



## **Russia: Bank Assistance for Social Protection**

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## **Acronyms and Abbreviations**

CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
ESSP	Employment Service and Social Protection Loan
ESW	Economic and Sector Work
FES	Federal Employment Service
GDP	Gross Domestic Product
GOR	Government of Russia
HBS	Household Budget Survey
ILO	International Labor Organization
MLSD	Ministry of Labor and Social Development
MSP	Ministry of Social Protection
OED	Operations Evaluation Department
RF	Russian Federation
RLMS	Russian Longitudinal Monitoring Survey
SIF	Social Insurance Fund
SP	Social Protection
SPAL	Social Protection Adjustment Loan
TA	Technical Assistance
USAID	United States Agency for International Development

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## **Preface**

This paper is one of the background papers prepared by outside experts as an input to the Russia Country Assistance Evaluation (Task Manager, Gianni Zanini) by the Operations Evaluation Department (OED) of the World Bank. Findings are based on a review of project appraisal and completion reports, sector reports, and a number of other documents produced by the Borrower, the Bank, and research papers in the academic literature. Bank staffs were interviewed in the field office. An earlier preliminary version was discussed at a small workshop in Moscow in February 2001, with participation of central government officials, academics and members of policy research institutes, and representatives of project implementation units of Bank-supported projects. Their valuable assistance and feedback is gratefully acknowledged.

The authors (Marina Kolosnitsyna, an Associate Professor at the Higher School of Economics, Moscow, Russia, and Irena Topinska, Senior Consultant at the Center for Social and Economic Research, Warsaw, Poland) are grateful for the comments received on previous drafts by the OED peer reviewers (Soniya Carvalho and Elliott Hurwitz), the CAE task manager, other contributors to the CAE background work, and Bank staff and managers (Michal Rutkowski, Julian Schweitzer, Hjalte Sederlof, and Mansoor Rashid), which have been taken into account in the July 2001 version). However, the views expressed in this paper remain entirely those of the authors. They do not necessarily represent the views of the World Bank.

An earlier draft dated July 23, 2001 was sent to the Russian Government for review. Comments were received from Mr. Vladimir Gimpelson, a consultant engaged by the Federal Centre for Project Finance (FCPF) on behalf of the Government, and have been taken into account in this paper.

## Executive Summary

1. Three factors influenced the Bank decision to launch social protection lending programs in the Russian Federation (RF) at the beginning of the decade: (1) economic performance (high inflation, decline of GDP, consumption, real wages, and household incomes), and the increase of inequality and poverty; (2) expected unemployment; and (3) inefficiency of social protection (SP). Two projects were carried out: the Employment Service and Social Protection (ESSP) loan and the Social Protection Adjustment Loan (SPAL). The first and second Coal Sector Adjustment Loans (Coal SECAL) also contained measures aimed to assist coal workers who were laid off from liquidated or reorganized coal mines, and the analysis and monitoring of social consequences of the coal industry restructuring. The total amount of loans for this sector may be evaluated at almost US\$1.5 billion. The Bank also prepared approximately 30 labor market, SP, and poverty alleviation studies (economic and sector work or ESW).
2. An analysis of the social and economic situation of the RF suggests important deficiencies of the ESSP loan strategy. The danger of unemployment, based on a comparison with Central-Eastern Europe, turned out to be overestimated. Problems of pension administration remained unsolved. Contribution collection was unsatisfactory, resulting in pension arrears. Wage and benefit arrears for months remained the crucial problems of the standard of living in the RF. Certain specific poverty issues were not recognized at all under ESSP; that is, poverty in the RF substantially expanded on a much larger scale than in the central-eastern European countries. The lending strategy of ESSP could be better if problems of poverty were approached more decisively from the very beginning and if programs of targeted assistance were developed and specific patterns of (relatively) low unemployment were monitored and analyzed. Moreover, ESSP lending objectives have been fulfilled only partially. While some TA objectives have been met, there has not been much improvement with the pension schemes.
3. The SPAL objectives were to mitigate the effects of transition on the poor and the vulnerable and to start building an effective and sustainable system of income support and poverty relief that will meet the goals of a market economy. The implementation of the project was seriously affected by the financial crisis of 1998. The focus on the execution of complex financial studies of extra-budgetary funds leading to their audit according to international standards proved to be ineffective. SPAL's objectives—especially short-term ones—were reasonable. A cautious approach to the methods of targeting was necessary. There are problems inherent in using family incomes as the basis of the measurement of the standard of living. Two shortcomings have to be noticed, however: (1) The strategic objectives (a three-tier pension system and a means-tested child allowance) are problematic, and (2) the list of objectives clearly lacked a strong “regional” approach and also lacked a method to tackle issues relating to consumer subsidies and group privileges. While the short-term objectives of SPAL were mostly fulfilled, the long-term objectives have not been realized until now.
4. In the case of the Coal SECAL I and II, the government was expected to stimulate and to strengthen the capacity of labor organizations, local institutions, and NGOs so that they could cooperate effectively in supporting ongoing structural changes. The measures,

enumerated in the loans objectives, had not proved fully effective. Also, job creation programs and the push to create more self-employment opportunities have not been implemented fully in coal mining towns that have been stricken with massive layoffs as the industry redefines itself. Simply, the Bank's strategy failed to assess that the potential of active labor market is low during an economic recession.

5. Overall, the projects' priorities were consistent with the country development needs in the field of SP, and thus their relevance can be assessed as "substantial." However, there were major shortcomings in project design. Moreover, the amount of resources spent was disproportionate to the results obtained. Thus, both efficacy and efficiency can be rated as "modest." Also, in terms of institutional development, the appropriate rating is "modest," since the projects failed to contribute significantly to the government's ability to effectively use resources. In terms of sustainability, the general direction of reform is likely to be sustained, but the projects' limited institutional achievements, including those under the ESSP, are of somewhat uncertain sustainability, since the government has no plans for follow up on project implementation, and resources are scarce. In the case of the SPAL, the Bank failed to use the opportunities of multiple tranches and key conditions to ensure the continuity of reform efforts in selected SP fields.

## 1. Sector Performance and Challenges

1.1 Throughout the 1990s, during a period of chronic budgetary crisis and falling GDP, the disproportion between spending needs on social programs and actual expenditures on medical, educational, and cultural services and social benefits and allowances has been steadily increasing.

1.2 In the 1990s, dramatic changes in the distribution of income among population groups (that is, an increase of those living below the poverty line) significantly affected the amount of money needed to sustain social assistance. According to official estimates, in 1992 one-third of the population had incomes below the poverty line. In 1994–1996, that was down to about 25 percent, and then increased again in 1999 to about 34 percent, and that increase was mainly caused by the August 1998 economic crisis. The household income differentiation sharply intensified: the Gini index, which according to the available estimates was at about 0.2 in 1998, increased to 0.4 by 1994 and fluctuated for the second half of the 1990s from 0.35 to 0.39. Thus, the number of those in need of social assistance, among them the “new poor” (low-paid categories of the working population, including a considerable share of those employed in the budgetary sphere) increased considerably.

1.3 In the 1990s the *SP* system in the RF to a considerable degree developed as a system of responses to newly emerging and aggravating social and economic problems. Many of the present benefits and allowances are the legacy of the Soviet system, under which they performed quite different functions. At the same time, a substantial share of these benefits is paid in compliance with laws, decrees and regulatory acts approved during 1994–1996 (e.g., “On Veterans,” “On State Allowances for Citizens with Children,” “On Social Protection of Disabled Persons in the Russian Federation,” “On Social Services to Senior and Disabled Citizens”). The normative acts, which were enacted over that period, bear the stamp of that time (the time of election campaigns) and often are of populist (declarative) nature. These legal and normative acts fail to clearly define their target groups of population (i.e., the social assistance and social services as a rule are not related to the economic situation of households). These acts often were too broad, and thus those who needed the assistance the most were not given it. According to some estimates, in Russia there are over 1,000 different programs of social assistance to the population paid from the public coffers. Only at the federal level, there exist 156 programs entailing benefits payable to 236 categories of the population.

1.4 Two social benefits (monthly child allowances and housing subsidies) were enacted during 1998–1999 at the federal level, and were provided only to the households with per capita incomes below the poverty line.

1.5 Because the amounts of social benefits distributed during the 1990s were spread over too broad a population category, the amounts were too thin and not substantive enough to help those who needed help the most. For instance, the child allowance was at about 13 percent of the subsistence minimum for children below age of 16, while in 1999



it was only 6 percent of the subsistence minimum. A considerable drop in the amount of benefits and allowances to households (by 55 percent in real terms) was a natural consequence of the crisis of 1998.

1.6 The financing of the social programs comes out of the Social Policy sector of the state budget. In 1999, the expenditures of the consolidated budget for these items were Rub. 92.2 billion (at about 7.3 percent of the total expenditures of the RF consolidated budget) (i.e., 2 percent of GDP). A number of state extra-budget social funds (Pension Fund, Employment Fund, Social Insurance Fund (SIF), Compulsory Health Insurance Fund) also come out of this funding. The total expenditures for the maintenance of the RF SP system were about 18 percent of GDP in the late 1990s.

1.7 Social measures to protect the unemployed were started in the 1990s. The law on employment, which released the state from the responsibility for the total employment of the population, was approved in 1991. The State Employment Fund was created to finance the active and passive measures of the labor market. The Federal Employment Service (FES) became the institutional infrastructure of the labor market. The number of the unemployed registered by the employment service reached its peak (2.5 million) in 1996. At end-2000 the number of the unemployed registered was only about 1 million. The share of the registered unemployed in the total number of the unemployed as defined by ILO was about 15 percent in 2000 (37 percent in 1996), probably because of the small amount of benefit given to those who are unemployed (about 30 percent of the subsistence minimum), the considerable benefit arrears, the low efficiency of employment agencies in searching for "suitable jobs," the limited capabilities to implement the program of active measures on regional labor markets, and other circumstances.

1.8 The Pension Fund of Russia was established in the 1990s to manage pension resources. The Fund's financial standing was not stable. A key reason the RF Pension Fund experienced a deficit was the accumulation of budgetary indebtedness related to pensions financed on repayment basis and falling revenues from insurance fees.

1.9 The social burden on the employed population increased during the 1990s because of both economic (falling number of the employed) and demographic (aging of the population) factors. In perspective, the impact of the demographic factor should strengthen. The growth in the number of pensioners (to a considerable degree caused by the extent of preferential pensions) was an additional factor contributing to the increase.

1.10 In spite of the measures aimed to increase the amount of the pensions, the minimum gross pension (adjusted for the compensation) remained below 80 percent of the subsistence minimum for pensioners (the level stipulated by the legislation currently in force). The lack of comprehensive reforms may result in a dangerous worsening of the financial standing of the pension system in the long-term. Adding to all this is the aging of the Russian population and the disproportionate numbers of those working versus those who need pensions.

1.11 The SIF manages the resources of the public *social insurance*. The Fund finances disability benefits, maternity benefits, birth grants, child care allowance for a period up to 1.5 years, and some services at health and spa centers. However, the latter group of payments is outside the Fund's primary area of responsibility (the bulk of that money is received by higher-income households) but takes up to one-third of the total amount of SIF funds. There is a plan to limit the Fund's expenditures to short-term insurance payments. In 1999, to improve the effectiveness of payments, the maximal amount was limited to 12 minimal monthly wages.

1.12 *Social assistance* is now, after reform, based on need; that is, assistance going to those living below the subsistence level. This criteria may vary across regions depending on the budgetary potential, the structure, living standards, and local practice. Amounts of federal monies will be determined according to the formula of inter-budgetary equalization, which will take into account regional requirements of the financing of the social assistance on the criteria of eligibility (see GOR, 2000, Section 6).

1.13 The transformation of the public *policy on the labor market* will be related to the redesigning of sources and mechanisms of the financing of public employment policy, introduction of procedures related to the categorization of the unemployed as the basis for the planning and the implementation of employment programs, redesigning of unemployment benefit amounts aimed to better adjust the payment of unemployment benefits to the categories of the unemployed, and introduction of mandatory procedures for the monitoring of the unemployment programs effectiveness (GOR, 2000, Section 5).

1.14 *Pension reform* approved by the Russian government in May 1998 will ensure long-term stability of the pension system by introducing insurance principles within the distribution component.

1.15 Problems associated with efficiency in the public social insurance system including payments of temporary disability payments and allowances for health and spa will be addressed by a uniform health and social insurance system (HSI) that will:

- Form efficient control mechanisms over the payment of temporary disability benefits that will be based on the nature of the disability and the medical attention necessary;
- Ensure a close coordination between medical care and the service in health and spa centers; and
- Reduce administrative costs within the unified HIS system.

## **2. Evolution of Bank's Sector Assistance Strategy**

2.1 Three basic factors have seemingly influenced the early decision of the Bank to launch social sector lending programs in the beginning of the decade.

2.2 First, the initial phase of the transition brought about a very high inflation (Annex table A2), a decline of GDP and consumption, a decline of real wages and household

incomes, and the increase of inequality and the poverty rate. Between 1988 and 1993, for instance, real household incomes declined by as much as 41 percent (Milanovic 1998, p. 34; Household Budget Survey (HBS)). At the same time, inequality was growing: Gini coefficient was equal to 0.24–0.25 at the end of the 1980s, and it increased to 0.41–0.48 in 1993–5 (Klugman, 1997 p. 9; Milanovic, 1998, p. 41). The decline of real incomes, accompanied by the increase of the income differentiation, inevitably led to the increase of poverty. In fact, the official data show that poverty increased from about 12 percent in 1991 to 33.5 percent in 1992.<sup>1</sup> Immediate measures were needed to stop an even further increase in poverty. New and properly designed SP systems could answer this challenge, but inherited schemes proved to be inadequate. The older schemes lacked mechanisms of indexing, which could protect incomes—at least the lowest incomes—against inflation and lacked benefits supporting the poor directly. The old system was unable to provide security needed at that time.

2.3 Second, the new question of unemployment emerged. Until 1991, the Soviet Union was a country of full employment (Annex table A2), but the experience of the initial stage of transition—gathered mostly in Poland, Slovakia, and Bulgaria—suggested a possible rapid increase of unemployment resulting from structural changes in the economy. The rate of registered unemployment in Poland, Slovakia, and Bulgaria rose from zero to double digit numbers over 1–2 years. Many experts believed that this process would be similar in Russia, and unemployment would jump up sharply over the coming months. However, the Russian SP system had no schemes targeted at the unemployed, obviously because open unemployment under the communist regime was unknown.

2.4 The third reason for quick intervention was the inefficiency of the old social security system. The old system offered many schemes that were universal and clearly inefficient or—in other words—not targeted to the needy. Under the old system there were consumer subsidies for housing, energy, and transportation and privileges and allowances for war veterans, “work heroes,” or the like. A great number of these benefits were, in fact, positively correlated with an individual income.<sup>2</sup> Such inefficiency called for a change as well.

2.5 The ESW conducted by the World Bank found that the old, unreformed SP system based on so-called “categories”—broad groups of the population—is inefficient both in terms of implementation of social policy and economically; that is:

- While the total amounts of subsidies allocated to the poor and to the “non-poor” is practically the same, the proportion of recipients of SP benefits among the non-poor is higher than among the poor;

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<sup>1</sup> Based on HBS, official poverty line. See World Bank (2000a), Annex Table A2.

<sup>2</sup> On the consumer subsidies, see, for instance, World Bank (1989); on social transfers, see the reports of 1991 and 1992 within the World Bank project, *Social Expenditures and their Distributional Impact in Eastern Europe.*”

- The proportion of social subsidies relative to the overall volume of the needy families' expenses is negligible, and, according to the Russian Longitudinal Monitoring Survey (RLMS), it does not exceed 2–2.5 percent; and
- Almost 90 percent of all the poorest families do not receive any social assistance.

2.6 World Bank priorities from 1993–2000 was to support measures to reform social programs. A number of projects were initiated, such as loans for assistance to employment and SP agencies, the actual structural transformation of social programs in addition to three projects in health and education. The Bank also provided assistance (under the first and second Coal Sector Adjustment Loans) for measures to help those coal miners who were laid off when their mines were restructured and with the analysis and monitoring of the consequences of this restructuring. The Bank also assisted in the Public Expenditure Reviews of various sectors of the Russian social assistance program (including social protection, public health, education, and housing) to inventory budget expenditures, to evaluate the effectiveness of finance reform at the regional level, to create and maybe expand a model reform program, and to design monitoring methods applicable to the implementation of reforms.

2.7 The total amount of loans for this sector (excluding related loans) is evaluated at almost US\$1.5 billion.

2.8 The aims the Bank originally set with regard to the SP sector under the first Rehabilitation loan were as follows:

- Defining the poverty line and adjusting benefits (minimum benefit set at or above the basic benefit [poverty level])
- Introducing a benefit of last resort; that is, means-tested system of social assistance; and
- Redesigning the system of cash benefits by September 30, 1992, with full implementation by the end of 1993.

2.9 To date, the poverty line has been calculated according to Presidential Decree No. 210 of March 2, 1992, and the “Methodological Recommendations” approved by the Labor Ministry in November 1992. Introduction of a social assistance system was changed to be based on eligibility, but the reforming of the social benefits system still remains on the list of necessary reforms. The most comprehensive accomplishment in this area is the federal law, “On State Social Assistance,” approved in the summer of 1999. The law was passed to fully redesign the whole system of social assistance on the basis of eligibility. However, in practice this law regulates the introduction of supplementary social benefits provided in accordance with the verification of eligibility. However, lack of enforcement mechanisms, including financial ones, reduces the public social assistance to just another kind of non-financed and, therefore, not implemented social benefits and allowances.

2.10 The results of the social component of Rehabilitation Loan I were ambiguous. Although the poverty line and “basic benefit”—or appropriate minimums—were set, they have not functioned properly in practice. The problem is that, the minimum or basic benefit, for instance, has not been defined for pensions and income support, a major objective of the SPAL (FY 1997). Even by the end of the 1990s, however, the appropriate figures have not been set (see World Bank 2000a). On the other hand, financing unemployment schemes was not an important problem in 1992–1993 because unemployment did not grow as expected.

2.11 In 1992, the Bank approved the first social loan, the ESSP. The ESSP was intended to “provide TA and equipment needed to expand the capacity of existing benefit programs and ensure prompt payments of unemployment benefit. One of the tasks was to establish proactive employment services, including policies to address mass layoffs, job search, and training programs and systems. Emphasis was made on rapid growth of employment in the service sector.” Although it was approved in November 1992, it did not become effective until September 1994.

2.12 According to Bank documents during 1995–1996, the Bank’s approach was aimed at moderating the impact of transition on socially vulnerable groups by supporting the development of viable social safety nets and maintaining social services and infrastructure while improving the efficiency of public expenditures and promoting a more flexible labor market. The documents focused on the implementation of the eligibility verification mechanisms for the assistance to the poorest households. Another Bank objective was to support labor market restructuring with market-based training, employment services, and reforms in unemployment benefits.<sup>3</sup>

2.13 These tasks were taken into account while elaborating the terms of SPAL (1997) and “satellite” SPIL loans (approved in 1997, effective in 1998). By the late 1990s, the challenges facing the SP sector remained practically the same. The Bank set out to “better understand the impact of transition; support reforms intended to maximize within the limited budget the government’s ability to mitigate and redistribute the social costs of the restructuring; and to encourage:

- Progressively targeting access to the publicly provided safety net by those genuinely in need;
- Ensuring reasonably even levels of benefit from the public safety net for the most vulnerable—pensioners, disabled, children—while accommodating some variance based on contribution performance; and

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<sup>3</sup> The Bank also recognized that significant restructuring needs to be initiated in both health and education services at the regional level while maintaining existing social infrastructure and services. Loans were also used to assist in public health system restructuring and to support modernizing the educational system. Public health system restructuring consists of enhancing the effectiveness and quality of medical care, tougher enforcement of the principles of federalism, generating more efficient management mechanisms in the public health sector, and restructuring the delivery of medical care to ensure equal access. Modernizing the educational system consists of making education flexible and more fluid. The Ministry of Education’s authority will be better defined to react to diverse conditions while at the same time remaining sensitive to local and national concerns.

- Ensuring that transitional benefits provided to those who are employable (unemployment benefit, migration assistance).

2.14 The ESSP and the SPAL projects were terminated in 2000. At present only the SPIL remains active.

2.15 Generally, key principles found in the Bank's documents addressed and attempted to find solutions concerning reforms in the SP sector. Various documents, specifically, "Statement About the RF Government Policy in the Social Protection Sphere" and "Main Guidelines of the GOR Social and Economic Policy in the Long Term Prospective," have been adequately followed.

### 3. Bank Products and Services Assessment

#### A. World Bank Loans in 1992–2000

3.1 The first project in this sector—ESSP—was carried out from 1992 through 2000. Originally, the project aimed to implement two major components:

##### *1. Employment Services Component (US\$62.7 million)*

- **Emergency Service Delivery by FES:** Phased implementation of computerized systems for unemployment benefit claims registration and payments including the preparation of internal policies and administrative regulations.
- **Strengthening of the FES:** Development of longer-term institutional capabilities through:
  - (i) Design of labor market policies and management systems;
  - (ii) Development of Program Services;
  - (iii) Preparation of a Labor Market Information System; and
  - (iv) Establishment of a Comprehensive Employment Training Program.

##### *2. SP Component (US\$7.3 million)*

- **Strengthening of the Ministry of Social Protection (MSP)** longer-term institutional capability to (1) carry out pilot programs in at least three oblasts for the computerization of processing pension benefits and (2) prepare proposals for the reform of pension policies and the design of targeted social assistance policies.
- **Design of a modern social security system:** Preparation of a master plan for computerized social security scheme, including recommendations for phased-in implementation.

3.2 One of the most important tasks for the SP component was to create a National Automated Pension Services System. The restructuring of the loan was used to secure 2,266 local (rayon) and 77 regional SP divisions (pension services) in the RF with up-to-date computer equipment. Thus, the first part of the program was implemented, that is,

new equipment and computer systems, but there was still no way to ensure that reform of the pension system was underway.

3.3 Another outgrowth of this project was the creation of an atmosphere for further development and increase of efficiency of the FES.

3.4 The FES in cooperation with the business community established new outreach centers with newly trained staff to assist those who need vocational training or job support. However, owing to the economic recession, weak private sector, and underdeveloped labor market infrastructure, many of these programs have not been fully implemented. Also, because the FES was integrated into the Ministry of Labor in 1997 and the employment fund was eliminated, much of this progress was quite limited in the mid-term.

3.5 Many key obstacles have kept the FES from implementing its core strategies. There were frequent changes in the government and in the ministry. For instance, between 1994 and 2000 there were seven different ministers. Each new minister had to take time to become familiar with the project. Many of the ministers chose to overhaul the ministry and thus change or freeze ongoing projects. In fact, in 1998, the minister chose to close down the SP component. In 1997, the FES and the MSP merged to become the Ministry of Labor and Social Development (MLSD), thus further complicating matters.

3.6 The general design of this project was adequate to the tasks as they were formulated at the early reform stage (in 1992). However, some of the objectives of the SP component—reform of a pension policy and design of a modern social security system—were overly ambitious. After adjustment and rethinking, the aims of the project became more attainable. In light of what is known now about conditions in transitional economies, one lesson that can be taken from this project is the importance in setting realistic project objectives. While the project became more realistic, it lost its orientation on formulation of policy and strategy in the field of SP, most of the funds concentrated on procurement of computers for the pilot regions and study tours, and, as a result TA rendered was concentrated on operational and not on strategic—policy—making level.

3.7 The project plan also promote strengthening international relations of the Federal Employment Services and signing of bilateral cooperation agreements. International meetings on bilateral cooperation, held with the participation of Bank representatives helped FES learn from foreign experience and plan long-term aid coordination, avoiding concentration of donor assistance only in a few regions.

3.8 An analysis of social and economic indicators for the period starting in 1993 suggests important deficiencies of the ESSP loan strategy. On the one hand, the danger of unemployment, based on a comparison with central-eastern Europe, was overestimated. Given specific enterprise policies of the CIS, registered unemployment—and even effective unemployment—turned out to be much lower than initially expected (Annex table A2). Problems of pension administration remained unsolved. Contribution

collection was unsatisfactory which in turn resulted in pension arrears.<sup>4</sup> Wage and benefit arrears remained the crucial problems of the standard of living in the RF for months.

3.9 On the other hand, certain specific poverty issues were not recognized at all under ESSP. Russia quickly developed poverty on a much larger scale than the central-eastern European countries. This is well documented by a complete poverty profile that is available from 1993 to 1995 (Milanovic 1998; CAS95; and World Bank 2000. Official statistics detail declining male life expectancy (Annex table A2). Anecdotal evidence suggests high numbers of homeless people and beggars, including children. The latter problems have been completely neglected under the Employment Service and Social Protection Loan. In conclusion the general lending strategy of ESSP was not fully satisfactory. It could have been more so if problems of poverty were approached more firmly from the very beginning, if programs of targeted assistance were developed, and if specific patterns of (relatively) low unemployment were monitored and analyzed. Moreover, ESSP lending objectives have been fulfilled only partially. Some TA objectives (training, improvement of the FES equipment) have been met, but pension schemes have not revealed significant improvements.

3.10 In FY 1996–97, two “packages” of WB loans to the Russian government had significant social safety net components.<sup>5</sup> First, in June 1996, the Bank opened the Coal Sector Adjustment Loan I of US\$500 million. Then, in December 1997, there was its “next wave”: the Coal Sector Adjustment Loan II. But without any doubt, the second package comprising the SPAL of June 1997 for US\$800 million and the SPIL of October 1997 for US\$28.60 million had been the most important.

3.11 SECALs (FY1996 and FY1997). Coal SECALs general purposes may help to identify their SP components. In the case of SECAL I it was stated: “[the] SECAL will support (a) a program for the progressive reduction of subsidies through (i) the elimination of subsidies [...] (ii) redirection of remaining subsidies towards restructuring and related social programs [...]; (b) special Community Support of Employment Programs in areas where coal-related unemployment is expected to be high.” SECAL II “will help government deepen the achievements of SECAL I (...) through a program directed toward (...) development of a strengthened and more targeted social safety net for affected workers, their families and communities.” However, it is hard to establish clearly what share of each loan was supposed to be devoted to the measures related directly to these objectives, and to what degree the measures actually implemented were effective.

3.12 In the SECAL I case, government was expected to activate and to strengthen capacity of labor organizations, local institutions, and NGOs so that they could cooperate

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<sup>4</sup> These problems resulted from the lack of enterprise restructuring and the lack of reforms within the fiscal and financial systems. Nevertheless, they heavily affected the standard of living of the wage earners and beneficiaries.

<sup>5</sup> As far as other loans are concerned, poverty implications were mentioned there, but they were treated as no more than byproducts of the core activities financed by the loan. See for instance, the informal ECA note on “Poverty Implications” of SAL I, of March 1997. They are not discussed in this paper.



effectively in supporting ongoing structural changes. It was also presumed to support partnerships through regional inter-agency commissions that were supposed to be set up in those coal regions to help alleviate unemployment. Special activities had to be arranged by the FES to cushion layoffs of miners. The description of SECAL II is of a similar character.

3.13 In SECAL II, government was expected: (1) to support implementing monetary “coal allowances,” introduced (for individuals, families, and communities) in place of price subsidies; (2) to co-finance severance payments for redundant or laid-off workers; (3) to co-finance reduction of wage arrears affecting mines; (4) to co-finance disability payments for miners through a Social Insurance Fund; and (5) to organize, at the community level, the pre-redundancy consultations as well as to develop employment programs.

3.14 The measures listed above were effective only to a degree. For instance, they have not prevented strikes of the coal miners. Also, it seems, labor organizations were not involved in the preparation of the specific arrangements as needed. On the other hand, the impact of this type of an approach on an overall SP strategy is ambiguous and may be questionable. Once a special social package is offered to some groups of workers, workers in other sectors may easily expect and demand a similar privileged treatment in the future. This is particularly likely to occur when there is a high degree of unionization or other possibilities of political mobilization and when the sector in question is particularly important from the government point of view. Experience (as recently in Poland) shows that this in fact often has been the case.

3.15 This approach unfortunately did not adequately answer all the ills associated with layoffs and terminations in the coal industry. New jobs and creation of self-employment opportunities could not help stem the flow of unemployment caused by massive layoffs,<sup>6</sup> so many workers who wanted to work simply could not find jobs.

3.16 Relief work programs did not have any noticeable impact. Many coal miners were not fully informed about relief work, and of those surveyed most did not even attempt to participate.

3.17 Programs to support small businesses were largely ignored by these coal miners because they simply did not want to work for themselves in a small business.

3.18 The programs initiated to help unemployment were woefully inadequate to deal with the massive unemployment triggered by closing coal mines and the general economic crisis buffeting all of Russia. In particular, the SECALs, although ambitious in

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<sup>6</sup> The evidence is provided in VCIOM publication on the program of coal industry restructuring – see M. Krasilnikova, L. Gudkov *Social Implications of Coal Industry Restructuring*, in: *Public Opinion Monitoring: Economic and Social Changes*, 2000, #6, p.55, tables 11 and 12, M. Krasilnikova, *Standard of Life in Coal Industry Towns and Settlements in the Coal Regions of Russia*, : *Public Opinion Monitoring: Economic and Social Changes*, 1999, #5, p.38. Paras 3.16 and 3.17 summarises VCIOM findings.

their SECALs scope of strengthening the labor market, were ineffective when faced with the economic situation. The Bank's strategy was inflexible and failed to adequately estimate the extent of the crisis. As in case of the ESSP project, programs initiated to deal with complex social ills were insufficient when faced with real distress, but at least some good came of it with the formation of employment agencies to help those miners.

3.19 Project SPAL is one of the key objectives of the Bank's technical assistance program for the SP sector. Its general objectives were formulated as follows:

- Mitigate the effects of transition on poor and vulnerable population groups
- Begin to build up an effective and sustainable system of income support and poverty relief that meets the requirement of a market economy

3.20 The key areas covered by the SPAL were social insurance (pensions and short-term insurance for sickness and maternity), unemployment assistance, social assistance, and child allowance. A number of measures planned to be implemented in the framework of this project aimed to reduce poverty and to improve the situation of vulnerable population groups. The SPAL terms envisaged that 12 million minimal pensions would be increased to 80 percent of the subsistence minimum with further adjustment for inflation. According to the Bank's estimates this measure should improve the situation of 4 million pensioners. SPAL also envisaged the introduction of child allowances payable on the eligibility principle to improve the situation of the poorest households. Finally, according to SPAL terms, it was planned to introduce experimental poverty allowances to the poorest households in three pilot regions (the Republic of Komi, Voronezh, and Volgograd oblasts). It was expected that the phased extension of experimental schemes to new regions would be the most economically effective way to combat poverty in Russia.

3.21 Conditionalities for SPAL tranches included reforms related to Pensions, Unemployment Assistance, Child Allowance, Social Insurance Fund, and Social Assistance.

3.22 However, implementing the loan terms was difficult for pensions. First of all, the 80 percent level of the pensioner's subsistence minimum set for the minimal pension (adjusted for the compensation) was reached only in the first months of 1998 and went below 80 percent even before the August crisis. As a result of this crisis this ratio fell below 50 percent in early 1999 (equal to its all-time low value in 1995). Even after the government approved the pension reform program (May 1998), there persist disputes about its fundamental structure. As has been mentioned, at present the program envisages that contributory elements will be introduced beginning 2002; however, it is planned that in 2001 the program will be supplemented by the government's package of seven laws on pensions. Accordingly, no PR campaign related to the pension reform has been started yet. The financial study conducted by the Pension Fund was completed with considerable delay; therefore, the planned audit of the Pension Fund according to international accounting methods has not been started (the original intention was to introduce this audit based on the results of the financial review of the Fund). The Pension Fund disputes the results of the study, so it is unlikely that they will become the basis of effective

recommendations on the improvement of the Fund's control, management, and accounting systems as it was envisaged by the terms of SPAL third tranche.

3.23 For social insurance, SIF continues to finance treatment at health and resort centers (i.e., a considerable share of funds is spent outside the Fund's primary area of responsibility). Plus, the maximal amount of temporary disability benefits has been limited.

3.24 The loan was also to increase effective employment, enhance the flexibility of labor resources, and support the unemployed. The key loan terms embraced measures toward more efficient operation of the Employment Fund and organization of annual audits of the Fund in accordance with international accounting methods. The terms of SPAL third tranche aimed at a broader implementation of insurance principles to the formation of the Employment Fund's revenues and transfer of a portion of contributions from employers to employees. The major changes in the procedure of financing of the state policy on the labor market resulting from the introduction of the uniform social tax and the financing of labor market programs from the budget led to a less urgent set of goals set earlier. The constant reduction in the size of registered unemployment, lessening ratio between the registered unemployment, and the unemployment determined according to ILO standards, which occurred in 1998–2000, a small share of active measures are the evidence of a low effectiveness of measures on the labor market.<sup>7</sup>

3.25 On the whole, the loan terms related to the social assistance to families with children have been met. An amendment to Article 16 of federal law "On State Allowances for Citizens with Children," which made eligible for child allowances only families with per capita incomes at 100 percent of the subsistence minimum, was made effective with some delay (in June 1999). However, owing to the changes in the procedure governing the calculation of the subsistence minimum and the lack of approved parameters to determine regional subsistence minimums, the enforcement of this amendment faces certain difficulties. The key measures related to the transfer of child allowances payments into the area of responsibility of regional SP agencies have been implemented.

3.26 Under the SPAL, the government undertook pilot projects to test better targeting of social assistance, and various studies were carried out of the system of social benefits, allowances, and compensations. The "Statement about the RF Government Policy in the Social Protection Sphere" of 1997 envisaged the implementation of measures aimed to systematize social benefits and allowances, with eligibility limited to the poorest families. The Labor Ministry of the Russian Federation published guidelines for the regions on the application of eligibility principles to the payment of social benefits, but, due to the Duma's opposition, they were not implemented (the 1999 federal law "On Public Social Assistance," which was intended as a systemic legislation, fell short of expectations).

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<sup>7</sup> Unemployment by the ILO definition in 1999 has increased relative to 1998 level from 8.6 to 9.3 million, while registered unemployment has gone down from 2.09 million in 1998 to 1.79 in 1999.

Nonetheless, some partial measures have recently been adopted by some regions to begin improving the targeting of social assistance.

3.27 On the whole, the implementation of the project was seriously affected by the financial crisis of 1998, which rendered the achievement of the key medium-term objectives (an increase in welfare, introduction of the eligibility principle in the social assistance system, greater effectiveness of budgetary expenditures in the social sphere) practically impossible. Therefore, as a result, the choice of the multi-tranches adjustment operation did not seem justified (the economic situation has drastically changed within a very narrow planning horizon—practically one year—and the inner logics of tranches, although not entirely coherent in the beginning, was completely ruined). The focus on the implementation of complex financial studies of extra-budgetary funds leading to their audit according to international standards proved to be ineffective. The Funds sharply criticized the results of the studies (according to the procedure they had to approve the results of the financial analysis of their operations). On the other hand, the results did not permit a systematic analysis of the prospects for the reform of the extra-budgetary funds management.

3.28 SPAL was quite an elaborate loan. Its objectives—especially the short-term ones—were certainly reasonable. Some of them only may be questioned as imprecise (see the example above concerning unemployment). A cautious approach to the methods of targeting was necessary, as there are problems inherent in using family incomes as the basis of the measurement of the standard of living. But two shortcomings should be noticed. First, the strategic objectives may be found to be more problematic. For instance, pension reforms toward a three-tier system seem premature in 1997, because of inadequate logistics (lack of individual accounts, law data processing capabilities, etc.) and under-developed financial markets. Although the World Bank in general promoted this approach (see World Bank 1994), demographic, financial, and economic trends in the RF did not necessarily support this type of arrangement. Also, means testing of the child allowance may be questioned. Various studies show that this benefit is usually well targeted to the poor, even if it is universal (Milanovic 1998, pp 109-110). Second, the list of objectives clearly lacked a strong “regional” approach. Also, the problem of consumer subsidies and various privileges spread over the whole social protection system are unanswered.

3.29 Results of SPAL are disappointing. Short-term objectives were mostly fulfilled, but the long-term ones, of particular importance from the point of view of the structural adjustments, have not been realized until the loan closing date. True, the short-term objectives dealt mainly with preparing documents and draft legislation (see SPAL, Release of the Second Tranche) or with completing pilot studies, but there were also disappointment with actual aspects of implementation. The problem with the pension floor may be given as an example (see World Bank 2000a).

3.30 As far as the fulfillment of strategic objectives, this is far from satisfactory. One can mention labor code (not passed) or pension reform (not proposed). Moreover, in terms of the general impact on poverty and the standard of living, SPAL—disbursing as

much as US\$0.8 billion—certainly has not produced a visible success. This is witnessed when looking at social indicators of the end of the decade (see Annex table A2 and World Bank 2000b). The overall impact of this adjustment operation seems to be out of proportion with the total amount of funds allocated.

3.31 SPIL (effective in 1998) became a “satellite” project to SPAL. Key technical assistance measures necessary to meet the second part of SPAL terms were implemented along with other consulting projects and purchases for social protection agencies.

3.32 SPIL focused on a detailed concept and draft legislation aimed at the transformation and reform of the pension system. Draft laws, for instance, “On Individual (Personal) Registration in the System of State Pension Insurance Basing on Personal Savings Accounts” and “On Professional Pension Systems in the Russian Federation,” were begun. The complex financial study of the RF Pension Fund was completed to enhance the efficiency of the management of resources of the pension system and to obtain more reliable information on its financial flows.

3.33 Social assistance pilot projects were carefully monitored and a complex study was performed to examine the comparative effectiveness of different eligibility requirements for improving the targeting of social assistance. Consultation and training programs were held to ensure the implementation of the new model of targeting and payment of child allowances via social protection agencies. Modern methods of accounting and control over the distribution of funds earmarked for the social assistance to families with children were introduced. Overlapping payments were eliminated, and the expenditure of public funds earmarked for child allowances was systematized. The introduction of modern informational technologies ensuring the compatibility of databases at the federal, regional, and local levels and facilitating the transition to targeted payment of child allowances is underway.

3.34 Measures were undertaken to perform a financial study and to prepare an audit of the Employment Fund and to supply recommendations on the centralization and redistribution of financial resources within this state extra-budgetary fund. These results were utilized in the course of expansion of the Employment Fund’s budget for 1999. However, owing to the changes in the procedure of financing of the state policy on the labor market in the middle-term outlook this work proved to be ineffective and not very feasible.

3.35 Now that the SPAL has been closed, the SPIL activities are coordinated with the government’s priorities (GOR, 2000).

## **B. Economic and Sectoral Work**

3.36 During 1992–2000 the World Bank delivered about 30 ESW studies—in the form of either working papers, comprehensive reports, or books—providing results of research on the labor market, social protection, and poverty alleviation in Russia. These ESW studies were intended to: (1) enhance the general knowledge of the living and working

conditions of the Russian population, (2) allow for better understanding of how the social protection system works, and (3) provide some guidance in defining both the short-term goals and strategic objectives of the reforms of Russian social policies. In general, the studies proved to be useful in developing the mentioned issues. But these studies reveal some shortcomings as well. Below, both their advantages and drawbacks will be discussed. The discussion will touch three points: topics covered by ESW, policy recommendations proposed, and methodological approach chosen.

### **Topics covered**

3.37 ESW studies concerning Russia clearly concentrate on some topics and completely neglect others. Obviously, the question arises what were the reasons of such a selection and were the topics chosen the most important ones?

3.38 At the beginning of the decade, ESW dealt with more general problems, such as, for instance, a review of main social protection schemes (Barr 1992). Step-by-step, more detailed questions (fueled with newly collected data and elaborated methods of their analysis) have been investigated. This may easily be seen when looking at the reports from consecutive years. This approach “from general to specific” is fully reasonable.

3.39 In the second half of the 1990s ESW studies addressed the following issues: (1) empirical investigation of poverty, including description of the poverty profile and some poverty dynamics; (2) efficiency of social transfers, mainly the problem of targeting; and (3) restructuring the economy and the labor market.

3.40 The issue of labor market was examined extensively in 1995, reflecting the fear of new problems of unemployment, labor mobility, etc., and goes in line with the World Bank lending policy at that time (with the implementation of the ESSP Loan, which was approved at the end of 1992).

3.41 Efficiency of social transfers and the issue of targeting were also a part of the World Bank agenda during that period. The ESW study concerning these issues first appeared in 1992 (Milanovic 1992), and then these questions were revoked many times later. Such an interest may be easily explained. First, the inherited social protection system was very inefficient and at the beginning of the transition policy makers were not well prepared to change its design into the more efficient one. Second, the methods of targeting posed a real challenge in the country with wage arrears, huge inflation, a significant role of income in kind, and a large share of revenues from the second economy. Therefore, ESW studies of targeting were extremely important (e.g., Grootaert and Braithwaite 1998).

3.42 Statistical investigation of poverty came rather late. The first ESW study was in 1995, but many poverty issues were investigated in the second half of the decade. Poverty incidence and poverty depth were extensively studied, and then the duration of poverty was also approached (Klugman 1997; Grootaert and Braithwaite 1998; Milanovic 1998; World Bank 1999). This interest in poverty was double-rooted. It reflected both specific

needs of the RF struggling with the increase of poverty and inequality, and the general World Bank policy of the end of the 1990s of paying special attention to poverty all over the world. At that time, in line with these policies World Bank first tranche of SPAL, containing a large “poverty” component was made available (1997).

3.43 Quite surprisingly, some important questions of social protection have been almost completely neglected by ESW, specifically (1) reforming pensions, (2) cutting down non-means-tested privileges, and (3) approaching regional dimensions of poverty, inequality, and social transfers. As a result, these questions have not been resolved under the World Bank loans, despite clearly stated objectives (under SPAL).

### **Policy recommendations**

3.44 Most ESW studies provide very clear policy recommendations. In some cases they influenced objectives of the World Bank social protection loans. Sometimes, however, they had a negligible impact. Barr (1992) may be given as an example of a study of a great impact on formulating World Bank policy objectives. On the other hand, the impact—for instance—of Milanovic findings (Milanovic 1992) was rather ambiguous.

3.45 The Barr report recommendations were almost unchanged when they were integrated into World Bank loans and conditions: *“The minimum level of the major benefits should be at or above subsistence and, at least in the short run, should be fully protected against inflation (....) To facilitate cost containment, in the short run, benefits above the minimum should be protected only to the extent that resource permit (....)”* (Barr 1992, p. 31). The report also points out the unemployment benefit and poverty relief as major areas of policy development (p. 23). These areas may be found later to be covered under the World Bank loans. Yet another example of the impact of ESW on formulating policy objectives is Rutkowski (1999). This ESW study reflect the need to pay more attention to local and regional problems of delivering social assistance and social services. Such an approach became crucial under the Regional Fiscal Technical Assistance Project of 1999.

3.46 The Milanovic study shows a very specific role of pensions in equalizing income distribution in Russia. It was found that pensions actually decreased income inequality (in absolute terms) in Russia, while they did not have such an effect in other countries under investigations.<sup>8</sup> This called for the creation of some special policy objectives formulation, but in fact they were not proposed. Another example of a certain neglect of ESW findings may be given with respect to the poverty profile. It was found that in Russia the percent of those in poverty in the rural areas was higher than that in more urban areas (Grootaert and Braithwaite 1998, pp. 24, 71, 101). It might have been expected that investigating and alleviating rural poverty would be transformed into policy objectives. This, however, has not happened.

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<sup>8</sup> Concentration coefficient for pensions as low as -19.6, while positive in most countries investigated; concentration coefficient equal to 1.5, while negative in all countries investigated.

3.47 There are yet some other issues to be mentioned as far as policy objective formulation is concerned. Andrews and Ringold (1999) mention that “(....) *there should be greater emphasis on the coordination of policy reforms with implementation assistance*” (p. 59). In fact, quite often new arrangements tested and studied by ESW have never been implemented into practice. An example is indicator-based methods of targeting proposed under the World Bank pilot study in three Russian oblast (World Bank 1999, p. 22).

### **Methodological Approach**

3.48 ESW studies present various approaches. Some of them are purely descriptive (Barr 1992) and some others offer a well-elaborated statistical investigation (Milanovic, various) and yet others present a rather sophisticated analysis with the use of quite advanced econometric tools (Grootaert and Brathwaite 1998). The latter, although very useful, may be difficult to follow by policy makers who do not have a proper academic background in econometrics.

3.49 One methodology, however, seems to be especially helpful and persuasive, as well as easily understandable. This methodology, based on the exploration of comparative perspective, is widely used by ESW studies. Examples are numerous, including the World Bank publication, *Making the Transition Work for Everyone* (World Bank 2000b). Although there may be some inconsistencies (i.e., Belarus data in the ESW study just quoted!), in general comparative studies are useful in finding additional arguments for the formulation of policy objectives in a given country.

### **Conclusion**

3.50 Despite some deficiencies, World Bank ESW studies proved useful in formulating objectives of social policy reforms in Russia. But what is as important is the cooperation of the World Bank with local policy makers, experts and other stakeholders in preparing project proposals based on ESW. The borrower should feel that a particular conclusion has not been imposed upon it from outside, but has resulted from collaborative work. So far, such a cooperation seems to be unsatisfactory. Andrews and Ringold (1999) mention that “*there appears to be a need in the future for more intensive dialogue with our clients on overall policy reform. And this dialogue needs to be based on findings from Bank economic and sector work. There is some evidence that such coordination was lacking in the past*” (p. 58). This comment refers to transition economies in general, but without any doubt it may be applied to Russia.

## **4. Development Effectiveness Impact Assessment**

### **A. Counterfactual**

4.1 In the 1990s the formation of alternative scenarios of Bank’s activities in the sphere of social protection is hindered by the inconsistent policies of the borrower and poor coordination between the executive and legislative authorities in the realm of social



reforms. Until 1996, as the number of unfunded social mandates, which regulated the introduction of numerous new social benefits, grew, while arrears of inherited social liabilities (mainly those related to child benefits) mounted, it was impossible to implement sectoral “adjustment operations” nor projects aimed at the reorganization of policies in the social sphere and its transformation. Thus, only operations within the ESSP project initially targeted at the reform of the policies implemented on the labor market, and in the sphere of social protection and pensions, did not take into account the real potential of the reform and therefore were doomed to failure. Exactly because of this, the project had been reorganized twice. As a result, the completed tasks came to deliveries of computers, and organizational and methodological assistance to employment service agencies, which was impaired by the change in the service’s status. It seems much more feasible to work out a single plan of technical development (computerization) of employment and social protection agencies and proceeding from this plan to purchase computers and related equipment. An analysis reveals that the actual implementation of the Bank’s projects resulted in unorganized procurement in the framework of several projects, and in the deliveries for pension agencies, for the calculation of child allowances, for pilot projects in the area of social protection, and for employment agencies that were carried out in an uncoordinated manner. The procedure of selection of pilot regions for the participation in various computerization programs also lacked the systematization.

4.2 In the period after 1996 there were legislative acts that were adapted that were more consistent with the principle of eligibility and of social liabilities balanced against the available financial resource. There formed a potential for adjustment operation, and it was implemented in the framework of the SPAL project. Like other similar programs, SPAL included some “unfocused” terms and was somewhat inconsistent with regard to the terms of individual tranches (especially the last granted after the August crisis of 1998). Judging from the present day standpoint, it would be a more efficient decision to grant this loan after the crisis, since in that case its terms and tranches could have been much better structured and ordered. Naturally, the latter remark was formulated without taking into account the political realities of 1997 (SPIL).

4.3 The existing draft loan agreements related to the spheres of education and public health seem to be better prepared and will be implemented in a more favorable environment. In this section, it would suffice to note that an earlier implementation of respective projects would have hardly resulted in higher effectiveness of these products of the Bank.

***Outcome, Institutional Development Impact, Sustainability***

- Certain achievements in the promotion of the pension reform, elaboration of draft laws, approbation and preparation for the dissemination of the methods related to a means-tested system of social assistance, institutionalization of the employment service, and procurement of computers for social protection agencies responsible for the payment of pensions and child allowances in a large number of regions

may be listed among the results of the implementation of socially oriented projects.

- Overall the SP projects priorities were consistent with the country development priorities in the field of social protection, and their relevance can be assessed as substantial. Since major project objectives were finally met with substantial shortcomings and the amount of resources spent was disproportionate to the results obtained, efficiency and efficacy can be rated as modest.
- In terms of institutional development, the appropriate rating is “modest,” since the project failed to contribute significantly to the ability to effectively use resources.
- In terms of sustainability, the general direction of reform is likely to be sustained, but the projects’ limited institutional achievements, including those under the ESSP, are of somewhat uncertain sustainability, since the government has no plans for follow up on project implementation, and resources are scarce.

## 5. Bank Performance

5.1 In its contribution to the ESSP Implementation Completion Report (ICR), the government rated Bank performance as highly satisfactory, noting, among other remarks, that:

*“The decision about restructuring of the Loan was correct and taken in time. It was done on the basis of the analysis of the situation carried out with participation of representatives of the Bank. During life of the Project, the Bank close supervision ensured not only conformance to the Loan Agreement but made it possible to respond to the complications that arose and to introduce adjustments in accordance with the changes of economic conditions.”*

5.2 The ESSP started out as an overambitious but strategic project with potential for a strong impact on the policy environment for the SP and employment fields, but it lost its momentum in the course of restructuring. Nonetheless, such restructuring was necessary for the project to at least contribute to the establishment of a modern, up-to-date infrastructure of the newly developed Employment Service and appropriate computer facilities in the pensions payment centers. Given the country’s political environment, a satisfactory rating for Bank performance is appropriate.

5.3 Based on the information we have, we cannot make any definitive statement as to the appropriateness of the SPAL project design and instrument type.<sup>9</sup> The Bank, however, failed to use the opportunities of multiple tranches and key conditions to ensure the continuity of reform efforts in key SP fields. Implementation of specific project

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<sup>9</sup> We are unaware of the internal debate regarding the rationale for the choice of an adjustment-type operation.

activities can be described as “satisfactory” (this rating applies to the SPIL project as well), but, while certain important results have been achieved, their overall impact seems out of proportion with the total amount of funds provided under this “adjustment operation.”

5.4 The impact of ESW upon the policy making in SP can be characterized as significant although not always sustainable. The method for the definition of subsistence minimum approved by the MLSD in 1992 and effective until 2000 was compatible with the approach used in the early ESW on poverty. The Bank has started the funding of the RLMS survey widely used internationally for academic work on poverty. Later rounds of the RLMS were financed by the USAID. Currently the analytical work based on RLMS database is used for the development of social reforms program by the Ministry of Economic Development of Trade.

5.5 The ESW on poverty, especially those putting forward poverty indicators not used formerly by the Russian statistics and GOR (such as poverty depth and poverty intensity) had a strong impact on statistical surveys and analytical work in this field. Goskomstat has started using poverty depth indicator on a regular basis and MLSD has started to use more detailed statistics on poverty in its analytical work on Monitoring of Income and Standard of living of the Population.

5.6 The impact of ESW on poverty in the second half of the 1990s on policy making can be described as limited. By the end of 1990s Russia had developed substantial research potential in the field, and policy was mostly based on the analytical work produced internally. However, further ESW aimed at the improvement of Goskomstat extensive HBS and the resulting database would be quite important for the statistical authorities and for the decision makers, since that would be a major step toward increased credibility of the HBS data.

5.7 ESW underlying social assistance pilots has been important for the better organization of experimental work in the pilot regions and dissemination of the proposed methodology. While MLSD officials have appreciated the significance of better targeting of the social assistance they were also critical of the proxy means-testing methods. Although recommended by the Bank in the framework of SPAL/SPIL, they proved to be not fully adequate to the tasks of social assistance programs aimed at the reduction of extreme poverty.

5.8 Child Welfare Study, Migration Study, and Labor Market Study have been helpful for the increased organization of analysis and program development in appropriate departments of the MLSD.



World Bank. 2000b. *Making Transition Work for Everyone. Poverty and Inequality in Europe and Central Asia*. Washington, D.C.

World Bank. 1994. *Averting the Old Age Crisis*, World Bank Policy Research Report, Washington, D.C..

World Bank. 1989. *Poland. Subsidies and Income Distribution*. World Bank Report 7776-POL, Washington, D.C.

## STATISTICAL ANNEX

### Table A.1 IBRD Social Protection and Related Loans

Loan	Board Date	Effective Date	Closing Date	Effective		
				Total Amount in mln US\$	amount in mln US\$	Disbursed as of 07/01 in mln US\$
<b>1. Social Protection Loans</b>						
Empl. Services and Social Protection [ESSP]	8/24/1992	9/9/1994	4/30/2000	70.00	55.58	55.58
Social Protection Adjustment Loan [SPAL]	6/25/1997	6/27/1997	9/30/2000	800.00	800.00	800.00
Social Protection Implementation Loan [SPIL]	10/7/1997	7/1/1998	12/31/2001	28.60	28.60	12.10
<b>Sub-Total 1</b>				<b>898.60</b>	<b>884.18</b>	<b>867.68</b>
<b>2. Loans Comprising Social Protection components</b>						
Rehabilitation I	8/6/1992	12/29/1992	9/30/1994	600.00	600.00	600.00
Rehabilitation II	6/6/1995	9/28/1995	6/30/1996	600.00	600.00	600.00
Coal Sector Adjustment Loan [SECAL] I	6/27/1996	7/2/1996	12/31/1997	500.00	500.00	500.00
Coal Sector Adjustment Loan [SECAL] II	12/18/1997	12/19/1997	3/31/2001	800.00	800.00	650.00
Regional Fiscal Technical Assistance Project	12/22/1999	8/30/2000	12/31/2004	30.00	30.00	1.90
<b>Sub-Total 2</b>				<b>2530.00</b>	<b>2530.00</b>	<b>2351.90</b>
<b>Total [1+(0.05*Total 2)]</b>				<b>1025.10</b>	<b>1010.68</b>	<b>985.28</b>
<b>Grand Total (All loans 1992-08/2001, including non listed)</b>				<b>12595.44</b>	<b>9834.14</b>	<b>7835.94</b>
<b>Social Protection Lending as % of Grand Total</b>						
<b>Total 1</b>				7.13	8.99	11.07
<b>Total 2</b>				20.09	25.73	30.01
<b>[Total 1+(0.05*Total 2)]</b>				<b>8.14</b>	<b>10.28</b>	<b>12.57</b>

#### Memo Items

<b>Social Service Loans</b>						
Community Social Infrastructure	4/30/1996	1/31/1997	12/31/2002	200.00	156.50	39.36
Medical Equipment Project	6/4/1996	1/30/1997	6/30/2001	270.00	232.29	195.07
Health Reform Pilot Project	6/5/1997	4/17/1998	4/30/2004	66.00	66.00	12.89
<b>Sub-total</b>				<b>536.00</b>	<b>454.79</b>	<b>247.32</b>

Source: World Bank, Russia Monthly Disbursement Report for June 2001, and authors' computations.

**Table A2. Selected social and economic indicators**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>Inflation rate<sup>a</sup> (UN)</b> <i>(annual change, %)</i>	5.2	160.0	1528.7	875.0	309.0	197.4	47.8	14.7	27.8	85.7	36.5
<b>Unemployment (ILO/UN)</b> <i>(% of labor force,)</i>	...	0.1	4.7	5.5	7.5	8.9	10.0	11.2	13.3	12.2	10.4
<b>Poverty<sup>b</sup> (Goskomstat/WB)</b> <i>(headcount, %)</i>	...	11.7	33.5	31.5	22.4	24.7	22.1	20.8	23.8	39.1	33.7
<b>Poverty<sup>c</sup> (WB)</b> <i>(headcount, %)</i>	...	...	26.8	36.9	30.9	41.1	43.2	...	49.0	n.a.	n.a.
<b>Life expectancy (UNDP)</b> <i>(males, years)</i>	64.6 <sup>d</sup>	63.5	62.0	58.9	57.6	58.3	59.8	61.0	61.3	59.9	
<b>Pension replacement rate</b> <i>(old age pension to net wage)</i>	33.7	33.8	25.8	33.6	35.0	39.8	38.	39.5	36.4	28.3	30.8
<b>Pension expenditure</b> <i>(as % of GDP)</i>	6.0	6.6	7.3	6.4	5.9	5.5	5.8	6.9	6.0	5.6	

Source: World Bank (2000a), United Nations (2000), UNDP (1999), Cichon, Hagemeyer, and Ruck (1997), Goskomstat official data for respective years.

<sup>a</sup> Consumer prices.

<sup>b</sup> Goskomstat official poverty incidence based on 49,175 households with 139,165 individuals, surveyed quarterly. Per capita total income (survey incomes with imputation to bring survey means to macroaggregates) against regional cost of official minimum subsistence basket.

<sup>c</sup> Using RLMS; 1998 data are based on 3,619 households with 10,222 individuals; 1992–93 data had somehow higher number of households (near 5,500). Region-specific official poverty lines against consumption per capita.

<sup>d</sup> 1989–90.