

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC2777

Project Name	Local Economic Development of Small Towns (P147429)
Region	EUROPE AND CENTRAL ASIA
Country	Russian Federation
Sector(s)	General public administration sector (100%)
Theme(s)	Cultural Heritage (40%), Urban Economic Development (60%)
Lending Instrument	Investment Project Financing
Project ID	P147429
Borrower(s)	Ministry of Finance of the Russian Federation
Implementing Agency	Ministry of Culture of the Russian Federation
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	10-Jun-2016
Date PID Approved/ Disclosed	15-Jun-2016
Estimated Date of Appraisal Completion	30-Mar-2017
Estimated Date of Board Approval	25-Sep-2017
Concept Review Decision	Track I - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

In 2015 the Russian economy began its difficult adjustment to the severe global oil-price shock and the imposition of economic sanctions in 2014. The impact of these twin shocks drove Russia's economy into a deep recession, which reached its nadir in the second quarter of 2015. Following a brief rally early in the year, a further decline in global oil prices in August 2015 derailed an anticipated recovery, and annual real GDP contracted by a total of 3.7 percent.

The economic decline has had a significant effect on poverty, reversing the gains of the past decade which had witnessed a dramatic drop in poverty from about 40 percent of the population in 2001 to about 10 percent in 2010. The current World Bank baseline outlook, however, sees the national poverty rate increasing from 10.8 percent in 2013 to 14.2 percent in 2015 and 2016. Poverty is expected to further increase because real disposable income and consumption will decline.

The Government has begun working jointly with the expert community on an extended strategy of

socioeconomic development, the so-called Strategy 2030. The main objective of the 2030 Strategy would be to end with dependency on the gas and extractives and focus on productive sectors. An important effort would be made towards small towns and their economic development, including through culture and tourism products. To support the development of 2030 Strategy, the Ministry of Economic Development of the Russian Federation published a Forecast of the Russia Economic Development in January 2016. The Forecast identified the priority areas for mid and long term development in Russia as following: development of comparative advantages in the competitive sectors of Russia (high-tech, energy, education, etc), innovations in the manufacturing and trade industries, modernization of transport and energy infrastructure, development of efficient and competitive institutions, improvement of social justice, improvement of human capital (with a special focus in the health and cultural sectors), integration of the Eurasian trade.

Sectoral and Institutional Context

Addressing the development of small towns/settlements is a critical step towards achieving shared development across Russian regions and population. Russia has approximately 23,000 municipal entities. There are indications that, particularly in smaller towns and settlements, declining population and reducing investments in key services (including water, district heating, and roads) are the norm. Indeed, municipal budget data appears to support these conclusions - for example, almost half of municipalities (43 percent) ended 2011 with a budget deficit.

Improving economic performance through leveraging economic assets is a key development agenda for declining towns. Determining the economic development agenda usually occurs through an integrated approach that focuses the competitive and comparative advantages of particular towns such as their location, transport linkages, industrial clusters and natural and cultural heritage assets. Interventions are often focused on improvement of the local investment climate, targeting parts of the city - especially historic districts - for urban regeneration, investments in hard and soft infrastructure and support to new and existing businesses particularly as they relate to targeted industrial clusters.

Internationally, in recent years, cultural heritage has emerged as an economic asset that cities and towns have leveraged to generate positive investment returns, including in real estate values, job creation, tourism and livability. Some successful examples include Bilbao where the regeneration of its historic districts formed an initial centerpiece for the economic development strategy that has transformed this former industrial town over the last 25 years; Baalbeck (Lebanon) where the implementation and investments in an economic development strategy which focused on the revitalization of the historic core led to a 105 percent increase in employment and culture tourist industries and 90 percent increase in businesses around the historic core subsequent to investment in the historic core; and Skopje where a US\$2.5 million investment in the Old Bazaar increased tourism by 90 percent and employee numbers by 73 percent between 2005 and 2010.

Small historic towns/settlements are a sub-set of Russian declining towns, but their cultural heritage offers a resource that can be leveraged for economic revival. Initial indications are that most of these historic cities are in poor condition, with urgent need for restoration or conservation of cultural and historical monuments, improvement of the existing poor streets and road conditions and underdeveloped social infrastructure. Most of these towns (25/39) have also experienced outmigration between 2002 and 2010.

The Russian Government attempted implementation of a federal program aimed at addressing

conditions in small and medium sized historic towns in Russia, but it did not achieve the expected results. In 2001, the Russian Government approved the federal targeted program on Preservation and Development of Architecture of Historic Cities (2002-2010). It included a sub-program entitled Revival, Construction, Renovation and Restoration of Small and Medium Sized Historic Towns of Russia under Conditions of Economic Reforms. This program was terminated in 2006, with only 16 percent of the original targeted federal funding provided, while the regional budget co-financing was not provided at all. At the same time, even these very small volumes of allocated funds were not fully disbursed. One of the primary reasons for the failure, as noted by the Public Chamber, was the poor state of the organizational and management component of the program, and lack of control over its implementation that distorted its basic design and dissipated the funding among many restoration sites thus minimizing its impact.

Consequently, the Russian Government has requested International Bank for Reconstruction and Development (IBRD) financing to design and implement a project on the Local Economic Development of Small Towns (Historic Settlements) in Russia. The expectation is that this could be used as a pilot on how interventions in small historic towns could be implemented with potential replication of the implementation mechanisms in other Russian historic cities.

Relationship to CAS

The project is consistent with the current World Bank Group's Country Partnership Strategy (CPS) for Russia (2012-2016) which supports Russia's efforts to: (i) increase growth and diversification through better management of public finances, and (ii) improve governance and transparency through more accountability and achieving better service standards in public administration, procurement, and financial management. More specifically, in the medium term, preserving and increasing the attractiveness of cultural assets in the selected smaller historic towns combined with support to the tourism development is expected to contribute to increased economic growth through larger flows of visitors, and creation of new jobs and opportunities for the local population, with substantive positive impacts on the bottom 40 percent of the population particularly living in these towns. Population decline, vulnerability, and poverty is significantly higher in smaller Russian towns than in the larger urban centers average population decline at approximately -3.55 percent between 2000 and 2010 poverty rate is a 12.2 percent compared to 11.7 percent for cities with population over 100 thousand and 5.5 percent in cities over one million. The project will leverage cultural heritage as an economic asset to generate positive investment returns in real estate, jobs (most often low skilled), and tourism.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The proposed objective of the project is to support the economic development of selected small towns. This will occur through leveraging their economic assets, particularly cultural heritage assets.

Key Results (From PCN)

It is expected that these efforts will, in the medium-term, contribute to increased tourism and, therefore, to the economic development of the selected historic towns and settlements.

Suggested key indicators are: (i) number of visitors in supported sites; (ii) revenues from tourism related activities in selected towns; (iii) share of regional and local government co-financing to support the project investments; and (iv) number of new firms providing tourism services in

selected towns. A list of PDO monitoring indicators will be developed during Project preparation and will form an Annex to the PAD.

III. Preliminary Description

Concept Description

The PDO formulation will be further developed during the later stages of the project preparation. The Project will aim at leveraging investments in cultural heritage and tourism in an effort to improve the economic development of 3-5 selected towns. It will use an integrated development approach. It will, therefore, finance activities related to urban planning, tourism development, (including marketing and branding), and capacity building for cultural heritage management and tourism promotion. It will also finance investments in physical restoration of historic sites, and upgrading of surrounding infrastructure in historic core of the selected towns. This is a shift from previous Bank financed projects which focused primarily on the rehabilitation of individual cultural heritage monuments.

Towns were selected through a two-phase selection process on the basis of methodology prepared by the Ministry of Culture (MOC) and endorsed by the Bank. Eligible towns for this competitive selection were 41 towns which already had status of historic settlement of federal significance and included in the List of historic settlements approved by the Order of the Ministry of Culture of the Russian Federation and the Ministry of Regional Development of the Russian Federation #418/339 of July 29, 2010. First, there was a set of pre-conditions (eligibility criteria) designed to short list the eligible towns for participation in the Project. In particular, this set of eligibility criteria were as following: (i) population of town from 10 thousand up to 100 thousand people; (ii) town already has status of historic settlement of federal significance in accordance to federal law 73-FZ dated June 25, 2002 (version of May 7, 2013); (iii) distance to the regional capital not exceeding 150 km; and (iv) absence of overdue regional arrears to the federal budget. Second, the eligible towns completed their applications and were subsequently ranked for participation in the project using a performance ranking system. The performance ranking system would include a set of transparent selection criteria based on historic significance, tourism potential, required basic infrastructure and readiness for implementation (including willingness to co-finance). The competitive process and willingness to co-finance criterion were to foster ownership by the selected towns whilst the remaining selection criteria would ensure the viability of the investments.

Proposed Project components include:

- (€) Component 1: Support for Economic Development and Tourism
- (€) Component 2: Physical Investments in Historic Towns
- (€) Component 3: Project Management and Monitoring

COMPONENT 1: SUPPORT FOR ECONOMIC DEVELOPMENT AND TOURISM. This component would finance the following 4 sub-components:

It is planned that this component would support the development of tourism and marketing strategies for the towns, small investments for strengthening the tourism potential of the selected historic towns and institutional capacity building for cultural heritage tourism.

Subcomponent 1.1. Support for Tourism Development and Marketing: This component of the project will support the development of the marketing strategies and branding to all selected towns for the project. In addition, this component will finance the establishment or expansion of tourism

information centers. Successful destinations operate such centers as a focal point for the tourism including providing background information on the area; orientation with maps, exhibits and brochures in combination with basic amenities and services.

Subcomponent 1.2. Small investment subprojects for strengthening the tourism potential of Selected Historic towns: This subcomponent would assist selected towns in improving their tourism assets and promotion (including landscaping activities, limited small scale repair and construction, purchase of technology and equipment, furniture etc.) to ensure that the project participating towns receive a wide range of economic development benefits associated with cultural heritage tourism..

Subcomponent 1.3. Institutional Capacity Strengthening for Cultural Heritage Management and Tourism Development: This subcomponent will aim to provide support to the participating regions, municipalities and their cultural institutions to manage their cultural resources (including those financed through the project) and marketing interventions, through an extensive training program. This training program will be delivered throughout the duration of the Project, and will include a combination of Long-Term and Short-Term trainings. Regional, municipal and cultural institutions would also be eligible for the training. The subcomponent would also facilitate exchange of experiences between participating small towns and their regions and cultural institutions for knowledge and innovation sharing via study tours and workshops.

COMPONENT 2: INVESTMENTS IN HISTORIC TOWNS.

This component will finance the physical investments in the 4 towns (selected urban fragments. The investments will include restoration and regeneration construction activities, upgrade and modernization of the engineering networks and municipal utility infrastructure, landscaping, and, whenever necessary, purchase and installment the equipment required for operation of the cultural institutions that will function at the territory of the selected urban fragments. The component would finance engineering design, construction supervision and civil works. Co-financing of required regional infrastructure (engineering, transport improvements) will be identified and then provided from Regional budgets.

COMPONENT 3: PROJECT MANAGEMENT AND MONITORING.

This component will finance goods and consultants services for project management and monitoring.

The content of the proposed components would be further developed at the later stages of the Project preparation.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11	x		
Indigenous Peoples OP/BP 4.10		x	

Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	250.00	Total Bank Financing:	200.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			50.00
International Bank for Reconstruction and Development			200.00
Total			250.00

VI. Contact point

World Bank

Contact: Soraya Goga
 Title: Lead Urban Specialist
 Tel: 458-0138
 Email: sgoga@worldbank.org

Contact: Tatyana Shadrnova
 Title: Senior Operations Officer
 Tel: 5738+2064 /
 Email: tshadrnova@worldbank.org

Borrower/Client/Recipient

Name: Ministry of Finance of the Russian Federation
 Contact: Ms. Anna Valkova
 Title: Department for International Financial Affairs
 Tel: 7-495-9134719
 Email: avalkova@minfin.ru

Implementing Agencies

Name: Ministry of Culture of the Russian Federation
 Contact: Mr. Artem Novikov
 Title: Deputy Director of Estate and Investment Policy Department
 Tel: 7-495-6238444
 Email: novikov@mkrf.ru

VII. For more information contact:

The InfoShop
 The World Bank
 1818 H Street, NW
 Washington, D.C. 20433
 Telephone: (202) 458-4500

Fax: (202) 522-1500
Web: <http://www.worldbank.org/infoshop>

Public Disclosure Copy

Public Disclosure Copy