REPORT NO.: RES41152

DOCUMENT OF THE WORLD BANK

RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
RUSSIA CULTURAL HERITAGE 2
APPROVED ON DECEMBER 7, 2010
TO
RUSSIAN FEDERATION

SOCIAL
EUROPE AND CENTRAL ASIA

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I. BASIC DATA

Product Information

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Financing Instrument</th>
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<tr>
<td>P120219</td>
<td>Investment Project Financing</td>
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<th>Original EA Category</th>
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<td>30-Jun-2022</td>
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Organizations

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<th>Borrower</th>
<th>Responsible Agency</th>
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<tr>
<td>Russian Federation</td>
<td>St. Petersburg Foundation for Investment Projects</td>
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Project Development Objective (PDO)

Original PDO

The project development objectives are to: (i) support the conservation, safekeeping, valorization and promotion of cultural heritage assets in four oblasts of the RF and (ii) strengthen regional capacity for cultural heritage management so that cultural heritage assets fully support the socio-economic development of the four oblasts.

Summary Status of Financing

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Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

I. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES
Project Status and Rational for Restructuring

1. On February 14, 2020, the Ministry of Finance of the Russian Federation, jointly with the Ministry of Culture of the Russian Federation, informed the World Bank of its intention to increase the Borrower’s co-financing by US$22.3 million for Preservation and Promotion of Cultural Heritage Project. The IBRD loan amount and closing date will remain unchanged. Currently the total Project cost is US$314.1 million, which includes IBRD loan of US$100 million and US$214.1 million of the Borrower’s co-financing. Thus, this increase will bring the total Project cost to US$336.4 million, including IBRD loan of US$100 million and US$236.4 million which will come from the Borrower’s co-financing.

2. The Project has two primary areas of focus. The first is Integrated Heritage Site Development, which is implemented through a demand-driven mechanism that supports, on a competitive basis, subproject proposals developed by governments of four project participating regions and their cultural institutions, and includes financing of both (i) “Large Window” subprojects for the conservation and restoration of the cultural heritage sites (the maximum cost of each individual Large Window subproject was defined as up to US$30 million), and (ii) “Small Window” subprojects of up to US$500,000 of the individual subproject cost in support of initiatives of state cultural institutions to enhance their appearance to visitors and improve their value for the local populace. The second area of focus is support to the Protection of Museum Assets implemented through the improvement of museum collection management, conservation, and storage practices, including pilot construction of Multi-Functional Museum Facility in Leningrad region; and design and testing of museum security practices. The Project thus supports local socio-economic development in the near term through creation of employment through contracts for conservation, rehabilitation and site development work, and in the longer term through expanded access to high quality cultural services to people living outside of major urban centers.

3. The Project is on track to achieve its development objective and on track to meet target values of Project Development Objectives (PDO) and intermediate results indicators. US$81.9 million (almost 82 percent of the loan) has been disbursed as of beginning of April 2020. The progress in disbursement is driven by progress in implementation of preservation works financed through Large Window sub-projects under Component 1 "Integrated Heritage Site Development". To date, fifty-three cultural heritage preservation subprojects have been completed benefiting close to 2.5 million people who are now provided with improved cultural heritage services offered by the cultural institutions supported by the Project. The Project beneficiaries include visitors in the areas outside of the major cultural centers who were previously unable to access cultural heritage services. The Project is on track to meet the target of at least 79 cultural heritage preservation sub-projects completed.

4. The Project was restructured four times. First restructuring was processed in July 2013 with US$ 3 million added by the Borrower to enable use of the project funds for preparation of a new operation - the proposed Small Historic Settlements Development project. Second restructuring was conducted in March 2015 to secure additional US$30 million of the Borrower’s co-financing for construction of the Multi-Functional Museum Facility (MMF) in line with the finalized design and purchase of a full range of restoration equipment needed for execution of the multitude of MMF functions which is considered by the Borrower as one of the key activities under the Project. This restructuring also extended the Project closing date extended from July 31, 2017 to June 30, 2019 to secure the needed time for the MMF construction. Third restructuring was processed in February 2017. It included a 3-year extension of the Project closing date from June 30, 2019 to June 30, 2022 and increase of the Borrower’s co-financing in the amount of US$ 65 million so that to provide sufficient time and funds for completion of all planned Large Window and Small Window subprojects. Fourth restructuring was processed in January 2019 and decreased the Borrower’s co-financing by US$44.4 in connection to the Borrower’s decision to exclude financing of three of initially planned cultural heritage
sites under Large Window from the Project scope, with a view to optimize the use of the federal budget funds. This restructuring brought a total number of Large Window subprojects financed by the Project from fourteen to eleven with a total amount of funds allocated for Large Window investments amounting to US$206.5 million, including US$71.2 financed by the Bank loan and US$135.3 of the Borrower’s co-financing.

5. To date, six Large Window subprojects have been completed (Tver Traveling Palace in Tver region, White Tower, Ryurikovo Gorodische and Korostyn Travelling Palace in Novgorod region, Varlaam Corner of Pskov Kremlin and Postinkov Estate in Pskov region), while five more Large Window investments are at different stages of implementation. On average, the Russian Federation has co-financed 44 percent of sub-projects costs, i.e. well over the target of 20 percent co-financing.

6. Progress under Small Window component continues to advance exceptionally well. Out of seventy Small Window subprojects approved by the Inter-Ministerial Committee as a result of five calls for proposals, forty-eight subprojects have already been completed and remaining twenty-two are at different implementation stages. Local cultural institutions are using resources from the Small Window to invest in multimedia and information and communications technologies. The former improves the quality of services available and attract more visitors, while the latter technologies are enabling larger, more centrally located cultural institutions to connect with those located in remote areas to, for example, broadcast theater and philharmonic orchestra performances, thus benefiting previously underserved populations. Regional governments and managers of local cultural institutions are beginning to explore ways to leverage cultural institutions and the networks of people that engage with them as platforms to deliver other forms of social services, such as early childhood education and development. The cultural institutions are also reporting revenue growth by about 40 percent. These figures are expected to rise as new Large Window and Small Window subprojects implementation commences. Work is underway to measure increased revenues across participating all cultural institutions and contributions to the local economies. Over 1,000 employees of cultural institutions have been trained in cultural heritage management practices. It should be noted that the both LW and SW subprojects are implemented not only in the regional capital cities, but covering a total number of twenty two smaller towns located in the participating regions.

7. The Project component on improvement of collection management, conservation and storage includes support to construction of the regional Multi-Functional Museum Facility in Leningrad oblast. The challenging situation when the construction works that were fully stopped by the contractor in winter 2019 as a result of financial difficulties experienced by the company and its inability to pay the workers at the site had been resolved. The MMF construction was restarted in fall of 2019 with works expected to be completed by summer 2021. Furthermore, the project is on track with implementation of the activities related to development and testing of museum security practices. Fourteen subprojects to test museum security practices out of the planned sixteen have been successfully completed with the remaining ones under implementation.

8. Successful completion of all ongoing Large Window subprojects is of the utmost importance to ensure efficient use of the Project funds and successful achievement its development objectives. With six Large Windows subprojects successfully completed, there are five Large Window investments in the total cost of US$79 million which are at the implementation stage. These five subprojects include three subprojects in Leningrad region (Mon Repo Park, Vyborg Castle and Vyra Station Master House), Museum Quarter subproject in Pskov region and Vytoslavitsy Museum of Wooden Architecture subproject in Novgorod region. While restoration works under all these five subprojects are generally progressing in line with their schedules, each of the corresponding civil works contracts has to undergo a series of amendments. Most of the amendments envisages inclusion of additional works or additional scopes of works as a result of discoveries or examinations undertaken during contracts implementation and led to increased cost of
investments against initial contract amounts. It should be noted, due to the specific of the restoration and conservation subprojects, most of the additional works could not have been foreseen at the design stage because the defects and elements of historical decorating were either hidden within walls and foundations and could be determined only after beginning of works and related additional inspections, or designers had restricted access to the premises and, thus, were not able to examine the entire site and had to prepare design and propose technical solutions on the basis of only limited surveys.

9. For example, additional works under the ongoing contract on restoration of Historical, Architectural and Natural Museum Reserve ‘Mon Repos Park’ in Leningrad region include the increased scope of works related to construction of drainage systems, rehabilitation of the park area and restoration of historic Mon Repos buildings, including additional strengthening of the historic structures due to their much worse than initially anticipated condition revealed after the start of the restoration works. The scope of works related to stone dams and dredging in the harbor adjacent to the park and shoreline strengthening need to be expanded as well to mitigate deteriorating of the dam base and shoreline caused by tidal phenomena resulting in meadow waterlogging. It will allow for less frequent maintenance of the water engineering facilities and the harbor in the future, improve reliability of structures and preserving historic boundaries of the park. Addendum to the contract on restoration of the Museum Quarter - a complex of four historic buildings – in Pskov region covers additional archeological works related to revealed old graves and building elements that had been covered by later deposits of the cultural layer (soil), increased scope of works related to strengthening of foundations of historic buildings to ensure their future stability, increased scope of works related to restoration of historic walls and inter-floor structures due to unsatisfactory condition of brick masonry revealed after the removal of the finishing layer. Similarly, scope of works under Vyborg Castle subproject in Leningrad region has to be increased due to expanded scope of works related to restoration of brick walls, foundation strengthening and construction of inter-floor structures. Scope of works under Vitoslavlitsi Museum of Wooden Architecture in Novgorod region had to be increased for all wooden architecture objects, as necessitated by a poor condition of the roof cladding that caused perpetual soaking of the wooden elements of the log frames and inter-floor structures. Also, the largest historic wooden building exhibited by Vitoslavlitsi museum required a complete re-assembly, due to its highly unsatisfactory condition, through the initial design envisaged just restoration of its structure. Furthermore, the scope of works in the Museum’s area overlooking the lake need to be increased to include construction of additional drainage system and raising the elevation of some lake adjacent parts, as this area is now heavily waterlogged. All the amendments are subject to careful scrutinizing of justifications for any new request presented by the Borrower and reviewed by the Bank to maintain effectiveness of the Project. They are aimed to ensure the technical quality of restoration works and sustainability of the investments which is critical for successful completion of subprojects and functional use of the restored historical buildings. The amendments are estimated to result in 28 percent increase of the total cost of all ongoing Large Window subprojects.

10. Based on the above, the Borrower would like to increase its co-financing by US$22.3 million to secure sufficient funds for successful completion of all ongoing Large Window subprojects. The completion of all started restoration works will allow to ensure efficient use of already spent funds and generate long-term benefits in terms of preserving unique historical monuments and expanding the range of services available to tourists and population at large. This, in turn, will increase investment potential of participating regions and will contribute to their economic development.

Description of Proposed Changes

11. In light of the Borrower’s request, the proposed restructuring seeks to adjust the share of the IBRD loan financing under the expense Category (1) “Goods, Works, Consultants’ Services and Training for the Project, except for Part 2 (a) of the Project” from 33 percent to 18 percent for goods, works and services supplied/ performed/ provided
from July 1, 2020 onwards. Conversely, this means that the share of the Borrower’s co-financing under this Category will increase from 67 percent to 82 percent.

12. The original PDO and associated outcomes remain relevant. The Project closing date remains unchanged.

13. There are no changes to the Results Framework. All indicators and their target values remain the same.

14. There is no change in the composition of the Project components and their names. The Project institutional and implementation arrangements will also remain unchanged.

15. There are no outstanding audits under the Project. All audit and financial management reports have been submitted in time and found to be acceptable to the Bank. Both Procurement and Safeguards compliance are satisfactory, and no safeguards related issues have been reported. The Project’s environmental category remains Category B.

II. DETAILED CHANGES

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

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<th>Ln/Cr/TF</th>
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