World Bank—Russian Federation Knowledge Exchange Program 2021-2024
Contents

Executive Summary ...................................................................................................................................... 3

I. RUSSIA’S DEVELOPMENT JOURNEY ................................................................................................ 5
   Evolution of the World Bank-Russia partnership ..................................................................................... 7
   Russia’s Economic and Social Development ............................................................................................ 8

II. THE KNOWLEDGE EXCHANGE PROGRAM: PRIORITIES AND MODALITIES ....................... 14
   Inbound Component: Bringing Cutting-edge Global Knowledge to Russia ........................................... 14
      Theme 1: Productivity-led economic growth ...................................................................................... 15
      Theme 2: Human capital, voice, and equity ........................................................................................ 17
      Theme 3: Green transition and resilience ............................................................................................ 20
      Cross-cutting theme: Governance and Strengthening Institutions ...................................................... 23
   Outbound Component: Sharing Russia’s Knowledge and Expertise with the World: The Development
   Knowledge Platform ............................................................................................................................... 23
      Knowledge Area 1: Public sector management and digital government ............................................ 24
      Knowledge Area 2: Human capital and education .............................................................................. 26
      Knowledge Area 3: Pandemic preparedness and response .................................................................. 26
      Knowledge Area 4: Sustainable agriculture (food security) ................................................................. 27
      Russia as a donor ................................................................................................................................ 28
   Implementation Modalities ..................................................................................................................... 29
   Consultations ........................................................................................................................................... 31
   Annex 1: ASA and RAS ......................................................................................................................... 32
   Annex 2: Ongoing RAS Activities .......................................................................................................... 33
Executive Summary

*Throughout the three-decade long partnership between the World Bank Group and the Russian Federation, knowledge has been an important aspect of support to the country.* While demand for financing has fluctuated over the years, the demand for the WBG’s advisory services and analytics across an array of sectors and themes has remained high. In Russia the WBG is recognized for its independent and balanced analysis that often brings together local and global knowledge to inform the national and regional dialogue around critical policy areas.

*The proposed Knowledge Exchange Program represents a new phase in the partnership between the World Bank and the Russian Federation.* It reflects the country’s development achievements, remaining challenges, and aspirations, while also aligning with the WBG’s approach to middle-income and high-income clients. It builds on Russia’s contributions as a donor and proposes to support its efforts to systematically contribute more to the regional and global public goods agenda.

*Knowledge will remain at the core of the engagement, but the knowledge flows will become more and more bi-directional.* Working closely with Russian partners, the World Bank will deliver cutting-edge knowledge in mutually agreed areas of focus that address Russia’s remaining development challenges, particularly at the subnational level. Following the collapse of the Soviet Union, Russia’s intellectual and scientific capital suffered significantly. But over the past two decades, an array of government entities, research and academic institutions, and policy think-tanks have emerged. They have the potential to significantly contribute to development outcomes—both in Russia and beyond. World Bank support will help these knowledge producers meet global quality standards and overcome language, cultural, and other obstacles to the free flow of ideas. The proposed Knowledge Exchange Program will help to structure and leverage this bi-directional flow of knowledge for greater development impact. It has two mutually reinforcing parts—one focused on Russia’s domestic development trajectory, the other on Russia’s contribution to addressing global development challenges.

*Russia’s development journey has been impressive, but challenges remain.* From 2000 through 2019, Russia’s annual gross national income (GNI) per capita increased more than six times, from $1,710 to $11,260 (current US$). In 2013 the GNI per capita was even higher at $15,190 (current US$). Economic growth has translated into significant poverty reduction. The share of the population living in poverty fell from a high of 29 percent in 2000 to just under 12.1 percent in 2020. Russia has made good progress on strengthening its institutions and policies, in particular macro-fiscal policies. It has implemented administrative reforms to improve the quality of public services and improve the country’s standing on a range of business climate indicators. Russia’s human development outcomes are strong, and the country does well on the World Bank Human Capital Index, improving in the last decade and now placing among the top quartile of all countries in 2020.

*But since 2013, Russia’s development momentum has slowed, impeding convergence with more-advanced economies.* Average annual gross domestic product (GDP) growth from 2013 through 2020 has been 0.6 percent, GDP per capita decreased, and real disposable incomes dropped by 10.6 percent. Russia’s potential growth has been on a downward trajectory since 2007, driven primarily by stalled productivity growth, unfavorable demographics, and a shrinking workforce. This long-term trend was compounded by the impact of the 2014 shocks.

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To realize its ambitions of becoming a high-income country, reforms that support total factor productivity growth are needed. Competition, which is essential for improving productivity, is limited. Reforms will also be needed to address remaining weaknesses of the investment climate, physical and non-physical barriers to infrastructure connectivity, relatively low innovation capacity of firms, and the mismatch between available skills and those demanded by the labor market. Addressing the implications of unfavorable demographics, improving the health conditions of the population, and enhancing quality of education are essential. Strengthening governance at all levels and ensuring fiscal and environmental sustainability are required to underpin these efforts. Policies that will ensure a greener post-COVID-19 recovery are needed, as are those that will help Russia adapt to a warmer climate.

Jointly with the Government, the World Bank has identified three thematic streams of knowledge exchange that will contribute to Russia’s ambition of reaching high-income status. These themes, where the Bank also has a comparative advantage, are productivity-led economic growth; human capital, voice, and equity; as well as green transition and building climate resilience. The topic of governance and strengthening institutions will cut across the knowledge program. The program will be implemented at both the national and subnational levels, and opportunities to support the economic and social development of Russia’s diverse regions will be explored. Knowledge activities will aim to be scalable, replicable within the country and region, and have spillover potential across the globe.

At the same time, the World Bank will collaborate with the Government to ensure that Russia’s development knowledge and expertise contribute to regional and global development. Russia has accumulated a wealth of development knowledge that can contribute to improved development outcomes, in the first instance in countries of the Commonwealth of Independent States (CIS), and secondly to other low-income and middle-income countries. The Government has confirmed its intent to collaborate with the World Bank to establish a new Development Knowledge Platform that will help it share this knowledge. In consultation with the Russian Government, the World Bank has identified four thematic areas where Russia has shown regional and global leadership and to which the World Bank has been contributing throughout its partnership. These are: (1) Public finance management and digital government; (2) Human capital (quality of education); (3) Pandemic preparedness and response; and (4) Sustainable agriculture (food security). The World Bank will be a knowledge partner in this endeavor, leveraging its regional and global experience across the four thematic areas.

The Knowledge Exchange Program aims to enhance the role Russia already plays as an important provider of regional and global public goods. Russia has recently reemerged as an important development player both regionally and globally. In terms of global aid, Russia is one of the top emerging donors worldwide, with development assistance of $1.3 billion (current US$) in 2019. It is central to the economic integration and economic health of the subregion, where it is an important trading partner and one of the leading sources of remittances in the world. It has contributed to strengthening public financial management and statistical capacity in CIS countries and educational assessment in developing countries; improving research on food security; deploying digital taxation and GovTech (digital government) solutions; and supporting public health capacity development in its neighborhood. Globally, countries have benefitted from Russia’s scientific research capacity, highlighted by the rapid development of three COVID-19 vaccines at various stage of assessment by WHO and stringent regulatory agencies, as well as deployment of testing kits and mobile laboratories. Regionally, countries that share a common history as well as language, have benefitted from Russia’s push to internationalize higher education.

By far, Russia’s largest potential contribution to the global public goods agenda is on climate change. Its vast natural resources (19 percent of world’s forest reserves are in Russia) position the country as a potential global climate leader. A warmer climate holds opportunities and challenges for Russia’s development, which will require implementing policies, developing new technologies, and devising new approaches now so future generations can benefit. Russia can contribute significantly to global efforts to
reduce emissions and protect its biodiversity, waters, and vast forests that are critical carbon sinks. Russia already plays a critical role in global weather and climate modeling efforts, with a particular focus on research on Arctic weather patterns which directly benefits the global community. By strengthening its focus on green hydrogen, stepping-up efforts to curb gas flaring, and developing lower-carbon intensity value-chains, Russia could emerge as a major player on the global climate stage. The Knowledge Exchange Program will connect Russia to cutting edge best practices, while also sharing Russia’s knowledge and technology with the rest of the world.

I. RUSSIA’S DEVELOPMENT JOURNEY

1. While the journey is not over, Russia’s development trajectory over the past three decades has been impressive. After a collapse of economic output in the 1990s, the 2000s saw a period of rapid economic growth largely due to a robust structural reform agenda, a commodities super-cycle, and a favorable external environment. From 2000 through 2019, Russia’s gross national income (GNI) per capita increased significantly. In dollar terms Russia’s annual GNI per capita increased more than six times, from $1,710 to $11,260 (current US$). In 2013, Russia’s GNI per capita was even higher at $15,190 (current US$). Economic growth has translated into significant poverty reduction. The share of the population living in poverty fell from a high of 29 percent in 2000 to just under 12.1 percent in 2020. Yet, Russia’s development momentum has slowed since 2013, with average gross domestic product (GDP) growth of 0.6 percent between 2013 and 2020.

2. Russia has made good progress on strengthening its institutions and policies, in particular macro-fiscal policies and government effectiveness. Strong macroeconomic fundamentals have helped lessen the impact of crises in 2008 and 2014 and facilitated a smoother recovery. More recently, Russia’s quick response to the COVID-19 pandemic using a mix of monetary, fiscal, regulatory, and social policies has helped address the most immediate impacts of the crisis on the economy, firms, and people. The Russian economy performed better than many advanced economies and better than most commodity-exporting, emerging-market developing economies. Government support measures helped the Russian economy stay relatively resilient to the pandemic shocks and laid the groundwork for an economic rebound in 2021–22.

Annual GDP growth dropped by just 3 percent in 2020 and is projected to be around 3 percent over the next two years.

3. While Russia has taken steps to implement a series of administrative reforms to improve the quality and effectiveness of public services and improve the country’s standing on a range of business climate indicators, investors continue to have some concerns. To provide more efficient, transparent, and accountable governance and public service delivery, the Government has invested in the development of e-Government applications, including e-identification, e-authentication, and payment systems. It has created electronic platforms for service delivery and established multi-functional service centers across the country. Russia strengthened its positions on global investment indexes (such as the Global Competitiveness Index, where it moved from 53rd in 2014 to 43rd in 2019) and in the World Bank’s 2020 Doing Business report (from 62nd in 2015 to 28th in 2020). At the same time, investors continue to cite concerns around corruption, the independence of the judicial system, and the lack of competitive neutrality with the large state presence in the economy.

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2 Using World Bank Atlas method, in 2021 the Russian Federation is classified as an upper-middle-income country.
3 The national poverty line is defined as the share of the population with income below $12.80 per day in 2017 (2011 PPP).
4. **Significant progress has been achieved in the development of the Russian financial sector, yet it could play a larger role in financing investment and enhancing the economy’s growth.** The financial sector benefits from the presence of large, liquid, and sophisticated capital markets, which offer investors an array of trading options, ranging from government and corporate bonds to listed company equities and commodities. The Russian stock market has more than doubled since 2013, reaching 48 percent of GDP, while the bond market has more than tripled, reaching 29 percent of GDP. Introduction of the 2014 Corporate Governance Code provided Russian joint stock companies with basic guidelines for implementation of advanced corporate governance standards, resulting in better transparency. However, the financial sector continues to be dominated by banks, and more efforts are needed to expand the nonbank financial sector, which remains small.

5. **Access to financial services has improved, driven by rapid digitalization, but access to finance remains uneven for SMEs.** The Central Bank of Russia adopted a financial inclusion strategy (2018–20) to expand access to financial services for the underserved segments of the population and small and medium enterprises (SMEs), while also developing a roadmap for increasing SME access to finance. The launch of commercial bond programs in 2017 eased access to the capital market for both large and SME borrowers. Implementation of national strategies for financial literacy and inclusion, as well as introduction of individual investment accounts with tax benefits in 2015, contributed to explosive growth in retail investing in the country. By the end of 2020, approximately 8.8 million people were participating in the financial market. Introduction of remote identification, implementation of special measures for individuals living in remote territories (such as accessing basic banking services in post offices), and simpler regulation for small regional banks (from 2018 onwards) have significantly improved access to financial services for households, SMEs, and individual entrepreneurs. However, access to finance for SMEs remains uneven across Russia’s regions.

6. **Considerable progress has been made in terms of human development, but further digitization is needed to increase resilience.** Russia is among high performing countries on the UN’s Human Development Index largely due to strong learning outcomes and comparatively longer years of schooling. Life expectancy at birth has gradually increased, yet at 68.2 years (2019), life expectancy for males remains comparatively low. The 2009 nationwide launch of the Russian Unified State Exam (a series of exams all students must pass after graduation from high school) has helped increased educational equity; it helped underprivileged children gain admission to the best Russian universities, and lowered corruption and preferential treatment in education. Meanwhile, the new pandemic has revealed challenges that will require more intensive use of digital technologies and e-learning to increase the resilience of higher education institutions.

7. **Russia has paid considerable attention to modernizing its higher education system to ensure that it can adapt to the needs of a dynamically changing world.** With the creation of the new Ministry of Science and Higher Education in 2018 more focus has been placed on raising the quality of higher education to the highest international levels. Two National Projects—on Education and Science—and a series of high-profile national programs (Project 5-100, Flagship Universities, and Universities as Hubs of Innovations) aim to raise the profile of Russia education institutions in the global arena. The introduction of student-centered education, together with a focus on professional and soft skills development within the learning process, are priorities for the Russian higher education system. The Russia higher education system is increasingly serving as a regional resource to accommodate the growing demands of the Russian labor market and the supply of young people from neighboring states.

8. **Russia has made remarkable progress in digital transformation, yet it remains a relatively small**

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player in the global digital economy. e-Government infrastructure now reaches more than 103 million users, putting Russia in thirty-sixth place on the UN e-Government Development Index. While mobile internet services payments in Russia are about five times lower than the world average, Russian digital platforms have gained leading positions in many markets, and the e-commerce market is on the rise, covering about 10 percent of all retail sales as of mid-2020 (up from 6 percent in 2019). Yet, Russia is a relatively small player in the global data economy. It ranks sixth from the bottom of the 46 economies included in the Service Trade Restrictiveness Index of the Organization for Economic Co-operation and Development (OECD) in terms of digital services such as computing, motion pictures, and sound recording. In IT services, there are relatively high restrictions on foreign entry, as well as cumbersome regulations for the hiring of foreign professionals (including intra-corporate transferees) and independent and contractual service suppliers. Removing such barriers would help Russia improve the quality and quantity of its digital services exports and upgrade its position in the more complex global value chains that rely on imported services. A data-led breakthrough and the accelerated development of artificial intelligence (AI) called for by the authorities will require a solid set of data policies to regulate all aspects of the data management cycle, from personal data privacy to data sharing, ethics and data equity.

9. **Russia has reemerged as an important development player both regionally and globally.** For countries of the former Soviet Union, Russia is central to the economic integration and economic health of the subregion and an important trading partner and bilateral donor. Globally, countries have benefitted from Russia’s scientific research capacity, recently highlighted by the rapid development of four COVID-19 vaccines. Russia is home to 19 percent of the world’s forest reserves (by surface area); each year its boreal forests sequester 300 to 600 million tons of carbon. Russia is thus critical to global efforts to address climate change. The country’s vast natural resources will play a crucial role in the green transformation of the national economy and position the country as a potential global climate leader.

Evolution of the World Bank-Russia partnership

10. **The World Bank has accompanied Russia on its development journey since 1992.** It has supplied financing, analytical and advisory services, and capacity building to address the country’s development challenges. Over the past 29 years, the Bank has provided to Russia a total of $10.7 billion in International Bank for Reconstruction and Development (IBRD) financing through 69 operations. This financing has played a catalytic role in a range of areas (public financial management, customs, judicial reform, preservation of cultural heritage sites, and financial education and literacy), but it has been small relative to the size of the Russian economy. Since 2014, no new lending operations have been presented to the World Bank’s Board of Executive Directors.

11. **The International Finance Corporation (IFC) has also been in Russia since the early 1990s.** In 2014, IFC’s portfolio in the country stood at $2.37 billion and its last investment was approved in May 2014. In the absence of new investments, the portfolio has shrunk to 14 projects, with $239 million committed and $214 million outstanding as of the end of March 2021. Over the past three decades, IFC has invested $6.5 billion of its own funds in Russia and mobilized another $3.5 billion from partners. Innovations spearheaded by IFC in Russia have since been replicated globally. For example, the Cities Platform, first introduced and tested in Russia, has been successfully rolled out in Latin America and the Caribbean and South Asia.

12. **Russia’s partnership with the World Bank Group has evolved over time, mirroring the country’s development trajectory.** In the 1990s, Russia was a large IBRD borrower (46 percent of total commitments
to Russia were made between 1992–96. In 1997, under the ninth replenishment of the International Development Association (IDA9), Russia became a donor and since then has pledged a total of $896 million to IDA to help address development challenges in low-income countries. Favorable macroeconomic conditions in the 2000s have helped Russia evolve into an important development donor, and the World Bank has supported this emerging function with technical assistance and analytical support. Since the country’s presidency of the Group of Eight in 2006, Russia has been shaping its development agenda, gradually increasing its official development assistance (ODA) from $50 million in 2003 to $1.3 billion in 2019. Russia has also contributed more than $700 million to IBRD trust funds and financial intermediary funds.

13. **The next step in the evolution of the partnership is for Russia to eventually transition from a donor to a major development partner.** Russia’s income per capita has long passed the IBRD Graduation Discussion Income (GDI)—the level of income at which IBRD graduation starts being discussed—and is on a path towards eventual graduation. As Russia progresses towards graduation, strengthening institutions, the extent of its access to capital markets on reasonable terms, addressing spatial, social, and economic disparities and strengthening Russia’s role as a provider of public goods will be critically important. The process of graduating from IBRD involves a dialogue between the country and the Bank and takes place on a case-by-case basis reflecting country context. The pace and timing of Russia’s graduation will be determined in consultation with the Government.

14. **While Russia’s demand for IBRD financing has fluctuated over time, its demand for high-quality knowledge has been consistent.** The Russian government—at the federal and regional levels—systematically looks for knowledge and lessons learned from other parts of the world to help inform policies to solve its most pressing internal development challenges. Over the past three decades, the World Bank Group has been a trusted knowledge partner, producing reports and studies imbued with best practices and experience gained in other parts of the world, and using its convening power to bring together experts from inside and outside the Bank around key development issues. In the process, the World Bank has helped build research and analytical capacity in Russian institutions, such as the Higher School of Economics, the Agency for Strategic Initiatives, and the Analytical Center of the Russian Government. Since 2007, the World Bank has also been delivering this support through a Reimbursable Advisory Services (RAS) program.

**Russia’s Economic and Social Development**

15. **Russia has taken significant steps to stabilize the macro-fiscal setbacks of 2014.** In 2014, Russia switched to a flexible exchange rate regime and proceeded to target inflation. A new fiscal rule implemented

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6 Implementation of the remaining lending portfolio will be completed by FY22. This includes: Second State Statistical System Development Project (Closing on December 21, 2021), Russian Cultural Heritage Project (Closing June 30, 2022), Russia Hydrometeorological Services Modernization (Closing December 31, 2021) Housing, and Communal Services (Closing on September 30, 2021).
7 Under IDA18, Russia pledged $134 million, but has not yet submitted its letter of commitment. Russia did not make any commitments under IDA19. On June 3rd, 2021 the Government has announced its intention to contribute to IDA20.
8 Concept of the Russian Federation’s State Policy in the Area of International Development Assistance was adopted by Russian Government in 2007 and updated in 2014.
9 [https://stats.oecd.org/](https://stats.oecd.org/)
11 Sustainable Financing for Sustainable Development: World Bank Group Capital Package Proposal prepared by the WBG for the Development Committee Meeting, DC2018-0002/2, April 17, 2018
in 2017 helped the country accumulate substantial fiscal buffers; by late 2020, international reserves stood at $595.7 billion, and the National Welfare Fund had reached $183.6 billion (11.7 percent of GDP). The new rule also helped reduce the Russian economy’s exposure to oil price volatility. The non-hydrocarbon general government primary fiscal balance improved from a deficit of 9.6 percent of GDP in 2013 to 4.8 percent in 2019. By the beginning of 2020, the banking sector had adequate capital and liquidity buffers as a result of a massive banking sector clean-up, enhanced regulation and supervision, the transition to a new bank resolution framework, and recapitalization of larger banks. These policies buoyed economic growth. In 2015, Russia started on the path of economic recovery, and by 2019 GDP exceeded the 2013 level by 4.7 percent.

16. Nevertheless, growth estimates show that the economy peaked before the global financial crisis and has since continued to decline. The estimated potential growth rate—the rate at which the economy can grow when labor and capital are fully employed—was 3.8 percent in 2000–09 but only 1.7 percent in 2010–17. The deceleration was due to a slowdown of productivity growth, a shrinking potential labor force, and a shortfall in capital accumulation. Although economic activity in Russia has continued to recover from the 2014 recession, potential growth has continued to decline. While a weakness in growth potential is not specific to Russia, the faster-than-average decline in the country has raised concerns about its medium-term prospects and the risks of a stall in convergence with advanced economies.

17. Russia has been focusing on implementing a new economic strategy to boost potential growth and productivity and reduce poverty. In 2018, President Vladimir Putin announced nine new national socioeconomic goals. At the top of the list was the Government’s aspiration for Russia to become one of the five largest economies in the world (it ranked sixth in purchasing power parity (PPP) terms in 2019) and for GDP growth to be on par with the world’s average. Other goals were to cut poverty in half (Box 1), raise life expectancy to 78 years, and pave the way for the digital economy to reach 30 percent of GDP. Russia also aspired to develop export-oriented subsectors with modern technologies and highly skilled labor in manufacturing and agriculture, to help diversify the economy away from dependence on mineral resource extraction. National Projects (with financing of 26 trillion rubles over 2019–24) are the main instruments for achieving these goals.13

13 National goals and associated National Programs are currently being revised and will be relaunched in July 2021.
The COVID-19 pandemic poses unprecedented challenges for all countries, including Russia. The Russian economy fell into recession following a sizable negative terms-of-trade shock and the plunge in domestic supply and demand induced by measures taken to deal with the pandemic, notably the lockdown in the second quarter of 2020. It underwent a 3 percent contraction in 2020. Pressures caused by lower energy-export receipts, volatility in financial markets, and increased geopolitical risks resulted in capital outflow and depreciation of the ruble. The crisis increased unemployment in all regions, with most job losses concentrated in a few economic activities.

19. The impact on human development has been dramatic despite a quick and broad response by Government. To ensure access to quality education for every child during the pandemic, Russia implemented school assistance programs and teacher support programs, adjusted academic programs, and provided psychological assistance. However, the disruption in schooling is expected to have a longer-term impact on learning; initial World Bank estimates show a learning loss close to half a year among Russian children and a worsening in educational equity. Social assistance support measures for families with children, people with disabilities, and the unemployed, as well as strong public health measures (such as strengthening disease surveillance systems, widespread testing combined with contact tracing, and vaccination) were implemented early on in the pandemic. Despite the quick action to prevent large increases in infection, the toll on human life has been high. In 2020 (January–December), Russia's excess mortality accounting was 323.8 thousand deaths.

Box 1: Poverty Reduction Trends in Russia
In recent years, the Russian authorities have paid special attention to reducing poverty. The emphasis on poverty reduction at the highest levels of government is leading to further efforts to improve design and implementation of effective policy measures. From 2000 to 2012, on the strength of economic growth and higher pensions, Russia achieved substantial poverty reduction: the share of people living below the national poverty line dropped from 29.0 percent in 2000 to 10.7 percent in 2012. According to official estimates, the population with monetary income below the subsistence minimum declined from 42.3 million at the end of 2000 to 19.6 million by the third quarter of 2020. This decline of nearly 50 percent in the number of poor, pushed down the poverty rate from 29.0 percent to an estimated 12.1 percent over two decades.

After the 2014 crisis, progress on poverty reduction stalled and by the end of 2019, the poverty rate stood at 12.3 percent. Although it was trending down, it remained higher than before the 2014–15 crisis. Real disposable incomes have also been negatively affected by the shocks of 2014. By the end of 2019, real disposable incomes were 7.1 percent lower than in 2013. In 2015, a significant increase in poverty rates occurred for the first time in two decades. Poverty rates have declined very slowly since. Preliminary World Bank staff estimates indicate a renewed rise in poverty rates in 2020 due to COVID-19, but as economic growth resumes poverty rates are expected to return to pre-pandemic levels by 2022.

Recent work by the World Bank has focused on policy reforms that could halve poverty in the medium term—one of nine national goals announced in the 2018 presidential decree. The COVID-19 pandemic has affected the likelihood of halving poverty by 2024, and on July 2020, a new presidential decree moved the goal to 2030 (from a 2017 baseline). In 2018, the World Bank completed a preliminary assessment of this goal indicated that average annual growth of 1.5 percent—which Okawa and Sanghi (2018) estimate to be the potential growth rate for the country—would bring the poverty rate down from 13.2 percent to just 10.7 percent by 2024. But even under this growth assumption the poverty rate target of 6.6 percent could be achieved through additional redistribution—for example, using social assistance and transfers. The Bank assessment estimated that such additional redistribution would be around 0.27 percent of GDP per year. But the analysis warned that given limited efficiency of public transfers the cost could be up to five times higher. Achieving the goal of halving poverty by 2030 therefore puts a sizable premium on improving the targeting efficiency of Russia’s social assistance system.

15 Source: Rosstat
<table>
<thead>
<tr>
<th>Table 1: Selected Macroeconomic Indicators</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021f</th>
<th>2022f</th>
<th>2023f</th>
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<tbody>
<tr>
<td>GDP growth, percent</td>
<td>2.8</td>
<td>2.0</td>
<td>-3.0</td>
<td>2.9</td>
<td>3.2</td>
<td>2.5</td>
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<td>HH consumption growth, percent</td>
<td>4.2</td>
<td>3.1</td>
<td>-8.6</td>
<td>4.7</td>
<td>4.9</td>
<td>3.8</td>
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<td>Gross fixed capital formation growth, percent</td>
<td>0.6</td>
<td>1.5</td>
<td>-4.3</td>
<td>2.8</td>
<td>3.4</td>
<td>3.0</td>
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<tr>
<td>General government balance, percent of GDP</td>
<td>2.9</td>
<td>1.9</td>
<td>-4.0</td>
<td>-1.8</td>
<td>0.5</td>
<td>0.6</td>
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<tr>
<td>Current account (US$ billions)</td>
<td>115.7</td>
<td>64.8</td>
<td>33.9</td>
<td>48.6</td>
<td>45.0</td>
<td>35.7</td>
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<tr>
<td>Current account, percent of GDP</td>
<td>7.0</td>
<td>3.8</td>
<td>2.3</td>
<td>3.1</td>
<td>2.7</td>
<td>2.0</td>
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<tr>
<td>Exports (GNFS), bln US$</td>
<td>508.6</td>
<td>481.8</td>
<td>379.1</td>
<td>431.0</td>
<td>467.7</td>
<td>488.7</td>
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<tr>
<td>Imports (GNFS), bln US$</td>
<td>343.6</td>
<td>353.3</td>
<td>304.7</td>
<td>334.7</td>
<td>373.5</td>
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<td>Capital and financial account (US$ billions)</td>
<td>-78.5</td>
<td>3.9</td>
<td>-49.9</td>
<td>-40.3</td>
<td>-38.0</td>
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<tr>
<td>Capital and financial account, percent of GDP</td>
<td>-4.7</td>
<td>0.2</td>
<td>-3.4</td>
<td>-1.1</td>
<td>-0.4</td>
<td>0.3</td>
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<tr>
<td>CPI inflation (average)</td>
<td>2.9</td>
<td>4.5</td>
<td>3.4</td>
<td>4.3</td>
<td>4.1</td>
<td>4.0</td>
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Source: Rosstat, Central Bank of Russia, World Bank staff estimates.

20. Thanks to stabilization policies applied in 2015–18, Russia was able to implement a countercyclical fiscal and monetary response to the pandemic. Sizable additional domestic borrowing, a carry-over of unspent funds from 2019, and revenue generated from the sale of Sberbank by the Central Bank of Russia enabled the government to mobilize a fiscal response package of about 4.5 percent of GDP. While this is relatively small compared to advanced economies, it is on par with countries having a similar GDP per capita. Russia’s sound economic policy and rapid epidemiologic response helped lessen the impact of the pandemic on the economy, with outcomes better than in most developed and commodity exporting emerging markets and developing economies.

21. Russia’s economy is expected to recover in 2021–22. The World Bank estimates annual GDP growth of 2.9 percent and 3.2 percent, respectively. Consumer and business confidence are expected to improve, paving the way for a gradual rebound. However, risks are tilted toward the downside. A sharp increase in new infections could lead to a reintroduction of strict lockdowns, damping domestic demand. Lower-than-expected effectiveness or acceptance of the vaccine could also delay the economic recovery. Banks could face a significant deterioration in asset quality, profitability, and capitalization, including from an overheated mortgage market. The central bank has recently prolonged the forbearance on declaring distress until the end of June 2021. While these measures should ease regulatory pressure and allow banks to accumulate more profits to cover increases in problem loans, they will also delay recognition of unavoidable and costly losses. The pandemic has also amplified contingent liabilities risk. Rapid recovery of international oil and gas prices, as well as prices on metals and agricultural commodities, can pose some upside risks to the medium-term outlook.

22. While near-term recovery will depend on stemming the pandemic, longer-term economic prospects will depend on boosting potential growth. Increasing competition is essential. Product market regulation in Russia impedes competition mainly through direct state control in the economy. The government can foster competition by leveling the playing field and strengthening the governance of state-owned enterprises (SOEs) to make them more efficient; by removing barriers for firms to contest markets where SOEs are present; and by limiting the procedural discretion with which public-sector entities procure goods and services. SOE reform remains important to address structural constraints to boosting potential growth. The COVID-19 crisis brings opportunities for such reform in the shape of new fiscal and demand-side pressures. The fiscal crunch, combined with low commodity prices, is forcing the government to search for efficiency-improving measures. The SOE sector presents a clear opportunity, given its heavy demands on the national treasury. Historically, many countries began their most ambitious SOE reforms after large fiscal shocks—and Russia may be no exception.
23. **A unique aspect of Russia’s economic and social development is its spatial disparities, which stem largely from its economic geography.** This is unique and has no parallels even when compared to seemingly similar countries, such as Australia and Canada. While Australia and Canada also have large land masses and even lower population densities than Russia, a large share of their populations live near the border or the sea. In contrast, Russia’s people are more dispersed inland. Moreover, the populations of Australia and Canada are concentrated in major cities: more than two-thirds of their populations live in the three largest urban centers. On the other hand, Moscow, St. Petersburg, and Nizhny Novgorod are home to only one-eighth of Russia’s population. Combined with its population decline, an aging workforce, and having to constantly adapt to a sequence of economic shocks, Russia’s unique economic geography has therefore led to a spatial pattern of development counter to what is observed in other large countries (box 2). These variations are reflected in different economic and development outcomes, not only in economic performance, but also outcomes concerning education, health, poverty, and other issues.

**Box 2. What explains Russia’s unique economic geography and its spatial disparities?**

Three factors go into the answer: (1) the persistent Soviet legacy; (2) a diverse physical geography laced with harsh climactic conditions; and (3) the predominance of natural resources (mostly oil and gas) in peripheral regions.

The Soviet legacy of a planned economy remains a burden for regions. This is most evident in the ongoing socioeconomic challenges facing Soviet-era industrial “monotowns.” Out of 319 monotowns, 94 experience a high level of socioeconomic deprivation—this despite large federal government support programs.

Geography and adverse climactic conditions do not help the situation. Russia accounts for 11 percent of the world’s land mass, but less than 1.9 percent of its population. Extreme winter weather greatly impairs transportation services.

A sequence of shocks that hit the country over the past 25 years and the boom in the oil industry created rapid growth in peripheral, oil-rich regions. But other regions have been stymied by the persistence of structural constraints: an industrial legacy, population decline, and an aging population.

One manifestation of Russia’s spatial distinctiveness is that the country does not follow Zipf’s law, a robust empirical regularity in other parts of the world. According to this law, Moscow, St. Petersburg, and other large Russian cities should have populations larger than their current sizes. However, Russia has very few such cities: only two have a population larger than 1.5 million. Japan, by contrast, which has a smaller population, has five such cities; Brazil (with a population 50 percent larger than Russia’s) has eight. Moreover, Russia’s second-tier cities are also not large enough. The cities ranked third to tenth by population account for just 6.6 percent of Russia’s population, compared with Brazil, Japan, and Poland, where cities in the same ranks account for between 8 and 11 percent of the country’s population.

24. **Economic performance differs widely across Russia’s regions.** In 2019, growth rates in gross regional product (GRP) varied across regions, from a contraction of 2.6 percent year-on-year in the Jewish Autonomous oblast to an increase of 14 percent year-on-year in Amur oblast (figure 2). The COVID-19 crisis has also affected Russian regions’ economic indicators to varying extents, based on exposure to the pandemic, preexisting conditions, and type of economic activity. In February 2021, the unemployment rate varied across the regions from 2.3 percent to 32.2 percent. Institutional capacity is weak, and a number of regions are weighed down by heavy debt burdens.

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16 Source: Rosstat
25. **Regional disparities in Russia are one of the most important issues to address for the country’s future success and sustained improvement of education outcomes.** There remain regional disparities and skills mismatches between the supply and demand sides of the labor market. For example, premiums to education range from 10 percent (Karelia Republic) to 38 percent (Altai Republic) at the university level, and from 10 to 21 percent at the vocational secondary level. To better devise policies for the regions, the regions were ranked according to labor supply quantity and quality (percentage of the labor force with higher education and the average Unified State Examination [EGE] score) and labor demand quantity (measured by the share of regional income derived from relatively labor-intensive industries, excluding oil and gas).

26. **Poverty rates differ significantly across the regions and to halve poverty by 2030, anti-poverty policies should have a regional focus.** Between 2013 and 2019, poverty rates rose in 54 regions; they did not decline in any region of the North Caucasus Federal District. Moreover, the gap in the poverty rate across regions has not declined in the past decade. The highest and lowest regional poverty rates in 2013 were 33.4 percent (Kalmyk Republic) and 6.4 percent (Yamalo-Nenets autonomous okrug), for a cross-region poverty rate gap of 27.0 percentage points. In contrast, in 2019, the extreme rates were 34.1 percent (Tuva Republic) and 5.6 percent (Yamalo-Nenets autonomous okrug), for a gap of 28.5 percentage points. These significant regional differences underline the importance of a regional focus in anti-poverty policies.
II. THE KNOWLEDGE EXCHANGE PROGRAM: PRIORITIES AND MODALITIES

27. A new direction of the collaboration between the World Bank and the Russian Federation is being proposed—one that builds on the country’s development achievements, addresses its remaining challenges, and reflects its aspirations to reach high-income status. The proposed Knowledge Exchange Program also aligns with the World Bank Group’s approach to middle-income and high-income clients.17

28. The vision for Russia that underpins this new collaboration is that of a better integrated, more equal, and greener high-income country. Russia is at the center of the Eurasian region, and as the largest economy, is central to the region’s economic health. Globally, Russia could play a larger role in global value-chains, contribute to global development, and take a leadership role on the global public goods agenda, including climate change. This would require Russia to become a global thought leader in energy and digital transitions. From the perspective of Russian citizens, the outcome would be a more equal country, with reduced disparities in human capital, greater voice, accountability, and social inclusion.

29. The renewed knowledge partnership aims to support inclusive and sustainable growth and build resilience for a prosperous and well-integrated Russia. The World Bank program will be divided into two mutually reinforcing groups of activities: an Inbound Component to bring global knowledge to Russia to address remaining development challenges at both the subnational and national levels and to help Russia develop into a high-income country; and an Outbound Component to share Russia’s development knowledge at the regional and global levels through the new Development Knowledge Platform and strengthen its role as a responsible and constructive development actor. It will focus on sharing the development knowledge and experience Russia has gained, over the past three decades, in areas supported by the World Bank Group and where other countries can benefit from this knowledge. Over time, the thematic focus areas covered under the Platform are likely to expand, both reflecting new areas where Russia today is emerging as a regional or global leader and responding to demand from developing countries.

30. A new aspect of the program will be the possibility of parallel financing for IBRD/IDA investment projects in Central Asia. Areas that could benefit from closer coordination and, potentially, parallel or co-financing with other multilateral development banks (Eurasian Development Bank, New Development Bank, Asia Infrastructure Investment Bank, etc.) include health, animal health and zoonotic disease, regional transport connectivity, energy, trade facilitation and logistics, and environmental liabilities. These are areas where the World Bank Group has active programs and the Russian Federation has notable knowledge and expertise and is already participating in bilateral and multilateral cooperation. More consultation and coordination will be required to fully explore the potential for synergy on topics that align with the development needs of relevant beneficiary countries and the development strategies of other stakeholders.

Inbound Component: Bringing Cutting-edge Global Knowledge to Russia

31. The areas of focus have been determined together with Government based on Russia’s development priorities up until 2030, existing demand for international experience as well as the Bank’s comparative advantage. In a knowledge-only program and in a country the size of Russia, the World Bank program has to be highly selective, and focus on cutting-edge interventions that can be piloted, and replicated in other regions or scaled up in Russia and beyond. A focus on governance and institutional

strengthening will figure prominently, as will continued efforts to engage at the subnational level where institutional capacities are weak and development challenges are complex, particularly in Russia’s poorest regions.

Table 4.

<table>
<thead>
<tr>
<th>Supporting inclusive and sustainable growth and building institutions for a prosperous and well-integrated Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Theme 1</strong></td>
</tr>
<tr>
<td><strong>Productivity-led economic growth</strong></td>
</tr>
<tr>
<td>1.1 Enabling environment for firm productivity.</td>
</tr>
<tr>
<td>1.2 Role of the state as policymaker, regulator, and market actor.</td>
</tr>
<tr>
<td>1.3 Export competitiveness of goods and services.</td>
</tr>
</tbody>
</table>

**Cross-cutting theme: governance and strengthening institutions**

**Theme 1: Productivity-led economic growth**

32. *Increasing productivity to permit diversified growth continues to be one of Russia’s top development challenges, as it is for many other countries across the globe.* After a period of growth in total factor productivity (TFP) between 2000 and 2008, Russia plateaued, with TPF growing at an average annual rate of 1.7 percent over 2010–17. At the firm level, the main constraints to productivity are limited technological innovation and weak managerial capabilities. Adoption of structured management practices is linked with higher levels of labor productivity and TFP. Yet, only 10 percent of enterprises report engaging in technological innovation, which is low compared with the 30–40 percent rates in OECD countries. Interventions are needed on both the supply and demand sides: policies that support catch-up innovation and growth of internal innovation capacity, and reforms to create more competitive markets, reduce unneeded regulation, and strengthen intellectual property protection. Managerial practices vary widely, which may explain the high productivity differences observed in firms within the same industry. World Bank research found that, on average, Russian manufacturing firms adopted only 43 percent of frontier structured management practices (global best practices), putting them behind transition countries such as Belarus, Serbia, Poland, and Bulgaria.

33. *The state footprint in the economy remains large and impedes competition.* OECD data reveal 39 sector markets in which Russia has an SOE presence, compared with an average of 23 for OECD countries and 25 for non-OECD countries.

1.1 *Enabling environment for firm productivity*

34. *The World Bank will support productivity-led, inclusive growth in Russia.* This can be done by addressing some of the market distortions that impact the creation of productive firms, the growth of high-quality SMEs, and the reallocation of assets toward more productive sectors and firms. The focus will be on activities that help (1) streamline the regulatory regime and improve accountability and (2) help improve access to finance for SMEs, introduce long-term finance instruments, and reduce the cost of credit.
While SMEs in Russia do not play as important a role in terms of employment or GDP as in most high-income countries, they are critical to the health of subnational entities and to the competitiveness of many sectors of the economy. A better investment climate and conditions for SME growth will help create a more dynamic private sector environment and ensure that competitive conditions exist for the private sector to grow and thrive.

35. **Ongoing and planned activities are aligned with the National Project on Support for SMEs and Individual Entrepreneurs and support Government efforts to improve Russia’s underlying business environment.** The work will also complement ongoing Government efforts to rationalize the regulatory regime through a “regulatory guillotine” initiative. Specific activities include: Investment Climate Advisory IV (a RAS initiative) and Financial Sector Assessment Program (FSAP). Since FY2020, the focus has focused on regional competitiveness and SME growth, which includes ongoing work on SME Linkages and Regional Competitiveness.

1.2 Role of the state as policymaker, regulator, and market actor

36. **The World Bank will explore further the role of the state in supporting productivity-led growth through policymaking, regulation, and market participation.** As a policymaker and regulator, and with more immediate impact on productivity, the state has an important role to play in three dimensions: improving firm capabilities, competition policy, and public procurement. The state should play a role in supply-side interventions aimed at improving firm capabilities in areas such as innovation, technology adoption, and managerial practices. Although the Government has focused on boosting competition and reducing government involvement in the economy, more is needed to rationalize the multitude of existing initiatives to ensure that they yield the expected results. This includes adjusting their original design, including better defined and streamlined monitoring and evaluation (M&E) systems. Public procurement is an important part of the productivity ecosystem, as competitive public procurement can incentivize firms to invest in their internal capabilities from the demand side. In Russia, only 12.7 percent of the total volume of government contracts are awarded to private firms. Although Russia has a high-quality (but not unified) policy framework for public procurement, this does not translate into competitive procurement outcomes, thus making the largest single buyer in the country inaccessible for most private firms. The World Bank will explore support in the following areas: (1) firm-level capabilities at the regional level and in specific sectors; (2) innovation policy, possibly with a strong focus on digital and information technology; and (3) procurement reforms.

37. **The state in Russia is an important and large market actor.** World Bank support in this area will focus on addressing the challenges of state-owned enterprises (such as governance aspects and other critical factors related to resource misallocation and competition) to ensure they can better contribute to productivity growth. The Bank’s report, *Improving SOE Sector Governance in Russia (forthcoming 2021)*, will analyze governance-related factors that influence SOE performance in selected sectors and regions, while the ongoing RAS on Governance Arrangements for Regional and Municipal Service Delivery in Russia will examine practical experience with transferring some services from state to private delivery. Future Advisory Services and Analytics (ASA) activities may include an exploration of the foundational

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18 Among OECD countries, firms with 49 or fewer workers employ 49 percent of the private sector workforce; the figure is less than 10 percent in Russia. OECD, *SME 2019 Outlook*.

19 The goal of the guillotine is to increase the level of public safety, while eliminating excessive administrative burden on business. It will be carried out by canceling all irrelevant regulatory acts in the field of supervision and control, as well as building a new, modern, effective system of state control (supervision) aimed at reducing socially significant risks.

principles of the role of the state in the economy to assess when and how the state should continue to intervene in economic activities; an SOE reform agenda in the context of the Russian post-pandemic recovery plan; and practical models for expanding outsourcing.

1.2 Export competitiveness of goods and services

38. *Except in the energy sector, exports play a minor role in Russia’s economy, with far fewer firms exporting a relatively smaller share of their production than either the OECD or upper-middle-income average.* This is partially due to the size of Russia’s domestic economy, but also to the constraints on potential exporters, which include lack of information about export procedures and markets, underdeveloped trade infrastructure, high costs associated with trade, and limited export competitiveness owing to low productivity. Yet the global evidence is clear that exporting can enhance the performance of domestic firms. A study on manufacturing firms in Slovenia showed that exporting raises productivity by an estimated 1–8 percent. Other studies have shown that exporters pay higher wages, innovate more, and are more profitable. Greater access to export markets would also help firms grow (particularly SMEs), despite competition constraints in the domestic economy.

39. *The World Bank’s engagement on trade will build on recently completed and ongoing RAS/ASA activities.* These include the flagship report, *Russia Integrates: Deepening the Country’s Integration into the Global Economy* (2020); RAS engagement with Moscow City’s Export Promotion Agency on their strategic plan and product mix; analytical work on building linkages between SMEs and larger, export-oriented firms; and the Russian Tourism Rapid Sector Assessment. Opportunities to expand non-energy exports span multiple sectors. Some, like information and communications technologies (ICT) and agriculture have shown steady growth in recent years though from low baselines, while others such as manufactured goods as well as services such as health, education, and tourism have lagged. Federal projects have been established to broadly support the development of exports, with specific projects focusing on agriculture and tourism. Russia’s tourism sector has untapped potential for GDP growth and job creation based on its natural, cultural, and historic heritage as well as opportunities in niche areas including adventure, eco-tourism, and agri tourism.

Theme 2: Human capital, voice, and equity

40. *Russia does very well on the World Bank’s Human Capital Index (HCI), particularly on the education component.* Between 2010 and 2020, the HCI value for Russia increased from 0.60 to 0.68, making Russia one of the fastest-improving countries. This means a child born in Russia in 2020 will be 68 percent as productive as an adult as she would have been if she had enjoyed complete education and full health. This is above the average for upper-middle-income countries and the worldwide average of 56 percent. In education Russia scores among the top quartile of countries worldwide, and Russian students do well on international learning assessments such as the Trends in International Mathematics and Science Study (TIMMS) and Progress in International Reading and Literacy Study (PIRLS), and the OECD Programme for International Student Assessment (PISA). However, there is a difference of 2.8 years between expected years of learning (13.7) and adjusted years of learning (10.9), indicating a need for improving the quality of education.

41. *A key policy priority for the Russian government is to reduce premature mortality and poor health.* Russia has made good progress in increasing life expectancy, but healthy life expectancy in Russia is ten years shorter than overall life—and on average, Russians lose the equivalent of 10 years due to poor health. And when individuals with higher education are compared with those without it, male life
expectancy between the two groups can vary by as much as 20 years. While in Ingushetia, Dagestan, and Moscow, the average man is expected to live to 74–79 years, in Chukotka, Tyva, and Irkutsk oblast, he can only expect to reach 59–63. Non-communicable diseases (NCDs)—cardiovascular diseases, cancer, chronic respiratory diseases, and diabetes—are the main reason for premature disability and mortality of the population in Russia, and this is driven by behavioral risk factors such as tobacco use, alcohol consumption, unhealthy diet, and low level of physical activity. The World Health Organization (WHO) estimates that among Russians aged 20-39, approximately 13.5 percent of all deaths are alcohol related. There has been some improvement on tobacco use; the smoking prevalence in Russia decreased from 39.4 percent to 30.9 percent.

42. **Russia has a large, complex, and fragmented social protection system.** Improving the system’s efficiency and sustainability is a key goal, focusing social assistance programs on the most vulnerable segments of the population. Russia spends substantial resources on social protection (12 percent of GDP). However, the bulk of expenditure focuses on a complex system of “privileges” (or ‘l’goty’) and categorical payments. Although 2.9 percent of total social protection spending goes to social assistance, slightly higher than the average for the OECD (2.7 percent). Social assistance reduces poverty only marginally, and countries with similar levels of spending, achieve significantly better results in improving the well-being of low-income families. The poverty alleviation effect in Russia’s regions ranges from well below 10 percent to just below 50 percent—the latter figure being comparable to the best-performing systems. A key priority would be for Russia to implement a well-targeted national social assistance program, which could expand during adverse economic conditions and contract when economic growth picks up.

43. **Inequality remains high, and certain social groups suffer from greater risks of economic and social exclusion.** The highest concentration of inequality (as measured by per capita household consumption) is in the richest and most populous regions of Russia. Certain social groups face higher risks of social exclusion, including the elderly, people with disabilities, international labor migrants, and indigenous people (who face ongoing degradation of their environment caused by resource exploitation, the relatively inferior state of their health, the rapid loss of culture, language and traditional knowledge, the impoverishment of indigenous rural populations, and the profound environmental changes being brought about by global climate change).

44. **Largely due to its socialist legacy, Russia maintains high levels of gender equality across many domains.** However, there are a few areas that warrant more attention. Although there has been progress, Russia continues to have the highest life expectancy gender gap worldwide. WHO estimated the average life expectancy of women across the world at over four years longer than men. In Russia, this gap is about 10 years. A second area is female labor force participation, particularly for women in childbearing years and after retirement, which has been exacerbated by the COVID pandemic. Policies that allow women to combine family and work responsibilities and those that incentivize older women to continue working are needed. Although women in Russia have better educational achievements than men, this has not resulted

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22 https://cbsd.gks.ru/
23 WHO 2009-2016 Global Adult Tobacco Survey
25 Out of more than 180 peoples inhabiting the territory of contemporary Russia, 40 are officially recognized as indigenous. According to the last official census (2010), IPs comprised ca. 316,000 individuals. 258,000 of them are small-numbered IPs of the North, Siberia, and the Far East.
26 World Bank. 2014.
in equal pay; on average women in Russia earn 30-35 percent less than men. Russian women are generally concentrated in lower-paid, typically female occupations and in jobs where their pay is more likely not to increase as they get older.

2.1 Inclusive post-COVID-19 recovery and build resilience

45. The COVID-19 pandemic has helped reveal opportunities to develop more sustainable and resilient approaches in education, health, and social protection. New digital technologies, including telemedicine and remote access, help make health care more available by changing the way services are provided. For instance, if the elderly and others with chronic diseases can receive care at home, they avoid the exposure that comes with in-person services at institutional facilities. Relaxing telemedicine restrictions and establishing a stimulating and regulated environment for virtual technologies could help to build an integrated patient-centered model of healthcare delivery. As for education, online learning became a necessity across the Russian school system during the pandemic, but equity is a concern. International research shows that remote learning in most countries is not serving everyone equally, with poorer students being particularly disadvantaged. Therefore, new distance-education platforms must take the equity issue into the account and provide additional measures for targeting vulnerable groups of students. Digital technologies for remote social protection, cash transfers, and safety nets have played an important role in ensuring continued access during lockdowns.

46. World Bank support for the post-COVID recovery of the human development sector will include helping Russia build a resilient healthcare system by strengthening primary health care to manage common noncommunicable diseases and emerging infectious diseases. More emphasis will be placed on how to increase access to affordable and essential outpatient drugs for coronavirus and noncommunicable diseases, and on policies that increase the resilience and sustainability of health financing. Balancing COVID-19 services with other essential medical interventions and reorienting the healthcare system toward prevention and primary health care will be critical to avoid unmanageable escalation of health spending in the medium-term.

2.2 Quality and equity of human capital

47. World Bank support improve the quality and equity of human capital in Russia will focus on collecting and analyzing the HCI relevant data at the subnational level. Working closely with counterparts in the country, the ultimate goal will be to build a subnational HCI index for Russia and potentially achieve granularity at the municipal level. This higher-level program will allow for better policy dialogue and inform larger policies aimed at tackling inequality within and between regions of Russia. The World Bank will explore how Russia can achieve a digital transformation in the human development sector, while also looking at how best to integrate science, technology, and research in higher education in the post-COVID world.

48. Russia’s human development challenges, especially those exacerbated by COVID-19, call for an integrated approach that brings together knowledge and expertise from the health, education, and social protection sectors. At the heart of the World Bank’s engagement in this area is analytical work on integrated healthy aging and healthy and productive aging. Aging programs focused on tackling the main risk factors of NCDs, strengthening patient-centered integrated health care delivery for prevention, and management of chronic conditions, help ensure the healthier aging of the labor force and decrease disability. The work will also be complemented by the results of the Participatory Budgeting program that has

increased its focus on the elderly as well as ongoing work on social and economic inclusion of vulnerable groups.

2.3. Voice, citizen engagement, and inclusion through participatory practices

49. Since 2007, the World Bank has supported Russia in developing participatory budgeting practices that currently cover more than 60 regions and 150 municipalities. By the end of 2019, over 20,000 participatory projects of high importance for local communities have been completed. Each year, some 3 million Russian citizens are empowered by coming together to collectively decide on their community’s needs and priorities, select projects, invest local resources, and provide oversight on implementation.

50. While the approach is well-advanced in Russia and represents a model for other countries, improvements could make it more inclusive. The World Bank will explore how best to include socially vulnerable, marginalized, and underrepresented groups of people (youth, the elderly, and people with disabilities) in the development process. The work will build on recent innovations in regions, including a pilot initiative by the World Bank and All-Russia Society of People with Disabilities aimed at developing and testing mechanisms and procedures for engaging people with disabilities, as well as several regional projects (e.g., in Sakhalin oblast, Yamal-Nenets autonomous region, Altai Krai, and Saint Petersburg) aimed at engaging young people in participatory budgeting projects.

51. Social inclusion gained new prominence in 2020, as the impact of the pandemic has been disproportionate on vulnerable groups. Ongoing analytical work on “Barriers and Opportunities for Labor Market Participation of Persons with Disabilities, in the context of changes in the labor market caused by COVID-19 pandemic and accelerated digitalization” will develop policy recommendations for national and regional authorities, educational institutions, the private sector, and NGOs to improve skills and qualifications among the disabled and support measures to enable them to enter and remain in the labor market, including through the use of digital technologies. Work in this area will also focus on facilitating a policy dialogue on labor migrants, especially those from Central Asia, given their number and their role in responding to labor shortages. The purpose would be to formulate applied solutions to facilitate informed, safe, and socially inclusive labor migration to Russia from Central Asia that is targeted to labor demands. ASAs will also explore the use of digital technologies for greater social accountability and citizen engagement at the local level. Learning from the experience of the “Listening to Central Asia” program, the Bank will design a process of consultation with those population groups on aspects of their lived experiences, with a particular focus on interactions with public services. This could help inform the authorities’ approach as they step up their focus on client-centric government, as announced in February 2021.

Theme 3: Green transition and resilience

52. In the context of post-COVID recovery, much more emphasis has to be placed on the impact of climate change on Russia. The country’s resource-intensive economy faces both external and internal challenges. The export of energy resources is a big part of the Russian economy, important for the energy security of Russia’s neighbors. The European Union, which accounts for 39 percent of Russia’s foreign trade, recognizes that gas imports from Russia may be required for several decades. Nevertheless, Russia is likely to be negatively affected by the European Green Deal and the associated carbon adjustment taxes:

29 Source: Rosstat.
30 As part of the new EU Green Deal, EU trading partners will be subject to mechanisms to prevent “carbon leakage” (importing carbon intensive products from abroad to avoid emissions at home), one key instrument being
collected at the border, as well as by accelerating global trend for decarbonization and carbon neutrality. Internally, changing the growth model and diversifying sources of growth to adjust to these new realities is needed but facing an array of challenges. Reducing air pollution in industrial centers and large agglomerations will remain a top priority.

53. **Climate change is predicted to hit Russia hard, but the impact is likely to be both negative and positive.** More data and information are critically needed to improve the predictability of climate related changes, including understanding climate risks and uncertainty of climate projections for designing appropriate response strategies. Only then can robust adaptation strategies be developed to improve the resilience of those regions and industries that are more likely to be negatively affected by climate change. Some regions are likely to benefit from a warmer climate, resulting in energy savings during winters, new maritime transportation routes (a possible Arctic sea route), and increases in agricultural production. But action is needed now so that Russia can successfully take advantage. The adoption, for example, of climate-smart agricultural practices will help to maximize the benefits of increased agricultural production while limiting the negative impact on the environment and greenhouse gas (GHG) emissions. Taking action to reduce emissions can stimulate innovation, productivity improvements, and growth in new sectors. This can result in new jobs, often in higher skilled and higher wage employment, and improved firm competitiveness.

54. **Exports of certain Russian products may face risks associated with the new global trend away from fossil fuels.** The Russian leadership has made strategically important choices about the country's development and is launching innovative programs in areas critical to development. In November 2020, Russia formally submitted an updated Nationally Determined Contributions (NDC) commitment that includes the target to limit the cumulative net GHG emissions to 70 percent of 1990 levels by 2030 and reach carbon neutrality by 2050. Some estimates indicate that since early 2020, Russia has committed at least $855.6 million to support various types of energy through new or amended policies. These include the creation of its own solar and wind energy sector using power supply agreements and production localization, with an ambition to raise green energy power capacity from current 1.9 GW to 5.5 GW by 2024. Green—or environmental, social and governance (ESG) finance—is also gaining momentum: In 2020, 12 green bond issuances attracted $1.9 billion (in 2020 US$), a threefold increase from $0.7 billion (2019 US$). In 2020, $0.4 billion first ever ESG bonds were issued in Russia.

3.1 Building back better: Greener, less polluting, and less-emissions-intensive growth

55. **World Bank support in this area will be cross-cutting, bringing together inputs from a multitude of sectors (environment, energy, health, transport, macroeconomics, governance, and finance).** Active collaboration in four key multisectoral areas is envisaged: (1) assess how Russia’s adaptation to climate change reflects its regional and global role in food security, ecosystem services, and tourism; (2) share global implementation experiences and make recommendations to inform sustainable (including green) projects based on circular economy principles including the potential of job and value creation, as well as emissions reduction in Russia through investments in the green and clean energy market sector; (3) research and share experiences in investing in nature conservation and identifying, valuating, and fostering ecosystem services, including climate regulation service; (4) green finance, where the World Bank will work with its partners to help establish a verification system for green projects in Russia, based on international experience and best practices. The World Bank will also provide the necessary support for a pilot project in the Sakhalin Oblast as it moves towards carbon neutrality. The World Bank can help inform sustainable (including green) development projects in Russia and help harmonize carbon accounting rules.

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border carbon adjustment (BCA) mechanism. Preliminary estimates indicate that the border carbon adjustment for exports from Russia to the EU could add $5-10 billion additional burden on the energy intensive exporters in 2022-25 (source: KPMG. 2020. *Effect of Carbon Border Adjustment on Russian Industry.*)
The planned *Country Climate and Development Report* (FY22) will assess possible low emission growth pathways for Russia, including economic, social, and fiscal impacts. Issues around food security may also be addressed as models indicate that the impact will be significant, with crop losses and price increases. The World Bank will continue the dialogue with the authorities on the Blue Agenda to identify opportunities for future collaboration.

3.2 Green transport connectivity

56. *The economic crisis brought on by COVID-19 presents a great opportunity for Russia to choose a path of green recovery in the transport sector.* Road transportation is at the center of the climate challenge globally, and Russia is no exception. Globally, transport emits around 24 percent of the energy-related carbon emissions that are associated with global warming. It takes longer for the environment to recover from cumulative damage than for the economy to bounce back to pre-COVID growth. Well-planned, preemptive interventions are essential, particularly in time of crisis. Reducing emissions from transport is an imperative, if the challenge of climate change is to be met. For these reasons, green transport decisions are a big part of the solution for resetting the economy, mitigating climate change, and creating resilience.

57. *The World Bank’s support for “greening transport” will coalesce around two streams of analytical work: improving urban mobility and reducing emissions from transport.* The ongoing initiative—Efficient and Green Urban Mobility in Russian (Secondary) Cities—will assess needs and gaps related to achieving sustainable urban mobility in secondary cities in Russia and modernizing public transport. The work will assess urban transport planning and policies (such as traffic management; public transport planning and regulation; and multi-nodal integration and parking management) and possible improvements in institutions and governance. It will complement a recently launched federal program designed to improve urban transport and services in ten secondary cities, with the eventual goal of scaling up to include a thousand cities across Russia. Equity and inclusion will figure prominently in this work to ensure that the transport needs of all citizens (particularly the poor and disadvantaged) are adequately reflected in decision-making and planning processes.

58. *The World Bank’s planned FY2022-23 work on reducing transport emissions will include logistics and maritime transport.* Freight transport, especially truck-based transport, accounts for a significant share of global emissions of GHG and local pollutants. In preparation for the eventual transition to low- to zero-carbon logistics operations, Russia will consider options such as (1) making truck-based logistics more environmentally efficient; (2) promoting more intense use of lower-emission modes of transport (such as short-sea shipping, inland waterways, and railways, including through a modal shift away from trucking); and (3) making non-trucking modes (such as long-haul maritime shipping) more environmentally efficient. Digitalization of logistics and use of transformative technologies is a key mechanism for achieving green and more resilient logistics. On maritime transport, the key analytical challenge is to understand the emission footprint of Russian shipping as well as the environmental costal degradation that stems from poorly planned port development. A multisectoral approach will build on the World Bank’s experience in ports and logistics, urban mobility, transit-oriented development, land management, and green transport. The trade-offs between greening maritime transport and pursuing trade competitiveness at any environmental cost will be explored.

3.2 Energy transition

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31 The program is planned to start with 10 cities - Volgograd, Voronezh, Yekaterinburg, Kazan, Nizhny Novgorod, Novosibirsk, Perm, Saratov, Tver and Chelyabinsk with a total investment of 340 billion rubles.
59. The World Bank will support efforts to help Russia reduce petroleum gas flaring and, in turn, reduce greenhouse gases and black carbon emissions. 2019 saw an uptick in associated petroleum gas (APG) flaring to levels not seen in more than a decade (150 billion cubic meters). For three years running (2017–19), the top four gas flaring countries (Russia, Iraq, United States, and Iran) accounted for almost half (45 percent) of all global gas flaring. Flaring represents a major revenue loss and is a major contributor to climate change and poor air quality. The engagement will build on past Government measures to reduce flaring as well as World Bank support, particularly in the region of Khanty-Mansiysk. Working through the Global Gas Flaring Reduction Partnership, the World Bank will share options and best practices for reducing gas flaring with the Government and interested Russian oil companies. This could include finding ways to make it less economical to flare the gas than to invest in capture and utilization; seeking a more equitable distribution of the cost of hydrocarbon-induced climate impacts to incentivize investments in the prevention and mitigation of these impacts; and improving understanding of the contribution of flaring to black carbon emissions in the Arctic and of methods of reducing black carbon emissions.

60. Another area of support contributing to Russia’s energy transition is the continuation of work on improving the energy efficiency of residential housing. To be completed in FY2022, this ongoing ASA focuses on improving the energy efficiency of urban housing and facilitating its financing, with the higher-level goal of reducing emissions of GHG. The World Bank is supporting the Government of Russia in its efforts to create a sustainable market for residential energy efficiency. The work is being implemented through two components. The first is working with federal and subnational stakeholders to build the capacity and regulatory environment for residential energy efficiency retrofits. The second is working with the financial sector on a new financial ecosystem comprising products, institutional infrastructure, and a public support framework. In the final year of support, jointly with the World Bank Global Green Housing Finance Program, the work will focus on the following strategic areas: (1) design and implementation of a public program to raise the energy efficiency of residential housing using a “smart ecological subsidy”; and (2) a methodology and pilot implementation to certify the climate benefits resulting from said retrofits of the residential housing stock. In the course of these activities, relevant statutory and regulatory obstacles in the financial sector will also be addressed.

Cross-cutting theme: Governance and Strengthening Institutions

61. The cross-cutting theme of governance and strengthening institutions will figure prominently throughout the domestic part of the new knowledge program. Governance has three main elements that combine to have positive impacts: (1) improved productivity, efficiency, and value for money; (2) more impactful policy, rules, and processes; and (3) improved capacities within government to achieve stated goals. Improved government effectiveness could translate into an acceleration in the achievement of Russia’s social and economic priorities, most notably the implementation of its National Development Goals. The Bank’s support over the next three years will focus on: (1) foundations of governance; (2) governance for supporting productivity-led economic growth; (3) governance to strengthen human capital, voice, and equity; (4) governance for green transition and resilience; and (5) Russia as a pioneer in government effectiveness, regionally and globally.

Outbound Component: Sharing Russia’s Knowledge and Expertise with the World: The Development Knowledge Platform

62. The main objective of this outward-facing component is to enhance Russia’s development role. This can be accomplished by collaborating together to make the knowledge flow from Russia to the rest of the world more systematic, and on themes where Russia is a recognized leader regionally and globally, where there is demand from recipient countries, and where the World Bank has a comparative advantage.
The Government has expressed interest in collaborating with the World Bank to establish a new Development Knowledge Platform. This Platform would enable Russia to share its knowledge with a view to securing better development outcomes for CIS recipients initially and, eventually, for low-income countries around the world. The Platform would focus on themes mutually agreed between the Government and the World Bank and where there is clear demand from potential recipient countries, based on existing programs and initial consultations held with them. It will be supported by the Government of the Russian Federation and managed by the World Bank to facilitate dialogue and exchanges of practical experience and knowledge on key development challenges. As shown in table 5, the World Bank has identified four knowledge areas.

Table 5. Russia and the World: Enhancing Russia’s Development Role

<table>
<thead>
<tr>
<th>Knowledge Area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge Area 1:</td>
<td>Public sector management and digital government</td>
</tr>
<tr>
<td>Knowledge Area 2:</td>
<td>Human capital (quality of education)</td>
</tr>
<tr>
<td>Knowledge Area 3:</td>
<td>Pandemic preparedness and response</td>
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<tr>
<td>Knowledge Area 4:</td>
<td>Sustainable agriculture (food security)</td>
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</table>

Five broad guiding principles shape the proposed design and modalities of the Platform: (1) the focus areas as well as the type of activities supported will be determined by both the supply (what Russia can credibly offer) and the demand (what countries want to learn from Russia); (2) the knowledge exchanged through the Platform will address the national development challenges of participating countries and contribute to the achievement of the Sustainable Development Goals; (3) the knowledge flow will be multi-directional, as the Platform will incentivize participating countries to also share their experience with each other; (4) the Platform will be accessible to a wide audience, which includes academia, government, the private sector, and think tanks both in Russia and CIS countries; (5) the Platform will leverage and complement relevant development knowledge produced by other institutions in Russia and beyond, while also strengthening their knowledge-sharing capacity and building strong partnerships.

Knowledge Area 1: Public sector management and digital government

The ability to collect, manage, analyze, and act on ever growing amounts of data promises to unlock more opportunities to improve the speed, efficiency, and customer focus of public administrations. Maximizing the impact of new technologies will depend upon having effective public institutions, strong public financial management systems, reliable statistics, and strong accountability, coupled with a culture of continuous learning and investments in human capital.

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32 The platform builds on existing Russia–World Bank Group multilateral cooperation in the Europe and Central Asia region, including the Russia Education Aid Development Trust Fund (READ), Public Finance Management and Statistics (ECA Public Finance Management TF, ECA Statistics TF, Public Expenditure Management Peer-Assisted Learning (PEMPAL), support through Reimbursable Advisory Services (RAS) to the Eurasian Center for Food Security, as well as advisory service and analytics on the digital agenda.

66. In digital government and public administration, Russia has invested considerable effort in building world-class institutions, policies, and accumulated experiences which could benefit other countries. These cover both core functional aspects of digital government and public administration as well as cross-cutting themes with broader relevance: GovTech (digital government); domestic revenue mobilization; statistics; strategic planning, budgeting, and fiscal risk management; and oversight, responsiveness, accountability, and fiscal transparency.

67. The World Bank and the Russian Federation have a long track record of cooperation in both public management (including statistics) and digital government. Russia actively participates in—and contributes financially to—regional platforms such as the Public Expenditure Management Peer-Assisted Learning network (PEMPAL), the Multi-Donor Trust Fund to Support Statistical Capacity Building in Eastern Europe and CIS Countries (ECASTAT), and the Europe and Central Asia Public Financial Management (ECA PFM) Trust Fund. Russian experts work on the components of several World Bank-financed projects in the ECA region related to public sector digital transformation, public finance, and statistics, as well as on many bilateral cooperation projects.

68. Russia is a leader in the use of digital technologies for improving public sector functions and delivering services. It has a high level of automation of services, through the Government information portal (Gosuslugi), which allows citizens, entrepreneurs, and companies to find any public service and receive and/or request it online. Creation of a network of multifunctional centers (MFC) for public services (My Documents) has become one of the most successful projects in building a service state in Russia. The MFCs implement the one window principle. The network of My Documents centers has 13 thousand offices across Russia, and each year the MFC network handles about 100 million applications from citizens.

69. Russia is well known for having an advanced level of digitization in its tax administration system. Tax legislation in Russia is stable and clear, facilitating fair and nondiscriminatory enforcement by tax officials and improved compliance by taxpayers. The compliance burden is moderate, collection rates are high, and the cost of revenue generation has been reduced with increased digitization of internal processes and automation of taxpayer services.

70. Russian innovations in PFM are readily available. In the area of Public Financial Management, and building on a strong partnership between the World Bank and Russian Federation, Russia has innovated and could readily share with the global development community its experience in: long-term fiscal planning; selective use of fiscal rules, program and performance budgeting; and medium-term expenditure frameworks, including linkages between national and sector strategic planning and budgeting.

71. Russia’s experience on oversight, accountability and fiscal transparency would be relevant to other countries. This includes: presentation of the budget in more user-friendly formats such as the Citizens Budget; promoting Budget Literacy through the education system; and engaging communities more closely in financial decision making through various forms of participatory budgeting. Russia’s extensive experience on participatory budgeting, which the Bank has supported since 2007, includes many innovative features: (1) embeddedness in national administrative, budgetary, and procurement systems, (2) information, methodology, and capacity building support from the national government; (3) national level legislation regulating; (4) coexistence of regional and municipal level practices; (5) multi-level infrastructure to support participatory budgeting development (national center, regional project centers, and local consultants).
Knowledge Area 2: Human capital and education

72. **Russia has been a leader in educational assessment, helping to shape the international development agenda in this area.** Russian experts have been engaged in discussions led by the World Bank, UNESCO, and other organizations focused on working together toward achieving the Sustainable Development Goal on education (SDG 4)—more precisely, to “ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.” Russia was one of the first countries to highlight the need for greater investments and capacity building in learning assessment and has made the country’s participation in international assessments a priority. Russian students score well on international student assessment, improving from below average to the top in Trends in International Mathematics and Science Study (TIMSS) and Progress in International Reading Literacy Study (PIRLS) studies, and holding steady at the average for high-income countries developed countries.

73. **Education has been at the core of the country’s development aid since 2006, and the Government has contributed more than $63 million to the Russia Education Aid Development (READ) Program, implemented by the World Bank.** Established in 2008, the READ program aims to improve the quality of education assessment systems in countries around the globe. The program has three elements: READ Trust Fund, READ RAS, and direct financing of the Center for International Cooperation in Education Development (CICED). The collaboration has facilitated substantial transfers of Russian expertise and lessons from Russia’s reform experiences to other World Bank–client countries (such as Armenia, Belarus, India, Kyrgyz Republic, Tajikistan, Uzbekistan, and Vietnam). READ has also been instrumental in integrating learning assessment in World Bank operations; 54 percent of projects between 1998–2009 and 72 percent between 2016–20.

Knowledge Area 3: Pandemic preparedness and response

74. **Russia plays a significant role in preventing and fighting threats of infectious disease in the CIS.** Over the past decade, it has increased its assistance and coordination with neighboring countries to build regional capacity to prevent, detect, and respond to pandemic threats.

75. **Russia’s strong scientific research capacity was particularly evident in its relatively quick development of tests, vaccines, and treatments for COVID-19.** As of today, Russia developed and registered three vaccines and started a national immunization campaign, although vaccine hesitancy is a significant challenge. The antibodies test developed by Rosпотребнадзор, the federal service responsible for the supervision of public health in Russia, is being used in more than 50 countries. The Rosпотребнадзор’s Rapid Response teams travelled to 15 countries to provide support in fighting COVID-19. As part of Russia’s pandemic response, more than 20 mobile laboratories were provided to CIS, African, and Southeast Asian countries.

76. **Russia has solid knowledge and expertise disease control.** This includes laboratory diagnostics of infections, infection prevention and control, organization of pandemic response, outbreak detection and response, and immunization. Since the early 2000s, Russia managed to decrease infectious diseases, including eliminating measles: 95 percent of the population were immunized, and more than 60 percent were vaccinated against influenza.

77. **While Russia demonstrates strong domestic performance in epidemiology and virology, there are still areas for further development.** International work of Russian specialists at scale may require upskilling of Russian professionals and researchers. More can be done internationally for openness and publication activity in internationally recognized journals. For example, the publication of Sputnik V vaccine trials in
the Lancet journal was appreciated and well-received; this type of publication is a clear area for further development of Russian international expertise.

78. **There are numerous opportunities for cooperation.** Potential areas of cooperation with the World Bank and the international community include: providing methodological assistance and using digital technologies in building and strengthening sanitary and epidemiological services; standardizing approaches; joint scientific research; consultations between Rospotrebnadzor experts and specialists from CIS countries; and, preparation and delivery of training courses (with inputs from Rospotrebnadzor’s scientific and research institutes), in epidemiology, virology, bacteriology, preventive and anti-epidemic measures.

Knowledge Area 4: Sustainable agriculture (food security)

79. **Russia plays a critical role in regional food security as a major food producer and exporter of staple commodities and as a major market for food and agricultural products produced in Eurasian countries.** Seasonal migrant workers from Central Asia and the Caucasus provide a major source of remittances, which serve as income and social safety nets for millions in their home countries. Since 2011, the World Bank has been providing technical assistance for capacity building for an internationally recognized program on food policy and food security at the Eurasian Center for Food Security at Lomonosov Moscow State University (ECFS). The program has filled critical knowledge gaps in the Eurasian region.

80. **Overall, Russian institutions are regarded by their peers in the Eurasian region as being able to bridge the gap between the modern and Soviet-era knowledge in the area of food security.** In addition to the Eurasian Center for Food Security, which is focused on food policy and food security research and knowledge development, several Russian universities and research centers have strong and well-developed capacity in the areas of soil science, geography and natural resources, agricultural production. As part of the regional Platform focused on food security and sustainable agriculture, the World Bank proposes to continue collaboration on under the auspices of the Eurasian Center for Food Security (ECFS) and in collaboration with other well-known Russian universities and research centers. Activities and products could include:

- Systematic country-level analysis and updates on country policies relevant to food security
- Food policy and food security assessments at the subnational and regional level in Russia and contributions to regional agri-food development strategies
- Capacity building for upstream policy and project support in selected areas and engagement of ECFS experts in guiding the design of development projects and policy in Eurasia and other regions
- Development of capacity for applied research, through the production of complex and large-scale flagship publications for food policy decision-makers
- Assessment of barriers to agricultural trade and opportunities to reduce trade costs.

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34 For the purpose of this document, the Eurasia group of countries includes: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, the Russian Federation, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

35 Russian soil scientists were pioneers in soil science and the countries of Central Asia and the South Caucasus inherited a strong tradition in soil science from the former Soviet Union. Soils are critical for food security and much of the food production in Eurasia depends on healthy soils. However, since independence, the profession of soil science has suffered in both regions from lack of government interest in soil science, which in turn affected investment rates in soil science education and research.
81. The Platform would promote linkages and partnerships between Russian, Eurasian, and international experts to address regional and global food security challenges. Potential areas of cooperation would include capacity building in soil sciences, natural resources management, and weather and climate forecasting. Potential modalities supported by the Platform could be:

- Knowledge exchanges through e-gatherings to promote dialogue and knowledge dissemination on development priorities for CIS countries
- Joint research and analytics to address development issues common to CIS countries where a regional approach is warranted
- Capacity building through peer-to-peer exchange, including through training events and secondments
- Investment projects: the exchange of knowledge on development solutions is expected to contribute to the genesis of investment lending projects in focus countries that could be financed by the World Bank and other international financial institutions.

82. The World Bank will be a knowledge partner in this endeavor, leveraging its regional and global experience across the four thematic areas as well as its ground presence and networks in CIS countries. World Bank staff will contribute technical content, provide quality assurance, and, most important, convening power to bring in global expertise and policymakers. The results framework will be developed to ensure that the initiative is meetings its mutually agreed objectives. Annual joint review meetings between the Ministry of Finance and the World Bank will be held to assess progress, make adjustments, and determine the work program in each of the three thematic areas to ensure that the supply of knowledge addresses the current and emerging demand. The IFC will contribute its expertise to the work of the Platform in areas that would benefit private sector development in recipient countries, particularly food security, which has significant private sector involvement.

Russia as a donor

83. The “Russia as a Donor” program has been one of the key pillars of this relationship for more than a decade. Development aid cooperation between Russia and the World Bank Group began in 2006, when the World Bank provided expert and organizational support to Russia’s G8 presidency. This program supports Russia’s role as an international donor and a development partner in the multilateral aid system; it has allowed Russia to build a specific, recognizable donor profile within the World Bank Group, one in line with the country’s priorities for strategic development cooperation. The program has three components: (1) support to policy dialogue on global development issues—food security, social protection, financial inclusion, labor and employment—in the context of Russia’s chairmanships of Asia-Pacific Economic Cooperation (APEC) in 2012, G20 in 2013, and BRICS in 2015; (2) capacity building to strengthen Russia’s role as a provider of development aid, assisting key Russian counterparts in developing critical policies and functions for effective donor assistance; and, (3) facilitating multilateral development cooperation between Russia and the Bank Group, including Russia’s contributions to IDA, trust funds, financial intermediary funds, and global funds.

84. Russia’s trust fund portfolio aligns with the country’s strategic priorities—education, knowledge exchange, public administration, food security, and health. While Russian trust funds support a wide variety of development activities, the portfolio is particularly focused on building knowledge and expertise in developing countries through technical assistance, training, and peer-to-peer knowledge exchange. Knowledge activities are a highly appropriate use of moderately sized trust funds and help to fill gaps in country programs that are driven by traditional projects supported by investment funding. Russia’s contributions paid into the World Bank Group totaled $405 million for FY2013–17 ($301 million IDA, $62 million to single- and multi-donor IBRD/IDA trust funds, and $42 million to financial intermediary funds). Since 1997, Russia has contributed $823 million to IDA. Currently the country contributes to 14 active trust
funds and 7 financial intermediary funds. These focus on: tackling HIV/AIDS, tuberculosis and malaria; debt relief; environmental protection; governance and public institutions; and women entrepreneurs. The World Bank will continue to encourage the effective and transparent deployment of Russian Federation financial resources to maximize their development impact.

Implementation Modalities (Advisory and analytical services)

85. **Advisory Services and Analytics, including RASs, will be at the core of the World Bank’s engagement with Russia.** The main objective of the ASA program will be to contribute to dialogue at the national and subnational levels on policy issues central to Russia’s successful achievement of its ambitious national socioeconomic goals in specified focus areas. More emphasis will be placed on ASA that are multisectoral, innovative, address development issues at the subnational level particularly in Russia’s poorest regions, and that appropriately integrate post-COVID-19 recovery and resilience considerations (see Annex 1 for a list). At the core of the program will be annual flagship publications that tackle the most pressing development issues faced by Russia. The **Russia Economic Report** will continue to provide biannual assessments of the economy with a thematic chapter that will also put a spotlight on the Bank’s cutting-edge knowledge work (table 6). The ASA/ RAS program under the new Knowledge Exchange Program was informed by two recent learning reviews as well as the Country Opinion Survey (box 3).

<table>
<thead>
<tr>
<th>Issue</th>
<th>Date</th>
<th>Themes</th>
</tr>
</thead>
<tbody>
<tr>
<td>36</td>
<td>Nov. 2016</td>
<td>Distributional impact of fiscal policy over the boom and downturn</td>
</tr>
<tr>
<td>37</td>
<td>May 2017</td>
<td>Russian regions and their responses during the crisis years</td>
</tr>
<tr>
<td>38</td>
<td>Nov. 2017</td>
<td>Russia’s agriculture sector: Profits, performance, and productivity</td>
</tr>
<tr>
<td>39</td>
<td>May 2018</td>
<td>Russia’s digital economy: Accelerating digital transformation for economic prosperity</td>
</tr>
<tr>
<td>40</td>
<td>Dec. 2018</td>
<td>Potential growth: Outlook and Options for Russia</td>
</tr>
<tr>
<td>41</td>
<td>June 2019</td>
<td>Curbing Russia’s informal sector: unearthing causes and developing solutions</td>
</tr>
<tr>
<td>42</td>
<td>Dec. 2019</td>
<td>How wealthy is Russia? Measuring Russia’s comprehensive wealth from 2000-2017</td>
</tr>
<tr>
<td>43</td>
<td>July 2020</td>
<td>Education in Russia</td>
</tr>
<tr>
<td>44</td>
<td>Dec. 2020</td>
<td>Russia integrates: Deepening the country’s integration in the global economy</td>
</tr>
<tr>
<td>45</td>
<td>May 2021</td>
<td>Halving Poverty Through Cost Effective Social Safety Nets</td>
</tr>
</tbody>
</table>

86. **Given Russia’s size and diversity, the World Bank has steadily increased its support to Russian regions.** This takes the form of ASAs and RASs tailored to the development needs of each region. Addressing Russia’s spatial disparities is critically important for growth, equity and institutional outcomes. The ASA program will build on recently completed analytical work as well as its strong record of support through RASs in Russia’s regions. Since 2007, 50 regions have benefited from RAS support, including on participatory budgeting, gas flaring, investment climate, education, social protection, and health. More ASA activities (even those at the national level) will include subnational components, such as case studies and pilots in select regions and municipalities.

87. **The ASA program is expected to generate numerous knowledge spillovers, and every effort will be made to ensure that outputs are disseminated widely inside and outside of Russia.** Where relevant, an

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36 Key ASAs focusing on development issues at the subnational level include: World Bank. 2016. *Rolling Back Russia’s Spatial Disparities: Reassembling the Soviet Jigsaw Under a Market Economy*, which is a summary report of background papers (*Russia: Subnational Governments’ Fiscal Response; An Exploratory Assessment of Transport Connectivity; Re-mapping Opportunity, Making Best Use of the Economic Potential of Russia’s Region; and Spatial Differences in Living Standards; Convergence without Equity: A Closer Look at Spatial Disparities in Russia)*.
emphasis will be placed on ensuring that the knowledge generated in Russia is shared with countries of the former Soviet Union as well as low-income countries and those marked by fragility, conflict, and violence. In areas where Russia already is recognized for its regional and global leadership, this will be done through the proposed Development Knowledge Platform. The World Bank will continue to collaborate closely with its knowledge partners in Russia—from academia, think tanks, and government agencies—to ensure that outputs are keyed to their local context. Simultaneously, these partnerships are expected to strengthen the analytical and research capacity of Russian institutions, building on the World Bank’s strong record in this regard. This will strengthen the voice of independent and objective expertise and improve the evidence base for policymaking.

88. **The RAS instrument will continue to play an important role in the World Bank’s engagement in Russia.** Since 2007, the Bank has entered into more than a hundred RAS agreements with federal and regional authorities on topics closely aligned to country strategies and Russia’s socioeconomic development agenda. The ongoing RAS program, which includes 12 active RAS activities ($23 million in commitments), is focused on capacity building for Russian national development institutions in food security, education, and statistics; investment climate reform advisory support; agricultural export development; and strengthening voice and accountability through participatory budgeting (see Annex 2 for list of ongoing RASs). The use of the RAS instrument will continue to be guided by the systematic application of four selectivity filters:

- Their strategic importance to Russia’s remaining development challenges
- The presence of cutting-edge and innovative knowledge generation and potential for knowledge spillovers beyond Russia
- The potential for scale in Russia (through policy change or replication), which also entails engaging with clients that have the capacity to magnify impact at the national and regional levels
- The World Bank’s comparative advantage and capacity to deliver.

The RAS program will support both components of the World Bank’s engagement in Russia.
The proposed World Bank—Russian Federation Knowledge Exchange Program was informed by a series of internal and external consultations, including with academics and representatives of civil society organizations. It was critical to assess demand for the Bank’s advisory and analytical services to address remaining challenges in Russia. A targeted Country Opinion Survey was also conducted by the World Bank and was finalized in June 2021. Initial consultations were also held with selected CIS countries to assess demand for development knowledge emanating from Russia. These will be complemented by further consultations to be held as part of the establishment process for the Platform.
### Annex 1: ASA and RAS

<table>
<thead>
<tr>
<th>FY</th>
<th>Theme 1: Productivity-led Growth &amp; Institutional Strengthening</th>
<th>Theme 2: Human Capital, Voice and Equity</th>
<th>Theme 3: Green Transition &amp; Resilience</th>
<th>Cross-cutting: Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY21</td>
<td>• Russia Economic Reports (biannual)</td>
<td>• New Skills for a New Century: Informing Regional Policy</td>
<td>• Developing Green Finance Opportunities for the Implementation of the National Ecology Program (EFO)</td>
<td>• Strengthening statistical expertise (RAS)</td>
</tr>
<tr>
<td></td>
<td>• Russia’s integration into regional and global value chains</td>
<td>• Raising evidence-based policymaking and internationalization of higher education</td>
<td>• Efficient and Green Urban Mobility in Secondary Cities</td>
<td>• Governance Arrangements for Regional and Municipal Service Delivery (RAS)</td>
</tr>
<tr>
<td></td>
<td>• Macroeconomic and Political Impacts of Energy Subsidies</td>
<td>• Integrated Healthy Aging</td>
<td>• Smart Cities</td>
<td>• Public Sector Accountability</td>
</tr>
<tr>
<td></td>
<td>• M&amp;E of Federal Competition Policy Targets</td>
<td>• Local Initiatives Support and Participatory Budgeting Program</td>
<td>• Digital Transformation of Agricultural Sector (RAS)</td>
<td></td>
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<td></td>
<td>• Improving SOE sector governance</td>
<td>• Delivery of family and child related social work and care services</td>
<td></td>
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<tr>
<td></td>
<td>• Agricultural Subsidies &amp; Competitiveness Enhancing Policies</td>
<td>• Strong Safety Nets: Building a Guaranteed Minimum Income Program</td>
<td></td>
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<tr>
<td></td>
<td>• Agri-export Development (RAS)</td>
<td>• Social Inclusion: Policy Dialogue</td>
<td></td>
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<td></td>
<td>• Tourism Rapid Sector Assessment</td>
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<tr>
<td>FY22</td>
<td>• Russia Economic Reports</td>
<td>• Capacity Building for Russian Education Aid for Development (READII) (RAS)</td>
<td>• Country Climate and Development Report (planned)</td>
<td>• Deepening and Scaling Support to Public Sector Accountability for Improved Service Delivery (planned)</td>
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<tr>
<td></td>
<td>• FSAP</td>
<td>• Participatory Budgeting (RAS)</td>
<td>• Building Back and Growing Greener</td>
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<td></td>
<td>• Economic Effects of International and Domestic Transport Corridors (planned)</td>
<td>• Local Initiatives Support Project in Sakha (Yakutia) Republic (RAS)</td>
<td>• Improving Urban Housing Efficiency and Financing Facilitation for Building modernization</td>
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<tr>
<td></td>
<td>• SME Development in Agricultural Sector (planned)</td>
<td>• Participatory Budgeting in Yamal-Nenets autonomous okrug (RAS)</td>
<td>• Green, Resilient, Inclusive Cities (planned)</td>
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<td></td>
<td>• Revisiting the role of the state to promote more inclusive growth and service delivery (planned)</td>
<td>• Frontiers in GovTech in Human Development (planned)</td>
<td>• Reducing emissions of transport sector (planned)</td>
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<td></td>
<td>• Strengthening Russia’s integration within the region and the world (planned)</td>
<td>• Integrated safety nets: cash transfers with activation and social services for long-term poverty reduction (planned)</td>
<td>• Energy Efficiency (planned)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• COVID Private Sector Recovery (planned)</td>
<td>• Labor and digital inclusion of vulnerable groups (planned)</td>
<td>• FSAP (tbd Green Finance Module)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Distributional impact of taxes/ transfers (planned)</td>
<td>• Agricultural policies for global food security and climate change (planned)</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>• Rapid diagnostic on public investment capacity (planned)</td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td>• Agency for Strategic Initiatives Capacity Development (RAS)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY23</td>
<td>• Russia Economic Reports (biannual)</td>
<td>• Science, technology &amp; research integration in higher education (planned)</td>
<td>• Emission reduction: Green Logistics (planned)</td>
<td>• Improving procurement regulation and practices (planned)</td>
</tr>
<tr>
<td></td>
<td>• Investment Climate Reform Advisory V (RAS)</td>
<td></td>
<td>• Gas Flaring Reduction and Black Carbon in the Arctic (planned)</td>
<td>• Governance Arrangements for Regional &amp; Municipal Service Delivery (RAS)</td>
</tr>
</tbody>
</table>

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37 Blue entries denote ASA/RAS with a subnational focus and/or component with subnational theme
## Annex 2: Ongoing RAS Activities

<table>
<thead>
<tr>
<th>#</th>
<th>Task Name</th>
<th>Global Practice</th>
<th>Development Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Strengthening statistical expertise</td>
<td>Other</td>
<td>To reinforce Russia's ability to become a center of excellence and to provide technical assistance in the area of statistics to countries in the region; to improve Russia's own statistics to better inform key domestic policy issues.</td>
</tr>
<tr>
<td>2</td>
<td>Capacity Building to Support Russian Education Aid for Development (READ) 2</td>
<td>Education</td>
<td>To further develop the institutional capacity; deepen the pool of internationally experienced Russian experts; strengthen Russia's education research capacity and apply these improved learning outcomes from school education in low-income and lower middle-income countries.</td>
</tr>
<tr>
<td>3</td>
<td>Strengthening Participatory Budgeting</td>
<td>Social Protection and Jobs</td>
<td>To assist interested regional governments from the Russian Federation in identifying and addressing community needs through a participatory approach.</td>
</tr>
<tr>
<td>4</td>
<td>Eurasian Center for Food Security Phase II</td>
<td>Agriculture and Food</td>
<td>To provide quality analytical and advisory services to the Eurasian Center for Food Security and contribute to its advancement into an internationally recognized center-of-excellence that delivers highly regarded analytical, research and educational products to a broad range of partners and clients.</td>
</tr>
<tr>
<td>5</td>
<td>Local Initiatives Support Project in the Sakha (Yakutia) Republic</td>
<td>Social Protection and Jobs</td>
<td>To assist interested regional governments from the Russian Federation in identifying and addressing community needs through a participatory approach.</td>
</tr>
<tr>
<td>6</td>
<td>Governance Arrangements for Regional &amp; Municipal Service Delivery</td>
<td>Governance</td>
<td>To support piloting the improved institutional and governance arrangements for the provision of services in selected regions and municipalities of the Russian Federation.</td>
</tr>
<tr>
<td>7</td>
<td>RAS Investment Climate Reform Advisory V</td>
<td>Finance, Competitiveness, and Innovation</td>
<td>To provide just-in-time technical assistance to key counterparts at the federal level (such as the relevant ministries) and regional levels responsible for the design and implementation of their respective SME development programs as well as federal investment climate reform initiatives.</td>
</tr>
<tr>
<td>8</td>
<td>Digital Transformation of the Agricultural Sector</td>
<td>Agriculture and Food</td>
<td>To provide relevant recommendations for Russia's federal and regional policies and legal and regulatory framework for supporting the Government's agenda of digital transformation of agriculture.</td>
</tr>
<tr>
<td>9</td>
<td>Agency for Strategic Initiatives Capacity Development</td>
<td>Social Protection and Jobs</td>
<td>To assist the Agency for Strategic Initiatives in building its library of best practices from around the world con reforms to the social protection system and supporting policies, as applicable to the context of Russian regions.</td>
</tr>
<tr>
<td>10</td>
<td>Agricultural Export Development</td>
<td>Finance, Competitiveness, and Innovation</td>
<td>To build the capacity of the Federal Center for the Development of Agroexport to increase sector exports through the development of targeted market information for potential exports as well as broader training and transfer of international best practices.</td>
</tr>
<tr>
<td>12</td>
<td>Agricultural Export Development</td>
<td>Finance, Competitiveness and Innovation</td>
<td>To build the capacity of the Federal Center for the Development of Agroexport to support agricultural firms to increase sector exports through the development of market information tools for potential exporters as well as broader training and transfer of international best practices.</td>
</tr>
<tr>
<td>13</td>
<td>Green Finance Opportunities for Implementation of the National Ecology Program</td>
<td>Environment, Natural Resources, &amp; Blue Economy</td>
<td>To support (a) coordinated and coherent actions to establish Green Finance in Russia and (b) the enhancement of governmental capacities and system to regulate Green Finance instruments to implement the National Priority Project of Ecology in one or two sector(s). Waste management and Best Available Techniques (BAT) are potential candidate sectors due to investment attractiveness from the private sector.</td>
</tr>
</tbody>
</table>