTURING PROJECT

June 21, 2010

**Human Development Sector Unit
Europe and Central Asia Region**

CURRENCY EQUIVALENTS
(Exchange Rate Effective June 21, 2010)

Currency Unit = Russian Ruble
1 Ruble = US\$ 0.0322
US\$ 1.00 = 31.22 Rubles

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

CAS	Country Assistance Strategy	MAP	Migration Assistance Program
Central PIU	Central Project Implementation Unit	M&E	Monitoring and Evaluation
EDB	Electronic Data Base	MED	Ministry of Economic Development
EMP	Environment Management Plan	MEDT	Ministry of Economic Development and Trade
FCPF	Federal Center for Project Finance	MOF	Ministry of Finance
FER	Financial Institutions Development	MOJ	Ministry of Justice
FM	Financial Management	MRD	Ministry of Regional Development
IBRD	International Bank for Reconstruction and Development	MTR	Mid Term Review
GOR	Government of Russia	NRP	Northern Restructuring Project
GDP	Gross Domestic Product	PAD	Project Appraisal Document
ICR	Implementation Completion and Results Report	PDO	Project Development Objective
IMWG	Inter-Ministerial Working Group	PMR	Project Management Report
IP	Implementation Progress	PR	Public Relations
ISR	Implementation Status and Results Report	RF	Russian Federation
LA	Loan Agreement	ROSSTROY	Federal Agency for Construction, Housing, and Municipal Economy
HCS	Housing and Community Services	SECAL	Coal Sector Adjustment Loan
Local PIU	Local Project Implementation Unit	TTL	Task Team Leader

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**Russian Federation
Northern Restructuring Project**

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A. Basic Information			
Country:	Russian Federation	Project Name:	Northern Restructuring Project
Project ID:	P064238	L/C/TF Number(s):	IBRD-46110
ICR Date:	06/22/2010	ICR Type:	Core ICR
Lending Instrument:	SIL	Borrower:	RUSSIAN FEDERATION
Original Total Commitment:	USD 80.0M	Disbursed Amount:	USD 34.7M
Revised Amount:	USD 34.7M		
Environmental Category: B			
Implementing Agencies: Foundation for Enterprise Restructuring			
Cofinanciers and Other External Partners:			

B. Key Dates				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	12/03/1998	Effectiveness:	08/15/2002	08/15/2002
Appraisal:	05/22/2000	Restructuring(s):		03/20/2007
Approval:	06/07/2001	Mid-term Review:		
		Closing:	09/30/2005	09/30/2009

C. Ratings Summary	
C.1 Performance Rating by ICR	
Outcomes:	Moderately Unsatisfactory
Risk to Development Outcome:	Substantial
Bank Performance:	Moderately Satisfactory
Borrower Performance:	Moderately Unsatisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	Ratings	Borrower	Ratings
Quality at Entry:	Moderately Satisfactory	Government:	Moderately Unsatisfactory
Quality of Supervision:	Moderately Satisfactory	Implementing Agency/Agencies:	Moderately Unsatisfactory
Overall Bank Performance:	Moderately Satisfactory	Overall Borrower Performance:	Moderately Unsatisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	Indicators	QAG Assessments (if any)	Rating
Potential Problem Project at any time (Yes/No):	No	Quality at Entry (QEA):	None
Problem Project at any time (Yes/No):	Yes	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Moderately Satisfactory		

D. Sector and Theme Codes		
	Original	Actual
Sector Code (as % of total Bank financing)		
Central government administration	8	8
Other social services	88	88
Sub-national government administration	4	4
Theme Code (as % of total Bank financing)		
Improving labor markets	33	33
Municipal governance and institution building	33	33
Other economic management	17	17
Social analysis and monitoring	17	17

E. Bank Staff		
Positions	At ICR	At Approval
Vice President:	Philippe H. Le Houerou	Johannes F. Linn
Country Director:	Pedro Alba	Julian F. Schweitzer
Sector Manager:	Kathy A. Lindert	Michal J. Rutkowski
Project Team Leader:	Andrei R. Markov	Andrei R. Markov
ICR Team Leader:	Ivan Shulga	
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F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document)

The Project development objective was to test measures that would allow participating localities to realize the economic benefits of restructuring and facilitate the

implementation of sustainable municipal policies; and thereby assist the Borrower in the development of a national strategy for restructuring of the economy of the northern areas.

Revised Project Development Objectives (as approved by original approving authority)

The PDO was not revised.

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Reduced expenditures emerging in the local budgets resulting from the reduced population and closure of buildings.			
Value quantitative or Qualitative)	USD 326 mln annual municipal budget spending	USD 25.0 mln annual budget savings		USD 20.7 mln cumulative budget savings
Date achieved	01/01/2003	09/30/2005		09/30/2009
Comments (incl. % achievement)	PARTIALLY ACHIEVED. The 4th wave of out-migration (out-migration campaign) was not launched.			

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Quantity of applications handed for participation in the Project.			
Value (quantitative or Qualitative)	N/A	no target set		10,082 applications for 22,402 household members
Date achieved	01/01/2003	09/30/2005		09/30/2009
Comments (incl. % achievement)	The PAD did not set a target for the no. of applications. However, it set a target of 10,401 households to migrate (see indicator 3 below). The numbers are derived from info in the database of the Foundation for Enterprise Restrctring & Fin Inst Dev (FER)			
Indicator 2 :	Quantity of certificates issued			
Value (quantitative or Qualitative)	NA	no target set		7,922 certificates issued for 17,592 household members.
Date achieved	11/01/2008	09/30/2005		09/30/2009
Comments (incl. % achievement)	The PAD did not set a target for the number of certificates to be issued. However, it set a target of 10,401 households to migrate (see indicator 3 below). The numbers are derived from information in the database of the FER.			
Indicator 3 :	Quantity of households that have migrated.			
Value	N/A	10,401 households		4,527 households

(quantitative or Qualitative)				(10,028 people)
Date achieved	01/01/2003	09/30/2005		09/30/2009
Comments (incl. % achievement)	PARTIALLY ACHIEVED. This number is based on three waves of out-migration. The 4th out-migration, which was to start in August 2008, did not materialize because of numerous delays with approval of necessary documentation. It reached 44%.			
Indicator 4 :	Level of cost recovery from population change during the year			
Value (quantitative or Qualitative)	N/A	N/A		N/A
Date achieved	01/01/2003	09/30/2005		09/30/2009
Comments (incl. % achievement)	This indicator was not monitored.			
Indicator 5 :	Volume of consolidated housing and social infrastructure (total number of buildings and square meters), including cumulative data			
Value (quantitative or Qualitative)	N/A	no target set		642 buildings (404,689 sq meters)
Date achieved	01/01/2003	09/30/2005		09/30/2009
Comments (incl. % achievement)	ACHIEVED. Since no volume was specified, one can argue that this target has been met although much more could have been accomplished if the 4th wave had taken place.			

G. Ratings of Project Performance in ISRs

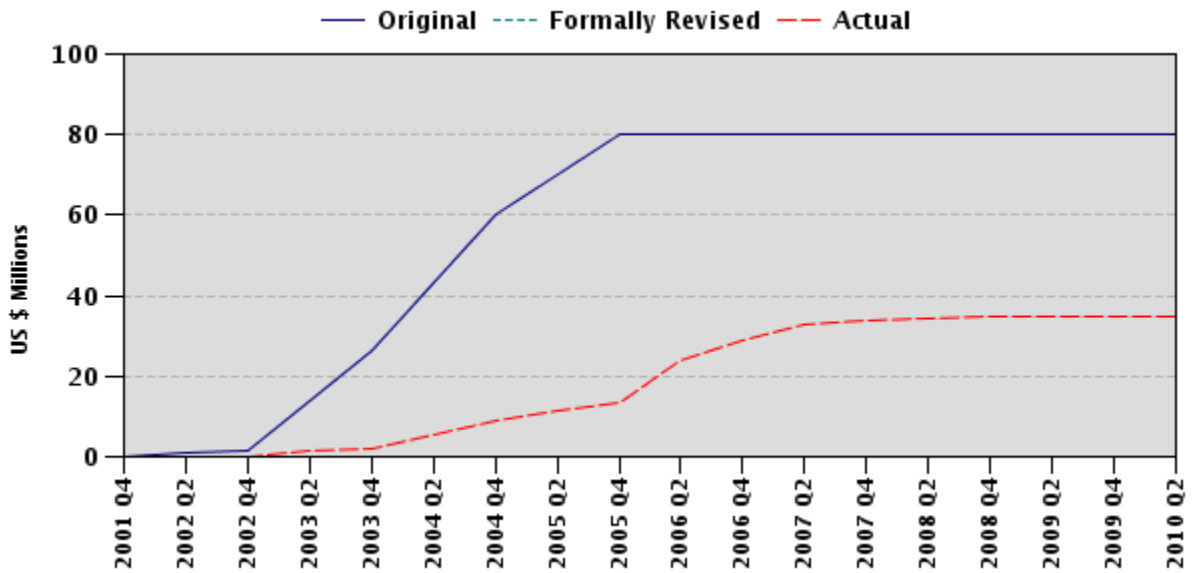
No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	06/28/2001	Satisfactory	Satisfactory	0.00
2	12/21/2001	Unsatisfactory	Unsatisfactory	0.00
3	06/26/2002	Unsatisfactory	Unsatisfactory	0.00
4	12/30/2002	Satisfactory	Satisfactory	1.30
5	06/25/2003	Satisfactory	Satisfactory	1.98
6	09/04/2003	Satisfactory	Satisfactory	2.92
7	04/28/2004	Satisfactory	Satisfactory	7.65
8	06/15/2004	Satisfactory	Satisfactory	8.92
9	12/22/2004	Satisfactory	Satisfactory	11.64
10	06/14/2005	Satisfactory	Satisfactory	13.58
11	06/14/2006	Satisfactory	Satisfactory	28.97
12	12/15/2006	Satisfactory	Satisfactory	32.58
13	07/06/2007	Satisfactory	Satisfactory	33.72
14	02/17/2008	Moderately Satisfactory	Moderately Unsatisfactory	34.22
15	08/13/2008	Unsatisfactory	Unsatisfactory	34.68
16	12/24/2008	Satisfactory	Satisfactory	34.80

17	06/18/2009	Moderately Satisfactory	Unsatisfactory	34.80
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H. Restructuring (if any)

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
03/20/2007	N	S	S	33.25	Expansion of project scope to other municipalities and increase level of migration subsidy

I. Disbursement Profile



1. Project Context, Development Objectives and Design

The Northern Restructuring Project (NRP) was approved on June 7, 2001. The Loan Agreement was signed on July 11, 2001 and the Loan became effective on August 15, 2002. The Project was the third World Bank-financed operation supporting the social protection sector of the Russian Federation.

1.1 Context at Appraisal

Until 1991, industrial development of the North was among the strategic priorities of the Soviet State. Largely located within the Arctic Circle, the North covers 57 percent of the Russian land-mass and contains the majority of Russia's deposits of oil, natural gas, diamonds, and nickel, etc. Massive investments created an economic infrastructure that required extensive federal subsidies and transfers to both enterprises and households to cover the high costs of production associated with an extremely harsh climate and remote location. Large-scale labor inflows to the North were ensured by the Central Government to support the level of economic activity. This was initiated with forced labor camps during the Stalin period and was later replaced by a comprehensive system of monetary and non-cash incentives for work in the extreme conditions of the Arctic territories. As a result of this policy, the North, with extremely harsh climate was saddled with a large population (10% of the Russian population⁵) and an inefficient, often unviable industrial base⁶.

Subsidies to the Northern economy included artificially low prices of inputs for Northern enterprises and utility companies, centralized shipment and delivery of food and fuel financed by the federal budget. Commonly known as the "Northern shipment," compensation packages for workers included: (i) higher wages through so-called Northern coefficients; (ii) publicly financed early retirement; (iii) annual allowances for leave and travel to central Russia and longer paid annual leave; and (iv) relocation grants for transfer to the North for long-term residence and for return when nearing retirement age. The overall system of subsidies and benefits equaled roughly 6% of GDP annually.

Since 1992, Russia was attempting to transform its economy towards one based upon market principles. The Government's economic program in 1992 provided a framework for the direction of reform in the North to bring Northern policies in line with, and integrating them into, a coherent national approach to regional management and development. The economic program included: (i) enactment of new Northern labor and social legislation providing for higher reliance on market forces and the gradual elimination of incentives for

³ According to the PAD, the expected Effectiveness Date was on September 1, 2001, however, because of the glitch in the system, both original and actual dates appear the same (August 15, 2002).

⁴ The Social Protection Adjustment Loan (SPAL) was approved on June 25, 1997 and its companion operation – the Social Protection Implementation Loan (SPIL) was approved on June 25, 1997.

⁵ Western countries with significant land within the Arctic Circle had only 1% of their population living there.

⁶ Average January temperatures range from -15 to 45 degrees Celsius contributing to a cost of living that is on average 4 times higher than in the rest of the country.

in-migration to the North; (ii) accelerating economic restructuring of enterprises through social asset divestiture and other measures that permit industrial rationalization; (iii) permitting downsizing and/or closing of non-viable communities; (iv) improving efficiency in provision of municipal and social services; and (v) opening possibilities for restructuring through the support of out-migration.

In 2000-2001 the Government introduced a Program of Priority Measures, including the elimination of the Ministry of the North and presented to the Bank a Letter of Development Policy for the Russian North. Actions under this program included: (i) new income tax legislation eliminating mandated salary supplements and augmenting benefits for private sector workers in the North; (ii) legislation removing the funds for Northern privileges; (iii) planned cuts in mandatory benefits that would further reduce the federal subsidy; and (iv) elimination of mandatory benefits for non-public sectors by early 2002. Together these actions were to place the North on a more equal footing with other Russian regions, and reduced its attractiveness for in-migration.

As an immediate response to the policy changes a massive out-migration started. This out-migration was not uniform by age and social status; those who started out-migrating were the young and educated. At the same time, there was a large increase in the share of the pension-age population and in people who wanted to leave the North, but did not have the means to do so. Social assessments conducted during project preparation indicated that the opportunity to out-migrate was a high priority for many. Moreover, there were significant psychological and physical health benefits to be derived from moving out of the North, particularly for children.

Prior to the appraisal, the need for additional actions aimed at supporting the disadvantaged groups of the population became clear. Reducing the financial burden in the expensive northern environment offered the possibility for a win-win situation across the major actors in the North. In contrast, without the opportunity to downsize at all levels, the downward spiral of unemployment, over-burdened firms and municipalities, and reduced federal subsidies was to make the North an even less viable location.

The Bank was requested to assist the Government in developing and testing innovative schemes of out-migration assistance to: (i) supplement the resettlement programs with local restructuring to help municipalities to draw the benefits from a more manageable population base; (ii) provide support to people with limited economic prospects; and (iii) enhance the role of municipalities and the citizens themselves in the promotion of out-migration and restructuring.

The Project strategy was consistent with the Country Assistance Strategy of June 2001 that emphasized as key reform areas and priorities: (i) the need to devise cost effective ways of providing assistance to residents and communities of the North, both for social and economic reasons; (ii) establishing an enabling environment for private sector development, including through a reduction in mandated social benefits and subsidies paid by enterprises; (iii) coping with the economic and social effects of the downsizing of the industrial structure in the North; and (iv) supporting the local economic restructuring to make the North economically viable.

1.2 Original Project Development Objectives (PDO) and Key Indicators

As per the Loan Agreement (LA), *the PDO was to test measures that would allow participating localities to realize the economic benefits of restructuring and facilitate the implementation of sustainable municipal policies, and thereby assist the Borrower in the development of a national strategy for restructuring of the economy of the northern areas.* The actions that were to be tested included: (i) voluntary out-migration assistance schemes for people whose economic prospects were limited, and (ii) measures to allow municipalities to realize potential economic benefits resulting from a decreased population. It was expected that these experiences would serve as a basis for similar initiatives in other Northern communities, appropriately adapted by the community to its particular requirements.

The wording of the PDO was slightly different in the main text of the Project Appraisal Document (PAD), Annex 1 of the PAD, and the LA. The difference in wording, however, did not alter the substance.

The Project had a single outcome indicator, listed both in the PAD and in the Minutes of Negotiations of the Loan Agreement: reduced expenditures emerging in the local budgets resulting from the reduced population and closure of buildings. However, the Project's output indicators were somewhat different in each of these two documents:

- **The PAD's output indicators** included: (i) out-migration taking place; (ii) local restructuring plans implemented; (iii) the effects of restructuring reflected in local budgets; and (iv) municipal management strengthened.
- **The Minutes of Negotiations output indicators** included: (i) quantity of applications handed for participation in the Project; (ii) quantity of certificates issued; (iii) quantity of households that have migrated; (v) level of cost recovery from population, change during the year; and (iv) volume of consolidated housing and social infrastructure (total number of buildings and square meters), including cumulative data.

This evaluation measures attainment of indicators as per the Loan Agreement, as listed in the ICR's datasheet.

1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and reasons/justification

There were no revisions of the original PDO.

1.4 Main Beneficiaries

The primary target group of the Project was defined as specific categories of households affected by economic transition or living in non-viable communities and who wanted to move, primarily out of the North. All participants were to have the option to move to the region (oblast) of their choice within Russia. These groups were expected to benefit from the possibility to improve significantly the climatic conditions of their residence and to reduce the cost of living in the regions of their new residence.

The target groups in each site were selected through a participatory process involving local administrations, labor unions, employers and local groups in consultation with the Bank. Based on the specific features of the economic restructuring taking place in the three Project locations and on local priorities, eligibility by location was as follows:

- In **Susuman District** eligibility was based on the downsizing taking place in the gold industry. A number of small mining settlements were being converted into seasonal settlements for a reduced number of company employees, and responsibility for servicing these settlements was being transferred to the gold mining companies. The Susuman Administration opted to provide “residual” households with an opportunity to move, to facilitate the downsizing process. Therefore, in addition to the households in the settlements to be converted to seasonal settlements, specific target groups from Susuman City were also included.
- In **Norilsk** the target population was selected from economically and socially vulnerable households including: (i) non-working and old age populations; and (ii) households with characteristics that correlate with poverty (families with many children).
- In **Vorkuta** the target population was to include two groups of non-working, old age people and all the residents of the non-viable settlement Promyshlenny, where all the surrounding mines had closed and 100% of housing was proved to be dilapidated.

In addition to those who were to receive migration assistance allowances, the remaining households were to benefit from the Project, as the municipal government would be able to provide better social services to a smaller community.

In addition to the primary target groups, other individuals and organizations not mentioned in the PAD were expected to benefit from the Project. The federal government was to benefit from the: (i) development of a new mechanism to support out-migration from the North that would supplement the ongoing government programs and provide assistance to socially vulnerable population groups; (ii) establishment of a legal framework for granting housing subsidies and implementation of housing certificates; and (iii) reduction of the obligation of the federal budget related to migration assistance as compared with the existing legislative framework. Regional and municipal governments of the pilot territories were expected to benefit from: (i) cost savings in local budgets due to release (demolishing) of the excess public utilities and social infrastructure; and (ii) reallocation of the released housing to people that had lived in dilapidated housing and unviable towns. Households remaining in the participating municipalities were to benefit from the opportunity to improve their living conditions by moving to better housing released by migrants.

*In 2004 the categories of eligible migrants were broadened to enable the Project to provide out-migration subsidies to all pensioners residing in participating localities*⁷. The broadening of the categories was a response to the finding that the originally proposed category scheme did not result in the expected levels of out-migration since the eligible categories had demonstrated low mobility and low interest in participating in the Project.

⁷ RF Government Resolution № 306 June 22, 2004.

1.5 Original Components

The Project had five components:

Component 1 - Migration Assistance (US\$76.23 million or 80% of total original project costs) provided out-migration assistance allowances to specific groups of population in the participating regions to facilitate their out-migration. The allowances were to help migrants secure housing in other regions of Russia. The migrants were also provided with transportation of their household belonging and plane/train tickets. An information system was developed to provide information about housing possibilities, and regional specifics about the job market, healthcare, education and training opportunities, climate, etc. The component also supported a public awareness program about available out-migration assistance. In addition, support was made available to: (i) allow migrants to contact real estate agencies, and (ii) receive legal assistance for signing housing contracts.

Component 2 - Local Restructuring Support (US\$5.77 million or 6.1% of total original project costs) assisted the participating municipalities to reduce their dilapidated and unused housing stock as well as implement reforms in housing and utility services management. It also assisted the participating municipalities in the management of assets and provision of services transferred to them by municipalities in mono-industrial areas. The component included: (i) technical assistance to municipalities and regions for institutional reforms in housing management; (ii) technical assistance to municipalities and regions to ensure compliance with the Environmental Management Plan (EMP) in the demolition of abandoned and dilapidated housing and other facilities; (iii) training to the staff of participating municipalities and regions in the area of municipal management; and (iv) technical assistance in other critical areas of municipal policy related to local restructuring, as identified during implementation.

Component 3 - Monitoring and Evaluation – M&E (US\$1.20 million or 1.3% of total original project costs) supported monitoring of the process and evaluation of the economic outcomes of restructuring, social aspects of out-migration and the evaluation and dissemination of project outcomes. The M&E system was to address real time management needs as well as the need to maximize learning from the new efforts. It included: (i) exit surveys of migrants about the services provided by the program; (ii) tracer studies of migrants regarding their situation following migration; (iii) annual studies of economic and fiscal impact of the local restructuring plans in the municipalities; and (iv) ex-post review of the cost of housing purchased by migrants and effects of the program on the housing market in the destination regions.

Component 4 - Federal Policy (US\$3.34 million or 3.5% of total original project costs) provided assistance to introduce regulatory procedures aimed at supporting the gradual deregulation of the Northern economy. This included: (i) provision of advisory services on legal, economic, fiscal and social aspects of Northern restructuring for the Federal Government, its agencies, regional authorities and legislature; (ii) support for applied research on Northern issues including interaction of Northern labor market with the overall economy; and (iii) support for dissemination and consensus building activities, based on the experience of the Project. The component also supported the development of a national information system on housing and other regional information.

Component 5 - Project Management Component (US\$7.90 million or 8.3% of total original project costs) financed project management costs for the Central Project Implementation Unit (Central PIU) and the Local Project Implementation Units (Local PIU).

1.6 Revised Components

There were no revisions of the original components.

1.7 Other significant changes

There were four amendments to the Loan Agreement:

- The **first amendment**, letter of January 9, 2003, countersigned on February 6, 2003: (i) provided for delegation of responsibility for opening and maintaining the special account to the Foundation for Enterprise Restructuring and Financial Institutions Development (FER); (ii) added a new sub-category to Category (4) in Schedule 1 of the Loan Agreement “Migration Subsidy Service” in the amount of US\$150,000; and (iii) made changes in the provision of transportation allowances.
- The **second amendment**, letter of December 23, 2005, countersigned on January 27, 2006, changed the definition of the Local PIU, established in each participating locality to encompass also a team of consultants at the Local PIU Remote Office. It also included reallocation of funds (see below).
- The **third amendment**, letter of March 16, 2007, countersigned on March 20, 2007, extended the closing date to September 30, 2009 and made some changes in definitions.
- The **fourth amendment**, letter of August 6, 2008, countersigned on August 14, 2008, reflected the transfer of responsibility for project oversight from the Ministry of Economic Development and Trade (MEDT) to the Ministry of Regional Development (MRD).

The closing date was extended four times for a total of 48 months: (i) from September 30, 2005 to December 31, 2006; (ii) from December 31, 2006 to February 15, 2007; (iii) from February 15, 2007 to March 31, 2009; and (iv) from March 31, 2009 to September 30, 2009. The second was a technical extension to allow time to process Project restructuring.

The Project was restructured once. The last extension of the closing date, i.e. to September 30, 2009 was to allow time for the implementation of project restructuring. Although the restructuring, including implementation of the fourth wave of out-migration was approved by the Bank in March 2007, the Government’s resolution to authorize its implementation had not taken place by that time. Under the restructuring, the Project’s scope was to be expanded beyond the three participating localities. It also encompassed additional improvements in its design, including increasing the level of the out-migration subsidy to maintain its real value and preserve the attractiveness of the Project out-migration assistance scheme. The restructuring was not implemented for reasons elaborated in Section 2.2. **The Bank cancelled US\$45,309,468.59** at the request of the Ministry of Finance (MOF).

There were two reallocations of loan proceeds: (i) December 23, 2005, and (ii) March 16, 2007. The **first reallocation** merged the 3 sub-categories (3) – Migration Assistance Allowance into one to provide flexibility in the out-migration assistance allowances, which had initially been established by each participating municipality. The **second reallocation** increased/decreased amounts for certain categories/sub-categories of expenditures.

2. Key Factors Affecting Implementation and Outcomes

The Loan Agreement became effective on August 15, 2002. Delays with effectiveness are common in the Russian Federation. The Project was approved on June 7, 2001, and the Loan took 14 months to become effective. Delays with effectiveness resulted in the first wave of out-migration being delayed by one year. Also, in March 2007, at the request of the Government, the Bank approved a project restructuring to expand its scope and inter alia, include a fourth wave of out-migration. For reasons discussed under Section 2.2, the restructuring was not implemented.

2.1 Project Preparation, Design and Quality at Entry

The ICR team rates Design and Quality at Entry as Moderately Satisfactory on the basis of the core features of project design, the considerable analytical work to inform preparation, including beneficiary surveys and legal analysis, consistency with Government and Bank strategies, and complementarity with other Bank-supported projects.

The Project was innovative. The core feature of its design -- supplementing the out-migration support with local restructuring actions -- fully reflected the PDO. It did so by supporting participating municipalities to develop and implement local restructuring plans, including implementing measures to help realize economic benefits resulting from a decreased population, and allowing the municipalities to reallocate the released housing to needy groups of the remaining population.

The Project was designed to facilitate and promote the Government's aim to create a viable economy in the North through developing and testing of cost-effective arrangements for assisting voluntary out-migration from Northern regions. These arrangements were to be implemented in parallel with local socio-economic restructuring plans, and a broader set of innovative elements of the national Northern policy.

However, there was a clear disconnect between the PDO and the choice of indicators, which did not reflect the objectives of the Project. In addition, while the Project was trying to reduce human suffering under extreme conditions, a fundamental element in the objectives supported by the Project, this human element was not captured either in the PDO or in the choice of indicators. Nonetheless, it was present in the underlying goals of the Project and guided many of the actions of the Bank's team. More details on the choices made by the Government and the Bank at various critical junctures of the Project are discussed under Section 2.2.

Quality of Project Design

Considerable analytical work was undertaken as part of project preparation. Specifically, preparation work included two socio-economic studies followed by a socio-economic survey to build the Project's information base, improve the understanding of the status of potential migrants and those who had already migrated from the North, and ultimately to inform the Project design.

The socio-economic studies found that most people had moved to the North temporarily, expecting to work, save money and return to the mainland. Most households interviewed and discussions in focus groups revealed that most people wanted to return to the mainland either because they had retired or they were discouraged by the steady erosion of their benefits. The survey revealed that the most energetic and best educated had already out-migrated leaving behind those who had no resources to move on their own. Further, the studies identified a high level of mistrust of officials and migration programs, including under Federal Law 125 (on housing subsidies for citizens moving from regions of the far North and areas of equal states), thus people had little hope that they would eventually benefit from them. Not surprisingly, in the overall survey sample, the people with worst living conditions were most anxious to leave, and those who were not eligible for migration support had little expectation to leave the North.

People surveyed disliked the fact that migration programs were not transparent and gave migrants little or no choice of destination. In fact, potential migrants felt that the principal beneficiaries of migration support programs were housing contractors in destination sites. Those who wanted to migrate, but had not yet out-migrated were primarily constrained by their financial status, often due to wage and benefit arrears, as well as their perception of high housing costs in other locations. Ninety-one percent of the respondent households said they could not migrate without financial assistance. Seventy-five percent responded that everyone in the household would move. While most respondents indicated little trust of institutions, either for information or support, they indicated a relatively high level of dependency on local government institutions. These findings demonstrated that a reasonable migration support program would be welcomed, but it needed to be transparent, participation had to be voluntary, and the destination preference honored. Once project locations were agreed upon, subsequent work focused more specifically on the characteristics, needs, attitudes and preferences of potential migrants to refine elements of the out-migration assistance program and to anticipate the impact of the program on the beneficiaries themselves, as well as their former and destination communities.

In addition, a detailed analysis of the existing legal framework was undertaken and a complete list of Northern policy legislative and regulatory documents was compiled. The system of Northern privileges was summarized, and proposals on revising the Northern policy were prepared with recommendations made on amendments and additions to the legislative and regulatory framework needed at the federal level.

In the view of this evaluation, there were several positive elements of the design. First, given the rather unsuccessful experience with the implementation of other migration programs being implemented in the North, the decision to concentrate the out-migration process on a limited number of eligible settlements was the right one. It made it possible to

test measures to allow participating localities to realize the economic benefits of restructuring as the Project aimed to assist the country in the development of a national strategy for restructuring of the economy of the Northern areas. In addition, it made it possible to support and follow-up implementation of local restructuring schemes more closely. Provisions for out-migration under Federal Law 125 supported out-migration from all over the Northern regions resulting in long waiting lists⁸. *Second*, the decision to test the housing certificate scheme was a breakthrough to replace the prior approach under which the Government financed construction of housing for the migrants without giving participants a choice of new localities to migrate. The certificate scheme allowed individuals to choose the location of their future residence rather than the program choosing a place for their reallocation. *Third*, the Project was to test an incentive-based public out-migration scheme, which was to be transparent, flexible, affordable, allowing migrants to choose the region to migrate. *Fourth*, the support for local restructuring was important to help participating municipalities reduce their dilapidated and unused housing stock and help them develop and implement reforms in housing and utility service improvements. *Fifth*, assistance through the Federal component provided support for the analysis and formulation of new regulatory procedures to promote further restructuring in the North along market principles. *Sixth*, the Project supported transparent and stable principles of fiscal relationships between participating municipalities and regional authorities. *Seventh*, the Project complemented well the two Coal Sector Adjustment Loans (SECAL I and II) by putting in the table major housing policy issues and helping other elements of housing provision reforms (See Section 3).

Notwithstanding the above strong elements, the ICR team identified the following shortcomings in the design. These are elaborated in more detail under Section 3. *First*, the Project included a poorly designed monitoring framework, which had a disconnect between the PDO and the output indicators. The indicators selected did not correspond to the PDO in the Loan Agreement, and in most cases no targets were set for them. *Second*, the implementation period (four years) was unrealistic given the experience with numerous delays for loan effectiveness and implementation of projects in the Russian Federation (it took 13 months after signing of the Loan Agreement for the Loan to become effective). *Third*, the definition of eligible categories of beneficiaries was too narrow. The originally defined categories demonstrated low mobility due to lack of own savings for co-financing the purchase of housing, inability to move because of health status or low interest in the Project because of the prospects for obtaining assistance from other government resettlement programs. *Fourth*, the design lacked flexibility to reallocate funds among participating municipalities on the basis of actual demands during implementation. The Loan Agreement and the Federal Budget fixed a specific amount of financing for each participating locality. Eventually, this was fixed through an amendment to the Loan Agreement. In addition, the inclusion of Norilsk municipality as a pilot territory was made as a result of underestimating the consequences of the relative economic prosperity of Norilsk and the high level of social support provided by regional and municipal levels.

⁸ More details on the differences between migration assistance schemes under Law 125 and the Project can be found in Section X of Annex 7 (Government's contribution to the ICR).

Risk Assessment

The PAD identified twelve risks and six possible controversial aspects. The risks were realistic although two of them, in the view of the ICR team, were under-estimated, as discussed below:

- ***“Issues identified during implementation are adjusted” was rated Modest*** identifying as a measure that supervision by the Bank and the Central PIU would ensure that appropriate program adjustment could be made. This proved to be difficult for at least two reasons. *First*, the narrow definition of criteria under the first and second wave of voluntary out-migration (2003-2004) caused slow pace of out-migration, which took long to correct under the third wave. *Second*, fixed amounts for migration assistance assigned to each pilot site necessitated lengthy processing of internal government documentation before amendments to the Loan Agreement could be made to allow reallocation of funds among the participating municipalities.
- ***“Inflation does not depreciate the value of the assistance” was rated Modest.*** The argument that the subsidy amount was calculated in US dollars which should off-set any possible depreciation of the Ruble did not prove to be true as in fact there was considerable devaluation of the US dollar in relation to the Ruble. Moreover, the assumption that contingencies “had been included in the Project budget” to cover inflation did not work in practice as there was a lack of an adjustment formula for the size of housing subsidies at the time of implementation of the third wave of out-migration. This created difficulties in the selection of housing and use of housing certificates.

2.2 Implementation

Implementation performance can be divided into two phases: (i) between loan effectiveness and October 2007, when the three waves of voluntary out-migration occurred; and (ii) between the end of 2007 and September 2009, when the fourth wave of voluntary out-migration was expected to take place.

First Phase: August 2002 – October 2007

The first phase, considered Satisfactory, was characterized by strong leadership from the federal level, which ensured timely implementation of activities and close coordination with municipal authorities. Although there were delays with effectiveness (the Project was approved in June 7, 2001 and the Loan became effective on August 15, 2002), the Central PIU successfully processed a number of contracts with initial financing from the Federal Center for Project Finance (FCPF) to allow for urgent start-up activities prior to effectiveness, including the development of the housing information system, and the public information campaign. The June 2003 Aide Memoire reported that the migration assistance process was gaining momentum and the Project’s financial scheme based on housing certifications, payments through the Federal Treasury and Sberbank, was working well.

The original closing date was extended from September 30, 2005 until December 31, 2006 to compensate for the one year delay in effectiveness and allow for the implementation of

the third wave of out-migration support. The revised scheme broadened the category of eligible migrants enabling the Project to provide migration subsidies to all eligible pensioners residing in participating localities.

On March 2007, the Bank approved an extension of the loan closing date by 30 months, i.e. to September 30, 2009, and restructuring of the Project to: (i) expand its scope beyond the original participating localities; (ii) increase the level of the out-migration subsidy to maintain its real value and preserve attractiveness of the Project migration assistance scheme; (iii) introduce uniform mandatory provisions for transportation costs from local budgets; (iv) increase Government co-financing for the Federal Policy component; and (v) transfer responsibility for financing of the Local PIUs to the participating localities. The restructured Project was to maintain its original emphasis and combination of voluntary out-migration assistance and local economic restructuring measures, and include a fourth wave of out-migration.

Up to October 2007, when the third wave of out-migration was completed, implementation had proceeded essentially as scheduled with the exception of delays in meeting conditions of effectiveness. The Project financial scheme was working well, both the Central PIU and Local PIUs were working effectively, the technical assistance provided under the Project had been effective to help develop and implement instruments to generate savings for local budgets, and the Project was providing a comprehensive approach to voluntary out-migration.

Second Phase: November 2007 – September 2009

The second phase was characterized by an overall lack of implementation and is considered Highly Unsatisfactory. Despite considerable efforts by the Bank's team to promote the resolution of issues at different levels of the federal government, the adoption of the Government resolution endorsing project restructuring and providing for the fourth wave of voluntary out-migration experienced significant delays (see Section 5.1 (b)). The Government resolution was finally approved on October 2008; 19 months after the restructuring had been approved by the Bank. In August 2008, the overall responsibility for project oversight was transferred from the Ministry of Economic Development and Trade (MEDT) to the Ministry of Regional Development (MRD).

During the November 2008 mission, it became clear that, for the implementation of the fourth wave to take place, there was need for another extension of the closing date; an out-migration campaign required at least 18 months to be implemented. It was agreed between the Bank and the Ministry of Finance (MOF) and MRD that the Government would request a final extension of 18 months -- until March 31, 2011.

Internal steps were also needed for the start of the out-migration scheme, including: (i) signing the amendment to the Agency Agreement to allow the FER to implement the Project on behalf of MRD (the Central PIU was part of the FER, which was coordinating implementation at the time of three other Bank-financed projects); (ii) adoption of Financing Instructions and agreement with Sberbank (commercial bank which implemented payments); (iii) selection of participating regions and signing regional Agency Agreements with them; (iv) establishment of the Inter-Ministerial Working Group; (v) amending the Operations Manual according to GOR Resolution 772 and Financing Instruction; and (vi) establishment of a project tender committee. Unfortunately, by September 2009 (10 months after the

agreement was reached for the Government to request the extension of the closing date), only three of the actions -- (i), (iv), and (vi) -- had been taken and the Government did not send the request for extension of the closing date. On December 15, 2009, the MOF sent a request to the Bank to cancel the undisbursed loan proceeds equal to US\$ 45,309,468.59.

The following paragraphs address outcomes of implementation by component.

Migration Assistance Component. Although the Project did not meet its targets regarding the number of migrants, the component was effective in pursuing a comprehensive approach to voluntary out-migration. It supported development of the following mechanisms: (i) an innovative migration assistance scheme, including provision of housing certificates; (ii) logistical assistance to Northern residents migrating within Northern areas; (iii) assistance to socially vulnerable persons migrating from Northern areas to recipient regions; (iv) comprehensive information and legal support on migration issues; and (v) public relations support to out-migration. However, as noted in Section 2.1, the definition of eligible beneficiary categories was too narrow and the design lacked flexibility to reallocate funds between participating municipalities on the basis of actual demands. Table 1 illustrates projected and actual out-migration.

Table 1 – Projected and actual migration

Pilot territories	Projected out-migration based on PAD estimates		Actual out-migration		Realization of projections (%)	
	households	Persons	households	persons	households	Persons
Susuman district	2,114	6,002	1,428	3,338	68%	56%
Norilsk	4,599	15,105	623	1,152	14%	8%
Vorkuta	3,688	6,422	2,476	5,538	67%	86%
Total	10,401	27,529	4,527	10,028	44%	36%

Local Restructuring Support Component. This component's focus and its inter-relation with the Migration Assistance Component were sound. The component was successful in supporting participating municipalities to develop restructuring plans to: (i) reduce dilapidated and unused housing stock; (ii) develop and implement reforms in housing and utility service management; and (iii) support management of assets and provision of services transferred to them by municipalities in mono-industrial areas. The results achieved by the component demonstrate that local administrations have benefited from substantial economic efficiency gains thanks to the consolidation of housing and social infrastructure made idle as a result of the out-migration process. Local restructuring plans generated US\$20.7 million in cumulative savings for local budgets due to decreased population and institutional reforms⁹. Table 2 in Section 3.2 presents the economic effect of the consolidation of housing and social facilities (more details can be found in Annex 3).

⁹ Information generated by the Central PIU data base on the basis of information provided by the Local PIUs.

Monitoring and Evaluation (M&E) Component. Although there were serious shortcomings with the monitoring framework (see Section 2.1), what the Central PIU monitored under the Project was effectively implemented. The M&E system included three types of monitoring: (i) project implementation progress; (ii) economic and fiscal impact of Project implementation; and (iii) social aspects of out-migration and evaluation and dissemination of Project outcomes; these are further detailed in Section 2.3. As designed, the system addressed real time management needs as well as the need to maximize learning from the implementation of the out-migration scheme. Data was updated regularly into a database that was maintained in the Central PIU with information provided by Local PIUs.

Federal Policy Component. This component was effective in: (i) supporting the design of the normative and regulatory documentation for implementation of Federal Law 125¹⁰ and monitoring of its implementation; (ii) providing advice to the federal government, regional authorities and legislative bodies on legal, economic, fiscal and social aspects of the Northern restructuring; (iii) establishing a comprehensive system of information and organizational support for Northern migrants, and monitoring of migration, which helped the migrants to implement their right for free choice of the recipient region; (iv) supporting the development and maintenance of the housing market information system and the computerized migration tracking database; and (v) supporting applied research on Northern policy issues, including the budget policy in Northern areas, and interaction of Northern labor market development in in-migration trends. The information systems were available on the web and offered valuable initial information for potential migrants, housing search, and for establishment of contacts with real estate agents in recipient regions. The housing information system emerged as an instrument serving broader institutional development objectives in the areas of labor mobility, housing market, private real estate sector development, and investment decisions for housing developers. Unfortunately, despite repeatedly pleads from the Bank's team (recorded in Aide Memoires) for the Government to take steps to ensure the sustainability of the system to serve broader needs of housing markets, its sustainability has not been assured following the transfer of migration responsibilities to MRD.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

Design, implementation, and utilization of M&E are rated Moderately Unsatisfactory due to considerable shortcomings in the design of the monitoring framework, particularly the serious disconnect between the PDO and selected indicators, and the team's failure to correct those shortcomings during implementation. Whereas the PDO's objective sought as an outcome the development of a national migration strategy through testing of different measures, the outcome indicator focused on reducing expenditures of the local budgets resulting from out-migration and output indicators focused on the actual number of beneficiaries. The Project also failed to include targets for most indicators. Furthermore, the PDO failed to capture the underlying Project objective of reducing human suffering under extreme harsh climate conditions, a key consideration that influenced many decisions by the Bank's team during implementation. There was no attempt to revise the results framework during implementation, although the Project was formally restructured.

¹⁰ Federal Law 125 on housing subsidies for citizens moving from regions of the far North and areas of equal status

At the same time, the Project was monitored regularly during implementation. Project progress monitoring was a key instrument of project management that ensured timely receipt of comprehensive and regularly updated information on the out-migration process at all stages of the assistance scheme. A number of monitoring and evaluation activities were developed and these activities were effective in monitoring various aspects of project implementation. The M&E system was supported by a comprehensive database designed for the Project capable of providing three types of monitoring. This database was updated regularly with information provided from the field. The system supported monitoring of: (i) project implementation progress; (ii) economic and fiscal impact of the project realization; and (iii) social aspects of out-migration. It also included data on purchases of housing by migrants in the recipient regions. This information allowed the Central PIU and Local PIUs to promptly address problems arising both in pilot territories and in the process of housing purchased by participants.

The key element of the first type of monitoring was an Electronic Database (EDB), which was updated regularly by the Central PIU. The EDB, developed at the beginning of project implementation, included detailed information about households participating in the Project and the history of their migration. This information was distributed to project staff weekly and allowed them to improve project management and efficiently respond to identified problems. The second type of monitoring was aimed at the evaluation of economic and financial effects of the Project. This information was reflected in regular reports of Local PIUs and Project Management Reports (PMR). The monitoring of social aspects of out-migration contained a series of qualitative and quantitative sociological assessments aimed at reviewing the attitude of residents of pilot territories to the Project and identifying shortcomings of the assistance program. Three such assessments were conducted during project implementation:

- **The first qualitative social assessment** was conducted in February - April 2003 to define the attitude to the Project of residents of pilot territories. It had the following results:
 - ⌚ The amount of the housing subsidy was found insufficient to purchase housing outside the Northern region.
 - ⌚ Elderly respondents considered the certificate-based scheme of housing purchase as a cumbersome and technically complicated procedure.
 - ⌚ The existence of other more attractive migration programs in terms of the size of assistance discouraged some respondents in Vorkuta and Norilsk from participating in the Pilot.
 - ⌚ Young and middle-aged potential Project participants (especially in Susuman District) demonstrated the most favorable attitude to the Pilot and willingness to use the opportunities offered by the Project.

- **The second stage of social monitoring of migration** took place from September 10 through October 27, 2003. Data from the second stage facilitated the adoption of a new approach involving unification and broadening of categories eligible to participate in the Project. The approach was reflected in the Russian Federation Government Resolution No. 306.

- **The third stage of social monitoring of migration** was performed from September 9 through December 8, 2004. The information gathered through this assessment enabled: (i) response to shortcomings on the information campaigns and performance of Local PIUs, and (ii) design of new approaches to define eligible categories for the third wave of migration assistance.

In addition, three quantitative social assessments were performed:

- **The first quantitative assessment** (November 2003) was a survey to measure beneficiary satisfaction with the program. It showed that 75 percent of respondents were positive about the Project especially related to information and assistance provided through Local PIUs and the housing information database. Although only part of the participants used the database for selection of a specific location, the database helped potential participants to have an overall vision of the housing market in general. Participants were mainly dissatisfied with downgrading of living conditions as a result of moving to less comfortable apartments. Pensioners were among those less satisfied as they perceived out-migration not only as deterioration of living conditions, but as a dramatic reduction or complete loss of customary social protection offered in the North.
- **The second quantitative assessment** (September 2004) identified the number of refusals to participate in the pilot project, as well as reasons for the refusal: (i) Vorkuta – 50%, (ii) Norilsk - 50%, and (iii) Susuman - 46%. The key factors, described below, were in part eliminated with the inclusion of new eligible beneficiary categories in the third wave of voluntary out-migration under the Project.
 - ⌚ Demographic composition of eligible project beneficiaries during the first and second waves of out-migration.
 - ⌚ Level of financial out-migration assistance offered under the Project, and novelty of certification scheme arrangements.
 - ⌚ Peculiar features of pilot territories selected for participation in the Project.
 - ⌚ Fear of out-migration to a new place of residence.
- **The third quantitative assessment** (October 2005) identified the causes of return migration to Northern regions as follows¹¹:
 - ⌚ The wish to work for additional years to be better off on the mainland.
 - ⌚ The wish to help children and grandchildren that had stayed in the North.
 - ⌚ Adaptation difficulties at the mainland.
 - ⌚ The original intension to purchase housing on the mainland and travel outside the North during summer.
 - ⌚ The wish to earn a “Northern bonus” for pension benefits.

It should be noted that no studies were conducted after the end of 2005 since the fourth wave of voluntary out-migration did not take place.

¹¹ According to the Central PIU, this information captures reasons for return migration in general and not only project participants.

2.4 Safeguard and Fiduciary Compliance

The environmental impact of the Project was rated B and, on the basis of supervision reports produced by project consultants, safeguard implementation is rated as Satisfactory. Dilapidated housing and social facilities were expected to be consolidated and demolished under the Project. Demolition of housing was financed with local funds and was carried out under the supervision of the local administrations. The Project did not deal with any industrial sites. On the basis of studies conducted during Project preparation, an Environment Management Plan (EMP) was developed for the Project specifically dealing with demolition aspects. The Project financed technical assistance to ensure that the EMP was followed, including measures to dispose of hazardous materials and rehabilitation of sites following demolition. Supervision reports from project consultants confirm that the EMP was followed in all localities and hazardous materials were disposed off in a correct manner.

Financial Management (FM) is rated Satisfactory. FM was systematically rated Satisfactory and/or Highly Satisfactory during the life of the Project. Only in the Implementation Status and Results Report (ISR) of December 24, 2008, it was rated Moderately Unsatisfactory as the overall project rating was downgraded due to lengthy delays in taking steps to operationalize the Project restructuring. Reviews of financial management arrangements in the Central PIU during the life of the Project demonstrated that the financial management system, including accounting, internal controls, and reporting was effective. The FM Department in the FER was adequately staffed and managed. FM records and reports were submitted regularly and all of the external audits were prepared on time and with unqualified opinions. The loan closed on September 30, 2009 after a long period of inactivity owing to the inability of the Government to carry out a list of agreed actions for the effectiveness of the new expanded migration scheme. The disbursements in the last year of implementation only covered operating expenses of the Central PIU and amounted to US\$113,000. The Central PIU signed a contract for the final audit prior to the closing date, putting aside the auditor's fee into an escrow account; the final audit is being completed and will be available by the end of June 2010. Final project payments to consultants and operating costs were finalized in October 2009 and, after that, the remaining balance of the Special Account was refunded to the Bank. Only US\$45.31 million or 57% of the loan proceeds was disbursed. As noted in Section 1.7, US\$45.31 million was cancelled.

Procurement is rated Satisfactory. The Central PIU managed procurement effectively. Procurement was rated Satisfactory during the life of the Project with the exception of the ISR of December 2008 where it was rated Moderately Unsatisfactory for reasons explained above. Procurement under the Project included: (i) civil works (financed by local administrations); (ii) limited amounts of goods; and (iii) consulting services procured under various types of procurement methods as per the loan agreement.

2.5 Post-completion Operation/Next Phase

The Project successfully developed sustainable long-term structural policy changes. It provided a comprehensive approach to support voluntary out-migration from the North and developed a new mechanism that was successfully tested to supplement the existing

migration programs while reducing federal and regional expenditures. It established a legal and institutional framework which is being used to strengthen Northern region policy.

At the time of this ICR, support for the implementation of out-migration assistance is expected to continue with financing from Law 125 as well as other programs supported by regional authorities. For instance, recognizing the positive impact of the Project, the Norilsk City Administration developed and is implementing a new municipal migration assistance program that almost entirely follows the contents and procedures of the certificate scheme offered under the Project (the only difference is the use of letters of commitment from the city administration instead of housing certificates).

Finally, federal authorities informed the ICR team that lessons drawn from the Project have already played an important role in adjusting and making amendments to Federal Law 125. In its comments on the ICR, MRD confirmed the amendments being made to Law 125 on the basis of lessons learned from the Project.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation

The ICR evaluation found that the objectives of the Project were relevant and consistent with the 2001 Country Assistance Strategy (CAS) and remain relevant to the current CAS, development priorities in the sector, and of the Russian Federation. The 2001 CAS emphasized the following key reform areas and priorities: (i) the need to devise cost-effective ways of providing assistance to resident and communities of the North, both for social and economic reasons; (ii) establishing an enabling environment for private sector development, including through a reduction in mandated social benefits and subsidies paid by enterprises; (iii) coping with the economic and social effects of the downsizing of the industrial structure in the North; and (iv) supporting the economic restructuring to make the North economically viable.

As noted earlier, the decision to focus initially in three localities to test measures to allow participating localities to realize the economic benefits of restructuring was sound because the Project aimed to assist the country in the development of a national strategy for restructuring of the economy of the Northern areas. These were important development priorities of both the Government and the Bank at the time of project approval. However, as discussed in Section 2.1, the choice of Norilsk municipality as a pilot territory was made as a result of underestimating the consequences of the relative economic prosperity of Norilsk and the high level of social support provided by regional and municipal levels, which resulted in much less than anticipated out-migration. Notwithstanding this, all in all, the relevance of objectives, design, and implementation arrangements was *Substantial*.

3.2 Achievement of Project Development Objectives

The evaluation rates achievement of PDO as Moderately Unsatisfactory based on the Project's failure to fully achieve its outcome indicator and most of its output indicators, and the disconnect between the PDO and its outcome indicator. The ICR evaluation was based on analyses of indicators and data linked to the development objectives of the Project

as well as an evaluation of how project activities were linked to the achievement of the PDO. First, the ICR team looked at the PDO and its corresponding outcome indicator.

The PDO, as stated in the Loan Agreement, was to test measures that would allow participating localities to realize the economic benefits of restructuring and facilitate the implementation of sustainable municipal policies; and thereby assist the Borrower in the development of a national strategy for restructuring of the economy of the northern areas. The achievement of the PDO was to be measured by “reduced expenditures emerging in the local budgets resulting from the reduced population and closure of buildings.”

The Project successfully tested the development and implementation of local restructuring plans to facilitate the development and implementation of sustainable municipal policies through the consolidation of housing and social facilities. According to the Government’s report, the local restructuring plans reduced expenditures and generated considerable savings for local budgets due to decreased population, closure of building, and institutional reforms (Table 2).

Table 2 - Economic effect of the consolidation of housing and social facilities

	2002	2003	2004	2005	2006
	US\$ million				
Annual budget savings from the consolidation of residential buildings	3.4	5.3	8.6	11.4	14.7
Annual budget savings from the consolidation of social facilities	0.4	1.4	2.1	3.1	3.9
Annual budget savings from the consolidation of communal facilities	0.1	0.5	0.7	1.6	2.0
Annual budget savings from the consolidation	3.9	3.3	4.2	4.7	4.5
Total cumulative budget savings from the consolidation	4.0	7.3	11.5	16.2	20.7

Source: Foundation for Enterprise Restructuring and Financial Institutions Development

*Recognizing the disconnect between the PDO and the outcome indicator, the ICR team looked at other evidence to assess if the Project had contributed to developing a national policy on out-migration. This evaluation found that the Project successfully tested: (i) a new mechanism of Northern out-migration that supplemented the existing programs while reducing respective expenditures; (ii) a voluntary out-migration assistance mechanism realized with the housing certificate scheme; (iii) voluntary out-migration to areas with more favorable climate conditions without long waiting lists and with cost of living in recipient regions considerably lower than in the North; (iv) a new regulatory and legal framework covering the procedures for providing housing subsidies, the out-migration process itself, and implementation of housing certificates; (iv) a housing certification scheme, which proved to be viable and suitable for further dissemination; (v) an advanced mechanism of monitoring and financial control at all stages of migration; and (vi) the development and implementation of an integrated electronic migrant information system. **However, the Project partially achieved its outcome indicator and did not achieve most of its output indicators.***

3.3 Efficiency

The projected economic and social benefits of the Project are listed below, followed by the results derived from project implementation. Annex 3 includes more information derived from the Economic and Financial Analysis.

- ***Reduced population and improved economic viability of participating municipalities.*** Between 2002 and 2007, about 100,000 square meters of housing released by project participants (2,300 apartments) were divested to pilot municipalities to upgrade the living conditions of citizens living in dilapidated and emergency conditions buildings and non-viable settlements. Demolition and consolidation of this infrastructure allowed the generation of incremental economic benefits that were not initially envisaged under the Project.
- ***Assistance to up to 27,529 people to voluntarily migrate to destination of their choice.*** Although the target was not met, the Project provided comprehensive assistance to 10,028 people through the implementation of three voluntary out-migration waves. While the numbers might seem small, the human element of the project cannot be under-estimated. The Project provided an opportunity for voluntary out-migration to individuals who would have otherwise remained living under extreme conditions; it did so without long waiting lists, as normally experienced under Law 125. Lessons from the Project are being used in the implementation of government out-migration programs (see Section 2.5).
- ***Comprehensive set of municipal downsizing activities.*** Through the local restructuring component, the Project was able to test the linkages between cost effective migration assistance and measures on consolidation of the released housing stock and social infrastructure. As a result of voluntary out-migration of project participants, pilot municipalities received a considerable housing stock that was used to upgrade the living conditions of households living in dilapidated and emergency conditions. Technical assistance was provided to local authorities to develop key Northern policy areas, including the sustainable socio-economic development of Northern regions. In addition, instruments were developed and implemented to generate savings for local budgets due to reduced excessive labor and institutional reforms in the following areas: (i) modernization of Housing Community Services (HCS) management; (ii) reforms in the delivery of public communal services; (iii) attraction of private capital and introduction of competition mechanisms in the HCS; (iv) improvements in contractual relations; and (v) increasing the share of households in cost recovery while ensuring social protection of low-income groups and high level of payment collection.
- ***Properly designed and tested mechanisms for sustainable migration support.*** The Project developed and tested a comprehensive mechanism of Northern voluntary out-migration that supplemented the existing programs while reducing respective expenditures. The tested mechanism allowed voluntary out-migration to areas with more favorable climate conditions without long waiting lists and with the cost of living in recipient regions considerably lower than in Northern regions.
- ***Possibility of reducing transfers and subsidies to the North.*** The Federal budget liabilities on Northern out-migration (as compared to costs under the Federal Law No.

125) were reduced by about US\$46.9 million as a result of implementation of activities under the Project¹². The size of the housing subsidy under the Project was calculated based on the Russia-average price of standard housing while under Law 125, the size of the housing subsidy was calculated based on the average cost of 1 square meter of housing in the recipient region selected by the migrant as a place of new residence. Thus, people tended to select the most expensive recipient regions, which lead to increased burden on the federal budget.

- ***Improved credibility in the Federal Government with the regions following successful experience of helping municipalities develop solutions to pressing and economic issues.*** The housing certificate scheme introduced proved to be viable and suitable for further dissemination under other out-migration programs. Law 125 has been amended and is in the process of being further amended to draw on lessons from the implementation of the Project. The certificate-based out-migration scheme developed under the Project ensured that migrants had a free choice of destinations areas, which was confirmed by the analysis of recipient regions. Project participants migrated to almost all regions of the Federation (75 regions). The preferred recipient regions included: (i) Belgorod Oblast, (ii) Krasnodar Kray, (iii) Kirov Oblast, (iv) Rostov Oblast, (v) Tula Oblast, (vi) Vladimir Oblast, (vii) Nizhny Novgorod Oblast, (viii) Voronezh Oblast, and (ix) Ivanovo Oblast.

3.4 Justification of Overall Outcome Rating

In line with the harmonized evaluation criteria for ICRs, the Project's overall outcome is considered Moderately Unsatisfactory. While the Project's relevance was high, its institutional contribution significant, and its contribution to the achievement of the development objective considerable, this rating is based on the Project's failure to fully achieve its outcome indicator as well as most of its intermediate indicators, and significant shortcomings in the later part of implementation resulting in the cancellation of a large percentage of loan proceeds. At the same time, the ICR team concluded that there were many noteworthy outcomes to this Project meriting debate as to whether a higher rating would have been more appropriate. These contributions included: (i) the development and implementation of a new mechanism of Northern out-migration that supplemented the existing programs while reducing expenditures; (ii) putting in place a new regulatory and legal framework covering the procedures for providing housing subsidies and implementation of housing certificates; (iii) strengthening of out-migration policies and making them more accountable and efficient; and (iv) development of an advanced mechanism of monitoring and financial control at all stages of migration through the electronic migration monitoring database.

As noted in the Quality of Entry section, a key challenge in rating the overall outcome of the Project resulted from the serious disconnect between the Project's development objective, which focused on assisting the Government in developing a national migration strategy in the northern areas of the country through testing new actions, while the outcome and output indicators selected for the Project focused on the actual implementation of such policies. By Project closing, as stated above, the Project had

¹² This information was generated by the Central PIU database on the basis of information from Local PIUs.

significantly contributed to the establishment of a legal and institutional framework for northern migration. Yet, its actual implementation of these policies fell significantly short of expectations.

3.5 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

The Project was designed to provide assistance to the most socially vulnerable categories, including non-working, old age population, and households with characteristics that correlate with poverty, i.e. families with many children. Given that pensioners have proven to be a most disadvantaged group in terms of access to public migration programs, the third wave of the Project was focused on this category of migrants. This yielded the greatest socio-economic benefits regarding the improved financial status of project participants. Out-migration from Northern areas (noted for the high cost of living) to other regions enabled people to reduce their living expenses in recipient regions due to the lower cost of health care, transport, food, etc. Moreover, there were significant psychological and physical health benefits derived from moving out of the North, particularly for children.

(b) Institutional Change/Strengthening

During ICR discussions, both federal and municipal authorities recognized that project investments resulted in substantial institutional development impacts at the federal and municipal levels. The Project strengthened institutions and supported development of a comprehensive support mechanism of Northern out-migration maximizing the socio-economic benefits of the Project. Project investments also played an important role as catalyst for change in the out-migration policy; this role was acknowledged by federal and municipal authorities during ICR discussions. Staff highlighted the direct benefits of the Project in testing comprehensive measures of support for out-migration, which have been analyzed for use in federal and regional migration programs.

Each of the components supported institutional strengthening in their respective areas.

The **Local Restructuring Support Component** provided technical assistance to refine and implement local restructuring plans. The **Federal Policy Component** provided support to: (i) introduce regulatory procedures aimed at the gradual deregulation of the Northern economy, and (ii) develop a national information system on housing and other regional information. It also provided: (i) advice to the federal Government, its agencies, regional authorities and legislative bodies on legal, economic, fiscal and social aspects of the Northern restructuring; (ii) support of applied research on Northern policy issues including the budget policy in Northern areas and interaction of Northern labor market development in-migration trends; and (iii) support for dissemination of lessons learned under the Pilot Project, including the development of information system on housing and other regional data. The **Monitoring and Evaluation Component** provided support for: (i) monitoring Project progress; (ii) economic and fiscal impact of the project; and (iii) social aspects of out-migration.

(c) Other Unintended Outcomes and Impacts

- The housing information system emerged as an instrument serving broader institutional development objectives in the areas of labor mobility, housing market, private real estate sector development, and investment decision for housing developers.
- Demolition and consolidation of non-viable settlements allowed the generation of incremental economic benefits that were not initially envisaged under the Project as local municipalities did not have to maintain at high costs non-viable settlements.

3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

N/A

4. Assessment of Risk to Development Outcome

This evaluation recognizes that: (i) the Project had a substantial institutional development impact at the federal and municipal levels, (ii) its role in testing comprehensive measures of support for out-migration have been analyzed for use in federal and regional migration programs, (iii) the Project promoted the development and implementation of resettlement and local restructuring plans to improve overall financial and economic outcomes of out-migration¹³, and (iv) Law 125 has and is being further amended drawing from lessons derived from project implementation. However: (i) the fourth wave of voluntary out-migration did not materialize because of delays in processing internal documentation, including adoption of the Government resolution endorsing the Project Restructuring, and (ii) the excellent housing data bases established under the Project have not been absorbed into the MRD or other federal or regional institution to continue providing such services to potential migrants. Taking into account the above, which puts into question the Government's commitment, *this evaluation concludes that the risk at the time of the ICR that development outcomes (or expected outcomes) will be maintained is Significant.*

5. Assessment of Bank and Borrower Performance

The Bank's Task Team Leader (TTL) was the same during Project preparation and implementation, except for assignation of temporary TTLs during the posting of the TTL to headquarters on other assignments, once during preparation and once during implementation.

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry

The Bank's performance in ensuring quality at entry is rated Moderately Satisfactory. The Bank engaged for over 18 months in high-level policy dialogue to discuss and reach agreement on the mechanism to support and complement existing policies and programs on out-migration from the North. The Bank promoted considerable analytical work, including two socio-economic studies followed by a socio-economic survey to build the Project's information base and improve the understanding of the status of potential migrants and those

¹³ Annex 7 presents a matrix comparing the migration assistance schemes under the Project and under Federal Law 125.

who had already migrated from the North. Bank performance had some positive and less positive elements as discussed under Section 2.1. These are:

Positive

- The Project was relevant and consistent with both development priorities of both the Government and the Bank.
- The Project was innovative and because of no previous experience in the out-migration scheme to be supported, the Bank's team promoted detailed analytical work and a survey to inform its design.
- Solid Project preparation resulted in sound identification of issues needed to be addressed by the Project to improve the overall policy and programs for out-migration from Northern regions, including: (i) the need to gradually eliminate all artificial incentives for migration to the North; and (ii) the need to develop and enact new legislation providing greater reliance on market forces, including in the area of labor demand in the non-budget sector and the need to introduce regulatory procedures aimed at supporting the gradual deregulation of the Northern economy.
- The Project focused on a limited number of localities to test measures to allow participating localities to realize the economic benefits of restructuring.
- The housing certificate scheme allowed individuals to choose the location of their future residence rather than the program choosing a place for their reallocation, as done in the past. The choice of location was a direct result of the survey where people had indicated that migration programs were not transparent and gave migrants little or no choice of destination.
- The Project included local restructuring plans to complement out-migration assistance to permit: (i) the acceleration of settlement downsizing; (ii) reducing the size of the housing stock; and (iii) institutional reforms in the management of the remaining housing stock to help reduce the municipal costs and ensure the economic impact of out-migration assistance.
- Project design ensured synergies with the two Coal Sector Adjustment Loans (SECAL I and II) by putting on the table major housing policy issues and helping other elements of housing provision reforms.

Less positive

- There was a disconnect between PDO and monitoring indicators, and lack of targets for most of those indicators. However, this evaluation recognizes that some 10 years ago when the Project was designed, the Bank was not as rigorous in the development of the monitoring framework.
- The Project had an unrealistic implementation period -- four years-- when: (i) experience with implementation of Bank-financed projects in the Russian Federation demonstrated that projects took much longer to be implemented, and (ii) the Project was testing "new grounds" which was likely to take longer to develop processes and gain the trust of numerous stakeholders at the federal and municipal levels as well as potential participants.
- The Project included a narrow definition of beneficiary eligibility categories.
- There was a lack of flexibility in the Loan Agreement to allow for the reallocation of funds among participating localities on the basis of actual demands. Given the high

level of internal procedures necessary in the Federation to agree to changes defined in legal agreements, it was important to build flexibility within the legal instruments to allow for changes in the allocations.

- The Bank did not recognize the merits of a Mid Term Review (MTR), which was not planned for at entry.
- The Bank underestimated the factors prevailing in Norilsk, which would reduce the attractiveness for out-migration. Living standards in Norilsk were relatively high and historically the city had also had a high level of social services provided to the population.

(b) Quality of Supervision

The Bank's performance at supervision is rated as Moderately Satisfactory. In assessing the quality of supervision, this evaluation took into account the team's overall commitment to the objectives of the Project and its engagement with the Government to ensure its success. From the beginning of project implementation, the Bank's team promoted close collaboration between federal and municipal authorities and between the Central PIU and Local PIUs. It provided guidance during and between missions and worked with federal and local authorities to help resolve implementation issues that arose.

As previously stated, project implementation can be divided into two phases, a more successful one until the end of 2007, and a highly unsatisfactory one between the end of 2007 and project closing. The World Bank team's commitment to the objectives and human dimensions of the project -- particularly to provide a chance to more people to benefit from the possibility of significantly improving their living conditions by out-migrating from the North -- was unwavering throughout implementation, as the evidence below presents. In doing so, in the view of this evaluation, the Bank's team was understandably reluctant to take a harsher stance and supported extensions of the closing date when, under other circumstances or with another project, the many internal delays within government would have likely resulted in the closing of the loan much earlier.

In this context, this evaluation finds that the Bank's team displayed considerable efforts to try to expedite the implementation of actions by the various ministries of the federal government through meetings and telephone conversations with officials from MOF, MEDT and MRD, high level meetings between the Deputy Minister of MEDT and the Bank's Country Director, and follow-up letters to confirm agreement of actions to be taken. Apart from several exchanges between the Bank's team with MOF, MEDT and MRD, the following actions were taken by the team during the period May 2007 – September 2009:

- Letter dated May 4, 2007 to the Deputy Minister of MEDT highlighting key project operational milestones and dates for implementation following project restructuring.
- Mission of December 2007 and follow-up letter to the Minister of MEDT noting the need to accelerate the signing of the Government's resolution endorsing the fourth wave of out-migration.
- Letter of February 22, 2008 to the Minister of MEDT to follow-up on the lack of action and expressing concern that the adoption of the Government's resolution had been postponed to the end of March 2008.

- Mission of June 2008 and follow-up letter to the Minister of MEDT noting concern that since the beginning of 2008 there was no progress in: (i) implementing the Project and the transfer of responsibility to coordinate project implementation from the MED to MRD, and (ii) delays with the adoption of the government's resolution.
- Mission of November 2008 where meetings took place with the Ministries of Finance and Regional Development to identify bottlenecks and help resolve them.
- Meeting in December 2008 between the Deputy Minister of MRD and the Bank's Country Director to help move the process forward.
- Letter of December 15, 2008 from the Bank's Country Director to the Minister of MRD to stress the need to take action on pending matters to enable the restructuring of the project and the implementation of the fourth wave of out-migration.
- Letter by the Bank's Country Director to the Minister of MRD outlining outstanding issues.
- Mission of June 2009 and follow-up letter from the Bank's Country Director to the Minister of MRD noting that only one of the various agreed steps had taken place – establishment of the Inter-ministerial working Group - and requesting that other actions be taken by certain dates.
- Meeting between the Deputy Minister of MRD and the Bank's Country Director several weeks before the loan was to close.

Other positive points and shortcomings of supervision can be summarized as follow:

Positive Aspects

- Missions were effective in reviewing aspects of Project specific progress and challenges. For the most part, Aide Memoires reported on progress towards achieving the PDO.
- Team composition was good, including participation of a Social Scientist and an Urban Specialist during the early stages of project implementation. Financial management guidance was systematic and timely.
- The Bank's team effectively supported collaboration between municipalities and their operating agencies and helped solve disagreements, as well as promoted close collaboration between federal and municipal authorities and between the Central PIU and Local PIUs.
- Financial management and procurement guidance was timely and effective.
- Aide Memoires and ISRs identified key implementation issues and provided recommendations on how to solve them.

Less positive aspects

- No Mid-term Review (MTR) was undertaken, which could have helped identify issues and put in place mechanisms to solve them fairly early during the implementation process. Although neither the main text of the PAD nor the Loan Agreement mentioned a MTR, Annex 1 of the PAD -- under output by component -- indicated that that monitoring would be reported at the beginning of the Project and at the MTR.
- The Bank's team could have taken the opportunity to restructure the results framework as part of project restructuring.

(c) Justification of Rating for Overall Bank Performance

Overall, Bank performance is rated *Moderately Satisfactory* on the basis of the Bank's role in quality at entry described in Section 5.1 (a) and quality of supervision addressed in Section 5.1 (b).

5.2 Borrower Performance - *Moderately Unsatisfactory*

(a) Government Performance: *Moderately Unsatisfactory*

Coordination between the Central PIU, Treasury, and Sberbank was excellent. The Inter-Ministerial Working Group (IMWG) provided good guidance during the early stages of Project implementation. Changes in composition of the IMWG were necessary after the transfer of responsibilities for Project oversight. However, for reasons explained below, the IMWG met only once (April 28, 2009).

Earlier and later stages of project implementation were affected by variations in government performance. Apart from delays in meeting internal conditions for effectiveness, during the early stages of Project implementation, there was a high level of commitment at all levels to implement the Project and actions were taken in a timely manner.

Later stages of project implementation were complicated by numerous delays in reaching agreements on intra- and interagency key documents. This problem became particularly acute at the stage of restructuring. Despite the fact that the Government Resolution on the restructuring of the Project was taken on October 22, 2008: (i) the establishment of the Inter-Ministerial Working Group with a new set of members was carried out only on March 30, 2009, and (ii) the supplementary Agency Agreement to allow the FER to implement the Project was signed only on September 14, 2009. Such substantial delays eventually led to the curtailment of work on its extension and expansion to additional Northern territories.

(b) Implementing Agency or Agencies Performance - *Moderately Unsatisfactory*

Early stages of project implementation were characterized by strong commitment and ownership of the Project by the Ministry of Economic Development and Trade¹⁴. The Ministry demonstrated strong leadership and the Deputy Minister participated actively on mission discussions and some field visits to participating municipalities. Recognizing the importance of broadening the categories of beneficiaries given the initial experience during the 1st and second wave of out-migration, agreement was reached by MEDT and the Bank to restructure the Project to expand its scope and coverage.

¹⁴ The Ministry of Economic Development and Trade became the Ministry of Economic Development after a Government reorganization.

However, later stages of project implementation, following the approval by the Bank in March 2007 of project restructuring, were characterized by lengthy delays in processing of internal documentation. These are elaborated in various parts of this document, but the most serious ones included the delays in the transfer of responsibilities for project oversight from MEDT to MRD; adoption of the Government's resolution to proceed with the fourth wave of out-migration; signing of the agency agreement to authorize the FER to implement the Project on behalf of the MRD; and ultimately the partial cancellation of the loan proceeds.

The Central PIU played a strong role in coordinating project implementation at the federal and municipal levels. The Central PIU was staffed with a competent cadre of staff. It provided timely guidance to the Local PIUs and coordinated well activities with the MOF, MEDT, and the Bank. Financial and procurement management functions provided by the Central PIU were effective and timely. The Central PIU was successful in implementing the Project's progress monitoring system, which generated weekly monitoring reports showing the status of the Migration Assistance Component. These reports were developed using the project database, which was regularly updated. The Central PIU produced Project Management Reports (PMRs) in a timely manner, which not only reported on progress by component, but also identified issues and a way forward.

Local level implementation was appropriate. Participating municipalities demonstrated strong commitment toward the Project and its local restructuring, economic and social objectives. The pilot municipalities contributed more counterpart funds than had been originally envisaged. Participating municipalities established the Local PIUs during early stages of implementation and maintained them with adequate staff throughout the period. Both the Susuman and Vorkuta Local PIUs were particularly effective and proactive in supporting beneficiaries at all stages of the application process for out-migration assistance, including counseling and providing information to participants, and tracking their progress through each stage of the out-migration process. While at the initial stages of Project implementation the Norilsk City Administration did not demonstrate much interest in the implementation of the Project, as the Project progressed and demonstrated positive social, financial, economic and institution impact, the city administration increasingly showed its support to the Project. In addition, recognizing the positive impact of the Project, the city administration developed and implemented a new municipal migration assistance program that almost entirely followed the contents and procedures of the certificate scheme offered under the Project.

(c) Justification of Rating for Overall Borrower Performance

As discussed above, performance of the various agencies was mixed. However, given the substantial delays in reaching agreement on intra- and interagency key documents, which curtailed project implementation, and ultimately resulted in the lack of implementation of the fourth wave of out-migration, the overall Borrower performance is rated ***Moderately Unsatisfactory***.

6. Lessons Learned

The main lessons drawn from the implementation of this Project are the following:

- ***Sensitive policies require deep institutional roots for sustainable implementation.*** Development cannot depend on one ministry's champion. The turnover of management and staff within the MEDT and transfer of responsibility for Project oversight from MED to MRD, hindered project performance at a crucial time of project implementation when decisions had been taken for its restructuring.
- ***Strengthening governance is essential to any reform.*** Both the Federal and Local restructuring components provided support to develop and/or amend federal and municipal reforms in housing and utility services management as an integral part of increased management capacity of the federal and municipal level.
- ***A multi-sector approach can increase the reach and effectiveness of program activities.*** In this Project, the Government's approach was to include key ministries, which were critical to migration policy -- Ministry of Finance, Ministry of Economic Development, Ministry of Justice, Ministry of Regional Development, and local administrations.
- ***The comprehensive approach to voluntary out-migration*** was essential in the effective demonstration of the cost-effective interventions supported by the Project. The out-migration supported included essential elements such as voluntary out-migration, choice of recipient location, local restructuring plans, comprehensive information, and public relations campaigns.
- ***Monitoring and evaluation systems must be a core ministry function, not merely a PIU reporting obligation.*** The excellent housing data bases established under the Project have not been absorbed into the MRD or other federal or regional organization to continue providing such services to potential migrants.
- ***Projects' design should build flexibility to adjust on the basis of experience during implementation; project legal documentation should reflect this flexibility and implementation particularities should be included in the Operational Manual.*** Two aspects affected Project implementation – narrow choice of eligibility categories and lack of indexation formula to adjust for inflation or depreciation of the US dollar against the Ruble. In this context, a MTR could have been helpful to help resolve these issues in a timely manner.
- ***Selection of a limited number of participating municipalities and using a pilot as the vehicle*** was the right instrument to test measures to support and expand out-migration.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/implementing agencies

The federal and local authorities contacted by the ICR mission commented positively on the role the Project has played in helping improve the overall policy for out-migration. The MRD commented that Federal Law 125 has been and is being further amended drawing on lessons produced by the implementation of the Project.

In its comments on the draft ICR, the Ministry of Regional Development: (i) clarified two important dates on the implementation of the project; (ii) requested the rephrasing of a statement under Section 5 (b) regarding discussions during the meeting between the Deputy Minister of MRD and the Bank's Country Director; and (iii) provided details on the amendments being processed under Law 125. This ICR incorporates these comments.

Commenting on the draft ICR, the Ministry of Economic Development made two main statements. *First*, it requested that the overall outcome of the Project be upgraded to *Moderately Satisfactory*, noting “that the Project managed to produce outcomes relevant for the Russian Federation. In addition to budget savings achieved in the course of its implementation compared to the current public financing of northern resettlement activities, the Project was instrumental in designing and introducing a new resettlement program, a regulatory framework for such program, as well as in improving the current government resettlement programs.” *Second*, the Ministry requested consideration to upgrade the Borrower’s performance to *Moderately Satisfactory* emphasizing “that during the first three waves of resettlement from the North (2002-2006), executive authorities and organizations of the Borrower provided all-round support to the Project, and the above unsatisfactory rating of the Borrower is based on delays and ultimately cancellation of the fourth wave of resettlement (2007-2009)”.

The ICR team reviewed the comments from the Ministry of Economic Development and concurred that there was solid progress in project implementation up to 2007, as recognized in the ICR. Further, the team recognized that had the fourth wave materialized with good results, the ICR would probably give a higher rating for development outcome. However, it was also agreed that the lack of progress for two full years significantly affected the Project's achievement of its overall development objective. Many families in the North were given false hope about out-migration. Therefore, the partial fulfillment of early results must be balanced by the cost of inaction at the end. As such, the ICR team decided that a *Moderately Unsatisfactory* rating was a better reflection of the overall development outcome. Likewise, the Government’s performance, which curtailed implementation in the last few years of implementation, resulted in the *Moderately Unsatisfactory* rating.

The full Borrower’s contribution to this ICR is included as Annex 7. Comments submitted by various Government agencies have been taken into account and introduced as far as feasible in the final version of this ICR.

(b) Cofinanciers

N/A

(c) Other partners and stakeholders

See (a) above

Annex 1. Project Costs and Financing

Project Cost by Component (in USD Million equivalent)¹⁵

Components	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Migration Assistance	72.44	30.72	42
Local Restructuring Support	5.27	7.31	139
Monitoring and Evaluation	1.13	0.36	32
Federal Policy	3.20	3.28	102
Project Management	7.45	5.39	72
Total Baseline Cost	89.49	47.07	53
Physical Contingencies	3.39	0.00	
Price Contingencies	1.56	0.00	
Total Project Costs	94.44	47.06	50
Front-end fee IBRD	0.80	0.80	100
Total Financing Required	95.24	47.86	50

(b) Financing

Source of Funds	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Borrower	13.87	13.17	95
World Bank	80.00	34.69	43
Borrowing Country's Fin. Intermediary/ies	1.37	-	-
TOTAL	95.24	47.86	50

¹⁵ These amounts are from Annex 3 of the PAD – Estimated Project Costs. The data sheet in the PAD had slightly different numbers.

(c) Project Cost by Category (in USD Million equivalent)¹⁶

Categories	Appraisal Estimate (USD millions)	Actual Disbursement (USD millions)ⁱ	Percentage of Appraisal
(1) Goods	0.06	0.05	83
(2) Consulting Services	3.74	3.71	99
(3) Migration Assistance	69.28	25.04	36
(4) Incremental Operating Costs	5.65	5.09	90
(5) Unallocated	0.47	-	-
Total Project costs	79.20	33.89	43
Front-end fee	0.80	0.80	100
Total	80.00	34.69	43

¹⁶ These amounts are from Annex 6 of the PAD – Estimated Project Costs. The data sheet in the PAD had slightly different numbers.

Annex 2. Outputs by Component

Component	Planned outputs at Appraisal	Actual outputs/outcomes at ICR
<p>Component 1 - Migration Assistance (US\$ 76.23 million)</p>	<p>(a) Implementation of the migration assistance program (MAP). Introduction of allowance (housing subsidy) to eligible groups of population in the participating regions to facilitate their voluntary out-migration, including information and legal assistance to review housing contracts.</p>	<p>(a) The MAP was implemented. A new voluntary out-migration assistance scheme was introduced and tested, that included: (i) a housing certificate, (ii) definition of eligible categories, (iii) a specific formula for allowance determination (housing subsidy). -The Project provided: (i) information assistance through a real estate information system and other information systems developed under the Project to provide information about living conditions, climate, labor market to assist potential migrants, (ii) a comprehensive legal framework regulating the MAP under the Project, and (iii) logistical assistance to socially vulnerable persons migrating from Northern areas to recipient regions. -4,527 households and 10,028 people out-migrated with support of the Project. -Migrants received legal assistance to facilitate the purchase of new houses in the new localities.</p>
	<p>(b) Implementation of the registration procedures for participation in the MAP.</p> <p>(c) Implementation of the procedure of selection of participants and calculation of benefits.</p>	<p>(b) Municipalities tested and successfully implemented procedure of registration and selection of participants.</p> <p>(c) A mechanism of interaction between out-migrants and local authorities was facilitated with participation of Local PIUs.</p>
	<p>(d) Organization of information campaign for the population.</p>	<p>(d) Active information and PR campaign at the municipal level was developed, including provision of advertisements and information materials by the Local PIUs, and cooperation with the press and web-based media.</p>
	<p>(e) Effective provision of information to population of participating municipalities related to housing, jobs, travel costs.</p>	<p>(e) Two information systems (information system on housing market and electronic information system “Migration”) were developed under the Project. They included information about the real estate market, regional labor markets, healthcare, education and training opportunities, climate in recipient regions, etc.</p>

Component	Planned outputs at Appraisal	Actual outputs/outcomes at ICR
	(f) Provision of transportation.	(f) Migrants received assistance for transportation of their household belonging and train/plane tickets.
Component 2 - Local Restructuring Support (US\$5.77 million)	<p>(a) Provision of technical assistance and training to the municipalities to implement and monitor the reforms envisaged in the local restructuring plans to assist municipalities to:</p> <ul style="list-style-type: none"> - address substantial, procedural and organization issues during the preparation of regulatory documents that are required for restructuring. - identify difficulties and constraints which hinder the restructuring process and to develop recommendations to deal with these issues. - identify factors, which may cause the local restructuring plans to be adjusted and develop recommendations for adjustment. - prepare plans for major steps to be taken in local restructuring in the future. - ensure compliance with the Environmental Management Plan in the demolition of abandoned and dilapidated housing and other facilities 	<p>(a) Investigation and analysis of municipal policies and facilities were conducted to identify priority areas for the provision of technical assistance and training. The following areas were identified:</p> <ul style="list-style-type: none"> - inter-budget relations; - reform of housing and communal services; - demolition of housing and other facilities. <p>The participating municipalities received technical assistance in the areas specified and other identified in the assessment. The technical assistance was effective in supporting participating municipalities to implement restructuring plans.</p>
	(b) Training of staff of participating municipalities and regions in the area of municipal management.	(b) Training in the area of municipal management was conducted at the regional and municipal levels.
	(c) Implementation of reforms in housing and utility services management, including demolition of housing and other facilities.	<p>(c) A legal framework was developed regulating the process of consolidation.</p> <p>-Systematic monitoring of the implementation of Local Restructuring plans was conducted with the support of consultants.</p> <p>With support of the Project, 12 settlements were closed. A total of 642 buildings (404,689 sq meters) of consolidated housing and social infrastructure, including 60 km of heating networks and 29.6 km of water supply networks were decommissioned.</p>

Component	Planned outputs at Appraisal	Actual outputs/outcomes at ICR
		<p>The Project promoted institutional changes in the housing and utilities sectors:</p> <ul style="list-style-type: none"> – The management system was changed. – The system of contractual relations and tariff policy was improved. – Competitive mechanisms were introduced. – Collection rate for housing and communal services increased.
<p>Component 3 - Monitoring and Evaluation (US\$1.20 million)</p>	<p>(a) Annual monitoring of economic and fiscal impact of the local restructuring plans in the municipalities.</p>	<p>(a) This work was conducted by local authorities with support of consultants by reviewing: (i) annual budget execution of the participating localities, and (ii) next year's budgets and enterprises' expenditures (actual and projected). In addition a qualitative assessment was made of economic effects of migration that cannot be related to economic savings, including examination of the reduction of expenditures at the regional and federal levels. Regular reports of Local Project Implementation Units (Local PIUs) and Project Management Reports (PMR) reflected this information.</p>
	<p>(b) Quarterly monitoring of Project implementation</p> <p>(c) Migration process monitoring</p>	<p>(b) Monitoring of progress was conducted and included an Electronic Database (EDB), which was updated regularly by the Central PIU. The EDB included, inter alia, detailed information about: (i) number of application, (ii) number of certificates issued, (iii) certificates used, (iv) number of migrants, (v) counterpart funds from local administrations, (vi) implementation of local restructuring plans, (vii) housing returned by migrants in the participating municipalities. This information was generated with the support of consultants and Central PIU representatives, who visited the localities on a quarterly basis.</p> <p>(c) Monitoring of social aspects of out-migration was implemented and contained in a series of qualitative and quantitative sociological assessments aimed at reviewing the attitude of residents of pilot territories to the Project, identifying shortcomings of the assistance program, and selection of preferred regions for out-migration.</p>

Component	Planned outputs at Appraisal	Actual outputs/outcomes at ICR
	(d) Ex post social assessment, evaluation of the program effectiveness, lessons learned and preparation of guidelines for further replication.	(d) Different analytical reports and documents were prepared, that included social assessment, economic evaluation of the project effectiveness, lessons learned and recommendation for experience dissemination: <ul style="list-style-type: none"> – Beneficiary survey “Pilot project according to the participants”; – Analytical report “On lessons learned and expansion of the Pilot project”; – Central PIU’s and Consultants’ reports; – Borrower’s report etc.
	(e) Dissemination of guidelines; other information dissemination; conferences, workshops.	(e) Informational and analytical materials and films were developed and distributed to different regions and municipalities to share experiences of implementation with the MAP.
Component 4 - Federal Policy (US\$3.34 million)	(a) Provision of advisory services in the area of Northern policy revision and drafting of relevant legislation.	(a) Mechanisms of the Federal Law 125 was tested and improved, certificate scheme was introduced in federal legislation. <p>-The Project supported preparation of Government Resolutions No. 879 dated December 10, 2002; No. 433 dated July 16, 2003; No. 305 dated June 22, 2004; No.153 dated March 21, 2006 and other documents.</p> <p>-analytical framework of Northern policy reform and improvement was developed, including:</p> <ul style="list-style-type: none"> – analysis of Federal Law No. 4520-1 dated February 19, 1993; – assessment of the effectiveness of potential restructuring of the Far North; – recommendations for optimal zoning of the North; – assessment of the factors contributing and affecting resettlement from the North etc.
	(b) Provision of support for applied research on Northern issues including interaction of Northern labor market with the overall economy. (c) Development of a nation-wide information network.	(b) More than 60 analytical notes and reports were prepared for the potential use in federal and regional migration programs. (c) Two information systems (information system on housing market and electronic information system “Migration”) were developed under the Project. They included information about the real estate market, regional labor markets, healthcare,

Component	Planned outputs at Appraisal	Actual outputs/outcomes at ICR
	(d) Support for public information and consensus building activities	<p>education and training opportunities, climate in recipient regions, etc.</p> <p>(d)The Project established a comprehensive system of information and organization support for Northern migrants, which helped the migrants to implement their right for free choice of the recipient region.</p>
Component 5 - Project Management Component (US\$7.90 million)	(a) Financing of the project management costs at the central and municipal level	<p>(a) The Project supported the operating costs of the Central PIU and partial costs of the Local PIUs. The Local PIUs costs were partially financed by local funds.</p> <p>-Project management and coordination structures established included:</p> <ul style="list-style-type: none"> - IMWG; - Central PIU; - Coordination / Supervisory Councils in pilot territories; - Local PIU; - Appeal committees in pilot territories. <p>-Effective mechanisms of interaction between federal and municipal authorities were promoted under the Project. Regulatory and legal framework of Project management was introduced:</p> <ul style="list-style-type: none"> - Regulations on out-migration assistance; - Instructions on Financing the Activities specified in the Regulations on out-migration assistance; - Agreement on servicing the Pilot Project between the MOF, MOED and Sberbank; - Implementation instructions for Pilot Project territories etc.

Annex 3: Economic and Financial Analysis

Benefits:

Two clusters of benefits¹⁷ were quantified for the purpose of the cost-benefit analysis. The **first cluster** includes fiscal savings from downsizing of public expenditures triggered by out-migration. These contain two types of savings: (i) reduction of the consolidated budget expenditures on social payments and other household related expenditures, and (ii) reduction of municipal and regional budgets expenditures resulting from the consolidation of dilapidated housing and social facilities.

Savings: (i) are calculated based on the difference in average per capita social payments (benefits, allowances, social compensation) to people living in the participating municipalities and those who reside in an average recipient region. Following the methodology used in the analytical report “on lessons learned and expansion of the pilot project” prepared by the Central PIU, the annual reduction in social payments is estimated at US\$800 per capita. The total effect was calculated by multiplying the average per capita reduction by the estimated stock of the migrants in the recipient regions. The estimates of the migrants’ stock are made based on the assumption that the annual outflow of migrants is 20% (both due to return to the North and natural decrease - see Table 1).

Table 1– Savings from the reduction of the consolidated budget expenditures on social payments and other household related expenditures¹⁸

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Annual number of resettled people		1380	1523	4415	2546	164	0	0	0	0	0
Cumulative number of resettled people		1380	2903	7318	9864	10028	10028	10028	10028	10028	10028
Estimated stock of out-migrants that continue to reside in the recipient regions		1380	2627	6516 7	7759	6371	5097	4078	3262	2609	2088
Annual budget savings, dollars per migrant		-	800	800	800	800	800	800	800	800	800
Total annual savings from reduced expenditures on social payments US\$ million	0	0	1.1	2.1	5.2	6.2	5	4.1	3.3	2.6	2.1

¹⁷ All calculations are made assuming that the main economic effects of the Project will last during 10 years after the launch of the Project.

¹⁸ One year lag is used in calculating the benefits to reflect the postponed effects.

Source: Analytical report “On lessons learned and expansion of the Pilot project” submitted by the Central PIU, Borrower’s Report (Annex 7), and Bank staff estimates.

Savings: (ii) resulted from the reduction of municipal and regional budget expenditures on excess dilapidated and unused housing and social and communal facilities. For the years 2002-2006, the actual data of the report submitted by Central PIU was used. For the years 2007-2012, the data was extrapolated on an annual average base. The summary savings from consolidation of housing and social facilities is presented in Table 2.

Table 2 – Savings resulted from to the consolidation of housing and social and communal facilities

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
US\$ million											
Annual savings from the consolidation of housing	3.4	1.9	3.3	2.8	3.3	2.9	2.9	2.9	2.9	2.9	2.9
Annual savings from the consolidation of social facilities	0.4	1.0	0.7	1.0	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Annual savings from the consolidation of communal facilities	0.1	0.4	0.2	0.9	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Total annual savings from consolidation	3.9	3.3	4.2	4.7	4.5	4.1	4.1	4.1	4.1	4.1	4.1

Source: Analytical report “On lessons learned and expansion of the Pilot project” submitted by the Central PIU and Bank staff estimates.

The **second cluster** of quantified benefits relates to a change in well-being of out-migrants after resettlement. For some social groups the reduction in out-migrants’ income after resettlement (due to elimination of Northern-specific benefits) is more than compensated by the reduced cost of living in the recipient regions. This effect was calculated based on the methodology presented in the PAD and adjusted for the actual number of resettled migrants. A summary of the benefits resulting from a change in well-being of out-migrants is presented in Table 3.

Table 3 – Benefits due to a change in well-being of out-migrants

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
US\$ million											
Value of annual economic benefits due to change in well-being of out-migrants	0.0	-0.03	-0.04	0.36	0.06	-0.01	0.07	0.07	0.07	0.07	0.07

Source: Bank staff estimation made using the PAD methodology.

Table 4 presents effects deriving from the two benefit clusters. It should be noted that these groups of benefits do not exhaust all positive consequences of the Project. However,

lack of data and problems with quantifying some of the results do not make it possible to include all of the benefits in the cost-benefit analysis. The benefits that have been left out from the cost-benefit analysis are: (i) reduction in the burden of mandatory northern benefits after elimination of the mandatory nature of such benefits for newcomers (excluded due to highly volatile number of newcomers and uncertainty about a timetable of phasing out those benefits); (ii) savings generated by energy and other related costs because of the contraction in services provided to the North (excluded due to lack of data on tariff and cost structure); and (iii) positive changes in social and environmental externalities (excluded due to difficulties with quantification).

It is clear from these exclusions of un-quantified impacts that, if included, all these factors would have increased the net present value of the Project.

Table 4 – Project economic benefits

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Annual savings from the reduction of expenditures on social payments	0	0	1.1	2.1	5.2	6.2	5	4.1	3.3	2.6	2.1
Annual savings from the consolidation	3.9	3.3	4.2	4.7	4.5	4.1	4.1	4.1	4.1	4.1	4.1
Benefits from the change in well-being of out-migrants	0.0	-0.03	-0.04	0.36	0.06	-0.01	0.07	0.07	0.07	0.07	0.07
Annual total benefits	3.9	3.27	5.26	7.16	9.76	10.29	9.17	8.27	7.47	6.77	6.27

Costs:

Total project costs comprise the following expenditures supporting out-migration: (i) disbursements under the Loan, and (ii) co-financing. Annual costs of the Project are shown in Table 5.

Table 5 – Project costs

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
US\$ million											
Annual disbursement under the Loan	1.1	4.4	5.8	12.2	9.1	1.4	0.6	0.1	0.0	0.0	0.0
Annual co-financing	0.0	4.6	2.3	2.9	3.2	0.1	0.0	0.1	0.0	0.0	0.0
Annual total costs	1.1	9.0	8.1	15.1	12.3	1.5	0.6	0.2	0.0	0.0	0.0

Source: Co-financing Reports of Local PIUs, Borrower's Report.

Results of cost-benefit analysis

The results of the cost-benefit analysis are summarized in Table 6.

Table 6 – NPV and Pay-back period of the project

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Benefits	3.9	3.27	5.26	7.16	9.76	10.29	9.17	8.27	7.47	6.77	6.27
Costs	1.1	9.0	8.1	15.1	12.3	1.5	0.6	0.2	0.0	0.0	0.0
Net value	2.8	-5.73	-2.84	-7.94	-2.54	8.79	8.57	8.07	7.47	6.77	6.27

NPV = US\$9.78 mln (Discount rate = 0.1)

IRR = 28%

Approx. payback period – 7 years

Annex 4. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Andrei Markov	Senior Human Development Specialist	ECSH3	TTL
Halte Sederdelof	Lead Social Protection Specialist	ECSHD	TTL
Katy Dahlmeier	Operations Analyst	ECSHD	Operations
Vladimir Drebentsov	Economist	ECSH3	Economics
Anastassia Alexandrova	Operations Officer	ECSH3	Social Protection
Stan Peabody	Principal social Scientist		Social Assessments
Timothy Heleniak	Demographer		Demography
Frank Kenefick	Procurement Specialist		Procurement
Cliff Isaak	Financial Management Specialist		Financial Management
Maninder Gill	Sociologist		Social Assesments
Ashraf Ghani	Principal Anthropologist	EASDV	Anthropology
Supervision/ICR			
Anastasya Alexandrova	Social Protection Specialist	ECSH3	Social Protection
Alexander Balakov	Procurement Specialist	ECSC2	Procurement
Vladimir Drebentsov	Senior Economist	ECSPE	Economics
Maria E. Gracheva	Senior Operations Officer	ECSHD	Operations
Alyona Korneva	Consultant	ECCU1	
Galina S. Kuznetsova	Sr. Financial Management Specialist	ECSC3	Financial Management
Aziz Mamatov	E T Consultant	ECSPE	
Jennifer Manghinang	Temporary	ECSHD	Program Assistance
Andrei R. Markov	Senior Human Development Specialist	ECSH3	TTL
Norval Stanley Peabody	Consultant	ECSSD	Social issues
Anahit Poghosyan	Office Manager	ECSHD	
Irina Reshetnikova	Program Assistant	ECCU1	
Ivan Shulga	Research Analyst	ECSH3	ICR co-author
Betty Hanan	Implementation Specialist	ECSHD	ICR co-author
Maria D. Zhorova	E T Temporary	ECCU1	Consultant

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY99		106.57
FY00	110	299.40
FY01	50	132.89
FY02	8	17.75
FY03	1	1.38
Total:	169	557.99
Supervision/ICR		
FY02	17	48.45
FY03	47	189.34
FY04	37	115.21
FY05	29	100.46
FY06	8	25.40
FY07	20	60.93
FY08	13	47.03
FY09	8	0.00
Total:	179	586.82

Annex 5. Beneficiary Survey Results

N/A

Annex 6. Stakeholder Workshop Report and Results

N/A

Annex 7. Summary of Borrower's ICR and/or Comments on Draft ICR

I. Background

1. The Northern Restructuring Pilot Project (hereinafter “the Pilot Project”) supported by the World Bank (hereinafter “the Bank”) Loan No. 4611-RU is one of the largest projects recently implemented in Russia aimed at reforming the national Northern policy.

2. Project implementation started on August 15, 2002. The Pilot Project involved development and testing of cost effective arrangements for assisting out-migration from Northern regions in 3 pilot areas (Vorkuta, Norilsk, and Susuman District of Magadan Oblast) coupled with local socioeconomic restructuring, and a broader set of innovative areas of the national Northern policy.

II. Social Outcomes of the Pilot Project

- Implementation of the Pilot Project resulted in the out-migration of 4,527 households (10,028 people), including:
- Vorkuta – 2,476 households (5,538 people);
- Susuman district – 1,428 households (3,338 people);
- Norilsk – 623 households (1,152 people).

III. Financial and Economic Outcomes of the Pilot Project

3. Financial and economic benefits of the Pilot Project were to be achieved due to the following activities and factors:

- Reduced expenditures on the support of economically inactive citizens due to out-migration of excessive population from the regions with severe climate conditions where their staying is related to increased subsistence costs, but is not justified by development needs;
- Decommissioning of the released housing/social infrastructure, support of institutional reforms in budget management and housing/communal services, implementation of low-cost energy efficiency activities;
- The size of migration assistance allowance (housing subsidy) being half as large as under Law 125 (thus allowing the Government to fulfill their social obligations on the out-migration of Northern residents at a lower cost).
- As a result, the following financial and economic benefits were achieved:
- Total savings for the consolidated budget as a result of out-migration from Northern areas made up US\$18.17 million (RUR 476 million);
- Federal budget liabilities on Northern out-migration (as compared to costs under Federal Law No. 125 On Housing Subsidies for Citizens Moving from Regions of the Far North and Areas of Equal Status) reduced by about US\$46.9 million (RUR 1 326 million).
- The cumulative economic benefit of the Pilot Project implementation amounted to US\$32.1 million (RUR 888.8 million);

- In 2002-2007, about 100 thousand square meters of housing released by Pilot Project participants (2.3 thousand apartments) were divested to pilot municipalities, and can be used to upgrade the living conditions of citizens living in dilapidated and emergency condition buildings and non-viable settlements. Demolition and consolidation of this infrastructure allows generation of incremental economic benefits that were not initially envisaged under the Pilot Project;
- The estimated payback period of the Pilot Project equaled about 5.0 years from the beginning of investments; i.e., the costs of the Pilot Project have been already recovered.

IV. Institutional Benefits of the Pilot Project

- A new mechanism of Northern out-migration has been tested that supplements the existing programs while reducing respective expenditures;
- To maximize the socioeconomic benefits of the Pilot Project, the initial migration assistance scheme was revised to change the focus on “narrow” (most vulnerable) groups to providing assistance to a broader category (all eligible pensioners);
- The tested mechanism allows out-migration to areas with more favorable climate conditions without long waiting lists with the cost of living in recipient regions being considerably lower (based on the minimum subsistence level);
- A new regulatory and legal framework has been put in place covering the procedures for providing housing subsidies, the process of out-migration from Northern areas, and implementation of housing certificates;
- A housing certificate scheme has been introduced, which proved to be viable and suitable for further dissemination;
- Technology of information and PR support at the municipal level has been introduced under the Pilot Project, that involved the use of advertising and information materials by the Local PIUs, and cooperation with the press and web-based media;
- An advanced mechanism of monitoring and financial control at all stages of migration has been introduced (Electronic Migration Monitoring Database);
- Fundamental elements of integrated migrant information support have been established:
 - Housing market information system;
 - IRS Migration;
 - Arrangements have been put in place to provide organizational and legal assistance to the most vulnerable Project participants who are unable to go to recipient regions for housing selection and purchase (via the Joint Local PIU Remote Office);
 - Instruments have been developed to generate savings for local budgets due to reduced excessive labor and institutional reforms in the following areas:
 - Modernization of HCS management;
 - Reforms in the delivery of public communal services;
 - Attraction of private capital and introduction of competition mechanisms in the HCS;
 - Improvements in contractual relations;
 - Increasing the share of households in HCS cost recovery while ensuring social protection of low-income groups and high level of payment collection;
 - Technical assistance has been provided to public authorities in elaborating several key Northern policy areas, including the sustainable socioeconomic development of Northern regions (arrangements proposed for the implementation of Federal Law 125 involving

certificate-based migration scheme and targeted support of socially vulnerable categories);

- Lessons learned from the implementation of the Pilot Project have been analyzed for potential use in federal and regional migration programs with due regard for specific features of Northern territories.

V. Assessment of the Project's Objectives, Design, Implementation, and Operational Experience (at Appraisal)

Macroeconomic and Social Context at Project Entry, Rationale for the Project and Bank Assistance

4. At the beginning of Pilot Project implementation, the situation in the Far North of Russia was noted for the following socioeconomic problems:

- Declined economic activity in most Northern regions,
- A significant difference in the life standards between economically secure (mainly resource extractive) regions, and most Northern areas,
- Significant numbers of economically inactive and unemployed people concentrated in Northern areas, increased social support expenditures, and lack of efficient mechanisms of labor rotation responsive to labor market needs.

5. Increased subsistence expenditures under conditions of severe climate and remote transportation access, as well as the existence of numerous Northern benefits resulted in the additional burden on budgets of all levels.

6. After termination of funding under the Federal Targeted Program *Construction within the Russian Federation of Housing for Citizens Moving from Regions of the Far North and Areas of Equal Status* approved by RF Government Resolution No. 700 dated July 10, 1995, provision of housing certificates under Federal Law No. 125-FZ *On Housing Subsidies for Citizens Moving from Regions of the Far North and Areas of Equal Status* (hereinafter "Federal Law 125") remained the only way to address the problem at the federal level.

7. Migration assistance arrangements specified under Federal Law 125 are based on full cost recovery from the budget, and involve long waiting lists.

8. The Bank-supported Pilot Project (effective since August 15, 2002) was designed to address the above problems and elaborate cost effective mechanisms of Northern restructuring. The amount of the Bank loan according to the Loan Agreement was equal to US\$80 million.

9. The Pilot Project involved development and testing of cost effective arrangements for assisting out-migration from Northern regions in 3 pilot areas (Vorkuta, Norilsk, and Susuman District of Magadan Oblast) coupled with local socioeconomic restructuring, and a broader set of innovative areas of the national Northern policy.

10. The Pilot Project activities comply with the goals and objectives of structural reforms in the Russian economy. Implementation of the Pilot Project has an important social aspect

since it includes assistance to broad categories of population moving from regions with highly uncomfortable climate conditions and limited economic prospects.

11. The Pilot Project is consistent with basic principles and areas of cooperation with international financial institutions as approved by the meeting of the RF Government on October 30, 2003: modernization of the social sector and support of institutional reforms in public governance.

12. Pilot Project implementation required lending from the World Bank to allow addressing of the following objectives:

- Focus the funds on supporting out-migration and local restructuring in regions that have the greatest need for such assistance;
- Ensure linkage between Northern out-migration and local restructuring;
- Develop and test an alternative migration assistance mechanism;
- Reduce the burden on the federal budget.

VI. Description of Project Objectives, Beneficiaries, Components, Implementation Arrangements and Management System

13. The main objective of the Pilot Project was to test cost effective ways of socioeconomic restructuring in Northern municipalities involving out-migration of socially vulnerable groups of population; and thereby to facilitate improvement of the national Northern policy and address related social challenges. The Pilot Project was implemented in 3 Northern municipalities to test different models of restructuring:

Vorkuta City (Komi Republic) – consolidation of a non-viable settlement, and out-migration support of individual socially vulnerable categories from a generally viable settlement;

Susuman district (Magadan Oblast) – out-migration support to a broad category of households with a view to maintain viability of gold mining settlements and reduce local budget expenditures on financing housing/communal and social infrastructure;

Norilsk City (Krasnoyarsk Krai) – downsizing of the large economically perspective city through the consolidation of dilapidated housing as a result of migration assistance to socially vulnerable categories.

14. The Pilot Project included five components:

1. Migration Assistance Component. Developing and testing new cost effective mechanisms of public assistance for outmigration of unemployable population from Northern territories based on housing certificates.

2. Local Restructuring Component. Improving the municipal economy and policies through implementation of structural reforms in municipalities.

3. Monitoring and Evaluation Component. Monitoring implementation progress of the Pilot Project, evaluation of its economic and social outcomes.

4. Federal Component. Assistance in the implementation of the federal Northern policy (revision of the regulatory and legal framework, testing new approaches to address individual Northern development issues, creating housing market information infrastructure).

5. Project Management Component. Institutional and technical support of the Pilot Project implementation at the federal and local levels.

15. Activities under the Northern Restructuring Pilot Project, including out-migration assistance using housing certificates, were implemented in compliance with the following regulations:

- Loan Agreement for the Northern Restructuring Pilot Project No. 4611-RU dated July 11, 2001, between the Russian Federation and International Bank for Reconstruction and Development;
- Regulations on out-migration assistance provided under the Pilot Project approved by RF Government Resolution No. 336 dated May 22, 2002;
- RF Government Resolution No. 306 dated June 22, 2004 On Additional Measures to Provide Assistance to Citizens of the Russian Federation under the Northern Restructuring Pilot Project;
- RF Government Resolution No. 772 dated October 22, 2008 On Making Changes to Certain RF Government Regulations Pertaining to the Implementation of the Northern Restructuring Pilot Project;
- Instructions on Financing the Activities specified in the Regulations on out-migration assistance provided under the Pilot Project approved by MOF/MOED Order No. 76n/224 dated August 5 2002;
- Agreement on servicing the Pilot Project between the MOF, MOED and Sberbank of Russia No. 01-01-06/26-689 dated August 5, 2002;
- Implementation instructions for Pilot Project territories approved by regulations signed by FER management, administrations of pilot territories, and governments of respective regions;
- Implementation Agreements for the Pilot Project between the MOF, MOED, administrations of pilot territories (participating municipalities), governments of respective regions, and Non-Commercial Foundation for Enterprise Restructuring and Financial Institution Development;
- Agency Agreement for the implementation of the Pilot Project between the MOF, MOED and Non-Commercial Foundation for Enterprise Restructuring and Financial Institution Development No. 01-01-06/26-688 dated August 5, 2002;
- Operations Manual for the implementation of the Pilot Project adopted by the meeting of the Inter-Ministerial Working Group for the Coordination of Preparation and Implementation of the Project on April 27, 2001(Protocol No. 19).

VII. Organizational Structure of Pilot Project Management:

At the federal level:

- Interagency bodies of Pilot Project management at the federal level (Inter-Ministerial Working Group for the Coordination of Preparation and Implementation of the Pilot Project, Bidding Committees);

- Government agencies responsible for Pilot Project management at the federal level (MOF, MED, MRD);
- Non-Commercial Foundation for Enterprise Restructuring and Financial Institution Development (FER) performing the functions of the Central Project Implementation Unit (Central PIU).

At the local and regional level:

- Interagency bodies of Pilot Project management at the municipal level (Coordination Councils/Supervisory Councils);
- Agencies responsible for Pilot Project management at the municipal level (administrations of pilot territories, Local Project Implementation Units);
- Agencies responsible for Pilot Project management at the regional level (administrations of respective RF regions).

Inter-Ministerial Working Group for the Coordination of Preparation and Implementation of the Pilot Project provided overall management and supervision of Pilot Project implementation at the federal level.

16. **The MED** provided coordination between federal executive authorities, executive authorities of RF regions and local governments involved in the implementation of the Pilot Project. In accordance with RF Government Resolution No. 772 dated October 22, 2008 *On Making Changes to Certain RF Government Regulations Pertaining to the Implementation of the Northern Restructuring Pilot Project*, responsibilities for project implementation and coordination between participating federal executive authorities, executive authorities of RF regions and local governments were transferred from the MOED and vested on the **MRD**.

17. **The MOF** acted as the chief administrator of the loan funds and counterpart funds under the Pilot Project.

18. **Sberbank of Russia** provided fee-based banking services for the housing certificate scheme implemented under the Pilot Project.

19. **The FER** performed the functions of the Central Project Implementation Unit.

20. **Coordination/Supervisory Councils** provided overall management and control over the Project implementation, coordinated activities of local authorities, Local PIU, agencies and specialists in the area of Project implementation at the local level, approved the lists of Project participants and members of their households, and applications to the Central PIU for certificate forms.

21. **Administrations of pilot territories** rendered assistance to the Project implementation in all areas within their mandates, *inter alia*, set up Coordination/Supervisory Councils, assisted Local PIUs in the organization of works, organized the implementation process of local restructuring plans, ensured execution of local co-financing obligations, organized acceptance of released housing.

22. **Local Project Implementation Units** provided organizational and information support of the Migration Assistance Component at the local level: accepted applications for Project participation, calculated the size of housing subsidies, prepared the lists of Project participants for approval by the Coordination/Supervisory Council, issued housing certificates to Project participants, maintained the local computerized database on migration monitoring, assisted the most socially vulnerable categories of Project participants in addressing such issues as housing selection and purchase, release of housing in the pilot territory, travel and transportation of luggage to the destination area.

23. **Regional administrations** facilitated implementation of the Pilot Project, and assisted with the implementation of local restructuring plans in respective pilot territories.

24. The procedure of coordination between the FER, MED (MRD, since September 14, 2009) and MOF is defined in the Agency Agreement signed between the above Project participants. According to the Agency Agreement, the MED (MRD, since September 14, 2009) and MOF acting as a trustee entrust the FER with the target utilization of the Bank Loan proceeds and implementation of the complex activities under the Pilot Project. The Agency Agreement defines the status, functions, authority, reporting of the Central PIU related to Project implementation (including procurement, accounting of loan proceeds, etc.), and is concluded by agreement with the Bank for the period of Project implementation.

25. The procedure of coordination between the MOF, MED, FER and pilot territories, mutual obligations and powers of the parties in respect to Project implementation and use of Bank Loan proceeds is defined in the Project Implementation Agreement signed between the MOF, MED, FER, administrations of pilot territories and regional administrations.

26. The procedure of coordination between the MOF, MED and Sberbank is defined by Instructions on financing the certificate scheme under the Pilot Project, and Agreement on servicing the Pilot Project signed between the above Project participants. These documents detail the functions of the MOF, MOED and Sberbank regarding the document and fund flow under the certificate scheme of the Pilot Project.

27. The procedure of coordination between administrations of pilot territories, Local PIUs, FER and individual Project participants is defined in Instructions to the pilot territories on Project implementation, which detail arrangements for holding application campaigns, inclusion of citizens in the lists of Project participants, issuance and processing of housing certificates, divesture of released housing, and other procedures of Project implementation at the local level.

28. Interaction between the MED, MOF, FER and other Project participants regarding the coordination and control over the Project implementation was also performed through the Inter-Ministerial Working Group for the Coordination of Preparation and Implementation of the Pilot Project (IMWG). The IMWG provided overall management and supervision of the Pilot Project at the federal level, and acted as the coordinator of Project implementation.

29. The Pilot Project was expected to provide the following major benefits for all Project participants (beneficiaries):

Federal executive authorities:

- Testing a new mechanism of Northern out-migration support to supplement the existing programs and assist socially vulnerable categories of population;
- Establishing a regulatory and legal framework governing the provision of housing subsidies, process of moving from Northern areas and implementation of housing certificates;

Federal budget:

- Savings in budget expenditures due to reduced federal budget obligations as compared to potential costs under Federal Law 125;

Regional and municipal administrations (pilot territories):

- Savings for local budgets due to reduced expenditures on excessive (released and demolished) housing/communal and social infrastructure, and redistribution of funds to maintain the existing life support infrastructure;
- Additional housing stock becoming available to municipalities for relocation of citizens living in dilapidated buildings and non-viable settlements (demolition of dilapidated and emergency condition buildings and closing of non-viable settlements result in subsequent savings for municipalities).

Project participants (citizens):

- An opportunity to considerably improve natural and climatic conditions of living (moving from severe (often extreme) natural conditions to areas with more favorable climate);
- An opportunity to migrate without long waiting lists;
- An opportunity to reduce the cost of living in recipient regions.

VIII. Relevance of Project Objectives, Beneficiaries, Components, Implementation Arrangements and Management System to Socioeconomic Issues and Priorities of the National Policy (at Project Completion)

30. One of the key components of the Pilot Project included reforming of the federal Northern policy required to streamline budget expenditures at all levels, optimize financial flows, and overcome negative trends evolving on Northern labor markets and in the sphere of social and demographic processes.

31. During Project preparation, a detailed analysis was performed and complete list of legislative and regulatory documents was compiled pertaining to the Northern policy. The system of Northern privileges was summarized, and proposals on revising the Northern policy were prepared that do not require changes to the existing legislation; in addition, recommendations were made on amendments and additions to the effective legislative and regulatory framework at the federal level. As a result of these studies, the priorities and areas of improvement of the federal Northern policy were identified.

32. The project-developed technology of cost effective voluntary out-migration of excessive population linked with improvements in the performance of Northern municipalities represents an important social innovation.

33. Electronic housing market information systems covering RF regions and residential areas enable to gradually integrate remote Northern territories in the common information space of the country. Improved access to information resources on housing markets in RF regions would also encourage independent out-migration from Northern areas.

34. In view of the above, the activities implemented under the Pilot Project are consistent with the objectives and focus of the following federal programs and regulations relevant to the Northern policy:

- Federal Targeted Program *Housing* (2002-2010) approved by RF Government Resolution No. 675 dated September 17, 2001:
 - ⌚ Sub-program on *Resettlement of Russian Citizens from Dilapidated and Emergency Condition Housing Stock*,
 - ⌚ Sub-program on *Reforming and Modernization of Housing/Communal Services in the Russian Federation*,
- Concept Paper on the Public Support of Northern Socioeconomic Development approved by RF Government Resolution No. 198 dated March 7, 2000;
- Concept Paper on Regulation of Migration Processes in the Russian Federation approved by RF Government Directive No. 256-r dated March 1, 2003;
- Federal Targeted Program *e-Russia* (2002-2010) approved by RF Government Resolution No. 65 dated January 28, 2002);
- Federal Law No. 125-FZ dated October 25, 2002 *On Housing Subsidies for Citizens Moving from Regions of the Far North and Areas of Equal Status*;
- Regulations on registration and filing of persons eligible for housing subsidies in connection with out-migration from the Far North and areas of equal status approved by RF Government Resolution No. 879 dated December 10, 2002 *On Approving Regulations on Registration and Filing of Persons Eligible for Housing Subsidies in Connection with Out-Migration from the Far North and Areas of Equal Status*;
- Action plan on the optimization of population in the Far North and areas of equal status through creating conditions for retention of qualified labor and out-migration of unemployable persons (2005- 2010) approved by RF Government Resolution No. 44-r dated January 20, 2005; and
- Action plan of socioeconomic development of Northern territories approved by RF Government Directive No. 185-r dated February 21, 2005.

IX. Description of Risks, Problems Occurred during Project Implementation, and Changes in Project Design Made in Response to these Problems (with Justification)

Major delays at the stage of Project preparation

Loan effectiveness

35. The Loan Agreement between the Russian Federation and International Bank for Reconstruction and Development for the implementation of the Pilot Project was signed on July 11, 2001 (Loan 4611-RU). According to the Loan Agreement, Loan effectiveness conditions were to be met within 90 days, i.e., implementation of the Pilot Project was expected to begin on **October 11, 2001**.

36. In reality the Loan Agreement became effective and, therefore, Project implementation started with a significant delay – only on **August 15, 2002**.

37. The delay was caused by a lengthy internal and inter-agency agreement of documents that were to be adopted as a condition for Loan effectiveness.

Major Delays at the stage of Project Implementation

38. The original Closing Date of the Pilot Project established in the Loan Agreement was September 30, 2005. The original Closing Date was repeatedly extended during the implementation period.

Loan extension till December 31, 2006

39. The extension was caused by low out-migration rates and slow disbursements during the first two waves of the certificate scheme under the Pilot Project (2003-2004).

40. Slow disbursement and low rates of out-migration can be attributed to deficiencies in the original Project design:

1. Too “narrow” social categories of Project participants in out-migration waves 1 and 2.
2. Underestimated ratio between “stay” and “push” factors in Norilsk City in initial assessments of the number of Project participants (resulting in considerable discrepancies between the projected and actual out-migration in this territory).
3. Inefficient work of Norilsk Local PIU.
4. Long period of Project preparation during which the administrations of pilot territories resettled part of potential Project participants under existing federal and/or local programs.
5. Overestimated expectations from public migration assistance programs related to the wish of potential participants to both move to areas with more favorable climate and considerably improve their housing conditions.

41. Therefore, to increase socioeconomic benefits of the Pilot Project, the category of eligible participants under the third wave of migration was broadened, which required extension of the loan.

42. The above deficiencies were addressed in the following way:

1. Adoption of RF Government Resolution No. 306 dated June 22, 2004 On Additional Measures to Provide Assistance to Citizens of the Russian Federation under the Northern Restructuring Pilot Project;
2. Implementation of PR and public awareness campaigns to promote unbiased vision of the actual cost of housing in the city and phase-out of local migration programs, and to clarify the advantages of the Pilot Project as compared to other migration programs.

Loan extension till September 30, 2009

43. Despite the progress achieved under the third wave of migration under the Pilot Project, the pace of out-migration and loan disbursements remained slow, mainly for the following reasons:

1. Fixed amounts of funds for migration assistance assigned to each pilot territory under the Loan Agreement and in the Federal Law on the Federal Budget of the Russian Federation.
2. Lack of adjustment formula for the size of housing subsidies at the time when the third wave of migration was included in the Project, which created certain difficulties in the selection of housing and use of housing certificates.

The above deficiencies were addressed in the following way:

1. Relevant amendments were made to the Loan Agreement and Federal Law on the Federal Budget of the Russian Federation to consolidate the funds allocated for housing subsidies to all Northern territories participating in the Project.
2. Draft RF Government Resolution on the extension of the Pilot Project provided for a one-time indexation of the housing subsidy.

Loan extension till September 30, 2009

44. With a view to expand the scope of the Pilot Project to include additional Northern territories to disburse the remaining IBRD Loan proceeds, the RF Government on October 28, 2008 issued Resolution No. 772 *On Making Changes to Certain RF Government Regulations Pertaining to the Implementation of the Northern Restructuring Pilot Project*.

45. Given the considerable delays in the launch of the expanded Pilot Project, during the Bank supervision mission (November 21-23, 2008) the MOF, MORD and the Bank made a joint decision on the potential extension of the Loan Closing Date from September 30, 2009 till March 31, 2011. The Russian side was expected to make the following key steps:

- Re-establish the IMWG;
- Sign Supplement No. 4 to the Agency Agreement on Project implementation;
- Adopt Instructions on financing the certificate scheme and sign Amendment to the Agreement with Sberbank;

- Send an official request to the Bank on the extension of the Loan Closing Date from September 30, 2009 till March 31, 2011.

46. As of September 30, 2009, the following of the above steps were made:

- The IMWG was set up on March 30, 2009, and held the first meeting on April 28, 2009;
- Supplement No. 4 to the Agency Agreement was signed on September 14, 2009.

47. Given that the lack of approved instructions on financing actually made Project implementation impossible, the official letter to the Bank requesting Loan extension was not sent, and the Pilot Project was closed on the scheduled date of September 30, 2009.

48. It should be noted that processing of Supplement No. 4 to the Agency Agreement was initially performed without involvement of the MRD. The FER submitted the document for the MORR agreement only in late February 2009 while simultaneously suspending its work under the Pilot Project till September 2009.

49. The generic problem causing implementation delays was related to long internal and inter-agency agreement of key issues and Project documents, which has led to a 2-year suspension and finally to the closure of the Pilot Project.

X. Assessment of the Project Outcome against the Agreed Objectives

Migration Assistance Component:

Pilot territories	Projected out-migration based on estimates from the Project Appraisal Document (PAD)		Actual out-migration		Realization of projections (%)	
	households	persons	households	persons	households	persons
Susuman district	2114	6002	1428	3338	68%	56%
Norilsk	4599	15105	623	1152	14%	8%
Vorkuta	3688	6422	2476	5538	67%	86%
Total	10401	27529	4527	10028	44%	36%

50. The reasons for non-fulfillment of migration projections in pilot territories are addressed above in section *Description of Risks, Problems Occurred during Project Implementation, and Changes in Project Design Made in Response to these Problems*.

51. Migration Assistance Component supported development of the following mechanisms:

- Innovative migration assistance scheme

- Assistance to Northern residents migrating within Northern areas
- Assistance to socially vulnerable persons migrating from Northern areas to recipient regions
- Information support of migration
- PR support of migration

Innovative migration assistance scheme

52. Public assistance to out-migration from Northern areas is provided under Federal Law 125. The Table below presents comparison between migration assistance schemes under the Pilot Project and Federal Law 125 based on several key parameters.

FEDERAL LAW 125 OF OCTOBER 25, 2002	THE PILOT PROJECT
Categories eligible for migration assistance (housing subsidy)	
<p>Waiting list:</p> <ul style="list-style-type: none"> • Category 1: residents of shutdown settlements; • Category 2: disabled persons; • Category 3: pensioners; • Category 4: unemployed; • Category 5 : working persons <p>The regional administration cannot start relocation of the next category until out-migration of the previous one is completed.</p> <p>According to Law 125, residents of shutdown non-viable settlements are eligible for migration assistance irrespective of the date of their registration in the given settlement.</p>	<p>Eligible categories without waiting lists (the third wave of migration under the Pilot Project):</p> <ul style="list-style-type: none"> • Families with handicapped children; • All pensioners (including disabled persons); • Residents of specific settlements (proposed by administrations of pilot territories) <p>Migration assistance program provides for simultaneous migration of all categories of Project participants.</p> <p>Migration program under the Pilot Project immediately involves Categories 2 and 3 established in Law 125.</p> <p>Migration assistance under the Project is being provided to persons who were registered in Northern territories as of a specific date (effectiveness date of the respective Government Resolution). This prevents a situation when people register in Northern territories with the only aim of becoming eligible for assistance under the Pilot Project.</p>
Size of migration assistance (housing subsidy)	
<p>The size of housing subsidy is calculated based on the average cost of 1 sq. m of housing in the recipient region selected by the migrant as a place of permanent residence.</p> <p>Such procedure for calculation of the size of housing subsidy results in the following:</p> <ul style="list-style-type: none"> • People tend to select the most expensive 	<p>The fixed size of housing subsidy is calculated based on the Russia-average price of inexpensive standard housing, irrespective of the selected recipient region.</p> <p>Such procedure for calculation of the size of housing subsidy results in the following:</p> <ul style="list-style-type: none"> • Instead of selecting expensive recipient

<p>recipient regions, which leads to increased burden on the federal budget;</p> <ul style="list-style-type: none"> • The load on the housing market in these recipient regions is increasing, which entails growth in housing prices; • Upon receiving the filled housing certificate (indicating the size of housing subsidy), the person can migrate only to the originally selected recipient region; a decision to change the recipient region requires re-issuance (renewal) of the housing certificate. 	<p>regions, people are exploring the market of inexpensive housing in rural areas, regional centers and towns thus facilitating the development of these housing markets;</p> <ul style="list-style-type: none"> • Co-financing from municipal budgets is more actively involved; • The burden on the federal budget related to Northern out-migration is considerably reduced (in fact, the Government fulfill their obligations with less expenditures)
<p><i>Allocation of funds between Northern regions</i></p>	
<p>The funds are allocated between Northern regions in proportion to the number of persons being on the waiting list for out-migration, which reduces financial and economic benefits from out-migration and consolidation of released social/communal infrastructure.</p>	<p>The Pilot Project and the Bank loan enable to target the funds to the most problematic territories and settlements thus increasing the financial and economic benefits from out-migration and consolidation of released social/communal infrastructure.</p>
<p><i>Information and organizational support of out-migration</i></p>	
<p><i>Use of modern control and monitoring technologies</i></p>	
<p>The system used under Law 125 involves registration of persons on the waiting list for migration assistance.</p> <p>The functions of public authorities are mainly confined to the registration and filing of persons on the waiting list for migration assistance, and issuance of housing certificates; thereafter migrants realize their housing certificates on their own without any centralized support.</p>	<p>The Pilot Project established a comprehensive system of information and organizational support of Northern migrants, and monitoring of migration, which helps the migrants to implement their right for free choice of the recipient region:</p> <ul style="list-style-type: none"> • Housing market information system: contained data on housing offered for sale in recipient regions and ensured that the migrants implement their right for free choice of the new place of residence; • <i>IRS Migration</i>: provided the migrants with subject-specific data on all regions, cities and other resident areas in Russia; • Computerized migration tracking database: migration monitoring system enabling to track all stages of the migration process for every household; • Local Project Implementation Units: technical units established under administrations of pilot territories to facilitate the out-migration process in Northern areas; • The system of organizational and legal

<p>Law 125 provides for no such unit at the federal level, which increases the costs incurred by potential migrants on housing selection, and is one of the reasons why part of housing certificates remains unused.</p>	<p>assistance to socially vulnerable persons who are unable to go to recipient regions for housing selection and purchase.</p> <p>The Pilot Project supported (during the third wave of migration) a unit providing assistance to Project participants in the selection and procurement of housing without the need for the migrant to visit the proposed recipient region (Joint Remote Office of Local PIUs). This provides considerable time and money savings for the migrants (especially those living in remote and hard-to-reach regions) related to housing selection.</p>
<p><i>Linkage between migration assistance and local restructuring (decommissioning of the released housing/communal and social infrastructure)</i></p>	
<p>Such linkage is not always explicit under Law 125.</p>	<p>Due to the inclusion of the Local Restructuring Component, the Pilot Project was able to test the linkage between cost effective migration assistance and measures on consolidation of the released housing stock and social infrastructure, and support of institutional reforms in budget and HCS management at the municipal level.</p> <p>As a result of out-migration of Project participants, pilot municipalities receive considerable housing stock that can be used to upgrade the living conditions of households living in dilapidated and emergency condition buildings and inhabitants of non-viable settlements. Demolition of the latter generates additional economic benefits.</p>

53. Certificate-based migration scheme developed under the Pilot Project ensured that migrants had a free choice of destination areas, which was confirmed by the analysis of recipient regions: Project participants migrated to almost all regions of the Russian Federation (75 regions). The most preferable recipient regions included:

- Belgorod Oblast;
- Krasnodar Kray;
- Kirov Oblast;
- Rostov Oblast;
- Tula Oblast;
- Vladimir Oblast;
- Nizhny Novgorod Oblast;
- Voronezh Oblast;
- Ivanovo Oblast.

Assistance to Northern residents migrating within Northern areas

54. An institutional structure providing efficient assistance to the process of migration was established at the regional level in pilot Northern territories.

Assistance to socially vulnerable persons migrating from Northern areas to recipient regions

55. The Joint Remote Office tested the mechanism of providing assistance to socially vulnerable Project participants in housing selection and purchase without the need for the migrants to visit the proposed recipient regions.

PR support of migration (Information Subcomponent under the Migration Assistance Component)

56. The main objectives of the information campaign and PR support under the Pilot Project were to:

- Disseminate the fullest possible information on the Project and eligibility criteria for participation among the population of pilot territories;
- Establish and maintain positive attitude to the Project among the potential migrants and population of pilot territories;
- Encourage motivation of potential migrants to participate in the Project.

57. The work was performed in eight stages. Each stage had specific priorities in respect to public information, was targeted to specific groups corresponding to categories of potential Project participants, and used different information technologies.

58. In general, the information and PR campaign implemented under the Pilot Project showed that cooperation with potential migration program participants through a wide range of information channels and agencies responsible for migration assistance is a necessary condition for the efficiency of migration programs. Such cooperation encourages motivation to participate in the program, and helps Northern residents go through all organizational stages related to out-migration to areas with more favorable climate conditions.

Local Restructuring Component:

59. The need to implement local restructuring under the Pilot Project is caused by the fact that migration alone fails to generate the largest possible savings, and cannot result in fundamental recovery of local budgets.

The following local restructuring priorities were identified under the Local Restructuring Component:

- Inter-budgetary relations,
- Reform of housing and communal services,
- Downsizing of housing/communal and social infrastructure.

60. Downsizing of housing/communal and social infrastructure involved liquidation (consolidation) of excessive or released housing/communal, health, education and social facilities. Consolidated facilities were selected with a view to ensure the highest economic efficiency of the Project. A separate action plan on infrastructure consolidation was developed for each pilot territory.

61. The following factors may be viewed as deficiencies of the Local Restructuring Component:

- Insufficient linkage between Migration Assistance Component and Local Restructuring Component in the institutional and financing arrangements of the Pilot Project (the lack of financial incentives encouraging administrations of pilot territories to implement LRPs according to the agreed schedule);
- Delayed decisions of pilot administrations on the main LRP actions due to the following reasons:
 - Insufficient incentives and motivation for expedient introduction of innovative economic mechanisms in housing and communal services;
 - Domination of political considerations over the economic feasibility in the decision making on the implementation of LRPs.
- The lack of qualified staff to implement HCS restructuring, management and functioning in pilot territories (Vorkuta and Susuman district of Magadan Oblast).

Federal Component (federal policy support):

62. The objective of the Federal Component was to provide assistance to legislative and executive authorities in reforming and improving the federal Northern policy. The following activities were proposed under the Federal Component of the Pilot Project:

- a) Providing advice to the Federal Government, its agencies, regional authorities and legislative bodies on legal, economic, fiscal and social aspects of the Northern restructuring.
- b) Support of applied research on Northern policy issues including the budget policy in Northern areas, and interaction of Northern labor market development and Northern in-migration trends.
- c) Support for dissemination of lessons learned under the Pilot Project, including the development of information system on housing and other regional data.

63. The following products were created under the Federal Component that can be used on the federal scale:

- Implementation mechanism of Law 125 of October 29, 2002 г. № 125-ФЗ *On Housing Subsidies for Citizens Moving from Regions of the Far North and Areas of Equal Status*
- Analytical framework of Northern policy reform and improvement
- System of information support for Northern migrants

Monitoring and Evaluation Component

64. The following types of monitoring were implemented under the Pilot Project:

- Project implementation monitoring;
- Social monitoring of migration

65. The following products were created under the Monitoring and Evaluation Component that can be used on the federal scale:

- The system of migration program implementation monitoring,
- The system of social monitoring of migration programs.

Monitoring of migration program implementation

66. ***Project implementation monitoring*** was a key instrument of the operational Project management that ensured timely receipt of comprehensive and regularly updated information on the migration process at all stages of the migration assistance scheme, as well as data on housing purchase by migrants in the selected recipient regions. Such information allowed the Central PIU and Local PIUs to promptly address problems arising both in pilot territories, and in the process of housing purchase by Project participants.

67. ***Current monitoring*** is a key element of this activity aimed at timely provision of reliable information to all parties of the Pilot Project. Current monitoring was performed using the common for the Central PIU and Local PIUs Electronic Database (EDB) based on the regional principle. EDB was created at the initial stage of the Project and was continuously updated thereafter. EDB included major information on participating households, and all stages of the “migration scheme” undergone by these households.

68. Project implementation monitoring included ***visits to pilot territories*** performed both under Bank missions and as individual trips by Central PIU staff and Project consultants.

Social monitoring of migration programs

69. It consisted of a series of quantitative and qualitative social assessments.

70. The first qualitative social assessment was performed in February – April 2003. At the first stage of Project implementation, the attitude of residents of pilot territories to the Project was generally defined by the following key factors:

- According to respondents, the size of housing subsidy is insufficient to purchase housing outside the Northern region;
- Elderly respondents considered the certificate-based scheme of housing purchase as a cumbersome and technically complicated procedure;
- The existence of other, more attractive in terms of the size of assistance, migration programs discourage some respondents (in Vorkuta and Norilsk) from participation in the Pilot Project.

71. Young and middle-aged potential Project participants demonstrated the most favorable attitude to the Pilot Project, and comparative willingness to use the opportunities

offered by the Project to out-migrate from the North. The most positive attitude to the Pilot Project was noted among the respondents of this age group living in Susuman district.

72. The second stage of social monitoring of migration took place from September 10 through October 27, 2003. Data from the second stage of social monitoring generally facilitated the adoption of a new approach involving unification and broadening of categories eligible for participation in the Project. The approach was reflected in RF Government Resolution No. 306 dated June 22, 2004 *On Additional Measures to Provide Assistance to Citizens of the Russian Federation under the Northern Restructuring Pilot Project*.

73. The third stage of monitoring of migration was performed from September 9 through December 8, 2004. Qualitative sociological studies can be generally viewed as an important tool to monitor social situation in pilot territories. This instrument enabled to timely respond to shortcomings in information campaigns and performance of Local PIUs, and design new approaches to defining eligible categories for the third wave of migration assistance under the Pilot Project.

74. The first quantitative sociological assessment was performed in November 2003, the second one – in September 2004, and the third one was based on the set of questionnaires collected by late 2005.

75. The assessment showed that the majority of respondents were positive about the Project; about three fourths of them were satisfied with their participation in the Project. Local PIUs were the main source of information on the Project and participation arrangements at all implementation stages. Housing information database, first of all, helps to get a vision of the housing market in general while only part of participants tend to use it for selection of a specific option.

76. Respondents were mainly displeased with downgrading of living conditions as a result of moving to less comfortable apartments. Pensioners were among those who took the situation most heavily, as they perceived migration not only as deterioration of living conditions but as a dramatic reduction or complete loss of customary social protection. Many of the indicated problems were directly related to the migration process (processing of documents, delayed shipment of containers, etc.).

77. In September-October 2004, a **special assessment of refusals to participate in the Pilot Project** was performed. Data on dropout of Project participants were also analyzed during the study in 2006. The total share of refusals throughout the Project implementation period made up:

- Vorkuta – about 50%,
- Norilsk – over 50%,
- Susuman district and the total number of participants – about 46%.

78. The study identified several reasons for increased (as compared to projections) number of refusals to participate in the Project during the first and second waves of migration. The most common factors included the following:

- Demographic composition of Project categories during the first and second waves of migration;
- Level of financial migration assistance offered under the Pilot Project, and novelty of certification scheme arrangements;
- Peculiar features of pilot territories selected for participation in the Project;
- Fear of migration to a new place of residence.

79. The above factors were in part eliminated with the inclusion of new categories in the third wave of migration under the Pilot Project.

Major advantages of the Pilot Project indicated by the respondents included the following:

- The Pilot Project is a real alternative to other migration programs, above all, in terms of the timing of migration (no need to be on waiting list for decades);
- Opportunity to participate in the Project for categories that are not eligible for other migration programs;
- The Pilot Project provides a free choice of the recipient region;
- Flexibility of the Pilot Project allows the participants not to surrender Northern housing for a long period, and refuse to migrate at the very last moment.

Major deficiencies of the Pilot Project indicated by actual and potential participants included the following:

- Small amount of payments under the housing certificate, lack of indexation of the housing subsidy;
- Exclusion from the calculation of the housing subsidy of such important (in respondents' view) parameters as the length of service in the North and quality of the surrendered housing;
- Lack of co-financing of housing subsidies from the local budget in Vorkuta;
- Difficulties in the selection of new housing caused by the need to comply with social norms of living space in recipient regions;
- Lack of confidence in housing certificates on the part of real estate agents;
- Delayed payment of container transportation;
- Lack of possibility to use housing certificate as an initial installment under mortgage loans for housing construction;
- Dollar-denominated value of housing subsidy (changes in the exchange rate during the Project period has led to devaluation of the subsidy value in rubles, while actual purchase of housing was performed in rubles).

80. The studies identified the causes of return migration to Northern regions:

- The wish to work for another several years to be better off on the "mainland";
- The wish to help children and grandchildren that had stayed in the North;
- Adaptation difficulties at the "mainland";
- The original intention to purchase housing on the "mainland" and travel outside the North during summer; and
- The wish to earn a "Northern bonus" to the pension benefit.

Migration process and adaptation in the new place of residence

81. The interaction of migrants with the authorities in recipient regions generally went on smoothly. The majority of respondents indicated no significant problems with local or regional authorities.

Project Management Component

82. Project Management Component supported the establishment of:

- Structure of migration program management;
- Regulatory and legal framework of migration program, management.

Project management structure:

- Inter-Ministerial Working Group for the Coordination of Preparation and Implementation of the Project (IMWG);
- Central Project Implementation Unit (Central PIU);
- Coordination / Supervisory Councils in pilot territories;
- Local Project Implementation Units (Local PIU);
- Joint Local PIU Remote Office;
- Appeal committees in pilot territories.

Regulatory and legal framework of Project management:

- Regulations on out-migration assistance provided under the Pilot Project approved by RF Government Resolution No. 336 dated May 22, 2002;
- RF Government Resolution No. 306 dated June 22, 2004 *On Additional Measures to Provide Assistance to Citizens of the Russian Federation under the Northern Restructuring Pilot Project*;
- Instructions on Financing the Activities specified in the Regulations on out-migration assistance provided under the Pilot Project approved by MOF/MOED Order No. 76n/224 dated August 5 2002;
- Agreement on servicing the Pilot Project between the MOF, MOED and Sberbank of Russia No. 01-01-06/26-689 dated August 5, 2002;
- Agency Agreement for the implementation of the Pilot Project between the MOF, MOED and FER No. 01-01-06/26-688 dated August 5, 2002;
- Implementation Agreements for the Pilot Project between the MOF, MOED, FER, administrations of pilot territories, and governments of respective RF regions;
- Implementation instructions for Pilot Project territories approved by regulations signed by FER management, administrations of pilot territories, and governments of respective regions.

83. With a view to expand the scope of the Pilot Project to include additional Northern territories to disburse the remaining IBRD Loan proceeds, the RF Government on October 22, 2008 issued Resolution No. 772 *On Making Changes to Certain RF Government Regulations Pertaining to the Implementation of the Northern Restructuring Pilot Project*.

XI. Social Assessment (Satisfaction of Beneficiaries)

84. Social results of the Pilot Project are achieved through the following activities and factors:

1. Identification of social categories of Project participants

85. The original Project design provided for assistance to the most socially vulnerable categories as proposed by the administrations of pilot territories (World War II veterans, old-age pensioners category 1 and 2 invalids, etc.) proceeding from the wish to render assistance to these persons on a priority basis.

86. The above categories turned out to be “narrow” and the least mobile to participate in the Project due to the following reasons:

- Lack of personal savings to co-finance the purchased housing;
- Inability (or extremely limited ability) to migrate for health reasons;
- Low interest in Project participation because of the prospects of getting assistance in the near future (and in the larger amount) under Government migration programs.

87. In view of the above, RF Government Resolution No. 306 *On Additional Measures to Provide Assistance to Citizens of the Russian Federation under the Northern Restructuring Pilot Project* was issued on June 22, 2004 to change the focus of migration assistance towards broader and more mobile categories (all pensioners, families having handicapped children).

88. As a result, it is these categories of the third wave of the certificate scheme that gained the greatest advantage from the Project. At the same time, socially vulnerable categories also benefited as a result of Project implementation: they moved into released housing in pilot territories, and many of them upgraded their living conditions before out-migrating from the North under other Government and regional programs. Such changes were not envisaged in the original Project design but they fully paid off.

2. Prevention of “resource leakage”

89. There were cases under the Pilot Project when migration assistance was provided to ineligible persons due to violation of a condition for Project participation – absence of other housing in other RF regions. This occurred due to the imperfection of the Russian legislation and lack of a reliable instrument for relevant checks – a unified register of real-estate property. These facts were taken into account in the RF Government Resolution providing for Project extension to additional Northern regions, and the certificate scheme was adjusted to prevent such cases in the future.

3. Poverty impact

90. The Pilot Project was designed to provide assistance to the most socially vulnerable categories. Given that pensioners appeared to be the most disadvantaged group in terms of access to public migration programs, the third wave of the Project was focused on this category of migrants. This yielded the greatest socioeconomic benefits, *inter alia*, regarding

the improved financial status of Project participants. Out-migration from Northern areas (noted for the high cost of living) to other RF regions enabled people to reduce their living expenses in recipient regions due to the lower cost of HCS, healthcare, transport, food, etc.

XII. Economic Evaluation

Project financing arrangements:

91. In accordance with Loan Agreement No. 4411-RU dated July 11, 2001, the Pilot Project was implemented using the Bank loan equal to \$80 million. Project financing arrangements are presented in the Table below.

Item	US\$ million								
	Breakdown by years								
	2002	2003	2004	2005	2006	2007	2008	2009	Total:
Housing subsidies paid from the Bank loan	-	2.68	3.58	10.33	7.87	0.58	0	0	25.04
Other costs paid from the Bank loan	1.05	1.74	2.28	1.81	1.22	0.89	0.52	0.13	9.64
Total disbursements under the Bank loan	1.05	4.42	5.86	12.14	9.09	1.47	0.52	0.13	34.68
Total financing of the Pilot Project	0.03	4.59	2.28	2.85	3.2	0.14	0.04	0.06	13.18
Total costs under the Pilot Project	1.08	9.01	8.14	14.99	12.29	1.61	0.56	0.19	47.86
<i>Financing arrangements:</i>									
Loan funds	97%	49%	72%	81%	74%	91%	93%	68%	72%
Co-financing from the consolidated RF budget	3%	51%	28%	19%	26%	9%	7%	32%	28%

92. Starting from the second half-year period of 2007, implementation of the certificate scheme under the Pilot Project has been terminated. As of September 30, 2009 (Loan Closing Date) the undisbursed balance of the Bank loan proceeds allocated for the implementation of the certificate scheme made up \$39.9 million (49.9 % of the Loan amount). Total disbursements of the Bank loan for Project implementation in 2002-2009 made up \$34.7 million (43.4 % of the Loan amount). Undisbursed balance of the Bank Loan equaled \$45.3 million (56.6 % of the Loan amount).

Economic efficiency of the Pilot Project:

93. Economic efficiency of the Pilot Project was achieved due to reduced expenditures of the federal budget, consolidated budget of the Russian Federation (budgets of all levels) and extra-budgetary funds as a result of the following factors:

1. Lower (as compared to Law 125) size of the housing subsidy (social allowance for housing purchase) allows the federal Government to fulfill social liabilities related to out-migration from Northern regions at a lower cost;

2. Reduced expenditures on the payment of allowances, bonuses and social compensations as a result of out-migration from the North;
3. Reduced budgets expenditures of Northern municipalities and regions on the maintenance of excessive housing/communal and social infrastructure due to out-migration of unemployable population and decommissioning of the released infrastructure.

Project performance indicators for the Russian Federation:

94. Peculiar features of Project benefits:

- Stepwise pattern of budget savings from the consolidation of housing and social infrastructure; Time instability of achieved economic benefits related to changes in budget and tariff policies, impact of inflation and climate; Retarded manifestation of benefits; Drawbacks in the existing system of budgeting and document turnover hampering transformation of potential

XII. Evaluation of the Borrower's Own Performance during Project Preparation and Implementation

Performance of Government Agencies (MOF, MED, MRD, IMWG)

95. Performance of the Russian Federation during Project preparation and implementation can be evaluated as generally satisfactory.

96. **Inter-Ministerial Working Group for the Coordination of Preparation and Implementation of the Project (IMWG)** provided efficient management of Project implementation; no performance shortcomings were noted.

97. **MED** (the Client) provided coordination between agencies involved in Project implementation. However, the frequent change of officials responsible for Project implementation sometimes caused delays in addressing implementation issues and agreement of the required documents. It has become especially apparent at the final stage of the Project when the decision was made to extend the loan, Government Resolution *On Making Changes to Certain RF Government Regulations Pertaining to the Implementation of the Northern Restructuring Pilot Project* was adopted, and the functions of the chief implementation agency were transferred to the MRD.

98. **MOF** acted as the chief administrator of the Project funds and supervised the targeted use of the Bank loan. Performance inefficiencies include excessively long internal agreement of the required regulations and instructions, which resulted in delayed issuance of housing certificates (especially in early 2003), and a 3-month suspension of housing certificate payments in 2005.

99. **MRD** – according to RF Government Resolution No. 772 dated October 22, 2008 *On Making Changes to Certain RF Government Regulations Pertaining to the Implementation of the Northern Restructuring Pilot Project*, the functions of the chief implementation agency was transferred from the MOED to the MORD. In order to launch the fourth phase of the Pilot Project, the MORD repeatedly tried to accelerate the adoption of the required documents; however, inconsistent position of the MOED, as well as the lack of Instructions

on Financing approved by the MOED and MOF have played a crucial role in the decision to close the Project.

100. **Sberbank** was rather efficient in servicing of the certificate scheme under the Pilot Project. Shortcomings in the performance of Sberbank include the following:

- Sberbank offices working with housing certificates under the Pilot Project were (in some regions) located at long distances from the areas where housing was purchased by Project participants. The issue was addressed by increasing the number of Sberbank offices working with housing certificates in the following regions:
 - Leningrad Oblast;
 - Novgorod Oblast;
 - Pskov Oblast;
 - Sverdlovsk Oblast;
 - Ulyanovsk Oblast;
 - Chelyabinsk Oblast.
- Insufficient knowledge by Sberbank staff of certificate scheme procedures; mistakes made by Sberbank offices when filling housing certificate forms and issuing statements on the opening of a blocked account by the housing certificate holder (at the initial stage of the Project). The drawback was eventually addressed through the coordination between the Local PIUs and Sberbank during the Project implementation;
- The staff of Sberbank offices were (in some cases) insufficiently attentive when checking housing purchase agreements (acceptance of purchase agreements where the number of registered owners did not comply with the one indicated in the housing certificate). Such omissions took place in but a few cases, and are not typical for the performance of Sberbank.

101. **Agencies of justice for state registration of immovable property rights and transactions** generally demonstrated good performance under the Pilot Project. Major inefficiencies included the following:

- Registration of housing purchase agreements non-compliant with the standard total (living) space of housing as established by RF executive authorities for registration of persons who needed upgrading of living conditions. The Central PIU repeatedly (directly and through the MED) made these facts known to the MOJ. According to the MOJ, measures were taken to exclude recurrence of such violations in the future;
- Long period of registration of housing purchase agreements in some regions (as reported by Project participants). The Central PIU requested the MOJ to consider registration of purchase agreements made under the Project within 5 days from the submission of documents or using the accelerated procedure adopted in RF regions without charging additional fees for the reduced period of registration. According to the MOJ, procedures for registration of housing purchase agreements could be changed only as part of amendments to the existing legislation.

Performance of the Central PIU

102. **Central PIU** (Foundation for Enterprise Restructuring and Financial Institution Development) performed operational management of the Pilot Project.

Performance of Regional and Municipal Administrations

103. Practice has shown that the efficiency of Project implementation in Northern regions was directly dependent on the following factors:

- Positive attitude of local administrations to the Pilot Project;
- Opportunity to use administrative resources;
- Professional competence of Local PIU staff;
- Adequate functioning of technical facilities.

Administrations of pilot territories

104. **Susuman District.** Administration of the Susuman district initially demonstrated the most positive attitude towards the Project among all pilot territories, which was attributed to the economic expediency of reducing the population to improve financing of viable assets and optimize the social structure of population.

105. Administration of the Susuman district rendered every support and assistance to the Pilot Project at the local level, provided co-financing of housing subsidies from the municipal budget, actively and consistently implemented local restructuring plans (including consolidation of released housing/communal and social infrastructure) with a view to optimize the number of population and HCS in the pilot territory. Performance inefficiencies (at initial stages of the Project) included:

- A requirement that Project participants should repair the released housing at their own expense. The issue was addressed on a case-by-case basis depending on the condition of the released housing;
- A complicated procedure for the surrender of housing occupied by Project participants on a ownership basis (the need for state registration of immovable property transactions in Magadan);
- Problems faced by asset holders at the final surrender of released housing (difficulties with the signing of the act of housing acceptance in cases when certificate owners left to select/purchase housing and never returned to the pilot territory).

106. The issues were addressed through making adjustments to housing surrender documents in compliance with the new Housing Code effective since March 1, 2005.

107. **Vorkuta.** Position of Vorkuta City Administration was usually consistent with the official view voiced by the Head of City Administration. While recognizing the benefits of the Pilot Project enabling to reduce the “social burden” on the city, local authorities refrained from active support of the Project.

108. Vorkuta City Administration provided support and assistance to the Pilot Project at the local level, actively and consistently implemented local restructuring plans. Performance inefficiencies (at initial stages of the Project) included:

- Unwillingness of some residents of the closing Promyshleny settlement to move out from Vorkuta on conditions offered under the Pilot Project. The issue was addressed through relocating these persons to other settlements or Vorkuta and accommodating them in housing released by Project participants who migrated using housing certificates or under other migration programs;
- A requirement that Project participants should repair the released housing at their own expense. The issue was addressed on a case-by-case basis depending on the condition of the released housing;
- Lack of co-financing of housing subsidies from the municipal budget. Attempts to address this issue failed due to the subsidized nature of the city budget and lack of relevant financial support from the Komi Republic;
- Difficulties in establishing the reporting system regarding the co-financing by the local administration of consolidation of dilapidated and emergency condition housing.

109. **Norilsk.** At the initial stage of Project implementation, neither political nor economic elites in Norilsk were willing to publicly indicate their position towards the Pilot Project. However, as the Project moved on and demonstrated positive social, financial, economic and institutional impact, the city administration increasingly showed their support of the Pilot Project.

110. Norilsk City Administration supported the Pilot Project at the local level, and provided co-financing of housing subsidies from the municipal budget. However, insufficient attention was paid to local restructuring plans at the final stages of Project implementation. Significant inefficiencies included:

- Insufficient (at the first stage of Project implementation) public awareness on the downsizing of local migration assistance programs. This did not allow people willing to out-migrate from Norilsk to evaluate realistic prospects of migration assistance from municipal authorities, and maintained overestimated expectations concerning the price of housing in the city. The issue was partially addressed through active PR and public information campaigns, relevant clarifications to communities, migration assistance provided to Project participants (co-financing of housing subsidies from the municipal budget, pension bonuses, etc.), actual downsizing of local migration programs, and a decision to limit target groups and number of participants under these programs (e.g., providing migration assistance only to budget sector workers, etc.);
- Excessively complicated (at the first stage of Project implementation) procedures for issuance of documents for out-migration from Norilsk, including agreements for container transportation, etc. The above issues were addressed, and procedures for document issuance streamlined (a “one window” system was introduced);
- Unwillingness of Norilsk City Administration to the comprehensively study and apply the proposals and recommendations of the Project consultant on local restructuring plans, which has led to failures in the implementation of some LRP activities, as well as deterioration of HCS during the final stage of the Project.

111. Having recognized the positive impact of the Pilot Project, Norilsk City Administration developed and implemented a new municipal migration assistance program that almost entirely followed the contents and procedures of the certificate scheme offered under the Project (the only difference was the use of letters of commitment from the city administration instead of housing certificates).

112. Coordination/ Supervisory Councils in pilot territories provided efficient management of Project implementation at the local (municipal) level; no performance shortcomings were noted.

113. Appeals committees in pilot territories considered questions, complaints and claims related to Project implementation. No performance shortcomings were noted.

Local Project Implementation Units

114. Local PIU in Susuman district and Vorkuta demonstrated high-quality performance during application campaigns and issuance of housing certificates; actively advertised the advantages of the Project (inter alia, on a individual basis, through the visits of Local PIU staff to remote settlements), made wide use of PR and information tools, and worked with media with the assistance of Central PIU consultants.

115. Norilsk Local PIU failed to develop the appropriate approach to Project implementation at the initial phases (1 and 2 waves). They were insufficiently active in using PR and information campaigns, failed to establish good cooperation with media, and made very little use of individual work with Project participants. When the Local PIU was removed from the Department for Migration Assistance under the Norilsk City Administration and re-established as an autonomous entity, and the Local PIU management was replaced (July 2004), the work was intensified resulting in some positive changes in Project implementation in this pilot territory.

116. Generic inefficiencies in Local PIU performance (at initial stages of Project implementation):

- Lack of mechanisms enabling to provide additional assistance in housing purchasing to persons eligible for such assistance under RF Government Resolution No. 336 of May 22, 2002. The issue was addressed after the Joint Remote Local PIU Office was established in Moscow.
- Non-compliance (in some cases) with Project procedures when managing transactions for Project participants, preparing the required documents (Minutes of meetings of Coordination / Supervisory Councils and attached lists, forms of housing certificates), and entering information in the Electronic Migration Monitoring Database. The issue was addressed after several visits of Central PIU consultants to pilot territories.

117. Joint Remote Office of Local PIU provided timely essential assistance to socially vulnerable categories of Project participants in selecting the housing and processing purchase transactions in recipient regions. The Office performed the following important functions:

- Information/advice: search and selection of housing for socially vulnerable Project participants, compiling a database on inexpensive housing market, providing advice on housing prices in potential new residence areas;
- Legal support: processing housing purchase transactions for socially vulnerable participants in recipient regions;
- Social support: addressing social challenges occurring due to the specifics of the given category (pensioners, disabled persons);
- Analytical support: analysis of the work with socially vulnerable Project participants, and development of recommendations for Local PIUs.

118. Consultants from the Remote Office elaborated arrangements for engaging real estate agents in recipient regions to perform technical procedures for transactions on housing purchase by Project participants, including inspection of housing, due diligence, opening of blocked special accounts at relevant Sberbank offices, submission of housing purchase agreements to agencies of justice for registration, etc. This enabled to save money (travel expenses) and time to provide assistance in housing selection to all Project participants applying to the Joint Remote Office. For remote Northern areas having only air transport connection with recipient regions (Susuman district and Norilsk), Remote Office provided a realistic, and often the one and only opportunity to help Project participants to select and purchase housing.

Regional administrations

119. Magadan Oblast Administration supported Project implementation, participated in co-financing of transportation subsidies for Project participants.

120. Komi Republic Administration supported Project implementation; however, the Administration failed to provide financial support to Vorkuta City for co-financing of housing subsidies.

121. Krasnoyarsk Kray Administration did not play any active role in the implementation of the Pilot Project.

Lessons Learned and Recommendations for the Future

122. Implementation of the Pilot Project demonstrated the following:

- The efficiency and effectiveness of public migration assistance programs depend on the sound combination of a specific migration program, and a set of institutional and economic measures at the local level. An important aspect is the intensity of “push” and “attraction” factors in a given Northern area as compared to the attractiveness of a specific recipient region. Innovative federal Northern policy is essential to establish the framework for the natural process of labor migration and ensure efficiency of migration programs.
- The efficiency of a specific cost effective program in a Northern area depends, among other things, on the existence of other, more cost intensive programs, and, therefore, on the opportunity to make a choice between different programs.

123. Thus, implementation of the Pilot Project in pilot territories was, to a different extent, complicated by the “competition” with other migration programs simultaneously implemented in these areas:

- **In Susuman district of Magadan Oblast** – to a small extent, due to implementation of the following programs:
 - Mining Sector Restructuring Program;
 - Oblast Targeted Program of Migration Assistance to Citizens Living in Non-Viable Settlements in Magadan Oblast;

- **In Vorkuta – to a small extent, due to implementation of the Local Development Program approved by MOE Order No. 185 dated June 19, 2002 On Approving Regulations on the Development and Implementation of Local Development Programs and Ensuring Employment in Miner Cities and Settlements Financed from the State Support of the Mining Industry, and RF Government Resolution No. 840 dated December 24, 2004 On the List of Activities on Mining Industry Restructuring and Procedures for their Financing;**

- **In Norilsk** – to a considerable extent, due to the implementation of quite a few programs:
 - Provision of housing in other RF regions;
 - Provision of monetary compensations for released housing;
 - Provision of readily available housing in the southern part of Krasnoyarsk Kray.
 1. Improved efficiency of Northern out-migration assistance is linked with the implementation of interrelated activities that must be comprehensive and combine migration with both socioeconomic restructuring at the local (municipal) level, and elaboration of innovative areas of the overall national Northern policy.
 2. Concentration of funds to provide migration assistance to residents of specific municipalities and settlements leads to a synergy effect, and more specifically:
 - Actual savings for municipalities due to reduced expenditures on excessive (released and demolished) housing/communal and social infrastructure, and redistribution of funds to maintain the existing life support infrastructure;
 - Additional housing stock becoming available to municipalities for relocation of citizens living in dilapidated buildings and non-viable settlements (demolition of dilapidated and emergency condition buildings and closing of non-viable settlements result in subsequent savings for municipalities).
 1. The greatest financial, economic and social impact of out-migration and associated local restructuring is achieved through a complete shutdown of non-viable settlements, since this allows a full liquidation of excessive housing/communal and social infrastructure, and maximum reduction of relevant expenditures (e.g., Promyshlenny settlement in Vorkuta). In case of complete shutdown of non-viable settlements, general restrictions regarding the date of arrival to the North and length of tenure in the North create certain eligibility difficulties for the residents of such settlements. However, these difficulties can

be efficiently eliminated by local governments and regional executive authorities under local and regional migration programs.

2. Northern out-migration assistance using housing certificates provides a modern, socially focused instrument enabling to:
 - Introduce a new mechanism of Northern migration assistance that is more efficient and cost effective as compared to the previous practice of housing construction for Northern migrants;
 - Ensure focused migration assistance targeted to appropriate Northern territories and residence areas, and relevant social groups;
 - Provide funds for migration assistance directly to the migrants;
 - Ensure free choice of the recipient region and housing for housing certificate holders;
 - Protect housing subsidies from fraud on the real estate market;
 - Select housing within a sufficiently long time period;
 - Ensure targeted use of migration assistance funds;
 - Provide efficient control over the flow of documents and funds.
3. Migrant categories should be established based on the need to ensure a wide coverage of socially vulnerable groups with due regard for the specifics of respective Northern territories.
4. The size of the housing subsidy should be calculated with due regard for the following factors:
 - Scarcity of funds allocated for out-migration purposes from the federal budget;
 - The need to guide the migrants towards the market of inexpensive housing in regional and district centers, and rural areas;
 - The need to attract co-financing from migrants, municipal administrations, RF regions and large employers.
5. Migration programs should also provide for indexation of housing subsidies to adjust for the rising prices of immovable property.
6. Expenditures on the payment of housing subsidies under the Pilot Project are half as large as under Law 125, which allows the Government to fulfill their social obligations at a lower cost.
7. A good many Northern residents who are eligible for migration assistance but have no realistic prospects for receiving it in the near future are willing to participate in migration programs offering a much smaller subsidy without any waiting lists, and to spend their own funds to co-finance the housing subsidy.
8. When getting government assistance of smaller size, the migrants actually implement market-oriented strategies of housing purchase: turn to inexpensive segments of the housing market in district centers and satellite towns around regional centers, which facilitates a more uniform distribution of the load on housing markets in recipient regions and encourages simultaneous out-migration of large groups of Northern residents.

9. This out-migration mechanism enables to efficiently attract the funds of regional and municipal budgets, as well as the people's own earnings; as a result, the burden on the federal budget per one migrant can be reduced two-fold.
10. Efficient functioning of the certificate scheme can be achieved if the following conditions are met:
 - Existence of the regulatory and legal framework for out-migration;
 - Smooth coordination between all agencies involved in migration program implementation at the local and federal levels;
 - Availability in Northern territories and at the federal level of modern technical facilities to monitor all stages of out-migration and provide control over the flow of documents and funds;
 - Sufficiently developed institutional structure of the housing market in potential recipient regions;
 - Availability of an extensive Electronic Information System on the housing market in the Russian Federation enabling to provide the migrants with practical information assistance in housing selection;
 - Availability of an Electronic Information System on RF regions and residence areas;
 - Active information and PR support of migration including relevant preparatory activities;
 - Individual work with migrants in Northern territories (including the receiving of applications and applicants on the ground in remote settlements);
 - De-bureaucratization of out-migration and in-migration procedures.

(iv) Evaluation of the Bank's Performance

124. The Bank was actively involved in the implementation of the Pilot Project, and contributed to its success. The major performance drawbacks include the following:

- Complicated Bank's procurement procedures (lengthy agreement of Terms of Reference, long bidding process);
- Long process of Loan extension. Even with the obvious need for such extension due to the requirements of the RF legislation (based on the timing of the certificate scheme established in RF Government Resolution agreed with the Bank), it took quite a lot of time to make a decision on Project extension and its documentation during the inclusion of the third wave of migrant categories in the Pilot Project; and
- The use of a somewhat formal criterion – disbursement of Loan proceeds – in reviewing the Project implementation progress. In the future it seems appropriate to increase the weight of substantive factors and indicators in the assessment of project implementation.

XIII. Description of Arrangements (Schemes, Principles, etc.) Proposed under the Pilot Project that can be used in the Future

125. Despite some problems with the implementation of the Pilot Project, the experience gained under the Project needs further dissemination in view of the following factors:

1. The Project facilitated creation of a new capacity (experience) for the management of similar projects and programs, first of all, in the following areas:

- Providing focused assistance to target social groups and territories having the greatest need for such assistance;
- A comprehensive system of information support of out-migration (Housing market information system, *IRS Migration*);
- Combination of migration assistance and local restructuring as interrelated elements of sustainable development in Northern territories;
- System of project management at the federal, regional and local levels;
- System of consulting, organizational and information services aimed at assisting the migrants with the selection of the recipient region and transportation to the new place of residence.

126. The use of the capacity and experience generated under the Pilot Project seems especially expedient during the economic crisis having the most significant implications for the Northern territories. Municipal governments were facing scarcity of resources due to the restructuring of industrial enterprises and limited budget subsidies. The majority of Northern industries were undergoing major downsizing, and are taking steps towards restructuring or will be doing so to recover economic sustainability. These measures resulted in the release of labor and growth of unemployment in territories where new employment opportunities in the near term are expected to be limited. Northern restructuring required a reduction in the population and optimization of budget resources. Therefore, dissemination of experience gained under the Project will have positive financial, economic and social impact.

Need to make amendments to Federal Law No. 125 On Housing Subsidies for Citizens Moving from Regions of the Far North and Areas of Equal Status

127. The Pilot Project demonstrated that the proposed and tested mechanisms are quite viable and efficient, offer a more flexible alternative out-migration option supplementing the existing programs, and provide the government with a less cost intensive instrument of Northern social and economic restructuring, and transition to sustainable development of the region.

128. Positive results of the Pilot Project confirm the possibility to disseminate the gained experience in a larger number of Northern territories, and continue reforming of the federal Northern policy.

129. Therefore, one of the essential arguments in favor of replicating the lessons learned under the Project is the need and feasibility of implementing the tested system elements (institutional and financial arrangements) in the federal regulatory and legal framework and Northern migration assistance instruments as a standard model applied at the federal level.

Annex 8. Comments of Cofinanciers and Other Partners/Stakeholders

N/A

Annex 9. List of Supporting Documents

1. World Bank, 2001, NRP Minutes of Negotiations
2. World Bank, 2001, NRP Project Appraisal Document
3. World Bank, 2001, NRP Loan Agreement
4. World Bank, 2001-1007 – Amendments to Loan Agreement
5. World Bank, 1999 – 2009 Aide Memoires and Back-to-Office Reports
6. World Bank, 1999 – 2010 Management and other important letters and memoranda
7. World Bank, 1999-2009 Implementation Status and Results Reports (ISRs)
8. World Bank, 2001, Country Assistance Strategy – Document No. R2001-0007
9. Ministry of Regional Development, 2010 – Borrowers Contribution to ICR
10. Foundation for Enterprise Restructuring and Financial Institutions Development, 1999 – 2009 – Progress Management Reports

