

**Document of
The World Bank**

FOR OFFICIAL USE ONLY

Report No. 77458-BY

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

COUNTRY PARTNERSHIP STRATEGY

FOR

THE REPUBLIC OF BELARUS

FOR THE PERIOD FY14-FY17

June 13, 2013

**Belarus, Moldova and Ukraine Country Management Unit
Europe and Central Asia Region**

**International Finance Corporation
Europe and Central Asia Region**

This document has a restricted distribution and may be used by recipients only in performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

The date of the last Country Assistance Strategy was November 7, 2007

CURRENCY EQUIVALENTS (Exchange Rate Effective March 27, 2013) Currency Unit = BYR (Belarusian Rubel) USD 1 = BYR8,620	GOVERNMENT FISCAL YEAR January 1 to December 31 WEIGHTS AND MEASURES Metric System
---	---

ABBREVIATIONS AND ACRONYMS

AAA Analytical & Advisory Activities AdePT LM Automated DEC Poverty Tables for Labor Market Analysis AF Additional Financing BYR Belarusian Rubel CAS PR Country Assistance Strategy Progress Report CIS Commonwealth of Independent States CPI Consumer Price Index CPS Country Partnership Strategy CPPR Country Portfolio Performance Review CSOs Civil Society Organizations DPL Development Policy Loan EBRD European Bank for Reconstruction and Development ACF EurAsEC Anti-Crisis Fund ECA Europe and Central Asia EDB Eurasian Development Bank ENPI European Neighborhood and Partnership Instrument ESMAP Energy Sector Management Assistance Program ESW Economic and Sector Work EU European Union FDI Foreign Direct Investment FLEG Forest Law Enforcement and Governance FSAP Financial Sector Assessment Program FY Fiscal Year GAC Governance and Anti-Corruption GDP Gross Domestic Product GEF Global Environment Facility GNI Gross National Income HDI Human Development Index IBRD International Bank for Reconstruction and Development ICT Information and Communication Technologies IDF Institutional Development Fund IEG Independent Evaluation Group IFC International Finance Corporation IMF International Monetary Fund IMF SBA IMF Stand-By Arrangement IUCN International Union for Conservation of Nature LGP Lending Under Government Programs LFS Labor Force Survey M&E Monitoring and Evaluation	MDG Millennium Development Goal MSE Micro and Small Enterprises MSME Micro, Small, and Medium Enterprises MLSP Ministry of Labor and Social Protection MTDS Medium-Term Debt Strategy NBRB National Bank of Republic of Belarus NCDs Non-communicable Diseases NDEP Northern Dimension Environmental Partnership NIB Nordic Investment Bank ODIHR Office for Democratic Institutions and Human Rights OECD Organization for Economic Cooperation and Development OSCE Organization for Security and Cooperation in Europe PEFA Public Expenditures Financial Accountability PER Public Expenditure Review PFM Public Financial Management POPs Persistent Organic Pollutants PSF Per-Student Financing PSIA Poverty and Social Impact Analysis REPARIS Program of Accounting Reform and Institutional Strengthening SAFE Strengthening Accountability and the Fiduciary Environment SIDA Swedish International Development Cooperation Agency SME Small and Medium-size Enterprises SOE State-owned Enterprise STAR-EaP Strengthening Auditing and Reporting in the Eastern Partnership countries TA Technical Assistance TCM Thousand Cubic Meters TF Trust Fund TFSCB Trust Fund for Statistical Capacity Building UNDP United Nations Development Program USAID United States Agency for International Development WBI World Bank Institute WBG World Bank Group WHO World Health Organization WTO World Trade Organization WWF World Wildlife Fund
---	--

	IBRD	IFC
Vice President:	Philippe Le Houérou	Dimitris Tsitsiragos
Country Director:	Qimiao Fan	Tomasz Telma
Task Team Leaders:	Elena Klochan, Yulia Snizhko	Rufat Alimardanov, Olga Sherbina
Team Members:	<p>The Belarus CPS for FY14-FY17 was prepared under the guidance of the Country Director, Qimiao Fan, with overall direction from the ECA Chief Economist, Indermit Gill. The core CPS team included Alexander Pankov, Andreas Schliessler, Andrew Mitchell, Bjorn Philipp, Elena Kladova, Elena Klochan, Giorgia Demarchi, Gregory Jedrzejczak, Irina Oleinik, Jana Kunicova, Knut Leopold, Lalita Moorty, Marina Bakanova, Oksana Nagayets, Olga Sherbina, Paolo Belli, Pekka Salminen, Peter Goodman, Peter Nicholas, Rufat Alimardanov, Sandra Sargent, Sarosh Sattar, Sebastian Eckardt, Stephane Dahan, Tamara Sulukhia, Vyacheslav Zhuk, and Yulia Snizhko. Contributions are gratefully acknowledged from Alexei Slenzak, Elena Nikulina, Joao Pedro Wagner De Azevedo, Julia Smolyar, Maryna Sidarenka, and Nina Rinnerberger. Administrative support was provided by Olesya Gafurova and Anna Sakaloukaya.</p>	

ACKNOWLEDGMENTS

The preparation of this strategy greatly benefited from consultations with national and local government officials and representatives of development partners, civil society, business community, and academia.

**FY14-FY17 COUNTRY PARTNERSHIP STRATEGY FOR BELARUS
TABLE OF CONTENTS**

I. EXECUTIVE SUMMARY	iv
II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA	1
Social and Political Context	1
Recent Economic Developments	1
Poverty Trends, Shared Prosperity and Gender	4
Economic Prospects and Risks	5
Development Challenges and Opportunities.....	6
A. Creating a Competitive and Sustainable Growth Model	7
B. Achieving Sustainable Provision of Infrastructure and Efficient Use of Natural Resources.....	11
C. Improving Human Development Outcomes	13
Government Priorities and Medium-Term Strategy	16
III. WORLD BANK GROUP PARTNERSHIP STRATEGY.....	18
A. Lessons Learned and Stakeholder Feedback.....	18
B. World Bank Group Partnership Strategy Overview	21
IV. IMPLEMENTING THE COUNTRY PARTNERSHIP STRATEGY	29
A. Proposed Lending and Knowledge Program	29
B. Managing Program Implementation	32
V. MANAGING RISKS	35
VI. ANNEXES.....	37
Annex 1: FY08-FY11 Country Assistance Strategy Completion Report	37
Annex 2: Belarus - CPS Results Matrix.....	61
Annex 3: Overview of Main Trust Funds in Belarus.....	68
Annex 4: Findings from IEG Evaluations, Client Surveys and Stakeholder Consultations	70
Annex 5. Gender Assessment Summary.....	77
Annex 6. GAC Filter at the Pre-Concept Stage	79
BOXES, FIGURES AND TABLES	
Table 1: Main Macroeconomic Indicators, 2005-12.....	3
Table 2: Medium Term Outlook.....	6
Table 3: The CPS Activities in FY14 and FY15	34
Table 4: Summary of FY08-FY11 CAS Program Self-Evaluation.....	50
Table 5: Belarus – IBRD Planned Lending Program and Actual Deliveries (FY8-FY11).....	62
Table 6: Belarus – Planned Non-lending Services and Actual Deliveries (FY08-FY11).....	63
Table 7: Belarus Active Trust Fund Products.....	72
Table 8: Key Recommendations from Stakeholder Consultations on the FY14-FY17 CPS.....	76
CAS ANNEXES	84

REPUBLIC OF BELARUS

FY14-FY17 COUNTRY PARTNERSHIP STRATEGY

I. EXECUTIVE SUMMARY

1. **This is a joint World Bank and International Finance Corporation (IFC) Country Partnership Strategy (CPS) for Belarus.** This joint CPS is based on: 1) an analysis of Belarus's key development challenges informed by our recent economic and sector work, 2) alignment with the country's development priorities and commitments, 3) examination of the World Bank Group's track record and lessons learned in implementing support programs in the country, and 4) extensive consultation with and feedbacks from key stakeholders including government agencies, local authorities, civil society organizations, development partners and representatives of beneficiaries of our past and on-going support programs.

2. **Up until 2008 Belarus was a strong economic performer, with an average economic growth rate of 8.1 percent during 2001–2008.** Growth was propelled by a combination of favorable external factors, including strong export demand by key trading partners, especially Russia, underpriced energy imports from Russia and favorable terms of trade for key export goods. Combined with public sector wage increases, this high growth rate resulted in a reduction of absolute poverty from 30 percent in 2002 to 5 percent in 2009 and 2010. Poverty slightly increased to 7 percent in 2011, as a result of declining real incomes in the context of high inflation in 2011, but declined to 4.6 percent in 2012. Some progress has also been made in reducing the role of the state in the economy. For example, the general governmental expenditures were reduced from 46 percent of GDP in 2004 to 40 percent of GDP in 2012, while the share of the private sector in GDP increased from 25 percent in 2004 to 30 percent in 2010¹. However, overall structural reforms remain slow and piecemeal and Belarus continues to rely on a largely unreformed economic model based on the dominance of the state-owned sector and implied "social contract" of broad-based income distribution and high level of equity.

3. **The strong economic and social progress came to a halt in 2009, with the current account deficit widening to over 12 percent of GDP, as the global financial crisis led to reduced access to external borrowing and a sharp decline in exports, and price of gas imports from Russia increased.** In response, the government tightened macroeconomic policy and devalued the Belarusian Rubel (BYR) by 30 percent, supported by financial assistance from Russia and the International Monetary Fund (IMF). Initial stabilization gains were reversed, however, after completion of the IMF Stand-By Arrangement (IMF SBA) in March 2010. Expansionary fiscal and monetary policies, including rapid credit and wage growth, led to a widening in the current account deficit and intensified pressure on international reserves. After a significant loss of reserves at the beginning of 2011, confidence in the BYR collapsed, sparking a foreign exchange crisis. By December 2011, the BYR had lost about 70 percent of its value to the US Dollar and inflation soared to 109 percent. However, by early 2013, the authorities managed to restore macroeconomic stability by tightening monetary and fiscal policies, while a new favorable energy trade agreement with Russia helped to improve trade balance and, consequently, ease pressure on the current account.

4. **Significant risks remain, especially given the large external debt financing needs.** Risks stemming from any loosening of fiscal and monetary policy are exacerbated by the significant external refinancing needs Belarus will face in the next four years. This reinforces

¹Belarus Public Expenditure Review, 2012; EBRD Transition Reports

the continued need for tight macroeconomic policies and containment of the current account deficit, especially given persistently low foreign exchange reserves.

5. **In addition to exposing existing macroeconomic vulnerabilities, the economic crises reinforced the need for structural reforms to regain competitiveness and diversify and modernize Belarus's economy.** In recent years, Belarus's growth model has relied primarily on a combination of external borrowing and cheap energy inputs, while productivity growth has slowed down and has been outpaced by real wage growth. Moreover, Russia's accession to the World Trade Organization (WTO) will increase competition for Belarusian products on the Russian market. For Belarus to achieve further growth and social development, it needs to create an environment that allows its enterprises to dynamically adapt to the demands of an increasingly competitive global economy. Achieving this while preserving social outcomes will require tackling several complex challenges.

6. **Comprehensive structural reforms will be critical to regaining competitiveness, maintaining macroeconomic stability and sustaining growth.** In the future, Belarus's growth will have to rely on significant productivity gains driven by structural reforms. Such reforms are needed to invigorate key engines of growth, primarily the private sector, attract Foreign Direct Investment (FDI) and technology, and reduce the footprint of the state-run segments of the economy. Labor and capital need to be reallocated to high-productivity segments, the state-owned enterprise (SOE) sector needs to be restructured, and reforms implemented to support the private sector. Further integration into the global economy and diversification of exports, especially of non-energy exports, would also contribute to improved economic resilience. Belarus's intention to join the WTO offers an important opportunity in this respect and will also reinforce the impetus for liberalization across several sectors in the economy, including services. Finally, building on the fiscal consolidation effort of the past years, further efforts are needed to reduce inefficient subsidies, whilst addressing spending pressure from an aging population, and to enhance efficiency of spending.

7. **Growth sustainability is also constrained by deteriorating infrastructure, inefficient use of energy, and significant unrealized economic potential of the country's natural resources, particularly forestry.** Despite remarkable progress in reducing energy intensity, which fell from 0.69 tons of oil equivalent per thousand of 2005 dollar of GDP (PPP) in 1990 to about 0.23 in 2010, Belarus is still lagging behind Organization for Economic Cooperation and Development (OECD) countries. There is a need for more sustainable use of domestically available fuels, including renewables, and greater diversification, as currently about 95 percent of Belarus's power is produced from gas imported from Russia. This is especially important as the effective subsidy on imported gas has been declining. Finally, there is a need for more effective use of agricultural, forest and other environmental resources – forests and arable land together constitute only 9 percent of value added in the economy, despite accounting for 70 percent of the country's land area.

8. **Social service delivery systems, while providing widely accessible and affordable social protection, health and education services, are costly and inefficient.** Belarus has a very low share of targeted, means-tested programs, and it does not provide adequate unemployment insurance. It is therefore ill-prepared to mitigate the social impact of structural reforms. Life expectancy remains nine years below the Western European average, largely due to high adult mortality, especially among men (whose life expectancy is 12 years less than in Belarus's European neighbors). The education system has performed well in terms of access and enrollment, but much needs to be done to improve spending efficiency in the sector. Education and labor skills mismatch is increasingly becoming an issue.

9. **Responding to the above development challenges, the World Bank Group (WBG) strategy will support three areas of reforms to improve:** (1) competitiveness of the economy by supporting structural reforms, including reducing the role of the state, transforming the SOE sector, promoting private and financial sector development and integration into the global economy; (2) quality and efficiency of public infrastructure services, use of agricultural and forestry resources and global benefits of public goods; and (3) human development outcomes through better education, health and social services.

10. **The WBG's program in Belarus will be calibrated according to the depth, breath and speed of structural reforms.** The program will include Analytical and Advisory Activities (AAA), investment lending by the World Bank and investments in the private sector by the IFC. Accordingly, the AAA and lending programs have been identified only for the first two years of the CPS. Should structural reforms accelerate, lending scope and instruments could be revisited at mid-term of the CPS period.

11. **The WBG's AAA program will be critical in creating consensus in important policy areas and building capacity in the country.** It will focus on advice in key policy areas such as structural reforms, trade, fiscal, PFM, private and financial sector development, education and municipal services. The World Bank's investment lending will focus on sectors with an adequate and improving policy framework, a sufficient knowledge base, a solid implementation track record and demonstrated Government commitment, direct benefits to ordinary citizens and/or global public goods benefits.

12. **The IFC will support private sector development and energy efficiency improvements through a combination of investments and advisory work.** The IFC program in Belarus will support: (i) trade development in critical sectors such as agriculture, with strategic focus on small and medium-sized exporters and importers, (ii) micro, small, and medium-sized enterprises' (MSMEs) access to finance, (iii) investments into energy efficiency improvements, and (iv) advisory work on regulatory simplification, including in agriculture and forestry. Agriculture and forestry will remain priority sectors, with support directed at improvements in agricultural output and efficiency, access to finance, regulatory environment, and food safety.

13. **The WBG will continue using donor Trust Fund (TF) resources strategically to support the core objectives of the CPS.** The WBG will use its AAA to engage other development partners in supporting the country's reform program and seek partnerships with donors to leverage funds for programmatic technical assistance and advisory services.

14. **All areas of engagement will benefit from an increased focus on governance and social accountability.** Engagement on governance issues through policy dialogue will continue on the most crucial reform issues, including public finance and fiscal governance reforms and dialogue on transition to a new growth model. The demand-side governance engagement will focus on participatory monitoring of service delivery outcomes, encouraging accountability to the beneficiaries through transparency and empowerment.

15. **The WBG will apply a gender lens in its AAA and lending operations** aiming to identify gender disparities and suggest possible ways of addressing them through WBG supported activities. Building on the current WBG program, possible focus areas could include equal participation of women in the labor force and entrepreneurship, reduced male mortality rates linked to non-communicable diseases and hazardous lifestyles, sustainability of the pension and healthcare systems, and higher impact of social services.

16. **Risks to the CPS remain high due to a historically mixed track record of reform implementation in the past.** The proposed calibrated engagement will mitigate this risk by

designing and adjusting the WBG's assistance according to the strength of the government's commitment and reform progress. Also, the WBG will continue to engage in dialogue with the Government in important policy reform areas.

17. **One major risk is the reemergence of price and exchange rate instability.** Belarus has only recently emerged from the severe crisis of 2011, when unsustainable policies pushed the economy into an inflation-depreciation spiral. Since mid-2011 stabilization measures have been in place, restoring foreign exchange markets and reducing inflation and the current account deficit. However, premature policy loosening in 2012 has led to the reemergence of price and exchange rate pressures, posing renewed risk to an already-weak reserve position. Accordingly, the WBG will carefully monitor emerging economic and fiscal developments. While the IMF will take the lead on macroeconomic issues, the WBG's dialogue on public expenditures and budget management would be intensified and re-oriented, should economic instability reemerge.

18. **The CPS has been developed through extensive consultations with key stakeholders** including the authorities, business associations, civil society, development partners, and beneficiaries of WBG-supported programs. A wide range of perspectives on Belarus's development priorities, challenges, and opportunities in such areas as economic competitiveness, human development, infrastructure services, global public goods, governance and gender were received and taken on board. As proposed by civil society partners, instruments will be developed to engage beneficiaries and civil society in monitoring the provision of services in projects supported by the WBG, thus contributing to improving results and enhancing dialogue with the authorities and service providers on the needs of beneficiaries.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

Social and Political Context

19. **Belarus is an upper middle income country with a population of 9.5 million, similar in size to many Central and Eastern European countries, with a fast declining and aging population.** In the past ten years the population fell by over 400,000 and the number of citizens above the age of 60 is projected to increase by 14 percent in the next decade alone.² Although Belarus has already achieved almost all of the Millennium Development Goals (MDGs), continued efforts are needed to enhance progress in combating HIV/AIDS and tuberculosis, ensure environmental sustainability, develop a global partnership for development, and boost shared prosperity.³

20. **While the role of the state has been gradually reduced, Belarus continues to preserve a largely unreformed economic model based on the dominance of public sector and a “social contract” of broad-based income redistribution and a high level of social equity.** The country has highly centralized decision-making and relatively strong administrative capacity. Public trust in public institutions such as the government, the parliament, and the presidency is higher than in most countries of the region⁴. Although global and regional pressures and country-specific economic challenges have led to some liberalization of the business climate and optimization of social programs, the potential short-term social costs of reforms have limited the speed of reform.

21. **Relations with the European Union (EU) and the United States remain strained on account of these actors’ concerns regarding political rights, following the controversial 2010 Presidential election.** Belarus is a member of the multilateral track of the six-country Eastern Partnership Community that aims to foster cooperation with the EU, and among the partner states themselves. In 2012, the EU designed and launched the European Dialogue for Belarus Modernization, a multi-stakeholder exchange of views and ideas between the EU and a variety of stakeholders in Belarus.

22. **Belarus enjoys economic and geo-political support from its Eastern neighbors.** The Common Economic Space of Russia, Belarus and Kazakhstan, which allows free movement of capital, goods, services and labor, was launched in January 2012. An agreement on establishing a Eurasian Economic Union could be signed as early as in 2015. Belarus also receives significant Anti-Crisis Fund support (USD 3 billion over 2011-2013) from the Eurasian Development Bank (EDB).

Recent Economic Developments

23. **Up until 2008, Belarus was a strong economic performer in a fast-growing region.** During 2000–08, the country’s GDP grew on average by 8.1 percent annually, more rapidly than the averages for both the Europe and Central Asia (ECA) region (5.7 percent) and the Commonwealth of Independent States (CIS) (7.1 percent). During that period, per capita income more than doubled in real terms, reaching USD 5,820 in 2011⁵. Rapid economic growth was propelled by a combination of favorable external factors. These included strong export demand by key trading partners (CIS, especially Russia), underpriced energy imports from Russia and large terms of trade gains stemming from exporting goods such as oil products and fertilizers, which saw steep price increases, especially in the years prior to the global economic crisis. But the strong growth record was associated with growing macroeconomic vulnerabilities. External

²Belarus Public Expenditure Review, Volume 2, 2012

³Second National Report “Achievement of the Millennium Development Goals”, 2010

⁴EBRD and World Bank Life in Transition Survey (LITS), 2006 and 2010

⁵Per Capita Gross National Income (GNI), Atlas Method

imbalances started to emerge in 2006 and the current account deficit began to widen, as Russia started to gradually move towards market-based pricing of its energy exports to Belarus.

Figure 1: Rapid Growth

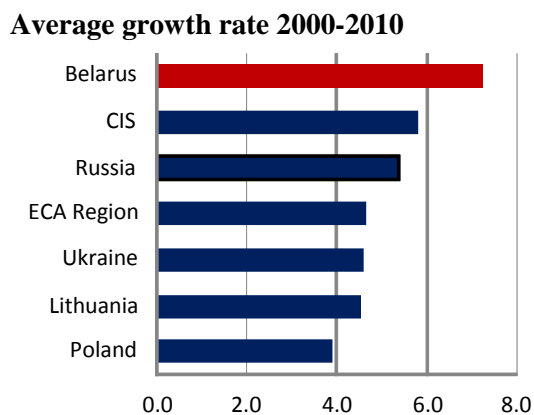
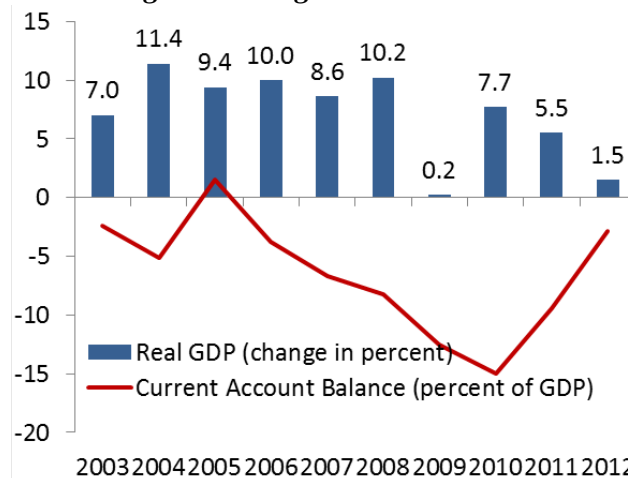


Figure 2: Large External Imbalances



Source: World Bank Staff, based on official statistics.

24. **Growth slowed substantially during the global economic crisis of 2008-09, and since then the country has gone through a period of recurring macroeconomic instability.** The 2008 global economic crisis was transmitted to Belarus primarily through lower export demand and reduced access to external borrowing. Growth dropped to 0.2 percent in 2009. The government’s initial macroeconomic policy response in 2009 involved an external adjustment through tight macroeconomic policy and a one-off adjustment of the exchange rate, supported by external financing, including from the IMF. However, initial stabilization gains, achieved in 2009, were reversed by expansionary fiscal and monetary policies, including fast credit expansion under government-directed lending programs, which fuelled a rapid, but short-lived economic recovery in 2010. This recovery came at the expense of further deterioration of the current account deficit to 15 percent of GDP in 2010, heightened pressure on the exchange rate and foreign exchange reserves, which eventually led to loss of control of the exchange rate and sharply accelerating inflation during 2011. After a period of multiple exchanges rates, the BYR lost close to 70 percent of its value vis-à-vis the USD and inflation soared to 108.7 percent in December 2011.

25. **As of early 2013, macroeconomic stability remains fragile.** Tight monetary and fiscal policy, especially during the first half of the year helped to contain Consumer Price Index (CPI) inflation, which was subdued to 21.8 percent (eop) in 2012, compared to 108.7 percent (eop) in 2011. The foreign exchange market has stabilized after a sharp devaluation in 2011. The devaluation, together with significant terms of trade gains related to a new favorable energy trade agreement with Russia, helped to improve the trade balance from a deficit of 2.0 percent of GDP in 2011 to a surplus of 4.6 percent of GDP in 2012. This in turn eased pressure on the current account deficit, which narrowed further from 8.5 percent of GDP at the end of 2011 to 2.8 percent of GDP in 2012. Foreign exchange reserves (excluding monetary gold) have recovered from the 2011 slump, but remain precariously low at USD 5.8 billion, equivalent to 1.5 months of imports at the end of 2012.

Table 1: Main Macroeconomic Indicators, 2005-12

	2005	2006	2007	2008	2009	2010	2011	2012
Real GDP (change in percent)	9.4	10	8.6	10.2	0.2	7.7	5.5	1.5
CPI, e.o.p. (change in percent)	8	6.6	12.1	13.3	10.1	9.9	108.7	21.8
Terms of Trade (change in percent)	12.2	3.8	-2.6	11	-11.1	1.9	8.7	8.3
Current Account Balance (percent of GDP)	1.4	-3.9	-6.7	-8.2	-12.6	-	-8.5	-2.8
						15.0		
Foreign Exchange Reserves (in months of imports of G&S)*	0.9	0.7	1.7	0.9	2.3	1.6	1.3	1.5
Net FDI (USD billion)	0.3	0.4	1.8	2.2	1.9	1.4	4.0	1.4
General Government Balance (percent of GDP)	-0.7	1.4	0.4	1.4	-0.7	-2.6	3.0	0.7
PPG Debt (percent of GDP)	8.3	8.8	11.6	13.1	22.2	23.5	31.6	30.7
of which: Domestic	5.7	6.5	6.4	6.7	5.7	5.7	8.8	9.1
External	2.6	2.3	5.2	6.4	16.5	17.8	22.8	21.6
<i>Memo:</i>								
Nominal GDP (in billions of USD)	30.2	36.9	45.2	60.4	49.0	54.4	58.8	63.2
GNI per capita (US\$, Atlas method)	2780	3470	4250	5430	5590	5990	5900	5830

Source: World Bank Staff Estimates based on national statistics.

*Note: *FX Reserves exclude monetary gold.*

26. **However, significant risks remain, especially given large external debt refinancing needs over the coming four years.** Imbalances could reemerge if there is renewed fiscal and monetary expansion. With consumer price inflation in Belarus remaining above the level of most trading partners, real exchange appreciation is already eroding the competitiveness gained from the devaluation. In addition, the country faces significant external refinancing needs. Belarus has largely relied on external debt to finance its current account deficit with limited FDI. Gross external debt to GDP ratio increased 2.5 times over 2009–11, exceeding 62 percent of GDP, while public debt more than doubled in relation to GDP within the same period to 30.7 percent at the end of 2012. The maturity structure of private corporate and banking sector external debt is heavily weighted on the short term (around 45 percent). Belarus will also need to refinance a significant part of its public external debt in the coming three years, including repayments of IMF loans and Eurobonds. This will add significantly to the country’s gross financing needs and put additional strain on the balance of payments, reinforcing the continued need for tight macroeconomic policies and containment of current account deficit, especially in the context of persistently low foreign exchange reserves.

27. **Moreover, the macroeconomic crises of the past few years have revealed deep structural constraints in Belarus’s state-dominated economic growth model.** Past growth was significantly assisted by a combination of favorable external factors, including cheap energy imports from Russia, strong export demand by key trading partners, especially Russia, and favorable terms of trade for key export goods. These (temporarily) positive factors have partly offset the negative impact of state interference in resource allocation and economic management, which has resulted in stagnating productivity and eroding competitiveness.⁶ State interference has left a large proportion of productive resources locked in an inefficient SOE sector, and has

⁶The Belarus Country Economic Memorandum (CEM) 2012, Transformation for Growth provides detailed analysis of the macro-structural challenges faced by the country.

restricted private sector development, particularly of the Small and Medium-Size Enterprises (SMEs) and service sector, which are crucial for employment growth. Expansion of the private sector has also been hindered by a small and undiversified financial sector dominated by state-owned banks and state lending programs. GDP growth has thus become increasingly dependent on domestic demand driven by expansionary monetary/fiscal policies, but at the expense of macroeconomic stability.

Poverty Trends, Shared Prosperity and Gender

28. **Rapid economic growth has translated into remarkable poverty reduction over the past decade, despite a modest increase in poverty in the aftermath of the recent crisis.** The absolute poverty rate (national poverty line⁷) declined from 30 percent in 2002 to about 11 percent in 2006, and more than halved in recent years, falling from 11 percent in 2006 to 5 percent in 2010. The rapid decline in poverty was driven by fast GDP growth and increases in wages and real income. The poverty rate increased slightly to 7 percent in 2011, largely as a result of price increases and declining real wages in the context of high inflation in 2011, and declined to 4.6 percent in 2012. This positive trend in poverty reduction is matched by Belarus's high level of shared prosperity. Growth in consumption for the poorest 40 percent of the population was not only higher than in other countries of the region, but also above national average growth in consumption, suggesting a positive trend in income equality between 2002 and 2008.

Figure 3: Sharp Reduction in Poverty

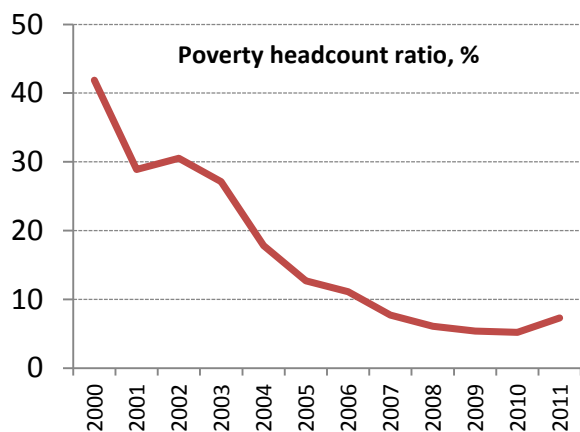
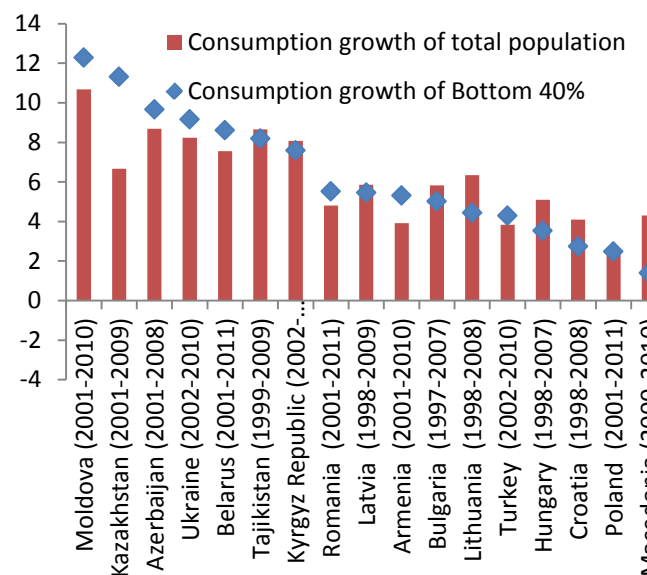


Figure 4: Broad-based Growth



Source: World Bank Staff estimates based on national statistics. The shared prosperity figure is based on staff calculations using 2002-08 data. Estimates of consumption growth are based on preliminary analysis of ECAPOV data.

29. **However, absolute poverty in rural areas is twice as high as in urban areas, and large heterogeneity in poverty incidence is found among regions.** Although poverty declined in both rural and urban areas between 2006 and 2010, the rural poverty rate remained about twice as high as the urban rate throughout the period. Similarly, both areas experienced an increase in absolute poverty in 2011, resulting in poverty rate of 11.5 percent in rural and 5.8 percent in urban areas. Further heterogeneity is found among regions. In Brest, Vitebsk, Gomel and Mogilev, absolute poverty ranges between 9 and 10 percent, although the 2011 increase in poverty affected in particular Brest and Vitebsk. Minsk and Grodno oblasts appeared less

⁷ In 2013, the national poverty line in Belarus is set at around USD 107 per month.

vulnerable to the 2011 crisis: poverty levels remained almost stable at 2010 levels of around 6.2 percent and 3.7 percent, respectively, despite the increasing trend in Minsk oblast in previous years.

30. **Moreover, households with children remain highly vulnerable to absolutely poverty, and poverty increased more among working-age men than women.** In 2011, the proportion of children aged 17 and below living in families with incomes below the poverty line was 12.3 percent (11.9 percent in 2010). Additionally, the deterioration in the poverty rate in 2011 particularly affected men of working age: 6.2 percent of men over 18 (versus 5.3 percent of women) in Belarus are estimated to live in absolute poverty. The gender gap in the poverty rate between men and women has been widening, possibly due to a higher level of economic activity among men, which results in higher vulnerability to changes in the economic environment. However, the gender gap is reversed in terms of relative poverty, due to women's greater dependence on pensions and employment in lower-paid jobs.

31. **While Belarus follows principles of equality and non-discrimination in its policies and has a basic legal framework in place, gender equality appears to be given lower priority compared to other social issues, and gender gaps persist in the areas of human capital and economic opportunities.** Gender inequality affects primarily women on issues of employment and economic opportunities, although less than in most countries in the region. In particular, women participate less than men in the labor market (in first quarter 2012, 62 percent, compared to men's 69 percent and ECA average of about 51 percent). Despite a higher educational level, women tend to earn on average about 26.3 percent less than men (2011), and the wage gap has been increasing over the past decade. Women appear to be disproportionately represented in the public sector, and are less likely to be represented at the top levels in politics and public administration, or own business and manage firms. On the positive side, according to the most recent Business Environment and Enterprise Performance Survey (BEEPS, 2008), participation of women in management is higher in Belarus than in ECA on average; women are, however, more likely to manage and own small enterprises rather than manage large firms. Despite the Government's efforts, human trafficking and domestic violence still represent significant risks for women.

32. **Men are at a disadvantage compared to women in terms of life expectancy and enrollment in tertiary education.** The gender gap in life expectancy at birth is a particular cause for concern (65 years for men and 77 years for women in 2011). This gap has been stable throughout the past decade and remains among the highest in ECA. More details about gender issues in Belarus are provided in Annex 5.

Economic Prospects and Risks

33. **Belarus enters this CPS period with fragile macroeconomic stability and in an external environment characterized by great uncertainty.** Over the short to medium term, Belarus's economic prospects depend on consistent and stability-oriented macroeconomic policies to lower inflation, to rein in external imbalances, and to strengthen reserves, particularly given the looming external debt refinancing risks. Consequently, structural reforms to address the lack of competitiveness and other structural constraints will need to be accelerated.

34. **Looking ahead, growth rates over the near to medium term are expected to remain far below the levels experienced prior to 2008, given external and domestic constraints.** Growth is expected to accelerate to 2.5 percent during 2013, driven by an expansion of domestic demand. The current account deficit is expected to widen to 4.7 percent of GDP in 2013, as external demand will remain subdued, putting renewed pressure on foreign reserves, especially in the context of large external refinancing needs over the coming 4 years, due to repayments of IMF loans and maturing external bonds. On the fiscal side, while a balanced budget is expected,

slowing inflation together with rising expenditures is likely to lead to a return of small deficits during 2014 and 2015.

Table 2: Medium Term Outlook, 2012-15

	2012	2013	2014	2015
Nominal GDP, BRB billion	527,385	659,495	813,553	988,792
Real GDP, % growth	1.5	2.5	2.8	3.0
Consumption, % growth	8.2	5.8	2.5	2.6
Fixed Capital Investment, % growth	-9.8	6.9	4.7	4.2
Export of Goods and Services, % growth	11.2	0.3	1.8	2.2
Import of Goods and Services, % growth	2.3	1.9	2.2	2.3
CPI, % eop growth	21.8	20.2	18.5	17.2
Current Account Balance, % GDP	-2.8	-4.7	-5.6	-6.1
Terms of Trade, % change	8.3	-0.6	-0.6	-0.4
General Government Revenues, % GDP	40.7	40.1	39.8	39.6
General Government Expenditures, % GDP	40.0	39.7	40.3	40.8
General Government Balance, % GDP	0.7	0.4	-0.5	-1.1
External debt, % GDP	54.0	58.4	56.4	54.1
PPG debt, % GDP	30.7	31.5	29.9	28.5

Source: World Bank Staff estimates based on national statistics.

35. **Domestically, more expansionary monetary and fiscal policies could boost growth, but would undermine macroeconomic stability.** While the authorities have stated continued stabilization as a primary objective for 2013 and going forward, official growth targets still aim for 8.5 percent GDP growth in 2013, which would be incompatible with this objective. Attempts to achieve a growth target through more aggressive monetary and fiscal expansion could succeed in the short run, but would risk renewed destabilization, inducing a sharper – and hence more damaging – adjustment later on.

36. **These risks could be amplified by further deterioration in the external environment if demand for Belarusian exports were to worsen.** The high concentration of exports to the Russian market exposes Belarus to terms of trade and export demand risks. A substantial deterioration of the external environment associated with a worsening of the Eurozone crisis could pass through to Belarus through declining commodity prices and its impact on external demand, especially in Russia. A significantly lower growth path of the Russian economy would lead to a worsening of Belarus’s already precarious external position. The situation could be further exacerbated, if Russia would again start to raise energy prices, reversing recent terms of trade gains, with detrimental impacts on Belarus trade and external position.

Development Challenges and Opportunities

37. **Belarus has emerged from the macroeconomic crises of 2009 and 2011, but faces both formidable challenges and unique opportunities to build the foundation for sustained and shared prosperity.** The macroeconomic crises of the past years have reinforced the need for structural reforms to regain competitiveness, to diversify and modernize the country’s economic structure, and to create sustainable and productive jobs. For Belarus to achieve further growth and social development, it needs to create an environment that allows its enterprises to dynamically

adapt to the demands of an increasingly competitive global economy. Achieving this, while preserving social outcomes, will require tackling several complex and interrelated challenges.⁸

A. Creating a Competitive and Sustainable Growth Model

38. **Comprehensive structural reforms will be critical to maintain macroeconomic stability, improve competitiveness, sustain growth and job creation and boost shared prosperity for all citizens of Belarus.** Compared to most other transition economies, Belarus has pursued a very gradualist transition path. Despite some initial structural reforms, the economy continues to be characterized by a large state presence. Belarus has preserved large state-owned and state-controlled enterprises. The state-owned sector, which is supported by an extensive system of state support, still accounts for over half of output and two thirds of employment. While this approach has helped Belarus avoid the social cost associated with economic restructuring, it has resulted in serious vulnerabilities, including stagnant productivity growth, loss of competitiveness and reliance on underpriced energy imports from Russia.

Figure 5: Underpriced Energy due to Subsidies

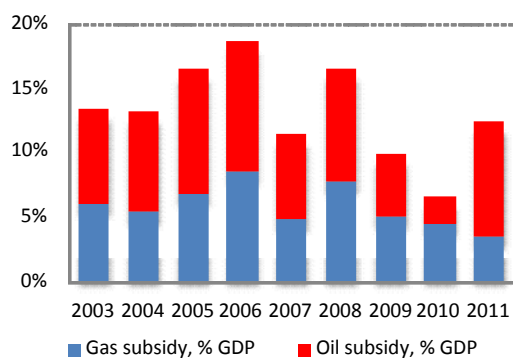
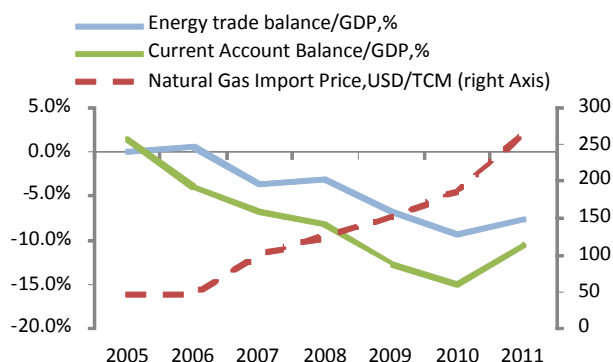


Figure 6: External Vulnerabilities

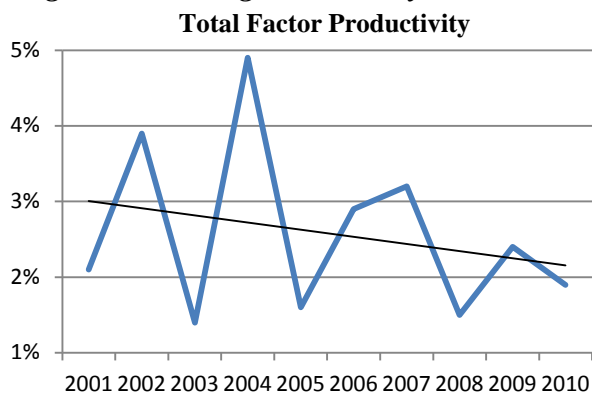


Source: World Bank Staff, based on national statistics.

39. **Belarus's economy remains dependent on energy and resource intensive exports and underpriced energy imports from Russia:** Belarus's trade is concentrated in energy- and resource-intensive product categories. Imports of mineral products, including crude oil and natural gas account for 42 percent of the country's total imports, while mineral exports, mainly of refined oil products account for about 36 percent of total exports (2011). Belarus continues to import natural gas and crude oil from Russia at below world market prices. The average annual Russian oil and gas subsidy for the period 2001–08 is estimated at 14.5 percent of Belarus's GDP, but declined sharply during 2009–10, as a result of rising import prices and falling world commodity prices. While these underpriced energy imports have spurred economic growth, they expose the country to increased commodity price volatility and risks associated with the negotiation of energy trade agreements with Russia. The increase in the import price of natural gas from USD47 per thousand cubic meters (TCM) in 2005 to USD263.5 per TCM in 2011 was associated with a sharp deterioration of Belarus's energy trade balance, which in turn put pressure on the current account. The most recent energy trade agreement concluded in late 2011 and covering the period until 2014 reduced the gas import price for 2012 to USD165.6 per TCM, contributing positively to the external adjustment.

⁸Country Economic Memorandum 2012.

Figure 7: Slowing Productivity Growth



Source: World Bank Staff, based on national statistics.

40. **At the same time, productivity growth in non-energy sectors has been stagnating, especially in the state-owned sector.** Aggregate productivity growth has been on a declining trend since 2004 (Figure 7). While productivity growth contributed over one-half of GDP growth in 2000–04, it represented only 24 percent of overall growth in 2010. Moreover, SOEs not only tend to have lower levels of total factor productivity, but their productivity also increases at a slower pace than comparable private sector enterprises (Figure 8). This implies that the productivity differences between state and private enterprises stem from the unproductive use of factors of production. Rapid growth in real wages has outpaced labor productivity, creating cost pressures and undermining competitiveness. These internal cost pressures are compounded by Russia’s WTO accession, which will intensify competition, not only in Belarus’s main export market for manufactured goods, but also domestically through commitments under the Customs Union.

Figure 8: Especially in State-owned Enterprises

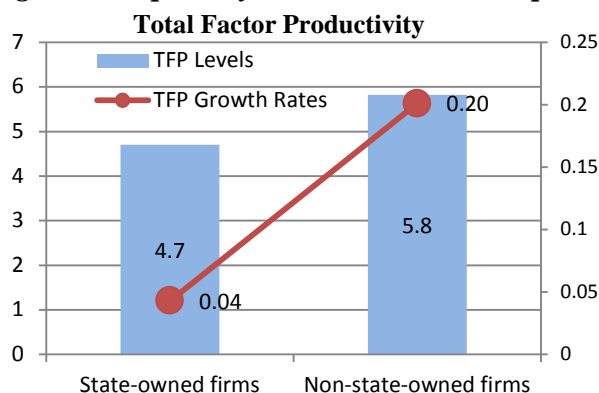
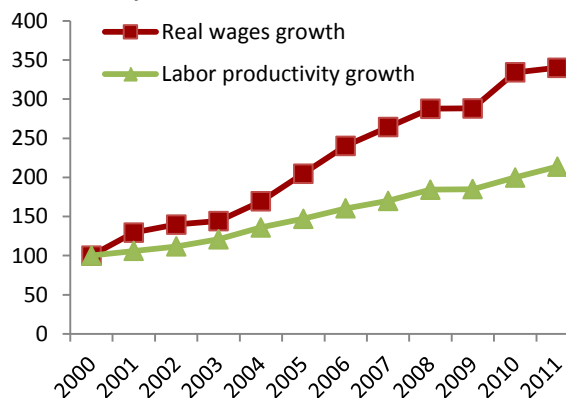


Figure 9: Real Wages Outpaced Labor Productivity Growth



Source: World Bank Staff, based on national statistics

41. **Despite improvements in the business climate, the private sector remains small relative to regional peers.** Given the dominance of SOEs, the private sector and especially SMEs remain marginalized. Over the past several years, Belarus has made a deliberate effort to improve its business climate. The most recent World Bank/IFC Doing Business Indicators for 2013 show marked achievements in the areas of business start-up and property registration, but persistent weaknesses remain in the area of regulatory environment for business operation as well as protection of property rights. With eased regulatory requirements for entry, the number of new private firms increased by some 30 percent in 2007 and 2008, albeit from a very small base. The rate of private firm growth decelerated considerably in 2009 and did not recover in 2010 in the context of persistent macroeconomic uncertainty. More importantly, these improvements related to business entry have not translated into significant private sector job creation.

42. **Relatively undiversified and costly financial intermediation is also a significant constraint to private sector investment and growth.** Commercial banks control 98 percent of total assets in the financial sector. Corporate bond and equity markets, which have become a

major source of investment financing in many other middle-income economies, as well as non-bank financial institutions, are at a nascent stage of development. Moreover, the banking sector is dominated by state-owned banks. While there are 31 licensed commercial banks, the two largest state-owned banks—Belarusbank and Belagroprombank—have a combined market share of about 70 percent of total assets. In addition, the Government exerts direct influence on credit allocation through government-directed programs, which channel funds toward the government’s priority sectors, projects, and individual companies at subsidized interest rates, often with explicit government guarantees. The crowding out by government lending programs drives up the cost of funding for private firms, particularly in the aftermath of the latest crisis. Recurrent macroeconomic instability also impedes financial inclusion, with only 19 percent of population currently using formal intermediaries for savings purposes.

Figure 10: Despite Improvements in Business Climate



Source: World Bank Staff, based on official statistics and Doing Business 2013

Figure 11: Private Sector Creation Slowed Down

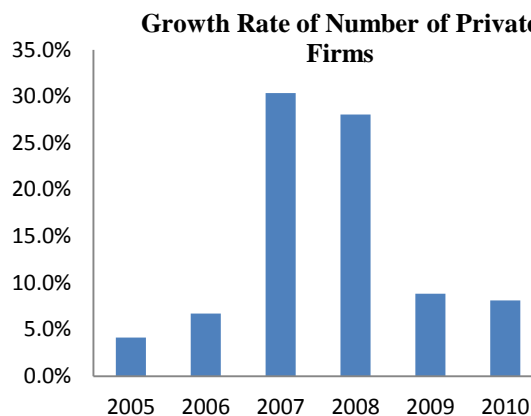
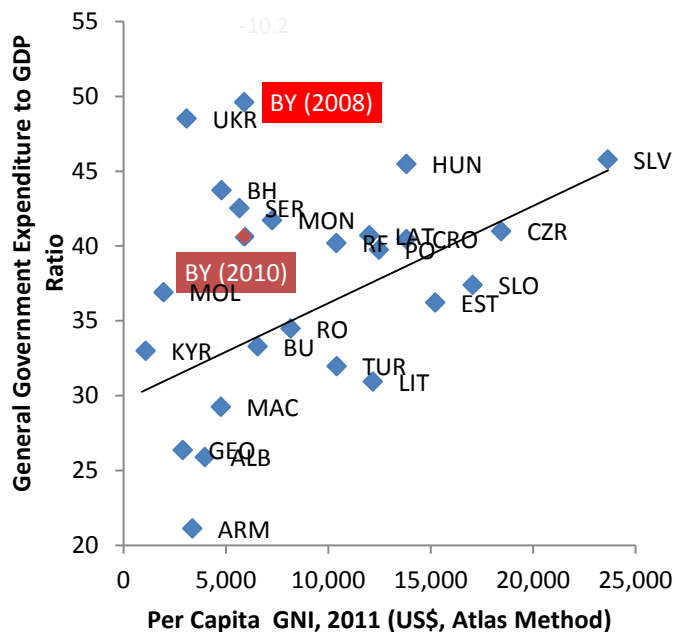
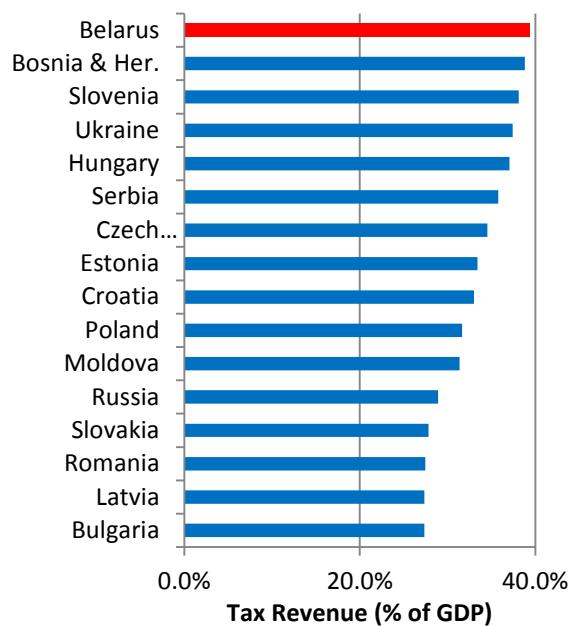


Figure 12: Contraction in the Size of Government



Source: World Bank Staff, based on official statistics

Figure 13: High Tax Burden



43. **While Belarus has achieved a significant contraction in the size of the government budget, the overall tax burden remains high.** Since 2008 – induced in part by the macroeconomic crises, Belarus has achieved a significant contraction in the size of Government.⁹ The public expenditure to GDP ratio contracted by almost 14 percentage points over the past four years, to reach 36 percent of GDP at the end of 2011. The composition of the adjustment largely reflects a contraction in discretionary spending. Capital expenditures took the brunt of the adjustment, while government consumption contracted at a much slower pace. Despite this contraction, Belarus continues to have a high overall tax burden in regional comparison. Reflecting the social orientation of economic policies, public expenditures are dominated by social transfers, including pensions and social protection spending. At the same time, the country also continues to have above average outlays for subsidies (about 5 percent of GDP in 2011), including in the agricultural sector.

44. **Securing macroeconomic stability is key to sustainable prosperity.** To curb overheating and avoid reigniting inflationary and exchange rate pressures, sound macroeconomic policy is critical. The flexible exchange rate policy needs to be maintained; credit growth, especially lending under government programs (LGP) needs to be further curtailed; fiscal accounts need to remain balanced, as planned by the authorities; and income policies, especially real wage growth, need to be moderated in line with productivity growth.

45. **Coupled with stability-oriented macroeconomic management, deepened and accelerated structural reforms are required to regain competitiveness and combat economic imbalances.** This implies that growth will have to rely on significant productivity gains driven by structural reforms. Such reforms are needed to invigorate additional engines of growth (such as the private sector, including services), attract quality FDI and technology, and reduce footprint of the state-run segments of the economy. Increasing Belarus's competitiveness requires the reallocation of labor and capital to high productivity segments, restructuring of the SOE sector, and implementation of reforms to support the private sector. In addition to accelerating privatization to bring strategic investment, both financially and in terms of production technologies, this will entail changes in the incentive structure of SOEs to ensure efficient employment of both capital and labor. In parallel, moving towards a more diversified financial sector operating at market terms is essential for more efficient allocation of resources to the productive parts of the economy. These reforms are especially urgent given the loss of competitiveness and a governance structure based on rigidly planned targets which do not reflect true economic scarcities, and low capacity to adapt to changes in demand and supply. Further integration into the global economy and diversification of exports would also contribute to improved economic resilience. Belarus's intention to join the WTO offers an important opportunity in this respect and will also reinforce the impetus for liberalization across several sectors in the economy, including services. Finally, building on the fiscal consolidation effort of the past years, further efforts are needed to reduce inefficient subsidies whilst addressing aging-related spending pressure and enhancing the efficiency of spending in the social sectors, including health and education.

⁹ The Belarus Programmatic Public Expenditure Review Volume 1 and 2 (2011 and 2012) provides an in-depth analysis of macro-fiscal policies and public spending in key sectors, including energy services, agriculture, social assistance, pensions, intergovernmental fiscal relations, education and health.

B. Achieving Sustainable Provision of Infrastructure and Efficient Use of Natural Resources

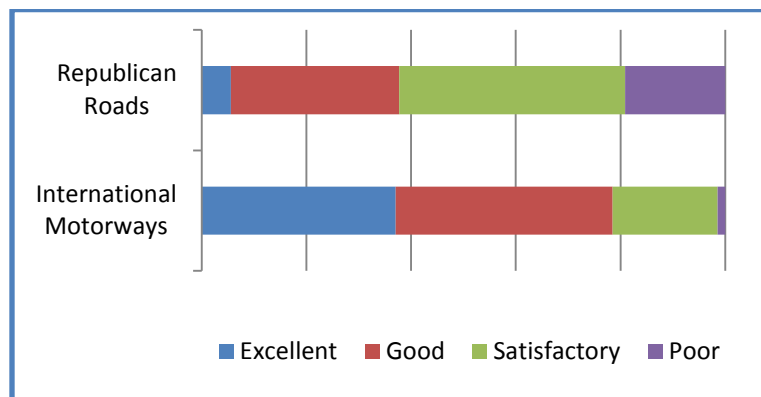
46. Long-term sustained growth in Belarus is constrained by deteriorating infrastructure, inefficient use of energy, and failure to realize the economic potential of the country's natural resources.

Public Infrastructure Services

47. **Growth, employment creation and poverty reduction in Belarus are all threatened by aging and sometimes poorly maintained infrastructure and inefficient use of natural resources.** In the road sector in the 1990s and 2000s, the country was able to avoid large-scale deterioration of infrastructure assets that was common in most ex-Soviet countries by continuing to spend adequately on road maintenance, repair and upgrading.

However, in recent years expenditures on road maintenance (current and periodic) have decreased substantially, falling to unsustainable levels which are now resulting in worsening road conditions and further undermining Belarus's competitiveness.

Figure 14: Condition of the Road Network, 2012



Source: Ministry of Transport

48. **In the water and wastewater sector, infrastructure development needs also remain very significant:** 26 percent of the population is yet to be connected to sewerage services and 14 percent to water services. Wastewater treatment, affected by obsolete equipment and technology, often fails to meet acceptable standards in terms of nutrients removal– water with excessive iron content is still supplied to more than 20 percent of Belarus population. Low operational efficiency coupled with user charges well below cost-recovery level puts a strain on public utility and communal budgets, which force local authorities to postpone important capital replacement and rehabilitation investments. As a result, technical and economic efficiency has significantly deteriorated, with water losses in urban areas increasing from 15 percent to 25 percent in the last four years. Local authorities' discretion in setting tariff levels is limited and deficits are generally covered by subsidies and transfers. It is estimated that these tariffs cover about half of the cost of waste collection and disposal and 85 percent of the cost of water and wastewater services, with the difference covered through cross subsidies from non-households and other transfers from Oblast budgets. In addition, there is an urgent need to improve the system's energy efficiency.

Energy

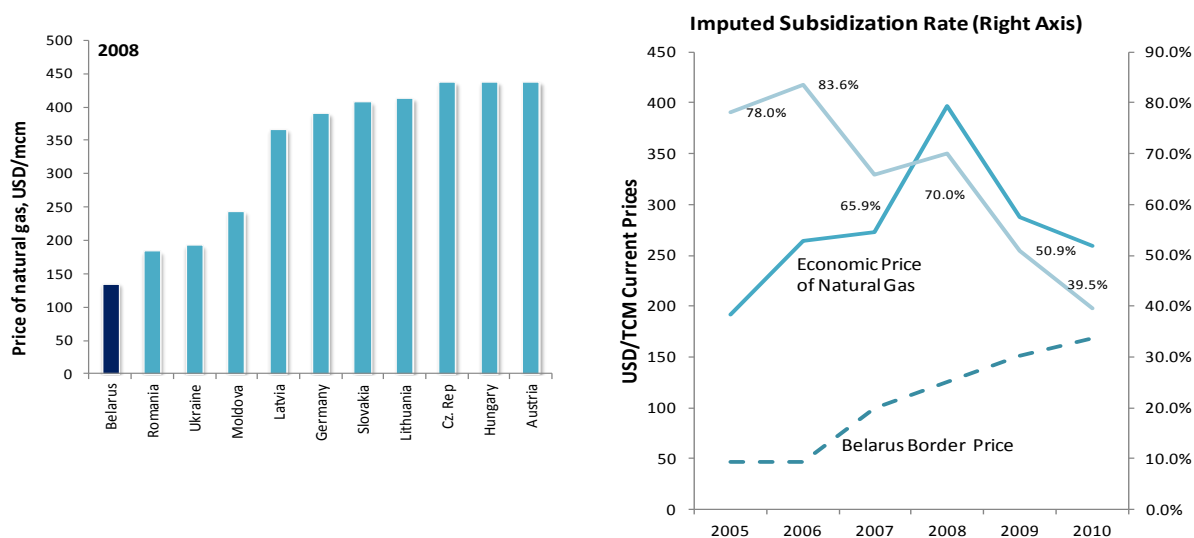
49. **Energy is by far the most unsustainable element of the public sector in Belarus.** Despite remarkable progress in reducing energy intensity, which fell from 0.69 tons of oil equivalent per thousand of 2005 dollar of GDP (PPP) in the 1990 to about 0.23 in 2010, Belarus is still lagging somewhat behind OECD countries. To reduce dependence on energy imports, there is a need for increased use of domestically available fuels, including renewables, and greater diversification of Belarus's energy sector – currently about 95 percent of Belarus power is produced from gas imported from Russia. Reforms of the utility sector, including tariff reforms are vital to achieving financial viability of the energy sector, especially as import prices may increase again in the future.

50. **The sector is characterized by a high degree of state ownership, strong vertical integration, administered tariffs, and cross-subsidization.** Residential tariffs are very low and

do not reflect the cost of services. While low residential tariffs have kept household expenditures on utility services in Belarus below 10 percent of household income much lower than in most countries in the region—they have undermined the financial viability and sustainability of the sector, especially with the uncertainties about level of subsidies on gas imports from Russia. Significant financial losses incurred by utility companies are compensated through a complex, non-transparent system of direct subsidies and cross-subsidies between non-residential and residential consumers as well as between energy services. Taken together, the sector drains fiscal resources to the tune of about 2 percent of GDP annually.

51. **In response to rising energy costs, the Government plans to move to cost-reflective energy pricing by 2014 and generate fiscal savings in the range of 1–2.6 percent of GDP annually.** The required tariff increases to achieve these cost recovery targets are substantial. Residential heat tariffs would have to be increased by 112–256 percent by 2014, depending on import fuel prices. With no real increases in residential tariffs, the estimated size of budgetary and cross-subsidies for 2011–14 would be in the range of 1.9–3.9 percent of GDP annually, depending on natural gas prices.

Figure 15: Belarus Imports Natural Gas below Market Price but the Gap is Closing



Source: World Bank Staff Estimates, based on national statistics and IEA

52. **Opportunities to reduce energy intensity and net carbon emissions could derive from three sources:**

- infrastructure improvements that can reduce the carbon footprint of public services, including transport and water supply
- continued improvements in energy efficiency that can reduce consumption of carbon fuels
- efficient exploitation of Belarus’s extensive forest resources, which cover about 39 percent of the land area, that can contribute to carbon absorption

Natural Resources and Environmental Sustainability

53. **Natural resources also suffer from sub-optimal management.** There is great potential for more effective use of agricultural, forest and other environmental resources. This will require significant policy reform, including restructuring of agricultural policies and subsidies, which are currently accounting for over half of agricultural output.

Forestry

54. **Forests in Belarus cover nearly 39 percent of the territory**, providing multiple environmental services, raw material to forest industry, employment, biomass for generation of heat and power and non-timber forest products for commercial production and subsistence consumption by local communities. In 2011, the forestry sector contributed 1.2 percent of GDP (0.7 percent forest industry) and exports amounted to USD 1.2 billion. There is considerable domestic and international investment planned for the wood processing sector (USD 2.9 billion over the next 5 years). Generally, Belarus forests are well stocked and growing (in both standing volume and area), and illegal harvesting is practically non-existent. There is, however, room for improving management in use of forestry resources, better forest policy, legal, administrative and institutional reforms, including an up-to-date national forest policy and strategy, better forest legislation and law enforcement, and more efficient technologies for forest harvesting.

Agriculture

55. **Agriculture is unreformed and underperforming, and is a burden on the state budget.** The sector contributes just about 8 percent to GDP, while absorbing as much as 5 percent of GDP in the form of state support in subsidies and tax concessions. Fiscal support to the agricultural sector, including tax concessions and budgetary expenditures, is substantial, accounting for 67 percent of agricultural GDP. This extensive support has resulted in a largely unprofitable sector, with enterprises registering soaring levels of debts, often government-guaranteed, resulting in further pressure for state support.

56. **Agricultural subsidies absorb the largest share of spending, while expenditures on non-distorting public goods are limited.** Subsidies have increased as a result of growing input prices and growing expenditures on interest subsidies and called guarantees for directed lending activities in the sector. Capital expenditures are down from a peak of almost 11 percent of total agricultural spending to 5 percent in 2009-10. Using the WTO classification of agricultural support, amber box measures (market- and trade-distorting state support) account for the largest chunk of spending, while the share of market-neutral green box measures remains low.

57. **Agricultural policy aims to support producers and protect consumers by keeping food prices low, but current policies distort incentives and undermine financial viability of the sector.** Farm production costs have risen quickly as a result of increased prices for fertilizers and other farm inputs, while price controls and artificially low farm gate prices have depressed farm revenues. Productivity of labor and capital in agriculture is much lower than in other sectors of the economy and about 6.9 percent of Belarus's farms are unprofitable enterprises. Continuous state support and soft loans have avoided the needed restructuring of non-viable enterprises and contributed to poor and declining farm performance.

C. Improving Human Development Outcomes

58. **Reflecting Belarus's socially oriented economic policies, social sector spending, including social protection, education and health, accounts for about half of government expenditures.** However, while the current social protection system provides a wide range of benefits, Belarus has a very low share of targeted, means-tested programs. More importantly, the system does not currently provide for adequate unemployment insurance and is therefore ill-prepared to mitigate social impact of structural reforms and to cope with demands of a more dynamic labor market. Moreover, the public service delivery system, while providing widely accessible and affordable health and education services, is constrained by the lack of incentives to improve efficiency and quality due to input and historical-expenditure-based financing mechanisms.

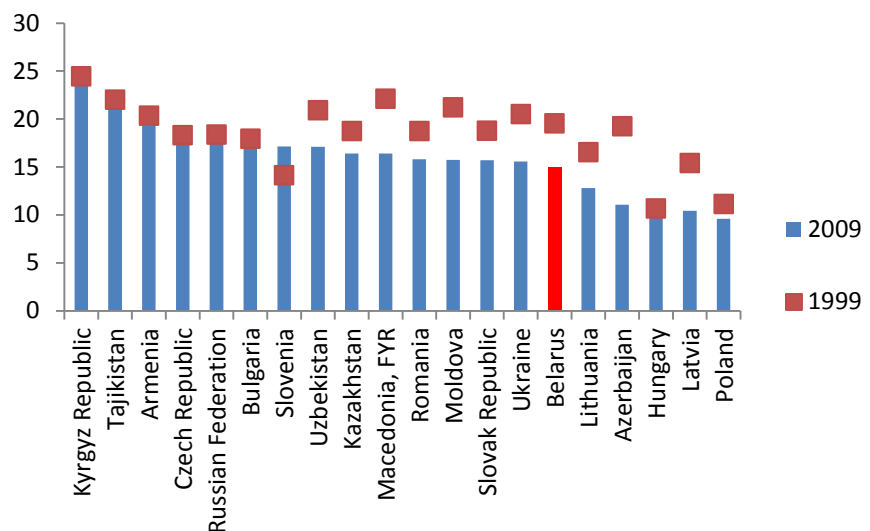
59. **The social sectors suffer from high levels of expenditure but relatively poor outcomes.** Life expectancy – while slowly recovering – remains 9 years below West European average, largely due to high adult mortality, especially among men (whose life expectancy is 12 years less than their European neighbors). Belarus is characterized by extremely high mortality rates among adults, vast majority of which is due to non-communicable diseases (in particular cardio-vascular diseases, which are now the main cause of mortality and the key reason for low life expectancy) and injuries.

Education

60. **Belarus’s education system has performed well in improving access and enrollments.** Gross enrollment ratio in primary education remains high at 100 percent since 2000 while gross enrollment ratio in general secondary education was at 105 percent by 2011. Demand for tertiary education has increased over the last decade leading to a 1.7 times increase in the number of students per 10,000 population between 2000 and 2011. Belarus ranks high in terms of the Human Development Index (HDI) (50th out of 187 countries in 2012), largely thanks to the achievements in education. Household spending on education is moderate by regional standards, suggesting broad affordability of education.

61. **While public expenditures on education are in line with the regional average, the focus needs to be on increasing efficiency of spending, especially in view of declining student population.** Student-teacher ratios at both primary and secondary level in Belarus are among the lowest in ECA. At the same time, teacher salaries remain relatively low, making it difficult to attract and retain

Figure 16: Low School Student-Teacher Ratio



Source: World Bank EdStats database

skilled staff in the teaching force. Belarus could save about 11 percent of the education budget (0.6 percent of GDP) if its student-teacher ratio were to rise to the OECD average – it is currently the second lowest in the CIS. While per-student cost has been increasing, this has not necessarily led to better learning outcomes. Yet, the current system of education financing provides little incentive to sub-national governments to allocate resources in an efficient manner. Instead, existing financing arrangements which focus on inputs encourage schools and local governments to retain large numbers of staff and maintain excess facilities.

62. **Education is becoming outdated**– larger number of businesses in Belarus than in most ECA countries report shortages of skilled labor as the main constraint to business (although such reported shortages are also linked to broader issues in terms of labor market functioning).

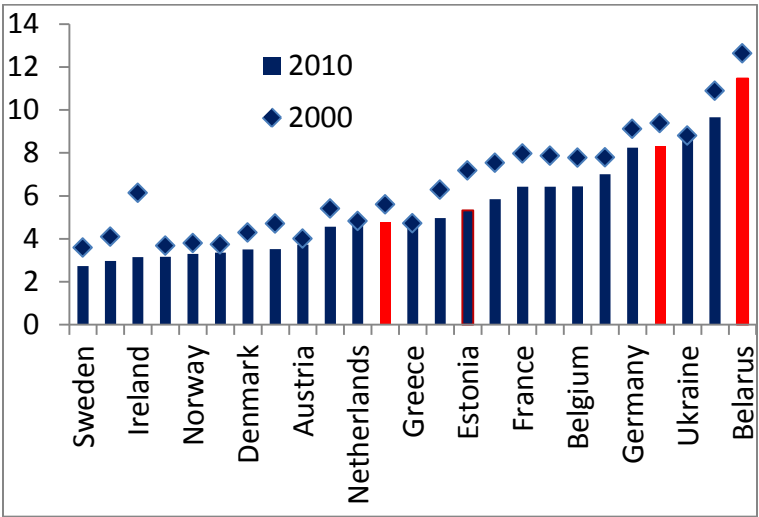
Health

63. **The health system has delivered effectively on a range of indicators**, including infant and maternal health and containment of communicable diseases, including HIV and TB. However, life expectancy – while starting to recover over last two years– remains below pre-

transition levels largely due to high adult mortality, especially among men. Belarus lags behind on prevention of non-communicable diseases (NCDs), in particular of cardio-vascular diseases, which are now the main cause of mortality and key reason for low life expectancy.

64. **Public health spending, financed from the general budget, accounts for 3.5 percent of GDP**, above the CIS average of 2.7 percent, and in line with other middle income countries in ECA, but sharply below the OECD average of 6.8 percent. While level of public health spending seems broadly commensurate with Belarus’s level of income, there are signs of operational and allocation inefficiencies. The health care system is characterized by an expansive delivery structure with a focus on hospital-based services. For its population size, Belarus has a large number of hospitals, hospital beds, doctors,

Figure 17: Number of Hospital Beds per 1,000 Population



Source: WHO, Health for All Database, 2012

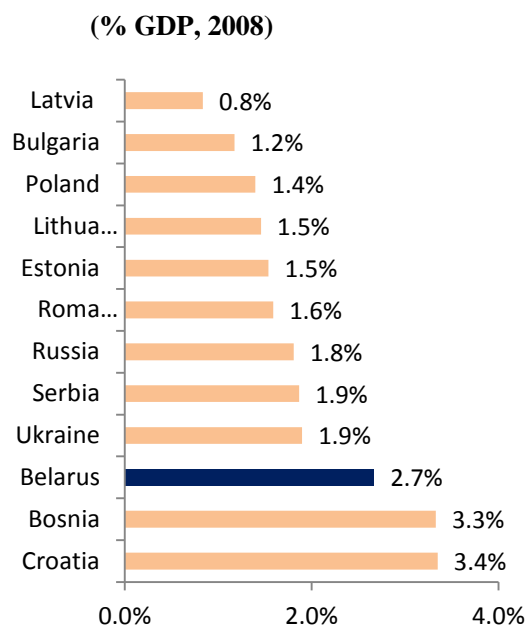
nurses and other personnel, but they do not translate into good health outcomes by regional standards. Significant savings could be made if Belarus reduced its number of hospital beds and strengthened its preventive and primary care services.

65. **Moreover, there are large discrepancies in internal efficiency of hospitals**, with significant variation in average length of stay and unit costs for similar treatments across the country. These problems are a result of the current, largely input-based financing arrangement that encourages health care providers to use more staff, beds and other inputs to justify their budgets and does not provide any incentive to improve productivity, quality of care or health outcomes.

Social Assistance

66. **Belarus operates one of the most extensive social assistance systems in the region, with total spending equal to 2.7 percent of GDP and reaching about half of the population.** This substantial resource commitment has contributed to low levels of poverty and to low inequality in the country. However, the current system uses significant fiscal resources and in a tight fiscal environment, pressure to contain social assistance spending remains acute. At the same time, robust social safety nets are needed to preserve the significant gains in social development that Belarus has achieved, especially in view of a possibly protracted economic recovery and structural reforms that are likely to hurt the most vulnerable. Faced with these simultaneous challenges, the need to realize efficiency gains is urgent. More generally, an aging population presents significant economic and social challenges: a shrinking labor force, an unsustainable pension system, and broad implications for health, education and productivity.

Figure 18: Social Assistance Spending



Source: ECA SP database with administrative data provided by MLSP

Government Priorities and Medium-Term Strategy

67. **The Government identifies the country's development challenges and constraints to sustainable economic growth as:** (i) inadequate economic efficiency caused by the dominance of high import, resource and energy intensive industries and low labor productivity leading to low competitiveness of domestic production; (ii) reduced investment efficiency and slow growth of FDI; (iii) lagging innovations; (iv) small GDP share of SMEs (21 percent) which is much lower than in European countries; (v) high dependence on energy imports and high energy GDP intensity; (vi) low incentives for productive labor and low efficiency of agriculture; (vii) low financial efficiency and missing resources for modernization in the real sector; and (viii) lack of adequate institutional infrastructure to facilitate public/private interface (property rights, efficient rules, financial intermediation).

68. **The Program of Social and Economic Development for 2011-2015, together with Plan of Government's Activities for 2011-2015, sets an objective to increase prosperity and improve living conditions of the population** on the basis of modernization of economic relations, innovative development and increased competitiveness of the economy. It sets bold targets for 2015 vis-à-vis 2010 and calls for ambitious reforms in the following priority areas: (i) human development, including quality of health and education (increase life expectancy to 72-73 years and ensure Belarus is in top-50 countries in Human Development Index); (ii) economic modernization and high-tech development (the share of exports of high-tech goods should account for 12-14 percent in total exports of goods and services); (iii) entrepreneurship and business initiative and FDI (the share of SMEs should go up to 30 percent of GDP); (iv) exports of goods and services, and foreign trade (exports of goods and services should grow by 2.2 times and current account surplus should amount to at least 0.5-0.6 percent of GDP); (v) sustainable regional development; (vi) accessible housing; and (vii) efficient agriculture and

forestry (agricultural output should grow by 1.39-1.45 times and share of mature forests should increase to 11-12 percent of forest stock).

69. **Implementation of the above goals is further defined with specific actions:**

- *Plan for the Implementation of President's Directive #4* (Resolution #251/6 of the Council of Ministers and the National Bank dated 28 February 2011) contains actions and targets on structural reforms such as strengthening competition, improving the business climate, removing red tape, strengthening the tax system and moving to international financial reporting standards.
- *The Joint Plan of Action of the Council of Ministers and the National Bank* (Resolution #1150/17 of the Council of Ministers and the National Bank dated 13 December 2012) seeks to meet the targets of social, economic, fiscal, and monetary policies set for 2013. The Plan outlines a set of measures to improve the investment climate, encourage economic modernization, launch high-technology manufacturing enterprises, and develop small and medium-sized business. The Government intends to further reduce red tape for both local and foreign investors and simplify the procedures of obtaining land for investment projects.

70. **The Government believes that the challenges in the priority areas, if addressed, would result in:** (i) new and modernized jobs, reduced energy intensity, and expanded share of services sector; (ii) expanded private sector and reduced administrative barriers to entrepreneurship as testified by Belarus's 30th position for ease of doing business in Doing Business report; (iii) Belarus entering a group of 50 countries with the higher level of human development; (iv) economic development at the average European level; and (v) social and economic development targets achieved.

71. This reform and growth agenda will dominate the Government's demand for WBG's services over the medium term.

III. WORLD BANK GROUP PARTNERSHIP STRATEGY

A. Lessons Learned and Stakeholder Feedback

72. **The FY08-FY11 Country Assistance Strategy Completion Report (CAS CR) noted that the WBG managed its program well in a high-risk country environment with an uncertain structural reform implementation record.** The CAS recognized that potential benefits of stepped-up cooperation outweighed high macroeconomic and implementation risks, and a decision was taken mid-stream to expand engagement in light of the global financial crisis and progress in economic liberalization by the Government. As a result, the WBG, along with the IMF and other partners, provided additional support to reinforce social protection, address weaknesses in market pricing mechanisms, and strengthen budgetary process. Notwithstanding the recognition that policy reforms supported through the Development Policy Loan (DPL) laid the ground for future engagement in some areas, the WBG's performance in designing and managing CAS implementation is judged at moderately satisfactory, given the overall limited sustainability on the policy front.

73. On the other hand, the CAS CR gives a positive assessment to WBG's responsiveness to the crisis, good performance of the investment portfolio, and high-quality, timely and strategic technical assistance and analytical support to the authorities.

74. **In particular, the CAS CR notes that the AAA program was instrumental in building a dialogue with the Government in important policy areas (see Box 2).** It noted that high quality, relevant and data-based analysis established a foundation of trust in the dialogue with the Government. A combination of deep analytical work with just-in-time advice and TA, have resulted in solid analytical underpinnings for future reforms and a better understanding among domestic and foreign stakeholders of the reform agenda and trade-offs ahead in Belarus. Moreover, strategic sectoral AAA informed the World Bank's own interventions and current thinking, in particular in transport sector, district heating and municipal services.

75. **Over the period of FY08-FY11 CAS, Belarus showed tangible progress on many CAS outcomes.** However, insufficient progress on several CAS supported development issues was reflected in the moderately satisfactory program performance rating. Variability of results was observed in the energy sector – from extremely successful projects in support of energy efficiency and environmental protection that led to social and health benefits in schools, kindergartens and other public institutions, to the lack of progress in tariff policy. Achievements in other outcomes on public goods and services were also mixed, with good progress in transport sector and less successful work in the water supply and sanitation program. The public sector efficiency and governance agenda advanced in tax reforms and strengthened budgetary practices but stalled in politically sensitive privatization. Belarus has made major advances in reducing the cost of doing business, moving from 115th position in 2008 to 58th in 2010. Some, albeit far from sufficient, progress was made in price liberalization. Modest goals set in the context of very limited possibilities for WBG impact in financial sector development have been achieved as have been social protection outcomes.

76. **The FY08-FY11 CAS CR draws the following key lessons that have been taken into account in designing the proposed CPS:**

- The new CPS should focus on critical priorities, adjusting the scope of the program and use of instruments to the readiness of reforms and willingness of the authorities to implement them. In doing this, the WBG will seek long-term engagement and maintain program continuity. The Bank will also pay increased attention to a medium-term macroeconomic framework to ensure sustainability of structural reform program supported by the WBG.

Box 1. Impact of AAA in Belarus – Some Examples

Recognizing that policy reforms remain critical to addressing the most important development challenges in Belarus, the WBG has placed knowledge services at the core of its engagement. The AAA program has provided the analytical foundation for and contributed to policy formulation and evidence-based policy debate and catalyzed reforms in several policy areas. The policy dialogue built around core analytical reports, including a Programmatic Public Expenditure Review (PER 1 and 2, 2011-13) and Country Economic Memorandum (CEM, 2012), which were prepared and delivered through an interactive, collaborative process that informed policy discussions and ensured relevance and impact of recommendations.

Structural Reforms: The CEM analyzed structural constraints in the current state-driven growth model and engaged the authorities in a dialogue on the need for structural reforms, including price liberalization, SOE restructuring, and creation of a conducive environment for private sector development. The Government has established a joint structural reform working group co-led by the Ministry of Economy and the WBG, with participation of governmental agencies and development partners, including the IMF, EU-ECFIN, and EBRD. Through this mechanism the Government requested WBG's advice on key policy issues such as price liberalization, bankruptcy legislation, and removal of quantitative targets for SOEs.

Privatization: Through a **Privatization Technical Assistance** funded by the Government of Austria WBG has supported the establishment of the National Agency for Investment and Privatization (NAIP). The Agency is now working with the help from reputable financial advisors on attracting strategic investors for eight medium-sized SOEs, using competitive, open and transparent tender methodology consistent with international good practice.

Fiscal Consolidation and Tax Reforms: The WBG supported the Government in undertaking fiscal consolidation in the wake of the global financial crisis through the PER, which provided options for expenditure rationalization and efficiency gains in core areas of the budget (macro-fiscal policy, energy, agriculture, social assistance, pensions, education and health, tax reforms). The PER has reinforced the Government's objective to rationalize expenditures, starting with the most inefficient subsidies and to undertake tax reforms to gradually reduce tax burden on the economy. The Government undertook a significant fiscal consolidation program, reducing the public expenditure to GDP ratio from over 50 percent of GDP in 2008 to about 40 percent in 2012. At the same time, the Government reformed the tax system, not only lowering overall tax burden, but also eliminating distortions (including eliminating a local sales tax) and reducing marginal rates on both personal and corporate income taxes. In addition, the PER opened up the policy dialogue on important topics, such as public utility pricing, and education and health financing.

Utility Tariff Reforms: The PER 1 analyzed the fiscal cost of provision of district heating, electricity and gas to residential consumers at below cost recovery tariffs and also assessed the social impact of urgently needed tariff increases. The analysis showed not only that fiscal cost is substantial, but also benefits of these subsidies are regressive, disproportionately benefitting the wealthier segments of society. As one of the options, the PER recommended the introduction of progressive tariff structures for electricity which would raise cost recovery and reduce the regressivity of energy subsidies while cushion the impact of tariff increases for lower income households. The Government adopted differentiated consumption-based gas and electricity tariffs, starting February 1, 2013.

Enhancing Efficiency of Education Financing: The analysis, conducted during preparation of PER 1 with the help of a BOOST public expenditure tool, showed that the current input-based financing arrangements in education sector have provided weak incentives (and limited authority) to rationalize the use of inputs and improve productivity, service quality and outcomes. The PER 2 analyzed financing of education services and recommended reforms that would strengthen incentives for efficiency in public service delivery. Following PER 2 delivery, the Belarus authorities approached the Bank for advice on how to improve the effectiveness of their school optimization program. The World Bank has responded to a Government request by launching a multi-year program of technical assistance with the initial aim to help Belarus authorities implement per-student financing (PSF) pilots in 17 general secondary schools in the cities of Minsk, Grodno, and Gomel. The Bank will also continue sharing with the Government relevant international experiences, as well as train the Belarus counterparts in the use of data-driven analytical techniques that can help design an effective funding formula that can be perfected before nationwide roll-out. Under this engagement, the Bank will also provide assistance on appropriate school autonomy and accountability mechanisms that will allow for an effective reform of the Belarus school financing regime.

- AAA work will be critical in creating consensus in important policy areas and building capacity and in preparing for lending operations. The WBG will continue offering analytical work in response to real policy demand, and will apply an integrated approach in which analytical and diagnostic work will be combined with just-in-time policy advice, capacity building and lending.
- In investment lending, the WBG should focus on sectors with an adequate or improving policy framework, solid knowledge base, good implementation capacity and a track record of successful cooperation in the past. Despite the relatively good performance of investment projects, teams will be encouraged to pay extra attention to project design with due consideration to the country's policy cycle, local capacity, implementation readiness, and engagement of project affected groups in project implementation and monitoring.

Findings from Client Surveys and Stakeholder Consultations

77. **The FY08-FY11 CAS CR discussions and CPS consultations were held with small groups of targeted counterparts with day-to-day experience of working with the WBG, business associations, civil society organizations, development partners and beneficiaries of WBG-supported programs.** The stakeholders shared their views regarding key priority areas for the next four years and the role of the WBG in addressing them. The outcomes of the meetings were important for outlining the CPS concept and developing a three-pillar approach. A strategic dialogue with the Interministerial CPS Working Group provided a platform for discussing the needs of the country and the way to address expectations in the framework of a future partnership. Consultations with wider groups of multi-stakeholders across regions carried out in January-April 2013 focused on economic competitiveness, human development, improvement of infrastructure services, global public goods, and governance and gender

78. **Overall, participants in the consultations agreed with the CPS approach and rationale and outlined the following key areas of focus for the WBG partnership with Belarus:** quality of life, municipal sector services, education and employment, private sector development, efficiency of resource allocation, public administration, climate change, renewable energy, forestry and agriculture. Stakeholders emphasized the importance of taking into account the specifics of the country, providing technical assistance and advice, and sharing regional and global expertise and knowledge. Representatives of the civil society proposed to include information and awareness raising components in every project and to develop instruments for beneficiaries' engagement in monitoring and assessing the provision of services in projects supported by the WBG, thus contributing to improving results and enhancing dialogue with authorities and service providers on the needs of beneficiaries.

79. **While reviewing the lessons of projects completed during the FY08-FY11 CAS, the Independent Evaluation Group (IEG) emphasized** the importance for program success of ensuring the Government's commitment, selecting projects with visible economic and social benefits, and quantifying outcome indicators at design stage. IEG also pointed out significance of associated technical assistance and sufficient capacity development to carry out reform programs. Proper macroeconomic framework was noted as critical for the medium-term effectiveness of WBG-supported reforms.

80. **In January 2013, a client survey about stakeholders' views of the World Bank and its work in Belarus identified a significant role for the WBG in Belarus and suggested areas for improvement in the medium term.** One hundred ninety stakeholders – drawn from a range of central and local state institutions, implementing agencies, civil society, media, private sector, academia, beneficiaries and development partners – were invited to provide their opinions on the

Bank's assistance to the country. A total of one hundred fifteen stakeholders completed the survey (61 percent response rate).

81. **Overall results suggest that private sector development and such areas as economic growth, competitiveness and diversification, FDI, SOE, and energy efficiency are perceived to be the top development priorities for the country**, and key drivers to improving people's lives in Belarus. Opinion leaders see a critical role for the Bank in these top priority areas and areas related to public sector reform, social protection, and environmental sustainability in terms of Bank financial resources and knowledge products. These results are consistent with the priorities identified in this CPS and the findings of the CAS Completion Report.

82. **The WBG has a meaningful role to play in generating knowledge.** While two thirds of respondents believe that the WBG's most effective instrument in helping to promote development and reduce poverty in Belarus is investment lending, the survey findings suggest that technical assistance, capacity development, and knowledge products are valued highly in the country.

B. World Bank Group Partnership Strategy Overview

Calibrated Assistance

83. **In response to the risk of reversal of policy reforms and reflecting the lessons learnt from the previous CAS, the WBG proposes to calibrate its program against the depth, breadth and speed of structural reforms.** The program will include Analytical and Advisory Activities (AAA), investment lending by the Bank and investments in the private sector by IFC. Should structural reforms accelerate, lending scope and instruments could be revisited at mid-term of the CPS period.

84. **The WBG's AAA program will be critical in creating consensus in important policy areas, building capacity and laying the analytical foundation for lending operations in the country.** Core diagnostics around critical developmental issues will continue, including structural reforms, fiscal, PFM, trade, WTO accession, private and financial sector development. These AAA engagements - many of them of a programmatic nature - will underpin the policy dialogue in critical reform areas, supporting the Government in designing and implementing policies to achieve stated objectives of economic modernization and strengthened competitiveness. AAA activities in such areas as municipal services, forestry, education and health will underpin future investment operations.

85. In the new CPS, World Bank's investment lending will focus on sectors with adequate and improving policy framework, sufficient knowledge base, solid implementation track record and demonstrated government commitment, direct benefits to ordinary citizens and/or global public goods benefits. This includes energy efficiency and municipal utilities where we have on-going operations with good track record of implementation as well as PFM, forestry and education, new sectors where: 1) we have established a solid knowledge base through our recent and on-going AAA, and 2) there is an active policy dialogue and demonstrated government commitment to undertake policy reforms.

Expected Results and Program of Lending and Non-Lending Activities

86. **The WBG Strategy will respond to the development constraints and possibilities outlined above by focusing on three key areas of reform and investment** that could help improve: (1) competitiveness of the economy by supporting structural reforms, including reducing the role of the state, transforming the SOE sector, promoting private and financial sector development and integration into the global economy; (2) quality and efficiency of public infrastructure services, use of agricultural and forestry resources, and global benefits of public

goods; and (3) human development outcomes through better education, health and social services.

Pillar 1: Improving Competitiveness of the Economy by Supporting Structural Reforms, Including Reducing the Role of the State, Transforming the SOE Sector, Promoting Private and Financial Sector Development and Integration into the Global Economy

World Bank Group contributing to:

Result Area 1: Economic stability and competitiveness

Result Area 2: Deepening financial intermediation on market-based terms

Result Area 3: Liberalized environment for private sector investment

87. **The CPS will address the need for structural reforms to allow Belarus to maintain stability, regain competitiveness, and diversify and modernize its economy, allowing enterprises to dynamically adapt to the evolving demands of the global economy (see paragraphs 37-45 above). The CPS will accordingly contribute to an improved environment for private sector growth** through support for economic stability and competitiveness, strengthened financial sector, and a liberalized environment for private sector investment.

88. The three outcomes will also be supported through a number of more specific interventions from both the Bank and IFC.

Result Area 1: Economic stability and competitiveness

89. **Belarus has suffered in the recent past from a severe macroeconomic crisis**, and growth and employment creation are currently being undermined by decreasing competitiveness, caused both by rising real wages and stagnant productivity, and by the opening of Russia's markets after its WTO accession (paragraphs 33-36 above). The CPS proposes to help address both problems.

90. Overall support for these aims would be provided through a **Programmatic Structural Reform AAA(Technical Assistance (TA), FY13-15)**, which would anchor the dialogue and technical assistance on structural reforms, including further price liberalization, regulatory reforms, and SOE transformation reforms. The task will deliver several analytical and policy notes as well as training and capacity building events. An integrated **Trade Policy/WTO Accession AAA (TA, FY13-15)** would provide technical assistance to support Belarus in its effort to join the WTO. The task would comprise technical and policy notes on key aspects of WTO accession, inter alia on the economic impact of WTO accession, implications for financial service regulation, and system of state support.

91. The CPS would contribute to economic stability necessary for investor confidence through its **Fiscal Policy Dialogue AAA (TA, FY13-15)**. This task would continue to provide targeted analytical and advisory services to support fiscal reforms to enhance fiscal stabilization within a consistent macroeconomic framework, to ensure fiscal and debt sustainability and to provide for growth supporting expenditure and revenue policies. The task would deliver a series of technical notes, reports and training events.

92. The CPS would support improvements in the management of Government finances through a **Public Financial Management (Loan, FY15, USD100 million)** – the project could also include a component for customs modernization. The project is expected to improve transparency and efficiency of public financial management and strengthen accountability of the

Government for the use of public funds. It would support improvements in procedures for national budget planning, execution, accounting and reporting through review of existing methodologies in those areas and their alignment with applicable international standards and good practices. The project would also support modernization of the tools used by the Ministry of Finance and its subordinate units for processing, consolidation and analysis of financial management information to make it more accessible for specialists, decision makers and general public.

93. In addition, the **Regional Development AAA (Analytic/Advisory, FY15)** would deliver a regional development report for Belarus, assessing economic geography, agglomeration of economic activity and sectors, labor markets and internal migration. The report would assess potential impact of structural reforms across different parts of the country and recommend policy options.

94. A **Trade Finance Program (TA, IFC, FY14)** would extend and complement the capacity of banks to deliver trade finance. The program would give priority support to trade flows that promote critical sectors such as agriculture and energy efficiency, while maintain strategic focus on SME importers and exporters and trade between emerging markets.

Result Area 2: Deepening financial intermediation on market-based terms

95. Better access to finance is key to improved competitiveness of Belarusian economy (paragraph 42 above). A **Financial Sector Policy Dialogue AAA (TA, FY13-16)** is providing just-in-time policy advice and TA to NBRB on deepening market-based financial intermediation while making the sector more resilient to possible shocks. The agenda discussed with NBRB includes financial consumer protection and financial literacy, regulation of non-bank financial institutions, and development of market-based mortgage instruments to substitute for declining volume of subsidized housing programs. With an improved policy framework, the dialogue could expand to cover topics such as restructuring of state-owned banks, financial sector stability framework, and enhancing bank supervision.

96. Private sector growth is significantly impeded by lack of affordable finance (paragraph 42 above). The CPS would support improved private sector access to finance through the **MSME Lending Program (IFC Financing, FY14)**. The program is designed to provide funding to MSME market in the form of long-term debt finance. IFC advisory program experts may also advise the banks on best practice tools on how to assess risks in lending to MSMEs, as well as help with risk management procedures. At the request of the authorities, the Bank will undertake a modular **Financial Sector Assessment Program (FSAP) (Analytic, FY14)** focusing on the development of non-bank financial intermediaries (NBFIs) sector (microfinance, credit unions, leasing, etc.).

Result Area 3: Liberalized environment for private sector investment

97. Belarus suffers from a generally poor environment for private business (paragraph 41 above). The CPS will support improvements in the business environment and in business services. A **Regulatory Simplification, Investment Climate Improvement Program (TA, IFC, Ongoing)** is helping to expand the private sector and increase FDI in Belarus through improved regulatory policies and strengthened institutions, would continue to advise the Government on implementing policy reforms in regulatory simplification (permits, inspections, licenses), secured transactions and debt resolution, and investment generation. In addition, potential delivery instruments to support the private MSME sector could include TA or investment loan to provide matching grant facility and/or line of credit through qualified commercial banks and/or microfinance institutions.

98. A **Sector-Specific Business Regulation Project (TA, IFC, FY15)** would build on the previous achievements of IFC’s investment climate work which resulted in broad-based reforms of procedures for obtaining permits and licenses, inspections, technical regulations, insolvency. Sectors (e.g. agriculture, forestry) would be selected based on their importance to the economy and competitive advantages that would allow Belarus to become a leading producer and exporter of agricultural and forest commodities in the world. The program would aim to develop transparent and consistent regulations to create a more attractive investment climate for domestic and foreign investors, leading to sustainable future growth of the sectors.

99. A **Pilot SOE Privatization TA Project (Austrian Trust Fund, FY13-16, ongoing)** would continue to provide advisory services to the Ministry of Economy and National Agency for Investment and Privatization to support tender privatization of select medium-sized SOEs using international best practice. In the event of a successful outcome of the pilot transactions, it is expected that the program could be scaled up by the authorities, including changes in the legislative regime for privatization.

100. If overall investment climate improves and reform advances to a point where SOE privatization is expected to include larger enterprises, IFC could support select SOEs through **pre-privatization investments**. Through its involvement IFC can improve governance and help the investees adopt best practice standards, including in environmental and social areas, reporting and governance, thus contributing to more successful privatizations.

101. The Government of Belarus sees a high potential in the private information and communications technology (ICT) sector becoming one of the pillar industries driving growth in FDI and export of services. Furthermore, introduction of ICT systems would be critical to support WTO accession. The Bank will consider providing support in introduction of **ICT infrastructure within public sector**.

Pillar 2: Improved Efficiency and Quality of Public Infrastructure Services, Enhanced and Sustainable Use of Agricultural and Forestry Resources and Increased Global Public Good Benefits

World Bank Group contributing to:	
Result Area 1:	Enhanced energy security and efficiency of resource use
Result Area 2:	Improved standards in agriculture and forestry sectors
Result Area 3:	Improved public infrastructure and municipal public utility

102. **Growth sustainability is also constrained by deteriorating infrastructure, inefficient use of energy, and significant unrealized economic potential of the country’s natural resources, particularly forestry** (see paragraphs 47-57 above). The CPS will address these constraints by supporting efforts to improve energy security, raise efficiency of the use of natural resources, and provide better and more cost-effective public services.

Result Area 1: Enhanced energy security and efficiency of resource use

103. Belarus’s economy and fiscal balance are compromised by high energy use and an over-dependence on a single source of imports (paragraphs 49-52 above). The CPS will contribute to improved energy security and efficiency of resource use through a number of initiatives. There will be three areas of focus:

104. **Energy Efficiency:** The **Energy Efficiency Project (Loan, FY10, USD125 million and Additional Financing FY13, USD90 million)** is supporting improved energy efficiency in heat and power generation in selected towns in Belarus. The Project is aligned with priorities of the

Belarus national energy programs to improve energy security and to reduce dependency on energy imports. The **Post-Chernobyl Recovery Additional Financing (FY11, USD30 million)** is providing the population residing in the Chernobyl affected area with energy efficient and reliable heat and hot water services in order to improve their living environment and provide clean and improved space heating to households that were burning wood inside homes with potential negative environmental and health consequences. The **Energy Efficiency Project (IFC Finance, FY14-15)** will support funding of projects leading to improvements in energy efficiency, through providing banks with longer-term funding and advisory support for development of energy efficiency and SME banking products.

105. **Renewables:** The **Biomass-based District Heating TA (FY13, on-going)** identifies and analyzes available least-cost heat supply options, namely increased use of biomass energy for heat production and associated energy efficiency measures. The results of the study will be used to identify the scope of a **Biomass District Heating Project (Loan, FY14, USD 90 million)** to increasing use of renewable biomass and improving energy efficiency of district heating systems. While the project is targeting the supply side of district heating, it is complemented by an ongoing **Poverty and Social Impact Analysis (PSIA)** assessing affordability of proposed energy tariff reforms as well as energy efficiency and renewable energy measures available to reduce the cost of energy (in particular heat) supply.

106. In addition, the **Renewable Energy Project (IFC Finance, FY15)** will support private companies engaged in the generation of alternative sources of energy.

107. **Resource Efficiency:** The **Resource Efficiency Financing (IFC and Ministry of Finance of Austria, FY11-16, On-going and Regional)** will seek to stimulate investment into uptake of resource-efficient (REF) technologies and best practices; to improve management processes and operational practices in industry across all sectors; and to raise awareness among policy makers and financial institutions. The **Sub-National Finance Project (IFC Finance, FY16)** would build on successful sub-national experience in the region and support reform oriented sub-national entities in the areas of infrastructure upgrading, with a particular focus on resource efficiency.

Result Area 2: Improved standards in agriculture and forestry sectors

108. **Belarus's agricultural sector is sub-optimal and a drag on the budget.** There is also great potential for more effective use of forest and other environmental resources (paragraphs 53-57 above). The CPS will support improvements in agricultural output and efficiency, food safety, and forest management.

109. **Agriculture:** The **Agriculture Project (IFC Finance, FY15)** will support private operators in agriculture, especially the dairy sector, throughout the supply chain to address the main bottlenecks to the sector's growth and to generate broad sectoral impact. The emphasis will be on projects which maximize impact, through demonstration effect and linkages to local producers. Investments can be accompanied by advisory work to improve the investment climate for agribusiness and bring food safety standards to an international level. In addition, the **Institutional Development Fund (IDF) Grant for Strengthening Capacity for Monitoring of Agricultural Policy Instruments (TA, on-going, FY11-15)** is supporting the Government's review of current arrangement for monitoring and evaluation of agricultural policy drawing on European experience, providing training in analytical methods for policy analysis and applying these skills to the analyses of policies initially in the dairy sector.

110. **Forestry:** Since satisfactory completion of the WBG's first involvement in Belarus's forest sector (the Forestry Development Project) in 2003, the WBG has continued its engagement in the sector through technical assistance funded by the EU through the Forest Law Enforcement and Governance (FLEG) Program. On-going support includes **FLEG II (TA, EU TF, FY13-17)**

implemented by the WB in partnership with two international NGOs (World Conservation Fund (IUCN) and World Wildlife Fund (WWF)). The FLEG Program (starting with FLEG I from 2008-12 and continuing with FLEG II from 2013-17) is supporting the formulation and implementation of forest policy, legal, administrative and institutional reforms, including support in the preparation of Belarus's new Strategic Forest Development Plan to 2030. A **Forest Policy Note (ESW, FY13)** provides strategic advice to help define sector goals, aims and opportunities for consideration in the preparation of the Strategic Forest Development Plan and helps identify potential areas for support to the sector. In addition, **the Forest Management Improvement Project (Loan, FY15, USD40 million)** will support strengthening of forestry protection and forest fire prevention, production of alternative energy (wood-chip fuel); and introducing new technologies for forest harvesting.

111. **Agriculture and Forestry:** The IFC's Sector-Specific Business Regulation TA (see paragraph 97 above) would support reforms of procedures for obtaining permits and licenses, inspections, technical regulations, insolvency in sectors including agriculture and forestry.

112. **Food Safety:** The **Food Safety Project (IFC Advisory Services, FY10-13, USD1.25 million with Ministry of Finance of Austria)** aims to increase competitiveness and export opportunities of Belarus food processors by improving existing food safety standards and building capacity of the local food safety inspectors and experts. This activity will continue to provide advisory services to Belarusian private food processors to facilitate the uptake of internationally recognized standards through raising awareness of the standards, training food safety consultants, and providing in-depth assistance to clients. If brought up to international food safety and quality standards, the Belarusian food industry could accommodate significant export market growth which will help increase Belarus's trade and subsequently enhance the country's economic development.

Result Area 3: Improved public infrastructure and municipal public utility services

113. **Belarus has deteriorating infrastructure with high operating costs** (paragraphs 46-47 above). The CPS will support improvements in efficiency, quality and sustainability of municipal and communal public utility services.

114. **Water Supply and Sanitation:** The **Water Supply and Sanitation Project (Loan, FY09 USD60 million and Additional Financing, FY14, USD60 million)** would together support improvements in access to water supply and quality of water and wastewater services. The FY09 Project has been focusing on upgrade of wastewater treatment systems serving 600,000 people, on improvement of water quality for more than 300,000 urban dwellers, and on extension of water supply systems to 8,000 people. The proposed FY14 Additional Financing will support similar objectives, with a specific focus on development of additional wastewater treatment facilities. These projects are supported by the **Municipal Water Sector Review (Analytic, FY13, ongoing)** whose objective is to formulate sector modernization recommendations addressing service efficiency and sustainability challenges. The analysis is also seeking to find the most efficient ways to enhance interface between utilities and users to promote transparency of services delivery and tariffs and feedback mechanisms on service provision. This effort would also reduce governance risks and increase results orientation of the projects.

115. **Municipal Services:** The **Municipal Services Performance Review (Analytic/Advisory, FY15)** would provide evidence-based policy recommendations targeted at strengthening delivery outcomes, environmental performance and sustainability of services provided by Belarus sub-national government entities. The AAA would assess (i) access, quality, and customer satisfaction with municipal services and (ii) financial and environmental sustainability and efficiency of service provision. This would also include a review of the sub-national finance framework to assess revenue, transfer and expenditure position of public utilities

and communal service departments. An assessment of the enabling environment affecting municipal service performance, such as sector institutional framework and governance structure, and review of options for private sector participation in selected service areas would also be included.

116. **Waste Management: The Integrated Solid Waste Management Project (Loan, FY10, USD42.5 million)** supports improving municipal service provision and increasing environmental benefits by recovering and reusing recyclable materials. The loan finances (i) establishment of a Materials Recovery Facility and (ii) upgrading of the separate waste collection system in the City of Grodno. A waste separation and collection improvement plan was prepared and adopted by the City of Grodno. Coverage of the city's recycling system would be expanded to provide 100 percent of the population with access to separate waste collection services. Waste disposed at landfill would be reduced by an estimated 20,000 tons per year as a result of waste source separation and material recovery. Specific information and feedback mechanisms will be created and institutionalized to ensure sustainability of project results and monitor project beneficiaries' satisfaction. The **POPs Stockpile Management Project (GEF, FY10, USD5.5 million)** has been strengthening national capacity to manage hazardous wastes associated with Persistent Organic Pollutants (POPs). The project will reduce environmental and health risks associated with the presence and release of POPs in the local and global environments.

117. The **Roads Project (Loan, FY10, USD150 million)** is an ongoing project which upgrades a section of the European road corridor IX from a two-lane road to a four-lane motorway. It also helps the Government to address the problem of road deterioration due to overloaded trucks, by introducing a modern axle load monitoring and control system.

Pillar 3: Improved Human Development Outcomes through Better Delivery of Education, Health and Social Services

World Bank Group contributing to:

Result Area 1: Improved social protection and greater labor market efficiency

Result Area 2: Increased efficiency of health and education services delivery

118. **Belarus's social service delivery systems, while providing widely accessible and affordable social protection, health and education services, are costly and inefficient.** The CPS will support better and more cost-effective education, health and social protection service with the aim of improving human development outcomes.

Result Area 1: Improved social protection

119. Belarus's social protection system provides a wide range of benefits, but has a very low share of targeted programs; it also does not provide for adequate unemployment insurance needed to mitigate the social impact of structural reforms (paragraph 66 above). The CPS would support better social protection and improved mobility in the labor market through an **Employment/Labor Market AAA (TA, FY13-15)**, which will make optimal use of Labor Force Survey (LFS) data and carry out detailed and comprehensive labor market analysis. This would underpin further engagement in strengthening unemployment protection in Belarus and assess potential for introduction of unemployment insurance, expanding active labor market policies, and enhancing the capacity of the national employment service to use labor market data for policy design. A series of capacity building activities will be organized, starting with training in Automated DEC Poverty Tables for Labor Market Analysis (ADEPT LM) for Government counterparts and local think tanks. Institutional assessment of Belarusian public employment services and active labor market policies would be another important task to prepare the

Government to cushion the impact of restructuring and labor shedding. Furthermore, the TA would produce an engagement note on the challenges posed by the demographic transition and increased longevity. It will analyze the impact of the demographic transition on the size and composition of the Belarus labor force, policy scenarios to stem the demographic decline, and implications for productivity growth, skills development, and social policies such as employment, long-term care, health and pension policies. The note would aim to inform policy makers about the nature of the coming changes, identify possible policy areas for reform, and discuss areas of further cooperation.

120. Based on the engagement note and depending on interest shown by the Government in subsequent discussions, the CPS could include a **Long-Term Care AAA (ESW, FY15-16)** which would focus on development of long-term care services. The study may be used to outline further path for reforms in residential care (de-institutionalization), pensions, and health care services.

121. The CPS would be prepared to support strengthened social protection through structural reforms in social assistance and pension domains if the Government's commitment to reform warrants. A **Social Protection AAA (TA)** would provide technical advice to improve targeting of the social assistance and to ensure sustainability of the Pay-As-You-Go pension system in the medium and long term.

Result Area 2: Increased efficiency of health and education services delivery

122. Both health and education sectors suffer from poor outcomes in relation to the resources committed to them (paragraphs 60-65 above). The CPS would support strengthening of health services for better health outcomes through an **Improving Quality of Care Programmatic AAA (TA, FY14-16)**, which will (i) contribute to align the health care delivery system to existing needs and changed epidemiological and demographic profile; help Government develop new non-communicable diseases' prevention and control strategies; (iii) contribute to enhance quality of care in the health sector by updating and expanding the national protocols and clinical guidelines by level of care ("care pathways") to standardize care processes, reducing the variability in clinical practice and improving outcomes; (iv) contribute to establish functioning long-term care sector with a focus on de-institutionalization of patients, on care coordination between the health and social sector under the principle of money following the patient, and on building-up of community-based social services for the elderly. To this end, a series of capacity building activities will be organized, starting with the Mogilev Oblast authorities, who will be conducting a pilot project starting in 2014.

123. In education, the Government has requested Bank support on efficiency reforms in the general education subsector. In response to this request, the CPS would include a **Programmatic Education AAA (TA, FY14-15)**, which will (i) bring best practices from regional experience in per-student financing (PSF) to Belarus; (ii) assess the feasibility of school network optimization and simulate potential efficiency gains; (iii) assist in designing and piloting the PSF formula in up to 3 cities/oblasts; (iv) build capacity among education and finance authorities to monitor and evaluate the piloting of the formula and identify formula adjustments, as needed; (v) advise on the appropriate legal framework necessary for reform to increase school budget autonomy; and undertake other related activities. If the reform process advances successfully, the CPS would support continued improvements in education sector quality and efficiency through an **Education Services Transformation Project (Loan, USD50 million, FY15/FY16)** that would support national rollout of PSF by: (i) preparing receiving schools for inflow of students from optimized schools; (ii) providing training and methodological support to local authorities and school principals and accountants; (iii) strengthening national systems

needed to monitor the impact of reform, including development of student assessments to gauge education quality.

IV. IMPLEMENTING THE COUNTRY PARTNERSHIP STRATEGY

A. Proposed Lending and Knowledge Program

124. **Implementation of the existing portfolio will determine achievement of majority of CPS outcomes.** The current investment lending portfolio includes five operations, totaling USD 457 million, with about 53.0 percent to be disbursed. Most of the ongoing projects were approved at mid-point of the previous CAS in 2009-2010, in response to initial market-oriented reforms and global financial crisis. The entry of new investment projects into a small portfolio resulted in a reduced disbursement ratio at the end of the previous CAS. Additionally, insufficient implementation readiness, limited capacity of the new implementing agencies and impact of the financial crisis caused implementation delays in two projects: Water Supply and Sanitation and Integrated Solid Waste Management. Implementation hurdles have been overcome in the Water Supply and Sanitation project, while work is still underway to bridge implementation gap in Integrated Solid Waste Management project. Overall portfolio performance has improved steadily in the past year as a result of intense focus by the Bank and Government on portfolio management, which included semi-annual Country Portfolio Performance Reviews (CPPRs) which set time-bound action plans for each project and the portfolio as a whole, regular monitoring of procurement milestones and disbursements and active restructuring. As of April 2013, overall portfolio disbursement ratio reached 28 percent.

125. **The World Bank's lending program for FY14-15 will play an important role in achieving the CPS outcomes and envisages a total of about USD380 million in investment loans (Table 2).** New lending has been identified for the first two years of the CPS, while the lending scope and specific projects for the outer years will be defined in the CPS Progress Report based on evolution of country's demand and priorities as well as pace in implementation of sectoral and structural reforms. Additional Financing to the ongoing Energy Efficiency project (USD90 million) is FY13 deliverable but is expected to become effective in FY14 and, therefore, included in the list of new activities. Investment lending pipeline for FY14 includes Additional Financing to the on-going Water Supply and Sanitation project and a Biomass-based District Heating project. In addition, two projects are envisaged in FY15: **PFM Modernization** and **Forest Management Improvement**. Additionally, an **Education Services Transformation** project will be considered for delivery in either FY15 or FY16 depending on progress in sector reforms and implementation of piloted PSF mechanism. In FY16-17, investment lending may be considered in: (i) health and education; (ii) municipal services, including energy efficiency; (iii) transport; (iv) private sector development and competitiveness, and (v) agriculture.

126. **IFC annual commitments for FY14-15 are planned to total up to USD70 million per annum and will contribute to achieving CPS outcomes under Pillars 1 and 2.** Under Pillar 1, IFC will continue to provide finance in the framework of Global Trade Finance Program (GTFFP) and extend support to MSMEs through local commercial banks. Under Pillar 2, IFC will consider energy efficiency finance programs aimed at stimulating energy efficiency investments through bank guarantees and advisory services.

127. **The WBG's AAA program will be critical for achieving the CPS outcomes under all 3 Pillars (Table 2).** AAA will focus on advice in key policy areas such as structural reforms, trade, fiscal, PFM, private and financial sector development, and municipal services. A number of earlier started TA activities will continue in support of sectoral dialogue in privatization, forestry, and agriculture and in new areas, in particular, in health and education, to build the knowledge base and policy environment for new lending. IFC Advisory Services, seeking to expand the private sector and increase FDI in Belarus through improved regulatory policies and

strengthened institutions, would continue to advise the Government on implementing policy reforms in regulatory simplification (permits, inspections, licenses), reforms on secured transactions and debt resolution, and investment generation. This program would build on the previous achievements of IFC's investment climate work which resulted in broad-based reforms of procedures for obtaining permits and licenses, inspections, technical regulations, insolvency.

128. Trust Funds resources made notable contribution to the FY08-11CAS outcomes as they were closely integrated into the core program of the WBG, linked to the analytical work and responded to country priorities, including strengthening institutional capacity and contributing to a dialogue on tackling present macroeconomic vulnerabilities and advancing economic liberalization; increasing efficiency of resource allocation, building statistical capacity, addressing energy efficiency and renewable energy, hazardous waste management, and forestry and agriculture issues.

129. The Trust Funds portfolio increased to seventeen grants totaling USD16 million in FY13, managed by the Bank and IFC, up from four programs totaling USD 3.5 million in FY08 and four programs totaling USD2.2 million in FY10. Partnership with other donors resulted in leveraging funds for technical assistance and advisory services but also for project preparation and co-financing, including financing from United States Agency for International Development (USAID), Swedish International Development Cooperation Agency (SIDA), Danish Ministry of Foreign Affairs, Federal Ministry of Finance of Austria, multilateral grant facilities, such as Energy Sector Management Assistance Program (ESMAP), Strengthening Accountability and the Fiduciary Environment (SAFE), and grants from trust fund for Statistical Capacity Building (TFSCB), Institutional Development Fund (IDF) and Global Environment Facility (GEF).

130. The WBG will continue efforts to enhance the role of Trust Funds in leveraging the WBG resources and contributing to the CPS outcomes. Trust fund activities will support a number of priorities under the CPS pillars, including fiscal governance, consumer protection and financial literacy, labor force survey, regulatory simplification and investment generation, private enterprise development and privatization, promotion of public-private partnerships in municipal sector, increasing use of renewable energy and resource-efficient technologies, improving forest law enforcement and governance, and enhancing monitoring and evaluation of agricultural policy instruments and agricultural competitiveness.

131. The Results Matrix is based on the existing program and the activities proposed for the first two years of the CPS. The Progress Report will expand the results framework based on evolution of the WBG engagement and activities for the remaining years of the CPS.

132. While reflecting strategic country development goals in areas supported by the WBG, the CPS results framework will ensure clear attribution between WBG-financed activities and CPS outcomes. In particular, as noted by the CAS CR, this CPS will pay greater attention to realism of CPS outcomes and will establish more direct linkages between the WBG-supported activities and influence they had on advancing the country development goals.

Table 3: The CPS Activities in FY14 and FY15

Indicative Lending*		Non-lending (AAA)
Pillar 1: Improving competitiveness of the economy by supporting structural reforms, including reducing the role of the state, transforming SOE sector, promoting private and financial sector development and integration into the global economy		
FY14	FY15	Ongoing multi-year + FY14 + FY15
IBRD lending	IBRD lending	IBRD AAA
	<ul style="list-style-type: none"> PFM Modernization – USD 100 million 	<p><u>Ongoing:</u></p> <ul style="list-style-type: none"> Programmatic Structural Reform TA (FY13-15) Trade Policy/WTO accession (FY13-15) Fiscal Policy Dialogue, including PER follow up, PEFA, debt management Financial Sector Policy Dialogue TA (FY13-16) Pilot enterprise privatization TA (FY13-16) <p><u>Planned:</u></p> <ul style="list-style-type: none"> FSAP Development Module (FY14) Statistical Capacity Building TF (FY15) Regional Development AAA (FY15)
IFC investments		IFC
<ul style="list-style-type: none"> Trade Finance (FY14-15) MSME Lending (FY14-15) <p>Total up to USD 50 million per annum</p>		<ul style="list-style-type: none"> Regulatory simplification, investment climate improvement TA (ongoing) Sector-specific business regulation, including agri-business (FY15)
Pillar 2: Improved efficiency and quality of public infrastructure services, enhanced and sustainable use of agricultural and forestry resources and increased global public good benefits		
FY14	FY15	FY14+FY15
IBRD lending	IBRD lending	IBRD AAA
<ul style="list-style-type: none"> Energy Efficiency AF – USD 90 million (FY13) Biomass-based District Heating – USD 90 million Water Supply/ Sanitation AF – USD - 60 million 	<ul style="list-style-type: none"> Forest Management Improvement – USD 40 million 	<p><u>Ongoing:</u></p> <ul style="list-style-type: none"> FLEG II (FY13-17) Strengthening Capacity for M&E of Agricultural Policy Instruments (FY 11-15) <p><u>Planned:</u></p> <ul style="list-style-type: none"> Municipal Services Performance Review (FY15) Sectoral Support to Reforming Sectors (FY14)
IFC investments		IFC
<ul style="list-style-type: none"> Energy Efficiency Financing (FY14-15) Renewable Energy Finance (FY15) Resource Efficiency Financing (FY11-16, Regional) Sub-National Finance (FY16) Agriculture project (FY15) <p>Total up to USD 20 million per annum</p>		<ul style="list-style-type: none"> Carbon Investments Food Safety Project (FY10-13) Environmental, Social and Trade Standards Program (FY13-16)
Pillar 3: Improved human development outcomes through better delivery of education, health and social services		
FY14	FY15	FY14 + FY15
		IBRD AAA
		<ul style="list-style-type: none"> Programmatic HD AAA: <ul style="list-style-type: none"> - Education Sector TA (FY14-15) - Health Sector TA (FY14-16) - Employment/Labor Market TA (FY13-15) - Long-Term Care AAA (FY15-16)
Total IBRD FY14	Total IBRD FY15	Total Bank Budget and other sources for TA
USD 240 million	USD 140 million	

*Financing amounts are indicative and the actual lending volume may be higher or lower depending not only on the authorities' demand and performance, but also on IBRD's lending capacity and demand from other borrowers.

B. Managing Program Implementation

Implementation Readiness

133. **Incorporating lessons from the CAS CR, the CPS will place additional attention on implementation capacity and quality at entry, in particular on procurement readiness of investment projects.** In this CPS, preference will be given to activities that build on successful projects where ownership is clear and implementation capacity is in place. Greater emphasis will be given to the analytical grounding of investment operations. The AAA program - many of which have started in FY11-FY13 – will underpin future investment activities, in particular in PFM, municipal services, forestry, and health and education. In case of first-time borrowers, capacity-building will be built into project design during preparation, and disbursement and implementation schedule will be aligned with capacity-building in procurement and contract management.

134. **Increased emphasis on procurement readiness, with realistic advance planning of procurement and close downstream contract management, will ensure that implementation and disbursement can start soon after project effectiveness.** Additionally, semi-annual joint CPPRs will continue to be used to monitor portfolio performance and resolve implementation bottlenecks and combined with regular on-the-ground, hands-on implementation support by task teams and proactive use of restructurings.

Operationalizing Governance

135. **Increased attention will be paid to governance issues and social accountability across the entire program.** Entry points for sector engagement will be determined based on: (i) quality of policy framework in the sector; (ii) Government commitment/demand; (iii) capacity of state and non-state institutions; and (iv) potential impact on improving transparency and social accountability of decision-making. For example, following these principles, lending pipeline for FY14-15 offers either scaled-up support to sectors with established capacity and solid implementation record in the past, or proposes new lending in areas such as PFM and forestry where ownership and capacity exist.

136. **At the project level, the CPS proposes to use a GAC filter for lending operations, trust funds, and major AAA to examine GAC-related implementation risks and their influence on country outcomes.** It will be applied at pre-concept, design, and implementation stages and will ensure that GAC issues are given appropriate attention, risks are identified and mitigation measures discussed early on. The filter is intended to guide management and teams on the kinds of issues that should be given particular attention. The filter was introduced in the Belarus, Moldova and Ukraine Country Department at the time of the Ukraine CPS FY12-16, and is an adaptation of the Operational Risk Assessment Framework (ORAF) to the governance circumstances in the country.

137. **Use of GAC filter will help integrate analysis of GAC related risks in operations and ensure systematic risk-based decision-making across the portfolio.** At pre-concept stage, before significant WBG resources are committed, GAC risks and benefits of proposed operations are identified and discussed, using a set of guiding questions summarized in Annex 6. This stage will focus on the most salient risks and opportunities, as well as a recommended course of action; for example, additional GAC or political economy diagnostics, demand-side initiatives, and other design features could be advised. In some cases, it may be recommended not to pursue the proposed activity further. At later stages, GAC filter will be used to review the evolution of risks during project preparation and to assess the effectiveness of efforts to manage GAC risks during implementation.

138. **Engagement on governance issues through policy dialogue will continue on the most crucial reform issues for the Government to consider.** In particular, the WBG will support Government's efforts to improve long-term public finance sustainability through public finance and fiscal governance reforms, including spending adjustment and efficiency (primarily, in health and education; social protection; and intergovernmental fiscal relations), and debt management. It will also continue dialogue on transition to a new growth model, including reform of SOEs, and private sector governance. The ongoing work on municipal services will support Government's efforts to further improve quality of public service delivery.

139. **Demand-side governance engagement will focus on participatory monitoring, encouraging accountability to the beneficiaries through transparency and empowerment.** Participatory monitoring will allow for active participation of project beneficiaries, communities and other primary stakeholders in project design and implementation and monitoring of project outcomes. A focused portfolio review will be undertaken in FY13 to identify the most appropriate social accountability tools to increase project effectiveness and development impact. The review will identify social accountability instruments and approaches tailored to project needs and country context, and will ensure their integration into the World Bank portfolio by applying social accountability-linked indicators in operations, as well as identifying opportunities for the use of beneficiary surveys and feedback. For example, specific information sharing and feedback mechanisms will be created and institutionalized to ensure sustainability of project results and monitor project beneficiaries' satisfaction as well as enhanced compliance with the right to information.

140. **CPS activities will also involve civil society in a proactive way, particularly to support their role in governance and social accountability.** CPS activities will support dialogue between civil society, authorities, and public agencies through: (i) proactive information dissemination, (ii) capacity building, and (ii) civil society involvement in Monitoring and Evaluation (M&E) activities. The CPS will build on the Global Partnership for Social Accountability to help broaden accountability of public institutions at the national and local level.

Gender

141. **In response to the challenges identified in paragraphs 30-32 above, the WBG will continue addressing gender issues through its financing, analytical work and technical assistance.** In particular, analysis under the Programmatic PER, including on long-term fiscal sustainability of the pension and healthcare systems in the context of projected demographic changes, situation with non-communicable diseases, efficiency and sustainability of pension system and health care, suggests specific reform options to confront challenges and ensure higher impact of social services. Introduction of a regular LFS containing gender-disaggregated data would allow improved gender statistics. Financial Sector TA supporting the national financial literacy program is expected to result in increased use of financial services by women, including for business purposes.

142. **Gender lenses will be applied in all operations** aiming to identify gender disparities in endowments and economic opportunities in selected areas of development and suggest possible ways of addressing such most critical gaps through WBG-supported activities. Building on the current WBG program, possible focus areas could be equal participation of women in the labor force and entrepreneurship, curbed male mortality rate linked to non-communicable diseases and hazardous lifestyle, sustainability of the pension and healthcare systems, and higher impact of social services.

Partnerships and Donor Coordination

143. **The proposed WBG strategy has been designed in close coordination with other development partners.** Throughout the process of FY08-11 CAS implementation, the WBG's team collaborated closely with a number of development partners, including the IMF, European Bank for Reconstruction and Development (EBRD), EU, Nordic Investment Bank (NIB), SIDA, United Nations Development Program (UNDP), US Agency for International Development (USAID), and other bilateral donors. In the new CPS the WBG will continue seeking partnerships on key policy issues, technical assistance and advice. The WBG would aim to further leverage partnerships to: (i) share more systematically the findings of economic and sector work (ESW) with other partners, (ii) undertake joint ESW/TA whenever possible, and (iii) leverage other donors' resources.

144. **The WBG and the IMF teams will continue working closely in calibrating and delivering their assistance.** The IMF plays a key role at the macro level, while the WBG focuses on the structural reform agenda, energy efficiency, infrastructure and social and environmental issues. Recent examples of close cooperation and coordination between the WBG and the Fund include discussions under the IMF SBA post program monitoring and during the preparation of the CEM, and joint work with the Government Working Group on structural reform issues, and the joint support in the development of a Medium-Term Debt Strategy (MTDS). Areas of shared responsibility between the Bank and the Fund include macroeconomic development, public expenditure management, debt management and financial sector.

145. **The WBG closely coordinates its activities with the EU** through the Bank/EU Day, regular consultations through the meetings organized by the EU, participation in the European Dialogue and managing regional programs (FLEG and REPARIS/STAR-EaP). On bilateral basis the WBG works with the Government of Austria on (i) a pilot project to launch and roll out a privatization program consistent with international best practice, and (ii) a project targeted at enhancing the competitiveness of Belarusian food producers by improving their food safety practices.

146. **The EU and the WBG teams would also associate technically under some on-going EU and WBG assistance to Belarus.** The EU has ongoing programs in Belarus that provide policy advice on electricity sector reforms, energy efficiency norms and standards and promotion of renewable energy. The WBG is providing TA in the promotion of renewable energy, wood biomass in particular. Potential areas for collaboration between the EU and the WBG include structural and institutional reforms in the energy sector aiming to support the Government in (i) unbundling and liberalizing the utilities market, (ii) decreasing the energy intensity; (iii) increasing the use of domestic and renewable energy resources; and (iv) energy tariff reforms. Synergies will also be established in climate change mitigation area (e.g. forestry, waste management) aligned with the EU regional strategy. A dialogue in the forestry sector will be maintained through the second phase of the EU funded FLEG Program for which the Bank is an implementing agency.

147. **The WBG and the EBRD** will continue a dialogue in such important policy areas as investment climate and structural reforms (including privatization). The proposed WBG CPS complements well the recently approved EBRD Strategy for Belarus and new synergies will be sought in energy efficiency, renewable energy, and the municipal sector.

148. **The WBG in partnership with SIDA and USAID** is implementing Regulatory Simplification and Investment Generation Advisory Project to help Belarus improve its business and investment climate.

149. **The WBG and UN have established synergies and coordinate their efforts consistent with the UN Development Assistance Framework (UNDAF) for the Republic of Belarus for**

2011-2015. The WBG and UN agencies maintain continuous dialogue in five strategic areas of UNDAF: (i) sustainable social and economic development; (ii) national health care systems; (iii) environmental sustainability; (iv) national migration management in line with international standards; and (v) national governance system. Another important area of ongoing multi-year cooperation is recovery and sustainable development of the Chernobyl-affected regions.

150. **The WBG and NIB** have discussed and agreed on approaches to rehabilitation of wastewater management facilities under respective ongoing lending operations in Belarus.

V. MANAGING RISKS

151. **A major risk is the reemergence of price and exchange rate instability.** As discussed in paragraphs 23-27, Belarus has only recently emerged from the severe balance-of-payment crisis of 2011, when unsustainable policies pushed the economy into an inflation-depreciation spiral. Since mid-2011 stabilization measures have been in place that have restored foreign exchange markets and reduced inflation and current account deficit. However, premature policy loosening in 2012 has led to the reemergence of price and exchange rate pressures, posing renewed risk to an already-weak reserve position. These risks are exacerbated by Belarus's reliance on subsidized energy inputs from Russia, directed credit and sizeable foreign financing. In particular, the Government's over-optimistic growth forecasts for 2013 and potential use of monetary, fiscal and quasi-fiscal stimulus to achieve it raises concerns over monetary and fiscal prudence. In addition, Government commitments to increase major expenditure categories – especially wages – could exacerbate the situation. These risks would be further magnified if there was continued economic slow-down in Russia and/or the EU. Accordingly, the WBG will carefully monitor emerging economic and fiscal developments. While the IMF will take the lead on macroeconomic issues, the WBG's dialogue on public expenditures and budget management would be intensified and re-oriented should economic instability reemerge.

152. **Despite the need for deep structural reforms to enhance Belarus's medium-term economic prospect, reforms to date have progressed slowly and may experience further reversals during this CPS period.** The risk of policy reversals remains high given the centralized decision-making and control, lack of broad-based support for reforms and track record of reform reversals in the past, including, for example, expansion of the list of socially important goods subject to price controls in 2011 or shift back to ad hoc privatization in 2012. As a mitigation measure, the CPS proposes to calibrate WBG assistance against the depth, breadth and speed of structural reforms. In case of constrained reform space in Belarus, the Bank program will be limited to traditional uncontroversial investment projects for infrastructure needs, especially those with global public good benefits, and AAA with stronger advocacy element and IFC Advisory Services and investment in the private sector.

153. **Another risk is that relations with the EU could deteriorate.** Relations with the EU have remained strained since 1996, with temporary rapprochement in 1999 and 2008. Any further deterioration in relations could threaten trade and investments from OECD countries. If the trade and investment environment deteriorates some of IFC activities, e.g. advisory programs may become infeasible or dependent on availability of funding. The WBG will continuously consult with key stakeholders so that WBG programs have support even in difficult environment.

154. **Gas pricing is another area of significant risk.** In 2010 deteriorating relations with Russia led to the temporary removal of discounts on energy imports from Russia, sharply increasing the current account deficit and contributing significantly to the 2011 foreign exchange crisis. Over time, gas import prices should return permanently to market levels, affecting the balance of payments and fiscal situation if remedial measures are not taken in advance. In addition, the reliance on Russia as a key creditor in the 2011 crisis has further increased

economic dependence. Should the trade or financial situation again deteriorate, the CPS program would be modified to refocus the economic dialogue and reassess which IFC financings could still be productive. The WBG's policy dialogue on increasing domestic prices, tariffs and energy efficiency and ongoing investments in energy efficiency would help to mitigate the risk.

VI. ANNEXES

Annex 1: FY08-FY11 Country Assistance Strategy Completion Report

REPUBLIC OF BELARUS

World Bank Group FY08-FY11 Country Assistance Strategy Completion Report

Date of CAS: November 7, 2007, Board Discussion

Date of CAS Progress Report: October 27, 2009

Period Covered In The CAS Completion Report: FY08 – FY11

CAS Completion Report (CAS CR) prepared by Gregory Jedrzejczak, Elena Klochan, Yulia Snizhko and Oksana Nagayets under the guidance of Qimiao Fan, Country Director (ECCU2) and Rufat Alimardanov, Country Manager (IFC). The CPS CR team included Marina Bakanova, Irina Oleinik, and the WBG Belarus Country Team.

Executive Summary

1. The World Bank Group (WBG), under the Country Assistance Strategy (CAS) for FY08-FY11, supported the Government's reform agenda through a program of selective investment and analytical and advisory activities (AAA) with a strong focus on public goods and benefits to citizens. The WBG's strategy was adjusted mid-stream in light of the 2008 global financial crisis, economic liberalization measures undertaken by the Government, and good WBG portfolio performance. As a result, the WBG, along with the IMF and other partners, provided additional support to reinforce social protection, address weaknesses in the market pricing mechanisms, and strengthen the budgetary process. IFC adjusted its product mix in response to the crisis to better meet the needs of its private sector clients.
2. The FY08-FY11 CAS - both original and adjusted in CAS Progress Report - acknowledged that macroeconomic and implementation risks would be high given the country's economic vulnerabilities, policy reversals, and inconsistent implementation of reforms in the past. However, the risks were worth to be taken given the opening window of opportunity to engage Belarus in more substantial cooperation. The policy reforms supported through the DPL laid the ground for future engagement in some areas. Through its policy work, the Bank opened additional avenues for dialogue and produced and transmitted knowledge useful for follow-up activities.
3. Overall, program performance was moderately satisfactory, with a deepened dialogue and tangible achievements towards the CAS goals, but insufficient progress on several development issues. The WBG's performance was moderately satisfactory, given the limited sustainability on the policy front, offset, however, by responsiveness to changing external economic environment, solid performance of the ongoing program of investment operations, high-quality and relevant AAA, and fruitful cooperation with the majority of involved partners.
4. Due to political developments in the country that strained relations between Belarus and key shareholders, preparation of a new CPS was postponed for more than a year. This CAS CR - while dealing with the CAS period of FY08-FY11 - also looks at the results achieved beyond this period whenever it is substantially relevant to the CAS outcomes.

Progress Towards Country Development Goals

5. Belarus has long been considered a country performing rather well on many measures, but well below its potential: not using in full its well-educated population, broad industrial base, and geographic location. For almost two decades the country has followed a state-led, highly centralized economic model with a significant government share in all sectors of the economy and hands-on involvement of public

administration in managing enterprises and resource reallocation. Attempts at market reforms - most recently in 2010 - were too inconsistent and hesitant to move away from a state-dominated model. According to the EBRD Transition Report, Belarus consistently rates below comparators on the extent to which it has transformed its economy to the new post-Soviet realities.

6. The period of the CAS started with promising developments: the economy grew at 8.2 percent in 2007 and at 10 percent in 2008, mostly because of strong demand for Belarus's traditional products, cheap energy from Russia, and improvement of terms of trade.

7. The global crisis was transmitted to Belarus in the fall of 2008 through lower export revenues and reduced access to international borrowing. The impact, however, was milder in Belarus than in other former Soviet Union countries in terms of output decline and unemployment growth¹⁰. Economic growth slowed to 0.2 percent in 2009 but quickly rebounded to 7.7 percent in 2010 and 5.3 percent in 2011. Poverty rate fell by 0.7 percentage points to 5.4 percent in 2009 and further to 5.2 percent in 2010, before increasing to 7.3 percent in 2011 as a result of currency and balance of payments crisis that resulted from loose macroeconomic policies in pre-election 2010 and early 2011.

8. The CAS was well aligned with the Government's strategic goals articulated in the *Program of Social and Economic Development (PSED) for 2006-2010*¹¹.

9. Originally, the CAS strategic outcomes were grouped under two pillars: (1) *Delivering Global Goods* and (2) *Facing Transition and Shocks through Competitiveness and Inclusion*. The first pillar was aimed at improving energy efficiency, water supply quality, waste management, and infrastructure services in Chernobyl-affected areas. The second pillar focused on increasing competitiveness and diversification of the economy, and promoting effective and transparent government.

10. In 2009, to mitigate the effects of the global financial and economic crisis, the Government requested the WBG to broaden assistance in light of reform progress and the good track record established in the implementation of WBG-supported activities. In response to the good progress confirmed by the CAS PR, the WBG stepped up its engagement, opened a dialogue on structural reforms, and increased lending twofold, including policy lending not envisaged in the original CAS. The structure of the CAS was extended with a third pillar, *Public Sector Efficiency and Fiscal Discipline*. The adjustment did not change the development objectives of the original CAS (to assist Belarus to address global public goods in the areas of natural environment and energy challenges and enhance the competitiveness of its economy to ensure rising incomes and to protect the welfare of the weakest). The extended strategic goals focused foremost on strengthening public financial management system, with particular emphasis on reform of targeted social assistance to reduce leakages and protect the most vulnerable groups in view of expected severity of the crisis. With these adjustments, the CAS remained consistent with Belarus's evolving development strategy.

11. Adjustments to the CAS were coordinated with other development partners, including the IMF, EBRD, and UNDP. A Development Policy Loan (DPL) complemented the macroeconomic framework supported by the IMF's Stand-By Arrangement (SBA) initiated in January 2009. However, when the IMF-supported macroeconomic program expired, lack of this anchor contributed to a progressive unraveling of macroeconomic discipline that undermined and diminished the effectiveness of parallel structural reforms.

Overview of Program Achievements

Delivering Global and Local Public Goods (Pillar I)

12. This pillar supported investment projects with a focus on global public goods and improved quality of public services not requiring significant policy reforms. It focused on energy efficiency, water and waste management, and environment. At mid-term, this pillar has been expanded to include tariff

¹⁰ The Belarusian model allowed growth to continue but at the expense of increased inventories; registered unemployment remained low, but there was an increase in shortened labor weeks and forced leaves.

¹¹ Program of Social and Economic Development of the Republic of Belarus for 2006-2010. Decree of the President of Belarus # 384, June 12, 2006.

reforms expected under the DPL. The program envisaged under this pillar has had mixed results: with success in energy efficiency and environment protection, delays in the water supply and sanitation program, and little progress in tariff policy reform.

13. A more detailed description is presented below and in the self-assessment annex. The general positive lesson is that strong demand at the beneficiaries' level, strong ownership, and established collaboration with the implementing agencies bring expected results. The two investment loans to enable greater energy efficiency in public facilities including in Chernobyl-affected area were very timely and met their goals. The negative lessons can be drawn from unrealistic expectations of substantially improved and sustainable policies in socially sensitive areas at the time of Presidential elections and worsening economic fundamentals. A reversal in the recovery of energy and utility tariffs is an example of economically inconsistent mid-term policies not anchored in external obligations such as IMF SBA or a DPL. On the Bank portfolio side, insufficient readiness for implementation of the water supply and sanitation investment led to implementation delays while flaws in project design required project restructuring.

Outcome 1: Provision of investments in energy efficiency measures to selected social and other public sector facilities and households, including upgrading/replacement of heat generation and distribution equipment, thermal insulation improvements.

14. This outcome was achieved. The main vehicles for this outcome were Social Infrastructure Retrofitting Project and Post Chernobyl Recovery Project, including additional financing. The IBRD's program was timely and coordinated with the Government's program for improving energy efficiency, which had started 15 years earlier. The program was in high demand at the beneficiaries' level as it led to social and health benefits in schools, kindergartens and other public utilities. IFC contributed to the energy efficiency agenda by providing its first targeted loan, and accompanying advisory services, to Minsk Transit Bank to support energy efficiency improvements by micro, small and medium enterprise (MSME) borrowers.

Outcome 2: Improved cost recovery of energy and utility tariffs. Reduced cross-subsidization among all consumer categories

15. Outcome 2.1 was not achieved, though some progress in improved cost recovery for heating should be noticed. While the need to improve cost recovery and limit cross-subsidization of tariffs was well understood by Government officials, political economy considerations prevailed.

16. Outcome 2.2 was achieved. The number of preferential consumers fell from 149 companies in 2008 to 130 in 2009 (by 13 percent) and 53 in 2011 (by 65 percent).

Outcome 3: Reduction of health risks for people living in Chernobyl-affected area due to exposure to radioactively contaminated wood

17. This outcome was achieved. Switching from burning contaminated wood to clean gas has had multiple positive impacts on the health of users and environment. Successful implementation of the investment was due to the Government's and local authorities' ownership on the one hand, and good design and implementation readiness of the project on the other.

Outcome 4: Improved quality of water and wastewater management. Improved access of urban population to a centralized water supply

18. This outcome was not achieved. Implementation of the Water Supply and Sanitation Project - underpinning this outcome - has been slower than planned, mostly due to insufficient project readiness for implementation and weak implementation capacity of the new counterpart. Deficiencies in project design (the fragmentation of resources across a too large number of beneficiaries) undermined the possibility to achieve major impacts. In addition, the project was affected by the 2011 foreign exchange crisis, and several BYR-denominated contracts without a price adjustment clause had to be cancelled and re-bid.

Entry, Regulatory Reform and Competitiveness (Pillar II)

19. This pillar comprised the most socially and politically sensitive outcomes; particularly, with Belarus's strong focus on safeguarding access to basic goods and services and retaining jobs in the short term. Both the IBRD via its DPL, and IFC via its direct investments in the private sector companies and its advisory services, including the Investment Climate Advisory Project, continued to support these efforts and provide technical advice on how to move forward. However, the changing macroeconomic conditions played a critical role in the progress or lack of it.

Outcome 5: Reduction of regulatory and administrative barriers and decreased costs to business entry and operation

20. This outcome was achieved. There has been notable progress on this front, particularly regarding small and medium-size enterprises. Belarus has made major advances in reducing its cost of doing business. According to the Doing Business Report, Belarus jumped from the 115th position in 2008 to the 58th in 2010. This made Belarus one of the top ten reformers in 2009 and 2010, an achievement aided by both the IBRD and IFC: the former through its DPL and AAA, and the latter through its advisory services.

Outcome 6: Greater access to finance for private sector companies

21. This outcome was achieved. IFC investments in Belarus grew rapidly during the FY08-FY11CAS period, from less than USD 5 million in about two projects per year during the previous CAS period to a record USD 125 million invested in FY11 in eight projects. Total investments in Belarus during the FY08-FY11CAS period amounted to USD 335 million in 18 projects in financial, manufacturing, agribusiness, and retail sectors. On-lending of IFC financing through private sector banks facilitated almost 19,000 new loans to micro, small and medium enterprises (MSMEs). Over 100 additional SMEs were reached through IFC investments in agribusiness, expanding their market access. More than USD 180 million in trade finance lines to banks facilitated trade flows, especially in the aftermath of the 2008-2009 financial crisis. IFC investment portfolio in Belarus of USD 154 million is nearly fully disbursed (86 percent) and is performing well, with no non-performing loans (NPLs) as of the end of 2012. Economy-wide, however, much still has to be done to create an even playing field for private businesses when compared with state enterprises. However, the CAS design recognized the limited scope for broad-based WBG impact in this area and set relatively modest goals which have been achieved.

Outcome 7: Support further tax simplification and reduction of tax burden on enterprise sector

22. This outcome was achieved. Under the DPL and the follow up dialogue on structural and fiscal reforms, Belarus achieved substantial progress in tax reforms. The most distortive taxes - turnover tax and local tax on goods and services - were eliminated. Also, corporate income tax rate was reduced and enterprises were allowed to use accelerated depreciation and carry forward mechanisms to add flexibility to their corporate governance toolkit.¹²

Outcome 8: Support transition to free market pricing by further reduction of administrative price controls and regulated trade margins

23. This outcome was partially achieved. Belarus has had a higher level of price control than other transition economies. From this vintage point, the CAS period brought quite important progress toward market-based prices. This progress was confirmed by an improving EBRD index of price liberalization. 2011 saw some setbacks on price control, but it was relaxed in 2012 when market and social tensions abated. The agenda of reducing administrative price control to the levels of modern market economies is still far from being realized. The Customs Union with Russia and Kazakhstan, the accession of Russia to the WTO, and intensified efforts to speed up Belarus's WTO accession make the challenge even more acute.

¹²Doing Business Report for 2013 recognizes these efforts and contains a box on Belarus' progress in the area of paying taxes as the best practice.

Outcome 9:Quality, transparency, accountability, and efficiency of the privatization process improved

24. This outcome was partially achieved. The IBRD-supported pilot project on privatization of several medium-size enterprises is currently underway with an objective of introducing the best international practices based on competitiveness and transparency of the process. The newly established National Agency for Investments and Privatization is now fully operational. At the same time, the privatization of large state-owned enterprises (SOEs) is still routinely done in relatively non-transparent fashion, mostly driven by fiscal considerations. While corruption is relatively low, enterprises - irrespective of their ownership - are mandated to retain jobs even if this is detrimental to their competitiveness.

Outcome 10:Facilitate competitiveness of transport sector by supporting modernization and upgrading of critical physical infrastructure in road and railway sectors

25. This outcome was achieved. Road Upgrading and Modernization Project - underpinning this outcome - became effective in 2010, and road upgrading works are progressing well. However, the modernization component of the project has to be modified since the Government decided to implement road tolling in Belarus on a faster track and outside the IBRD's project. The lesson learnt is that investment projects in Belarus are prone to broader risks - not so much for implementation efficiency (which is generally good), but in the sense that important decisions may be taken at very high levels of Government and outside the control of the WBG's direct sector counterparts, without leaving space for discussing the rationale of such decisions and their consequences for a project in particular, and for reforms in general.

Public Sector Efficiency and Fiscal Discipline (Pillar III)

26. This pillar was added in response to the financial crisis and was supported by a DPL. The DPL was prepared with recognition of the urgency of the situation and with little previous experience in policy lending dialogue with Belarusian counterparts. CAS outcomes reflect this urgency: from a well-defined and structurally important outcome on safety nets to less elaborated outcomes on budgetary practices and agricultural dialogue. In hindsight, additional outcomes of the reviewed CAS, reflected in the DPL, put more pressure on reforms supportive to the efficient budgetary process and fiscal constraints at the expense of social protection reforms. However, at the moment of adjustments to the CAS in the Progress Report, the risk of grave social consequences of the crisis and an increase of poverty was real, but turned to be overemphasized.

Outcome 11:Strengthen social safety nets by better targeting accuracy of the social assistance programs for the poor and scaling-up of social assistance programs. Share of social assistance received by the poorest 20 percent of population

27. This outcome was achieved. Better targeting of social assistance expenditures had two objectives. One was to recalibrate social assistance programs, away from universal benefits to targeted benefits, converting these programs from entitlements to needs-based ones. The second was to make these programs more flexible and responsive to economic vagaries, particularly in light of the 2008 global financial crisis. The initial assessment was that the economic shock affecting Belarus would substantially increase poverty. Hence, the DPL encouraged the Government to expand the existing targeted social assistance programs with the budget for such programs doubled. Fortunately, poverty increase projections did not materialize. Nevertheless, better targeting and accuracy of social assistance spending were warranted - the goal of delivering 45 percent of these funds to the bottom 20 percent of the populations was achieved.

Outcome12: Strengthening financial sector discipline

28. This outcome was partially achieved. The IBRD support in this area has been limited to analytical work, which helped to structure the IMF SBA program in 2009. The financial sector in Belarus is small and - dominated by state-owned banks - inefficient. Continued lending with government guarantees and subsidies creates consistent liquidity problems in major state-owned banks. Their recapitalization (5.3 percent of GDP in 2011) presents a large contingent liability for the Government. In the nascent privately-owned segment of the banking sector, IFC has worked to promote best practices among its client banks

and, following the financial crisis, offered risk management advisory support to strengthen their operations and manage the increase in NPLs.

Outcome 13: Budgetary practices in line with the best regional practices

29. This outcome was partially achieved. The results of this outcome are mixed. Belarus scores above regional averages on five of six PEFA dimensions. On the other hand, introduction of a Medium-Term Expenditure Framework (MTEF) for policy-based budgeting has not been achieved yet. This was mostly due to incompatibility of the MTEF three-year framework with the existing practice of five-year planning cycle that is legally binding for the Government.

Outcome 14: Dialogue launched to increase efficiency in agricultural resource allocations

30. This outcome was partially achieved. Agricultural and forest resources are the most important natural assets Belarus has. Agricultural land is still owned by state farms and the system needs deep reforms. While the Bank has prepared an Agricultural Productivity and Competitiveness Note, its impact was negligible as the Ministry of Agriculture and Food - the main policy maker in this area - was not the main counterpart for the Note, and the Ministry's commitment to continuing a reform dialogue with the IBRD was not strong. Expectations for this outcome should have been more realistic.

31. In the forestry sector the IBRD continued substantial and successful dialogue via the EU-funded regional Forest Law Enforcement and Governance (FLEG) program, although it was not reflected in the CAS outcomes.

The World Bank Group's Performance

Design of the Strategy

32. The original directions of the strategy were relevant to the challenges facing Belarus and aligned with the Government's core priorities at the moment of strategy formulation. The FY08-FY11 CAS was more selective than past strategies, lowering expectations and narrowing its focus on what could be achieved and, therefore, bringing risks to manageable levels. The FY08-FY11 CAS was more realistic than in the past. Having recognized that the political economy was not conducive for the Government to take on "big ticket" comprehensive reforms, the CAS focused on investment lending leaving policy issues to AAA. The revised CAS took a much higher deliberate risk by engaging in activities necessary to mitigate the expected serious negative social consequences of the global crisis. Also, the WBG accepted (though with some reservations) the declared Government commitments to more comprehensive reforms. As a result, the WBG decided to use this "crisis opportunity" to deepen the dialogue despite the fact that it was understood that policy results might be smaller than spelled out in the revised CAS and the DPL. Policy engagement was important for strengthening the role of the Bank in Belarus over the whole period of the CAS.

33. The IFC program focused on the sectors that were open to private sector participation and had a comparative advantage for Belarus, such as agribusiness and value-added manufacturing. IFC also provided targeted financing through financial intermediaries to small and micro businesses. As expected in the CAS PR, since FY10 the IFC's investments averaged more than USD 80 million per year, with new investment products introduced, such as energy efficiency lending, trade finance, and the first parallel loan mobilized for an existing client in the manufacturing sector. Advisory work on the business environment successfully continued during the CAS period, and several new advisory projects were launched to help improve the competitiveness of private companies in the area of food safety standards, sustainable finance, and, most recently, the efficiency of resource use. IFC repositioned itself in response to the crisis to better address its clients' needs through shorter term financing instruments, such as trade finance and risk management advisory services.

34. The ensuing results matrix closely corresponded to the strategic goals set out in the CAS. The matrix suffered from a few shortcomings, however. The first was the lack of clear linkages between some actions and the influence they had on advancing the Country Development Goals. In the area of private sector development, the business enabling environment agenda for small and medium enterprises (SMEs) was closely aligned with the Country Development Goals and produced measurable broad-based results,

which are summarized in the self-assessment table. In the area of direct support to the private sector, through IFC's investments or company-focused advisory work or through the IBRD's pilot privatizations, the WBG impact was limited to enterprises in question and to generating demonstration effects, providing best practice examples, and modeling the desired behaviors. This was also the case in realizing improvements in agriculture, where support by the IBRD was insufficient to have relevant material influence, and water and sanitation with overly optimistic expectations about achieving results within a short time period. The second was an uneven importance of the expected outcomes - from some related to fundamental structural reforms to rather marginal ones which would rather qualify as intermediate targets. The IBRD's lending envelope was modest - about USD 100 million per year, typically one investment operation, while AAA was expected to provide the intellectual basis to engage in policy and technical assistance on the specific sectors' issues. Originally, no development policy lending was anticipated. This changed, however, in response to the 2008 global financial crisis and as an opportunity to deepen the policy dialogue emerged, and was reflected in the CAS PR.

Implementation of the Strategy

35. Hesitant reforms implemented by the Government led to repeated stops-and-starts in the Bank's program, including time gaps between subsequent strategies. The FY08-FY11 CAS was the first one since FY02-FY04 CAS, and expired in mid-2011. This negatively reflected on building the investment portfolio and related AAA activities in a more systemic way and in line with the long-term strategic objectives. No new loan was approved between 2001 and 2006, and only preparation of an investment operation designed to support recovery of Chernobyl-affected area of Belarus and AAA activities advanced at the beginning of the FY08-FY11 CAS period. However, in response to market oriented reforms and global financial crisis, 2009-2010 saw a significant increase in lending: about 60 percent of lending Belarus received from the beginning of its IBRD membership was approved during these two years. Significantly, the IBRD provided the first DPL, but reversal in reforms led to another slow-down in lending in 2011-2012. In FY11 - under a revised lending program, the IBRD provided a new investment loan to upgrade part of the international transport corridor, and an additional financing loan for improving energy efficiency in Chernobyl-affected areas.

36. Overall, the WBG managed its program well in a high-risk country environment with uncertain structural reform implementation record. The IBRD has been responsive and provided timely and high-quality strategic technical assistance and analytical support to the authorities; it created relationships with other development partners, in particular, building strong complementarities with the IMF program.

37. Together with the IMF's support for macro-stabilization, the IBRD's DPL helped to ease the immediate pressures on the economy in the first half of 2009. The DPL allowed the dialogue to deepen on structural reforms, but, unfortunately, the IBRD had limited leverage to influence significant change in the structural reforms agenda, with mixed results achieved (from good progress in deregulation, reduction of tax burden, moves towards market-based price-setting in goods and services, and social assistance strengthening - to no progress in improving cost recovery of the energy sector and hardening of the budget constraints for state-owned enterprises) and their medium-term effectiveness questionable.

38. During the CAS period, the investment portfolio performed well. There were no at risk or actual problem projects. All of the five ongoing operations were rated satisfactory for Development Objective (DO) and Implementation Progress (IP). The entry of two new investment projects in 2009 and one in 2010 into a small portfolio resulted in a reduced disbursement ratio of 10.6 percent in FY10. The disbursement ratio started picking up to 14 and 16 percent in FY11 and FY12, respectively. Despite some improvements in 2011, a combination of inflation and significant BYR depreciation had an adverse impact on contract performance under all projects (as price adjustment clause was not included in the works contracts) and resulted in lower than anticipated disbursements across the portfolio. Additionally, insufficient implementation readiness as well as limited capacity of the new implementing agencies caused delays in two projects: Water Supply and Sanitation and Integrated Solid Waste Management.

39. The AAA program was instrumental in building a dialogue with the Government in important policy reform areas. Throughout the CAS period the WBG consistently provided independent and data-based analysis, establishing a foundation of trust in the dialogue with the Government. In FY08-11, the

Bank delivered a series of Economic Policy Notes to update the 2005 Country Economic Memorandum (CEM). Background materials and discussions for these notes informed the preparation of the DPL. A PEFA was completed in FY09 and served to underpin the DPL through measures to streamline tax and control systems and increase the transparency of state support. The FSAP Update and Auditing and Accounting ROSC also contributed to the policy and reform dialogue. The FSAP update highlighted the adverse impact of directed lending schemes on resource allocation, the health of the banking sector and the structure of incentives in the economy. Its recommendations were reflected in the DPL, as well as in the IMF's SBA.

40. The Country Economic Memorandum and Public Expenditure Review were the key ESW products in FY11. Additionally, the Bank continued to be engaged in technical assistance (TA) to help improve the targeting of social assistance programs and ensure pension system sustainability in Belarus, as well as to continue the dialogue on structural reforms and strengthening public finance management. Technical assistance to privatization was another key product in FY11. Building on the dialogue with the Government started in 2009, the TA stepped up assistance to support the Belarus privatization program through the grant provided by the Government of Austria.

41. The sectoral AAA was strategically linked to lending and filling gaps in priority areas. The Transport Sector Policy Note completed in FY11 served as an analytical underpinning for the preparation of the lending operation. In the energy sector, the Bank supported the preparation of an ESMAP funded study *Harmonizing Renewable Energy Legal and Regulatory Framework with European Union*. In the agricultural sector, the IDF Grant for *Strengthening Institutional Capacity for Monitoring and Evaluation of Agricultural Policy Instruments* followed the FY10 *Agricultural Productivity and Competitiveness Note*. A dialogue in the forestry sector was maintained through the EU-funded regional FLEG program.

42. IFC's performance and program were moderately successful. IFC investments had strong results as evidenced by the reach indicators cited earlier, although none of the IFC investments in Belarus have been evaluated by IEG during the CAS period. IFC operations contributed to the relevant CAS outcomes of improving business environment, strengthening the financial sector, including in the context of the financial crisis, and supporting the nascent private sector. IFC expanded its investments, providing USD 335million to the private sector with a focus on priority areas in line with the country's strategic objectives. Accompanying advisory services focused on improving the business environment. IFC rapidly adapted to the changing macroeconomic environment during the financial crisis, contributing to the resumption of trade finance and funding for MSMEs, as well as improved risk management practices. This helped IFC clients withstand the crisis and maintain relatively good portfolio quality. The Global Trade Finance Program in Belarus reached its peak utilization of nearly USD 80 million during the 2011 crisis. Over 12,000 people, half of whom are women, are employed by IFC's real sector clients, contributing to the CAS PR objective of preserving and creating new sustainable jobs in the private sector. IFC's demonstration effect is typically difficult to measure, but the ability to bring a parallel lender into a project or to attract a major international company to Belarus market are all examples of this impact, and both took place during the CAS period with IFC support.

Risk Management

43. Managing the risks of the CAS was a daunting task for many reasons. Firstly, Belarus's social and economic programs were often driven by political considerations, and policy decisions were taken outside the public scrutiny with new priorities often difficult to predict. Secondly, the CAS period covered quite dramatic turns in the economic global environment and in relations between Belarus and the West. In this context, the Bank Group reacted well by building steady relations and knowledge transfer in a number of Government agencies. It paid back, particularly with quick and workable response of the post-crisis DPL.

44. The CAS appropriately emphasized the risk of the political economy context (which in Belarus is quite fundamental) and fragile sustainability of the reforms. Macroeconomic risks were appropriately identified in the CAS to the extent possible in the very volatile global environment but, in retrospect, their potential impacts were underestimated while the willingness of the Government to undertake decisive but socially risky actions to improve the macroeconomic situation was overestimated, as acknowledged in the

CAS PR. Leveraging policy reforms through increased coordination with other development partners, most notably the IMF and the EBRD, proved to be a right mitigation tool. A DPL that was prepared hand in hand with the IMF SBA in early 2009 produced very positive initial results. However, when the IMF-supported macroeconomic program expired, the lack of leverage contributed to unraveling of macroeconomic discipline that resulted in the second internally induced macroeconomic crisis at the end of 2010 as well as undermined effectiveness of structural reforms.

45. In the case of implementation risks, flaws in projects' design and readiness, as well as institutional weaknesses of implementing agencies, were not always identified properly in advance and had to be remedied during implementation by restructuring projects and adjusting their implementation schedules.

46. With regard to IFC operations, the impact of the crises on IFC's ability to provide new lending was not fully anticipated. The provision of local currency finance was restricted when the National Bank of the Republic of Belarus curbed the use of the swap facility. In the context of deteriorated political environment and strained relations with the EU and the US, IFC temporarily limited its pre-privatization activities in the country per guidance from its Senior Management and the Board and in line with the position taken by the EBRD.

Lessons Learned and Suggestions for the New CPS

47. This self-evaluation of the WBG's activities over the FY08-FY11 period generates lessons that may be relevant for the next CPS as highlighted below.

48. **Managing risks in the next CPS.** In the next CPS period, engagement of the WBG in Belarus is likely to remain high-risk, given mixed track record in implementation of policy reforms and limited leverage of the Bank in the country. While potential opportunities for engagement remain significant, making continued engagement necessary, there are a few lessons to be heeded. Increased attention to a medium-term macroeconomic framework would be critical to ensure sustainability of structural reforms program supported by the WBG. Given capacity constraints in implementation of some reforms in the past (for example, social assistance targeting), any future program should focus on critical priorities, but be flexible enough to allow adjustments to the Government's implementation pace. While a single-tranche DPL was an appropriate instrument to direct and test the Government's reform commitment during the crisis, going forward (should the WBG decide to re-engage in development policy lending) it would be advisable to consider programmatic engagement with a medium-term perspective. Finally, the Bank should pay increased attention to cooperation with the key donor partners in the country, coordinating their dialogues and policy frameworks.

49. **Synergies between Bank products.** While the weight of policy reform is typically borne by DPLs and investment operations help to implement these policies, going forward the IBRD should make sure that its investment lending engagement is in the sectors where there is an adequate or improving policy framework. The use of integrative approach - working closely across the sectors, combining diagnostics with just-in-time advice and capacity building, and creating complementarities with the other donors - proved to work particularly well in FY08-FY11 CAS, and should be built on in the next CPS.

50. **Learning and Knowledge Transfer.** Since Belarus has its own reform modus operandi - more gradual and top down than in other transition economies - it would be important to take into consideration what has worked in other countries, and how those approaches might be adapted to Belarus. The WBG should seek dialogue and cooperation with empowered policy makers and drafters of legislation, even if it is more difficult at the beginning and will require more hands-on engagement of WBG staff. There is a need for continuous interaction and learning between Belarusian policy makers and the WBG on core strategic goals, as well as increasing awareness among the public. This approach has worked in a number of sectors where local staff was ready to provide professional daily advice to counterparts. The IBRD's solid work in outlining the path to reforms in social protection and statistics is a good example of building the knowledge base for investment operations and/or DPL, and leveraging the knowledge with partners to influence broader sector outcomes. The challenge is to sustain and broaden such efforts.

51. **Trans-border Approach.** Thanks to the geographical location and historical experience, Belarus's development is dependent on the cross-border cooperation more than that of its peers. Transport, forestry and trade are the best examples where the WBG could use its regional expertise to the benefit of the country.
52. **Institutional Capacity and GAC.** In Belarus, the capacity of the Government agencies to generate policies and implement WBG projects is very uneven. The WBG should realistically focus on the sectors with stronger implementation capacity and a track record of successful cooperation in the past. As a rule, PIUs are part of the government administration with all its limitations for hiring additional professionals, such as lawyers or procurement and financial specialists. Loan-imbedded training opportunities can provide good incentives for hiring professional staff.
53. **Program Flexibility and Sustainability.** In Belarus's highly centralized economic model with a large role of the state sector and primacy of non-transparent politics, the WBG has to be ready to adjust the program (both up and down) depending on readiness of reforms and willingness of the authorities to implement them. With the exception of large unpredictable swings in the external economic situation that may force emergency interventions (as with the DPL under the last CAS), the new CPS should clearly set the menu of options and critical conditions for the WBG engagement. The CPS has to take into account that reforms in Belarus are often quite shallow and reversible once the external pressures abate and/or political calculations change. In doing so, it is important to seek long-term engagement, maintain program continuity and not to be distracted by short-term changes in the authorizing environment.
54. **Expected outcomes.** Expected CPS outcomes should better reflect the real impact of available instruments. CPS outcomes should be modest and better focused on a few areas with realistic potential to make a difference, rather than cover a wide "wish list" of reforms.
55. **Projects Design and Readiness.** Despite relatively good performance of projects in the portfolio, teams must be vigilant to avoid designs that are too complex, do not fully take into consideration local capacity, are not ready for implementation at effectiveness, and are not flexible enough to adjust to changing policy and macroeconomic environment without project restructuring.
56. **AAA.** Comprehensive and deep analytical pieces were the platform for the policy dialogue and have helped to build trust with key policy makers. Several key AAA (including the CEM and PER) were built around continuous client engagement with many intermediate outputs being shared and discussed intensively with the authorities. The analytical reports built solid underpinnings for future reforms and contributed to better understanding by all stakeholders (domestic and foreign) of the reform agenda and trade-offs faced by Belarus. Their preparation process was supported by seminars and study tours and helped to involve counterparts with the decision making capacity. This approach should be continued in the next CPS, perhaps with more continued, upfront assessment of impact of specific AAAs on implementing the CPS strategic pillars.
57. **Staffing and budgetary resources.** Last but not least, relative weakness of institutions, the need for intensive transfer of knowledge, and the need for broad public advocacy of reforms would require adequate attention of the WBG management, stronger local and international staffing, and adequate budgeting. Mid-term CAS adjustment and the DPL stretched the capacity of the staff (local in particular) to the limit and left some emerging opportunities for deepened cooperation unaddressed.

Table 4. Summary of FY08-FY11 CAS Program Self-Evaluation

Outcome the Bank expected to influence in the CAS Period	Status and Evaluation Summary	Lending and knowledge activities that contributed to the outcome	Lessons and Suggestions for the new CPS
Pillar I: Delivering Global and Local Public Goods			
<p>Outcome 1: Provision of investments into energy efficiency measures to selected social and other public sector facilities and households, including upgrading/replacement of heat generation and distribution equipment, thermal insulation improvements.</p> <p>1.1. Energy savings in schools, medical and other selected social facilities supported by SIRP (MWh/year): Baseline: 90,000 (2008) Target: 114,900 (2011)</p> <p>1.2. Fuel savings (Gcal) due to energy efficiency measures under PCRCP: Baseline: 0 (2008) Target: 102,000 (2011)</p> <p>1.3. Reduction of electricity consumption due to improved energy efficiency in waste water treatment (kWh/m³ of wastewater treated) Baseline: 2.5 (2008) Target: 1.5 (2011)</p>	<p>Outcome 1 has been achieved.</p> <p>Outcome 1.1 has been achieved. Energy savings under SIRP and SIRP AF reached 243,300 MWh/year (July 2011).</p> <p>Outcome 1.2 has been achieved. 148 400 MWh/year of fuel was saved due to modernization of boiler houses and other energy efficiency measures under PCRCP (September 2012)</p> <p>Outcome 1.3 has been dropped. The feasibility studies carried out during WSSP implementation clarified that priority investments should focus on service quality and coverage expansion rather than on energy efficiency improvement. WSSP was restructured in December 2012 to reflect this change in the scope of investments.</p>	<p>Ongoing lending Energy Efficiency Project (EEP) (FY09) Post Chernobyl Recovery Project (PCRCP) (FY06) Water Supply and Sanitation Project (WSSP) (FY09)</p> <p>Completed lending DPL (FY10) Social Infrastructure Recovery Project (SIRP) and SIRP Additional Financing (FY01; FY08)</p> <p>Completed non-lending Impact of Higher Energy Import Prices FY08) Harmonization of Renewable Energy Legal and Regulatory Framework with that of the EU (FY11)</p> <p>PER (FY11-12)</p> <p>IFC investment and advisory: \$10 million Energy Efficiency loan to MTB Bank and accompanying advisory support to develop a new Energy Efficiency product for SMEs</p>	<p>SIRP and PCRCP were essential components of the Government's larger well implemented energy efficiency program as well as - in case of PCRCP - aligned with the government's program to improve living conditions in the Chernobyl affected area. Strong Government ownership ensured visible economic and social results of the IBRD's assistance.</p> <p>SIRP included a tariff and subsidy study, but project rightly did not require changes in energy pricing and subsidies, given the level of the IBRD's relationship with the country at the time of project preparation.</p> <p>A simple and well-focused design of SIRP and PCRCP, backed up by TA, contributed to solid projects' implementation.</p> <p>One of SIRP lessons is the importance of establishing baselines and targets already at the preparation stage. For example, social aspects of the project were not quantified in advance and were difficult to monitor and attribute to the project.</p> <p>Procurement under SIRP and PCRCP was difficult as it included many sites widely dispersed throughout the country and contracts were too small for international bidders. The lesson is that in order to facilitate least-cost procurement and attract international bidders, the procurement approach needs to include: (i) the provision of workshops and information to local</p>

			bidders to inform them about the Bank's procurement procedures and determine the reasons for their lack of interest or failure to bid; and (ii) revision of conditions and terms of the bidding documents to elicit a sufficient number of bids.
<p>Outcome 2: Improved cost recovery of energy and utility tariffs. Reduced cross-subsidization among all consumer categories.</p> <p>2.1. Cost recovery of electricity and heating tariffs for households (Belenergo/Beltopgas system) maintained at least at 2008 level (percent):</p> <ul style="list-style-type: none"> • Baseline: 80 and 38 (2008) • Target: no less than 80 and 38 (2011) <p>2.2. Number of preferential consumers reduced (percent):</p> <ul style="list-style-type: none"> • Baseline: 100 (2008) • Target: no less than 87 (2011) 	<p>Outcome 2 has been partially achieved.</p> <p>Outcome 2.1 has not been achieved. In 2009, the cost recovery was 77.1 for electricity and 45.6 percent for heating. In 2010 and 2011 planned residential energy tariff increase was not implemented. Cost recovery fell to 60 percent for electricity and 36.8 percent for heating in 2010 and further to 57.80 percent for electricity and 17.98 percent for heating as of July 1, 2011.</p> <p>Outcome 2.2 has been achieved. The number of preferential consumers fell from 149 companies in 2008 to 130 in 2009 (by 13 percent). In 2010 and 2011 the number of preferential recipients dropped to 108 and 53 companies or by 28 percent and 65 percent vis-à-vis the 2008 baseline, accordingly.</p>	<p>Completed lending DPL (FY10)</p> <p>Completed non-lending PER (FY11-12) CEM (post CAS period, FY12)</p> <p>Ongoing non-lending PER (FY11-12) PER II (FY12-13) and synthesis report (post CAS period, FY12-13)</p>	<p>The risks of changing macroeconomic policies were underestimated. The efforts to carry out some of the reforms the program supported have been put in jeopardy by the loose macroeconomic policies carried out after March 2010 when the IMF Stand-by Arrangement expired. The increases in cross-subsidies in the energy sector also undermined the achievement of the program. As indicated in the DPL ICR, the WBG - in the future - should make a more forceful statement on the inconsistencies between the unsustainable macroeconomic policies and the structural reform agenda.</p> <p>The main lesson is that if the Government cannot ensure a suitable macroeconomic framework in the medium term, the medium-term effectiveness of a WBG supported reform program can be weakened or outcomes reversed. Prior actions are unlikely to mitigate the risk to reform program caused by the lack of financial discipline and - as a result - the Bank has to be more realistic in assessing limitations of the political economy of expected outcomes.</p>
<p>Outcome 3: Reduction of health risks for people living in Chernobyl affected area due to exposure to radiation contaminated wood.</p> <p>Number of households switched from contaminated wood to gas:</p> <ul style="list-style-type: none"> • Baseline: 0 (2008) 	<p>Outcome 3 has been achieved.</p> <p>Residential gas connections have been extended to 3,774 under PCRPF and PCRPF AF (September 2012).</p>	<p>Ongoing lending Post Chernobyl Recovery Project (PCRPF) and PCRPF Additional Financing (FY06, FY11)</p>	<p>In addition to the lessons listed above under Outcome 1, another important factor that contributed to meeting Outcome 3 was the Government's commitment to limit the health risk of radiation and to improve standard of living in the affected areas. The financial commitment of effected households to cover part of the costs of</p>

<ul style="list-style-type: none"> Target: three thousand households provided with gas connections (2011) 			<p>heating pipes installation was also important.</p> <p>A Mid-Term Review identified insufficient level of public awareness regarding the gasification process and the selection of households in some areas. This required improved communication and outreach efforts in project area.</p>
<p>Outcome 4: The quality of water and wastewater management improved. Improved access of urban population to centralized water supply.</p> <p>Discharge of wastewater with BOD levels in excess of 15 mg/l reduced in project supported sites (percent):</p> <ul style="list-style-type: none"> Baseline: 100 (2008) Target: 40 (2011) <p>Share of urban population with centralized water supply (percent):</p> <ul style="list-style-type: none"> Baseline: 90 (2008) Target: 97 (2011) 	<p>Outcome 4 has not been achieved. Progress under Bank-financed Water Supply and Sanitation Project - the main vehicle for this outcome - has been slower than expected. Moreover, CAS outcome and the original project results framework were poorly aligned. The project was restructured in December 2012, and the works are to be completed by the new project closing date of December 31, 2014. Once completed, the project will increase access to water supply services and improve the quality of water supply and wastewater services in selected urban areas in six oblasts.</p> <p>ISWM project that became effective in October 2010 is not captured by CAS results framework. The project is yet to enter active implementation phase and key results are anticipated to be achieved in the next CPS upon completion of supply and installation of the plant.</p>	<p>Ongoing lending Water Supply and Sanitation Project (WSSP) (FY10)</p> <p>Integrated Solid Waste Management Project (ISWMP) (FY10)</p> <p>Ongoing non-lending GEF POPs Stockpile Management Project (FY10)</p>	<p>The lesson learned is the importance of having realistic, quantifiable outcome indicators prior to implementation - the project's results framework failed to capture outcomes supported by project activities.</p> <p>Poor readiness was at the core of delays in implementation of WSSP. By the effectiveness date feasibility studies and design documents had been prepared for only half of 21 sub-projects. This considerably slowed down implementation and disbursement. Moreover, fragmentation of investments supported by WSSP across too many sites limited developmental impact and contributed to slow implementation pace.</p> <p>Working with inexperienced agencies in decentralized setting proved to be particularly challenging. The lack of capacity in a new implementing agency was exacerbated by the need to work with multiple foreign consultants and local site owners.</p> <p>WSSP focused entirely on priority physical investments and did not address the issues of sector efficiency and sustainability. Going forward, systemic causes of sector inefficiencies need to be addressed to ensure services sustainability. The recently launched Municipal Water Sector Review is</p>

			<p>an important first step in engaging in institutional and regulatory modernization of water sector.</p> <p>Weak implementation capacity (in analysis of project design options, procurement and contract management) for ISWMP at the central and local levels led to significant delays in project implementation.</p> <p>Although newly appointed local authorities developed ownership of the project after intensive implementation support and supervision activities, changes of counterparts caused delays since it required additional time to familiarize them with the project. Better coordination between central and local authorities to facilitate decision making will be crucial to improve implementation.</p>
Pillar II. Entry, Regulatory Reform, and Competitiveness			
<p>Outcome 5: Reduction of regulatory and administrative barriers and decreased costs of business entry and operation</p> <p>5.1. Length of inspections for individual entrepreneurs (working days):</p> <ul style="list-style-type: none"> • Baseline: 30 (2008) • Target: no more than 15 (2010) <p>5.2. Number of licenses issued</p> <ul style="list-style-type: none"> • Baseline: 250,000 (2008) • Target: no more than 100,000 (2010) <p>5.3. Time to get a license (working days):</p> <ul style="list-style-type: none"> • Baseline: 30 (2008) • Target: not more than 15 (2010) 	<p>Outcome 5 has been achieved.</p> <p>Over the last five years, Belarus has made a large step in improving various aspects of business regulatory environment, including introduction of declarative principle for business registration, reduction in registration processing time, removal of minimum capital requirements for most start-ups, elimination of notary fees, and introduction of a one-stop-shop for business liquidation. This progress has been reflected in improved country ranking from 115th in Doing Business 2008 to 58th in 2010 and 2013. The most notable reforms were implemented in “starting business” and “registering property” dimensions, where Belarus ranks the 9th and the 4th,</p>	<p>Completed lending DPL (FY10)</p> <p>Completed non-lending Economic Policy Notes (FY08-11) TA on Structural Reforms (FY11-12) CEM (FY12)</p> <p>Ongoing non-lending Programmatic TA on Structural Reforms (FY13-14)</p> <p>IFC advisory: Belarus Enabling Environment Project 2 Regulatory Simplification and Investment Generation Project</p>	<p>Work on simplification of business environment was client-driven; the counterparts facilitated access to data and information, provided timely feedback and suggestions for the issues to be covered.</p> <p>Integrative approach was crucial: EWS and TA tasks were part of the integrated macro-structural dialogue. This helped to accommodate client requests for just-in-time advice and capacity building, coordinate with other sectors and ensure the consistency of the recommendations across the sectors.</p> <p>Close alignment of the DPL with the Government reform program in this area facilitated program implementation. The design of the program and the pace of</p>

<p>5.4. Number of administrative procedures for individual entrepreneurs and businesses:</p> <ul style="list-style-type: none"> • Baseline: 775 (2008) • Target: not more than 500 (2009) 	<p>respectively (Doing Business 2013).</p> <p>Outcome 5.1 has been achieved. Since January 1, 2010, the maximum length of an inspection for individual entrepreneurs does not exceed 15 days.</p> <p>Outcome 5.2 has been achieved. Since 2011, the number of licenses declined by about 60 percent, due to the removal of licensing requirements for retail trade and catering that accounted for a significant share of licensing.</p> <p>Outcome 5.3 has been achieved. Since January 1, 2011, the number of economic activities subject to licensing requirements was reduced, as were simplified licensing procedures and requirements. The time to get a license is no more than 15 days.</p> <p>Outcome 5.4 has been achieved in the post-CAS period. With support from IFC the Government prepared and approved a Unified List of Administrative Procedures that includes 575 administrative procedures (against 725 in January 2011 and 1180 at the end of 2007) systematized along 24 areas/activities.</p>		<p>implementation were driven by the authorities. The role of the DPL was to help focus and track commitment of the authorities.</p> <p>Remaining numerous bottlenecks in further regulatory simplifications will require an overarching, endorsed at the highest political level strategy for regulatory reform. Otherwise it will become increasingly difficult to persuade implementing agencies and ministries to pursue further reform and simplification.</p> <p>In general, the Doing Business indicators have provided a good window to engage the Government on several issues. However, the use of Doing Business indicators as performance benchmarks for senior officials makes the temptation to game the indicators strong; with weak incentives to undertake comprehensive implementation reforms instead.</p> <p>Regulatory reforms are starting to be hindered by the lack of administrative reforms of the public governance model, including elimination of red tape and curtailing the power of intrusive agencies.</p>
<p>Outcome 6: Greater access to finance for the private sector companies</p> <p>6.1. Increased availability of financing for private sector companies through the IFC</p> <p>6.2. Increased lending by IFC to SMEs through the banking sector</p>	<p>Outcome 6 has been achieved.</p> <p>Outcome 6.1 has been achieved. IFC invested \$335 million in 12 companies in the banking, manufacturing, agribusiness, and services sectors. Of this amount, \$138 million was in the form of loans, \$183 million in trade finance, and \$14 million in equity.</p> <p>Outcome 6.2 has been achieved. IFC portfolio client banks provided about</p>	<p>IFC investment IFC direct investments in private sector companies</p> <p>IFC advisory Food Safety Advisory Project</p> <p>Completed non-lending FSAP Update (FY08-10) Economic Policy Notes (FY08-11)</p>	<p>Even with the quite friendly regulatory regime, SMEs still face huge challenges from unfair competition from SOEs, discrimination in getting access to resources, lack of financing (or at least lack of access to GDL), lack of a functioning court system (in regards to claims against the Government), and general macroeconomic instability.</p>

	<p>18,900 micro, small and medium enterprise (MSME) loans and at the end of 2011 held an outstanding MSME portfolio of \$100 million.</p> <p>Presidential Decree No. 402 implemented (August 2010) allowing IFC and EBRD to take mortgages on leased land and tenant's rights to land plots.</p> <p>To strengthen competitiveness of agribusiness companies, IFC has begun to work in the area of food safety, signing agreements with several private food processing companies to assist them with the implementation of food safety management systems along the supply chain to facilitate access to new markets.</p>	<p>Post-CAS period CEM (FY12)</p>	
<p>Outcome 7: Support further tax simplification and reduction of tax burden on enterprise sector.</p> <p>Baseline: overall tax burden of 47.6 percent of GDP (2008)</p> <p>Target: local sales tax and turnover tax eliminated (January 1, 2010).</p>	<p>Outcome 7 has been achieved. Special Part of Tax Code and amendments to General Part of Tax Code were enacted in 2009. Turnover tax was reduced from 2 to 1 percent in 2009 and eliminated starting from 2010. Local sales tax on goods has been eliminated since 2010. In 2011, local tax on services, local fee for territorial development and three payments within the environmental tax were eliminated. This contributed to overall tax burden decrease from 47.6 percent in 2008 to 34.7 percent of GDP in 2011.</p> <p>These results have been confirmed by improved ranking on paying taxes by DB13.</p>	<p>Completed lending DPL (FY10)</p> <p>Completed non-lending PEFA (FY08-11) PER (FY11-12) TA on Structural Reforms (FY11-12)</p> <p>Post-CAS period Ongoing non-lending PER II (FY12-13) and synthesis report (FY12-13)</p> <p>Proposed non-lending Programmatic TA on Structural Reforms (FY13-14)</p>	<p>One of success factors of the IBRD's support in this area was continuous dissemination of AAA - from preliminary findings and policy recommendations to the presentation of the final report. This helped to combine the advantages of analysis and just-in-time advice, obtain early feedback and increase the overall impact of AAA.</p>
<p>Outcome 8:Support transition to free market pricing by further reduction of</p>	<p>Outcome 8 has been partially achieved</p>	<p>Completed lending DPL (FY10)</p>	<p>As already noted above (see lessons learnt for Outcome 2), the key risk to the medium-</p>

<p>administrative price controls and regulated trade margins.</p> <p>8.1. Share of regulated socially important goods and services in CPI basket reduced (percent):</p> <p style="padding-left: 40px;">Baseline: 10.4 (2008) Target: less than 9.2 (2009)</p> <p>8.2. Launch dialogue to increase efficiency in agriculture sector through move towards market-based pricing and reduction of state control over farm management.</p>	<p>Outcome 8.1 has been partially achieved. Between 2008 and early 2011, the price liberalization was implemented through (i) eliminating the requirements for price registration and removing administrative limits on increases in prices, (ii) removal of retail trade margins for domestic and imported goods (excluding a limited list of socially important goods and goods subject to monopoly power), and (iii) reducing the list of socially-important goods and services subject to administrative price controls.</p> <p>The share of socially-important goods and services in CPI basket was reduced from 10.4 percent in 2008 to 9.2 percent in 2009 as the number of socially important service categories was reduced by half.</p> <p>Belarus was upgraded in the EBRD index of price liberalization in 2009 (for the first time since 2001) from 2.7 to 3.0 and further to 3.3 in 2010.</p> <p>Price liberalization was partially reversed in 2011 when some temporary price control measures were (re)introduced in response to the macroeconomic crisis. According to the 2012 IMF Article IV Staff Report, in 2011 the list of socially important goods subject to price controls was expanded to cover 25-30 percent of the consumer price basket.</p> <p>In 2012, the government started developing a regulation that would cancel previously introduced price controls and bring its policy in this area in proximity with much more</p>	<p>Completed non-lending Agricultural Competitiveness and State Support Policy Note (FY10) Economic Policy Notes (FY08-11) TA on Structural Reforms (FY11-12) CEM (FY12)</p> <p>Ongoing non-lending IDF for Monitoring and Evaluation of Agricultural Policy Instruments (FY11)</p>	<p>term effectiveness of the WBG supported reform program is posed by changing macroeconomic policies and lack of coherent implementation of the structural reform agenda.</p> <p>Going forward, the WBG may consider a more programmatic policy engagement with a focus on a medium-term perspective. This may help ensure the depth and continuity of structural reform efforts and thus would reduce the risk of serious policy reversals. Heightened attention to a medium-term macroeconomic framework would be critical to ensure sustainability of any structural reforms program supported by the Bank.</p> <p>So far the IDF for Monitoring and Evaluation of Agricultural Policy Instruments (2011) has had marginal support of the Ministry of Agriculture and Food which is the main policy maker in agricultural reforms area. The lesson is that the limited impact was mostly due to the selection of the research institute as a counterpart rather than working directly with the ministry.</p>
--	--	---	--

	<p>liberalized regimes of Russia and Kazakhstan. Still, the share of the goods and services controlled by the Government remains significant.</p> <p>Outcome 8.2 has been partially achieved: the dialogue launched in the process of preparation and dissemination of Agriculture Competitiveness Note has not yet been continued.</p>		
<p>Outcome 9: Quality, transparency, accountability, and efficiency of the privatization process improved.</p> <p>9.1. Improved legislative framework for privatization prepared: (i) establishing clear procedures for privatization of state-owned enterprises; (ii) reducing list of enterprises not subject to privatization.</p> <p>9.2. New independent privatization agency established and operational.</p>	<p>Outcome 9 has been partially achieved.</p> <p>Outcome 9.1 has been partially achieved. In 2008 the golden share rule was abolished, and the moratorium on the sale of individual shares and the requirement to sell shares to workers was lifted. The list of SOEs eligible for privatization and unitary enterprises due for corporatization expanded significantly. The earlier narrow lists of SOEs to be privatized have been replaced with narrow lists of SOEs not to be privatized, making all other SOEs potential privatization candidates. The New Privatization Law was enacted in 2010. However, the biggest and most expensive privatization cases have been decided in a non-transparent manner, outside the institutional privatization system.</p> <p>Efficiency of privatization process still has to be improved, as fewer than expected SOEs have been sold so far, and transactions in a transparent best-practice way are yet to be concluded.</p> <p>Outcome 9.2 has been achieved. A new National Agency for Investment and Privatization (NAIP) was established</p>	<p>Completed lending DPL (FY10)</p> <p>Completed non-lending TA on Structural Reforms (FY11-12)</p> <p>Post-CAS period: CEM (FY12)</p> <p>Ongoing non-lending TA on privatization program, supported by an Austrian TF (FY12)</p> <p>IFC advisory Belarus Enabling Environment Project 2 Regulatory Simplification and Investment Generation Project</p>	<p>Support to the privatization process is very time consuming and requiring building trust and multi-faceted cooperation with the Government officials, privatization agency, privatized enterprises (managers and workers), consultants and investors. The IBRD's support has been successfully focused on introducing the best practices in privatization of the medium-sized enterprises. Neither the IBRD nor the IFC have enough leverage to be a partner in privatization of large strategic SOEs without taking too much reputational risk.</p> <p>NAIP was established, staffed and became operational as a new vehicle for privatization with significant and hands-on support from the IBRD and IFC. The progress until now has been very promising</p>

	<p>under the MOE in 2010 and became operational in 2011. The capacity of NAIP to implement privatization has yet to be demonstrated by bringing to the point of sale the first eight companies selected for privatization under the WB supported privatization program TA.</p>		<p>and supported the WBG approach of starting institutional setup for privatization which has no burden of inefficient practices from the past.</p>
<p>Outcome 10: Facilitate competitiveness of transport sector by supporting modernization and upgrading of critical physical infrastructure in road and railway sectors</p> <p>10.1. Assessment of needs and investment priorities in transport sector completed.</p> <p>10.2. Upgrading of Trans-European corridor road started under the new Roads project</p>	<p>Outcome 10 has been achieved.</p> <p>Outcome 10.1 has been achieved. The Government has adopted the equivalent of the Transport Sector Strategy and Investment Program. The Bank completed a Transport Sector Note focused on transport sector efficiency. The Government mobilized internal and external financing for significant road and rail investments. It supports a balanced approach in transport sector development, with investments in roads and in railway modernization and logistics.</p> <p>Outcome 10.2 has been achieved. In 2010, the Road Upgrading and Modernization Project (RUMP) upgrading a strategic Trans-European Transport Corridor IX connecting the Black Sea with the Baltic countries, was approved and has made very good progress.</p> <p>The Government decided to accelerate the introduction of electronic road tolling system, which originally planned to be designed under the RUMP and in February 2012 signed a concession contract for the construction and operation during 20 years of an electronic state-of-the-art road tolling system for trucks on the most important roads of Belarus. The system should be</p>	<p>Ongoing lending Road Upgrade and Modernization Project (RUMP (FY11))</p> <p>Completed non-lending Transport Sector Policy Note (FY10)</p> <p>Post-CAS period: CEM (FY12)</p>	<p>Project implementation showed that decisions made at the ministerial level are sometimes overturned or changed (at least temporarily) at the level of highest political authority. This may affect agreements between the IBRD and counterparts, and can affect project execution. Future activities in the sector should try to address this risk by leaving enough flexibility in the projects to react to these changes whenever possible without recourse to project restructuring.</p> <p>The open and competitive international bidding process resulted in the recognition in Belarus that their system of artificially determining prices (based on the reference price system inherited from the past) may not give them good value for money. The IBRD should bring this issue up with the Ministry of Finance who might be more interested in this subject than the Ministry of Transport and Communications.</p> <p>The local State-owned construction firms should continue to stay eligible and be exposed to foreign competition; this will help them to become more competitive.</p>

	operational by mid-2013. When implemented it will provide a sustainable funding mechanism for the road sector, especially for road maintenance.		
Pillar 3. Public Sector Efficiency and Fiscal Discipline			
<p>Outcome 11: Strengthen social safety nets by better targeting accuracy of the social assistance programs for the poor and scaling-up of social assistance programs.</p> <p>11.1. Share of social assistance received by the poorest 20% of population (percent):</p> <ul style="list-style-type: none"> • Baseline: 40 (2008) • Target: 45 (2011) <p>11.2. Income eligibility threshold for targeted social assistance (TSA) program increased (percent of subsistence minimum):</p> <ul style="list-style-type: none"> • Baseline: 100 (2008) • Target: no less than 150 (2009) <p>11.3. Duration of targeted social assistance extended (months):</p> <ul style="list-style-type: none"> • Baseline: 3 (2008) • Target: no less than 6 (2009) <p>11.4. Means testing to improve targeting is incorporated in eligibility criteria for TSA</p> <p>11.5. Housing and Utility allowance program is integrated into TSA</p>	<p>Outcome 11 has been achieved.</p> <p>Starting from 2008, privileges based programs were replaced with TSA and child benefits with much higher targeting efficiency. The Government has scaled up and broadened these programs in response to the crisis. To provide adequate resources for the expanded TSA, budget expenditures on it doubled in 2009 compared to 2008.</p> <p>All milestones on strengthening of the TSA were completed as prior actions under the 2009 DPL by the adoption of the Presidential Decree No.458 on September 15, 2009, in effect since January 1, 2010.</p>	<p>Completed lending DPL (FY10)</p> <p>Ongoing non-lending PER II (FY12-13)</p> <p>Completed Non-Lending HD Policy TA (FY09-10) PER (FY11-12)</p>	<p>Given the breath of the reform agenda in this area, the IBRD should maintain a flexible approach to effectively accompany the authorities in surmounting the reforms' implementation hurdles.</p> <p>With not sufficient institutional capacity to carry out a broad reform program (e.g., social assistance) the IBRD should be ready to provide proper and timely technical assistance.</p> <p>Selection of sectors for PER should be better consulted and upfront agreed with the client. In this case, the sectors were selected by the Bank team, as a priority from the fiscal adjustment point of view (pensions and SA). However, when PER was done, the counterpart was not really ready to move on these sectors and only now is ready to move on SA reforms, though not yet on pensions. (The two PER chapters on pension and SA provided the evidence basis and policy framework which will be used, sooner or later, whenever these reforms will be undertaken. So they are useful to the Government anyway).</p>
<p>Outcome 12. Strengthening financial sector discipline.</p> <p>Findings of the FSAP Update provide the background to the IMF program on strengthening the financial system,</p>	<p>Outcome 12 has been partially achieved.</p> <p>FSAP findings contributed to the design of the IMF SBA program that was delivered to the Government in</p>	<p>Completed non-lending FSAP Update (FY09) PER (FY11-12) CEM (FY12)</p>	<p>Effective use of the strong complementarities between the IMF's and WBG's programs improved the effectiveness of both. Avoiding reversals and abandoning reforms would require</p>

<p>including on crisis management framework and phasing out of directed lending through the banking system.</p>	<p>2009. However, with expiration of the IMF SBA and suspension of the budget support by the Bank, further results on the ground have been uneven. While direct lending has been curtailed via tighter budgetary constraints as part of fiscal policy, a new special financial agency has not been established, as planned. Accordingly, NPLs under directed lending programs have not been removed from the balance sheets of major state banks. IFC successfully provided advisory support to several private sector banks, which are not engaged in directed lending, on improving risks management practices and NPL resolution.</p>	<p>IFC Advisory: Financial Markets Crisis Management Project</p>	<p>more continuity and consistency in policy based lending and policy dialogue.</p>
<p>Outcome 13: Budgetary practices in line with best regional practices.</p> <p>13.1 PEFA assessed strengths and weaknesses of PFM system and proposed strategic direction and priorities for improvement.</p> <p>13.2 DeMPA assessment revealed strengths in the institutional and operational framework for debt management and a strong focus on compliance and control, but also identified areas for improvement.</p>	<p>Outcome 13 has been partially achieved.</p> <p>Belarus scores above regional averages on five of the six PEFA dimensions. For policy-based budgeting, Belarus scores less well primarily as other countries started introducing MTEFs earlier and are further in implementation.</p> <p>Introduction of Medium Term Expenditure Framework (MTEF) for policy-based budgeting has not been achieved mostly due to incompatibility of MTEF three-year framework with the existing practice of five years planning cycle which is legally binding for the Government. The adoption of the new regulation stipulating 3-year rolling macroeconomic framework as a basis for MTEF was postponed. This happened not only due to domestic policy decision but also due to the fact that many countries in the region and world-wide postponed the introduction</p>	<p>Completed lending DPL (FY10) Completed non-lending PEFA (FY08-10) Economic Policy Notes (FY08-11) PER (FY11-12) DeMPA Assessment (FY11-12) CEM (FY12)</p> <p>Ongoing non-lending PER II (FY12-13) and synthesis report (post CAS period, FY12-13) Strengthening Medium Term Fiscal Planning Processes(FY12-13)</p>	<p>Capacity-building activities should be an integral part of any AAA. Any opportunities should be used, e.g. structured discussions with expert groups, formal training (including hands-on training), and joint research.</p>

	<p>of the MTEF in the context of high global macroeconomic uncertainties and volatilities of the past 3-4 years.</p> <p>Out of 35 parameters Belarus scored A (reflects sound practice) on 9 and D (suggests deficiency in performance) on 12 indicators. Although the Ministry of Finance started the preparation of the medium-term debt management strategy (MTDS) in late 2008, the explicit requirement to do so was absent in legislation at the time of DeMPA mission. In 2012 the Debt Management Department requested a joint Bank-Fund technical assistance mission to develop an MTDS.</p>		
<p>Outcome 14: Dialogue launched to increase efficiency in agricultural resource allocations.</p> <p>Agriculture Competitiveness Note published and disseminated</p>	<p>Outcome 14 has been partially achieved.</p> <p>The dialogue launched in the process of preparation and dissemination of Agriculture Competitiveness Note has not yet been continued.</p>	<p>Completed non-lending Agricultural Competitiveness and State Support Policy Note (FY10) PER (FY11-12)</p> <p>Ongoing non-lending IDF for Monitoring and Evaluation of Agricultural Policy Instruments (FY11)</p>	<p>CAS results matrix included outcomes of uneven importance – some related to the fundamental structural reform issues and rather marginal ones, which rather qualify as intermediate targets.</p>

**Table 5. Belarus – IBRD Planned Lending Program and Actual Deliveries
(FY08-FY11)**

CAS PLANS (11/07/2007)				
FY	Project	USD(M)	Status	USD(M)
2008	SIRP Additional Financing	15.0	<i>Actual</i>	15.0
	Water Supply Management	(60.0)	<i>Forwarded to FY09</i>	
	Subtotal	15.0	Subtotal	15.0
2009	Energy Efficiency and Self Sufficiency	125.0	<i>Actual a/</i>	125.0
	Water Supply Management	60.0	<i>Actual b/</i>	60.0
	Subtotal	185.0	Subtotal	185.0
Subtotal FY2008-FY2009		200.0	Subtotal FY2008-FY2009	200.0

a/ Name of the project was changed to Energy Efficiency

b/ Name of the project was changed to Water Supply and Sanitation

PROGRESS REPORT PLANS (10/27/2009)			Status	
2010	Solid Waste Management	60.0	<i>Actual a/</i>	42.5
	Development Policy Lending	200.0	<i>Actual</i>	200.0
	Subtotal	260.0	Subtotal	242.5
2011	Additional Financing for Post- Chernobyl Recovery Project	30.0-40.0	<i>Actual</i>	30.0
	Trans-European Corridor Road Improvement	150.0	<i>Actual b/</i>	150.0
	Development Policy Lending	100.0	<i>Dropped</i>	
	Subtotal	280.0-290.0	Subtotal	180.0
Subtotal FY2010-FY2011		540.0-550.0	Subtotal FY2010-FY2011	422.5
Total FY2008-FY2011		740.0-750.0	Total FY2008-FY2011	622.5

a/ Name of the project was changed to Integrated Solid Waste Management

b/ Name of the project was changed to Road Upgrading and Modernization

**Table 6. Belarus – Planned Non-lending Services and Actual Deliveries
(FY08-FY11)**

CAS PLANS (11/07/2007)		
FY	Product	Status
2008	Public Expenditure Notes-I Energy Efficiency Notes-I	Completed in FY08 /a Completed in FY08/b
2009	CEM Follow-Up Social Assistance and Social Security Review PEFA Follow-Up <i>Additional Products:</i> Accounting and Auditing ROSC Post-FSAP TA	Completed in 2011/c Completed in FY09/f Completed in FY09 Completed in FY09 Completed in FY09
PROGRESS REPORT PLANS (10/27/2009)		Status
2010	Economic Policy Notes Transport Sector Review Social Sector Financing TA <i>Additional Products:</i> FSAP update Belarus PEFA Assessment PEFA Follow-Up ROSC Follow-Up TA Financial Sector Monitoring TA PER I - Programmatic ENPI East Countries FLEG I Program Agriculture Competitiveness Note PSD Dialogue	Completed in FY11/c Completed in FY10/d Completed in FY10/e Completed in FY10 Completed in FY10 Completed in FY11 Completed in FY10 Completed in FY11 Completed in FY12 Completed in FY12 Completed in FY10 Completed in FY10
2011	HD Policy TA ESMAP: Renewable Energy Legal and Regulatory Framework Harmonization with the EU Post FSAP Support for Securities Market Development Structural Reforms TA - Programmatic CEM DeMPA Assessment PER II - Programmatic Labor Force Survey Privatization TA	Completed in FY11 Completed in FY11 Completed in FY12 Completed in FY12 Completed in FY12 Completed in FY12 Completed in FY13 To be completed in FY14 To be completed in FY16
POST CAS PERIOD (2012-2013)		
2012	Strengthening Medium Term Fiscal Planning Health and Education Sectors TA ESMAP: Biomass-based District Heating Financial Literacy - Good Practice Note Forest Sector Policy Note ENPI East Countries FLEG II Program	To be completed in FY13 To be completed in FY13 To be completed in FY13 Completed in FY13 To be completed in FY13 To be completed in FY16
2013	WTO Accession TA Municipal Water Sector Review Financial Sector Monitoring TA - Programmatic Structural Reform TA - Programmatic Technical Note on Good Practices in Building Effective National Financial Literacy Programs Labor Market Analysis TA – Regional	To be completed in FY13 To be completed in FY13 To be completed in FY14 To be completed in FY14 To be completed in FY14 To be completed in FY13

a/ Title changed to Selected Issues in Public Finance

b/ Title changed to Impact of Higher Energy Prices

c/ Title changed to Economic Policy Notes

d/ Title changed to Transport Sector Policy Note

Annex 2: Belarus - CPS Results Matrix

Country Development Goals	Issues and Obstacles	CPS Outcomes	Milestones	Bank Group Program (and Partners)
PILLAR 1: Improving competitiveness of the economy by supporting structural reforms, including reducing the role of the state, transforming SOE sector, promoting private and financial sector development and integration into the global economy				
Result Area1. Economic stability and competitiveness				
<p>Increased productivity, competitiveness and export diversification</p> <p>Sustained macroeconomic stability, public debt maintained at sustainable level and hardening of budget constraints for enterprise sector</p> <p>Transparent and efficient public finance management</p>	<p>State interference in resource allocation and economic management resulted in deteriorating productivity and competitiveness. Largely inefficient SOE sector limits private sector development, particularly SMEs and services. High export concentration on Russian market makes Belarus vulnerable to external shocks. Russia's WTO accession and resultant increased competition reinforces urgency of structural reforms</p> <p>Growth dependent on domestic demand driven by expansionary monetary/fiscal policies at expense of macro stability. Substantial refinancing needs in 2013-2015</p>	<p>Progress made in structural reforms as measured by: <i>An average score of the EBRD Transition Indicator improved (Small Scale Privatization, Large Scale Privatization, Governance and Enterprise restructuring, Price Liberalization, Trade and Forex System, Competition Policy)</i></p> <p style="text-align: center;">Baseline: 2.2 (2012) Target: 2.7 (2017)</p> <p>More transparent management of public resources as measured by: <i>PEFA PII0 - public access to key fiscal information</i></p> <p style="text-align: center;">Baseline: C (2009) Target: B (2017)</p> <p><i>PEFA PII7 - recording and management of cash balances, debt and guarantees</i></p> <p style="text-align: center;">Baseline: C+ (2009) Target: B+(2017)</p>	<p>Progress made in structural reforms as measured by: <i>Competition Law enacted in 2014(Y/N)</i></p> <p><i>Social Impact Assessment of price liberalization measures completed and action plan of price liberalization measures developed (Y/N)</i></p> <p>Roadmap for reforms in PFM created as evidenced by: <i>2014 PEFA update completed and used as basis for the development of a PFM reform strategy (Y/N)</i></p> <p><i>Conceptual design of integrated Financial Management Information System (FMIS) developed by 2014 (Y/N)</i></p> <p><i>Methodologies for budget preparation, execution and reporting revised in line with applicable good international practices by 2015(Y/N)</i></p>	<p><u>Planned Lending:</u> Public Financial Management project (FY15)</p> <p><u>Ongoing AAA:</u> Programmatic Structural Reform TA (FY13-15)</p> <p>Fiscal Governance Dialogue (FY13 -15)</p> <p>Trade Policy /WTO Accession TA (FY13-15)</p> <p><u>Planned AAA:</u> Regional Development AAA (FY15)</p> <p>PEFA Update (FY14)</p> <p>Statistical Capacity Building TF (FY15)</p> <p><u>IFC:</u> Trade Finance (FY14-15)</p>
Result Area2. Deepening financial intermediation on market-based terms				

Country Development Goals	Issues and Obstacles	CPS Outcomes	Milestones	Bank Group Program (and Partners)
<p>More efficient and stable system of financial intermediation</p>	<p>The financial sector remains small and undiversified, with most of the lending provided by State-Owned Banks under subsidized Government directed programs</p>	<p>Improved financial inclusion as evidenced by: <i>Share of population with savings account at a formal financial institution increased:</i></p> <p>Baseline: 19% (2012) Target: 30% (2017)</p> <p>Increased diversification of financial market as measured by:</p> <p><i>Increased share of mortgage lending at market terms</i></p> <p>Baseline: 20% (2013) Target: 40% (2017)</p> <p><i>Increased availability of financing for MSMEs up to US\$ 10 million per annum(Y/N)</i></p>	<p>Improved legal and institutional framework for financial inclusion as measured by: <i>National financial literacy program implemented and improvements introduced in the legal and institutional framework for financial consumer protection by 2016(Y/N)</i></p> <p>Improved framework to allow for greater financial market diversification as measured by: <i>Advice provided on development of market-based mortgage instruments, including establishment of mortgage liquidity/securitization facility(Y/N)</i></p> <p><i>Adoption of strategy for development of non-banking segment of financial market by 2016 (Y/N)</i></p> <p><i>Advice provided to banks on best risk management practices (Y/N)</i></p>	<p><u>Ongoing AAA:</u> Financial Sector Policy Dialogue TA (FY13-16)</p> <p><u>Planned AAA:</u> FSAP Development Module (FY14)</p> <p><u>IFC:</u> Trade Finance (FY14-15) MSME Lending (FY14-15)</p> <p>IFC long-term debt finance to the banking sector and to the microfinance institutions</p>
<p>Result Area 3. Liberalized environment for private sector investment</p>				
<p>Permanent increase in private sector contribution to sustainable growth, as measured by growing share of private sector in GDP</p>	<p>Private sector development in Belarus is restricted by over-regulated business environment and uncertainty about property rights. Skewed incentives and preferences to relatively inefficient SOE sector create a highly uneven playing field</p>	<p>Improved business environment for private entrepreneurs/investors, evidenced by</p> <p><i>Growth in newly created private enterprises and individual entrepreneurship</i></p> <p>Baseline: 8% (2010) Target: 12% (2017)</p> <p><i>A number of legal entities stating unstable legislation as a severe obstacle for business</i></p>	<p>Regulatory environment simplified as evidenced by:</p> <p><i>Transparent and consistent regulations developed (Y/N)</i></p> <p><i>A good practice SME development agency established by 2016 (Y/N)</i></p>	<p><u>Ongoing AAA:</u> Pilot Enterprise Privatization TA (FY13-16)</p> <p><u>Private Sector Development TA (FY14-16)</u></p> <p><u>IFC:</u> Regulatory Simplification, Investment Climate Improvement TA (ongoing)</p> <p>Sector-Specific Business</p>

Country Development Goals	Issues and Obstacles	CPS Outcomes	Milestones	Bank Group Program (and Partners)
		Baseline: 59% (2012) Target: 34% (2017) Stronger reliance of the economy on private sector evidenced by <i>growing share of MSMEs in employment</i> Baseline: 26.3% (2012) Target: 30% (2017)	Improved government's capacity to undertake privatization of SOEs using international best practice as measured by <i>Number of SOEs offered for sale to strategic investors through competitive and transparent tender procedure (cumulative)</i> Baseline: 0 (2012) Target: 16 (2016)	Regulation TA (FY15)
PILLAR 2: Improved efficiency and quality of public infrastructure services, enhanced and sustainable use of agricultural and forestry resources and increased global public good benefits				
Result Area 1: Enhanced energy security and efficiency of resource use				
Improving energy security by decreasing energy intensity (EI) of GDP Reduced EI, % of GDP _{vis-à-vis 2005 level} Baseline: by 23.4% (2012) Target: by 50% (2015) by 60% (2020) Improving competitiveness of the economy by reducing GHG emissions through energy efficiency and renewable energy programs GHG emissions avoided, CO ₂ equivalent	Despite a remarkable progress in reducing energy intensity (EI) (by 67% in 2010 relative to 1990), Belarus is still lagging behind the EU. In 2010, Belarus EI was 0.23 toe/thousand of 2005 USD of GDP (PPP); (compared to 0.15 in Poland; Germany – 0.12). Belarus is behind EU 27 countries, for which the average EI is 0.13 toe/thousand of 2005 USD of GDP (PPP) Belarus ranks among the top 30 GHG emitters worldwide.	Increased energy efficiency in the Bank supported projects as measured by: <i>Reduced annual gross consumption of energy resources</i> Baseline: by 15 ml m3/year (2012, PCRPP) Target: by 155 ml m3/year (2017), including through: PCRPP: by 20 ml m3/year EEP: by 90 ml m3/year EEP AF: by 45 ml m3/year <i>Reductions in carbon emissions through Bank-supported projects (tonnes per year, CO₂ equivalent)</i> Baseline: 40,800 (2012, PCRPP) Target: 77,000 (2013, PCRPP +EEP) 142,000 (2014 PCRPP +EEP) 207,000 (2015 PCRPP+EEP) 232,000 (2016 PCRPP, EEP)	Increased energy efficiency in the Bank supported projects as measured by: <i>Investment in energy efficiency measures resulting in reduced annual energy consumption</i> Baseline: \$65 ml (2012, PCRPP) Target: \$180 ml (2013, PCRPP, EEP) \$205 ml (2014, PCRPP, EEP) \$225 ml (2015, PCRPP, EEP) \$295 ml (2016, EEP, Biomass DH) \$315 ml (2017, EEP, Biomass DH)	<u>Ongoing Lending:</u> PCRPP and PCRPP AF (FY06; FY11) EEP and AF EEP (FY09, FY13) <u>Planned Lending:</u> Biomass District Heating (FY14) Forest Management Improvement Project (FY15) <u>IFC:</u> Energy Efficiency Financing (FY14-15) Sub-National Finance (FY16)

Country Development Goals	Issues and Obstacles	CPS Outcomes	Milestones	Bank Group Program (and Partners)
Target: 2.71 million tons of CO2 in emissions avoided as a result of increased share of renewable energy (2015)		322,000 (2017 PCR, EEP+Biomass DH)		
<p>Increasing use of domestic and renewable energy (RE) resources</p> <p>Increased share of domestic and renewable energy sources in fuel mix for electricity and heat generation</p> <p>Baseline: 25% (2012) Target: 28% (2015) 32% (2020)</p>	<p>Low diversification of energy supply due to a reliance on natural gas supplies from Russia (80% of primary energy supply). Belarus RE potential remains un-utilized. The share of domestic renewable energy in fuel mix for electricity and heat generation constituted about 25% in 2012</p>	<p>Increased use of renewable energy resources in the Bank supported projects as measured by:</p> <p><i>Annual energy amount of renewable fuel used</i> Baseline: 23,350 MWh/year (2012, PCR) Target: 200,000 (55,000 + 145,000 MWh/year (2017, PCR and Biomass DH)</p>	<p>Increased use of renewable energy resources in the Bank supported projects as measured by:</p> <p><i>Investments resulting in increased use of renewable fuel</i> Baseline: \$3.9 ml (2012, PCR) Target: \$8.6 ml (2013, PCR) \$8.6 (2014, PCR) \$8.6 (2015, PCR) \$38.6 ml (2016,PCR and Biomass DH) \$68.6 ml (2017,PCR and Biomass DH)</p>	<p><u>Planned Lending</u> Biomass-based District Heating (FY14)</p> <p><u>Planned AAA:</u> Sectoral Support to Reforming Sectors (FY14)</p> <p><u>IFC:</u> Renewable Energy Finance (FY15)</p> <p>Resource Efficiency Financing, Regional (FY11-16)</p>
Result Area 2: Improved standards in the agriculture and forestry sectors				
<p>Enhancing sustainability, economic efficiency, environmental and social accountability in forestry sector</p>	<p>Lack of consensus or vision regarding forestry sector development, conflicting institutional responsibilities, missed opportunities for carbon financing and a lack of investment in forest infrastructure</p>	<p>Forestry sector reform roadmap developed as evidenced by: <i>Forest sector reform strategy developed and adopted (Y/N)</i></p>	<p>Forestry sector reform strategy informed as evidenced by: <i>New Strategic Forest Development Plan prepared with support of FLEG I and II program (Y/N)</i></p>	<p><u>Ongoing AAA:</u> FLEG II program (FY13-17)</p> <p><u>Planned Lending:</u> Forest Management Improvement Project (FY15)</p>
<p>Raising the competitiveness of agriculture in international markets through increased productivity, quality and food safety standards.</p>	<p>Agriculture spending is dominated by direct enterprise support (subsidies). Production of many commodities is economically unprofitable and only financially profitable for enterprises because of large subsidies</p> <p>Inadequate quality and food safety standards are obstacles to diversification of exports beyond their currently narrow base. Outdated food safety regulations and standards limit Belarus's export</p>	<p>The cost of compliance for agri-business reduced as evidenced by:</p> <ul style="list-style-type: none"> The system of food safety control is aligned with EU practice as confirmed by IFC expert and EU missions (Y/N) Belarus dairy and poultry sectors get approved by EU for exports (Y/N) <p>Increased efficiency of food sector: US\$30m in increased sales for client companies of Food Safety Project</p>	<p>The cost of compliance for agri-business reduced as evidenced by: Relevant changes in legislation governing food safety issues are introduced and adopted (Y/N) HACCP principles are mandatory for all food processors (in line with EU practice) (Y/N)</p> <p>Belarus's dairy and poultry sectors get approved for EU exports by DG SANCO (Y/N)</p> <p>Food safety advisory services provided to 200</p>	<p><u>Ongoing AAA:</u> IDF: Strengthening institutional capacity for M&E of agricultural policy instruments (FY11 - 15)</p> <p><u>IFC:</u> Advisory Services: Belarus Food Safety Project (FY10-13)</p>

Country Development Goals	Issues and Obstacles	CPS Outcomes	Milestones	Bank Group Program (and Partners)
	potential. The absence of effective food safety management systems at a company level hinders export growth and sector efficiency	(Y/N)	companies, including in-depth engagement with 6 client companies (Y/N)	Environmental, Social and Trade Standards Program (FY13-16)
Result Area 3: Improved public infrastructure and municipal public utility services				
Improving quality and environmental management of municipal services	<p>High prevalence of iron in supplied drinking water</p> <p>Insufficient level of wastewater treatment, resulting in the discharge of organic pollution and nutrients to the environment</p> <p>Low tariffs, high cross-subsidization, weak performance and low operational efficiency of service providers</p> <p>Low recycling rates; large amount of waste disposed at landfills; non-sanitary disposal practices</p>	<p>Improved quality of supplied water as measured by: <i>Population provided with access to drinking water compliant with national quality standards</i></p> <p>Baseline: 0 (2013) Target: 277,000 (2017)</p> <p>Improved performance of wastewater treatment systems as measured by: <i>% of regulatory treated wastewater samples complying with national standards for BOD, nitrogen and phosphor levels</i></p> <p><u>Dubrovno:</u> Baseline: 0% (2013) Target: >95% (2017)</p> <p><u>Baranovitchi, Rogachev, Glubokoye, Verkhnedvinsk:</u> Baseline: 90% (2013) Target: >95% (2017)</p> <p><u>Berezino:</u> Baseline: 83% (2013) Target: >95% (2017)</p> <p>Reduced amount of waste disposed at landfill and higher rates of material recovery from solid waste as measured by <i>Tons of waste that will not be buried in the landfill due to the new facility</i></p>	<p>Improved quality of supplied water as measured by: <i>Number of iron removal plants implemented or rehabilitated</i></p> <p>Baseline: 0 (2013) Target: 4 (2014)</p> <p>Improved performance of wastewater treatment systems as measured by: <i>Number of wastewater treatment plants implemented or rehabilitated</i></p> <p>Baseline: 0 (2013) Target: 1 (2014) 4 (2015)</p> <p><i>Municipal Water Sector Review reflected in Government policy (Y/N)</i></p> <p>Reduced amount of waste disposed at landfill and higher rates of material recovery from solid waste as measured by: <i>Waste sorting facility in Grodno construction completed by 2014 (Y/N)</i></p>	<p><u>Ongoing Lending:</u> Water Supply and Sanitation Project (FY09)</p> <p>Integrated Solid Waste Management Project (FY10)</p> <p><u>Planned Lending:</u> AF Water Supply and Sanitation Project (FY14)</p> <p><u>Planned AAA:</u> Municipal Services Performance Review (FY15)</p>

Country Development Goals	Issues and Obstacles	CPS Outcomes	Milestones	Bank Group Program (and Partners)
		Baseline: 0 (2013) Target: 20,000 (2015)		
Improving infrastructure and road safety	Insufficient capacity and deficient condition of some main roads in Belarus, leading to inefficient traffic flow conditions and head-on collisions	<p>Transport costs for road users on the upgraded sections of the M5 road reduced as measured by: <i>Reduced Vehicle Operating Cost, %</i></p> <p>Baseline: 100% (2013) Target: 94% (2014)</p> <p>Road safety improved on the upgraded sections of the M5 road as measured by: <i>Reduction in number of traffic fatalities</i></p> <p>Baseline: 12 (2010) Target: 5 (2014)</p>	<p>Improved road infrastructure as measured by: <i>Number of km of two-lane main roads upgraded to four-lane motorway.</i></p> <p>Baseline: 0 (2010) Target: 52 km (2014)</p> <p><i>Axle load monitoring and control system installed in 2014 (Y/N)</i></p>	<u>Ongoing Lending:</u> Road Upgrade and Modernization Project (FY11)
PILLAR 3: Improved human development outcomes through better delivery of education, health and social services				
Result Area 1: Improved social protection and greater labor market efficiency				
<p>Improving quality and accessibility of long-term care</p> <p>Increasing Government's capacity to monitor and steer labor market dynamics within the framework of a market economy</p>	<p>The boundaries of care provision between the health system and the social care system are blurred. Most of long-term care for the elderly is provided through the hospital sector, using "social beds". Accessibility and quality of services is an issue.</p> <p>The Government's role as facilitator in labor market dynamics has been limited. No system of unemployment insurance, lack of data and capacity to carry out high quality labor market analysis</p>	<p>Long-term care services reforms roadmap developed as evidenced by: <i>Plan for developing and reforming long-term care services finalized (Y/N)</i></p> <p>Enhanced capacity of the national employment service to use labor market data for policy design sustained as evidenced by: <i>continuous use of the Labor Force Survey(Y/N)</i></p>	<p>Increased Government's awareness about social protection reforms as evidenced by <i>Continued World Bank engagement and advocacy for better targeted safety net system, unemployment insurance, and fiscally sustainable pension system (Y/N)</i></p> <p>Capacity of the national employment service to use labor market data for policy design enhanced as evidenced by: <i>Labor Force Survey (LFS) implemented, providing basis for detailed and comprehensive labor market analysis (Y/N)</i></p>	<p><u>Ongoing AAA:</u> Employment/Labor Market AAA (FY13-15)</p> <p><u>Planned AAA:</u> Long-Term Care AAA (FY15-16)</p>

Country Development Goals	Issues and Obstacles	CPS Outcomes	Milestones	Bank Group Program (and Partners)
Result Area 2: Increased efficiency of health and education services delivery				
<p>Greater efficiency and quality of services in health and education</p>	<p>The education sector needs to adjust to sharp student population decline with a view to provide room for quality enhancing investments</p> <p>Education quality and skills mismatch is increasingly becoming an issue</p> <p>Social services delivery system, while providing widely accessible and affordable education and health services, is costly and inefficient</p>	<p>Continued reforms in the area of school network reorganization as measured by: <i>Rollout of per-student financing started by 2017 (Y/N)</i></p> <p><i>Increased school autonomy and improved efficiency indicators (class-size, student-teacher ratio) in pilots by 2016 – baselines and targets to be established under Education Sector TA (Y/N)</i></p> <p>Roadmap for health sector reform developed as evidenced by: <i>Health sector reforms strategy developed by 2016 with design reflecting international experiences (Y/N)</i></p>	<p>Government general education reform strategy informed as evidenced by: <i>Piloting of per-student financing mechanism and wider autonomy in selected general secondary schools implemented (at least in 3 cities/oblasts) by 2015 (Y/N)</i></p> <p><i>Results achieved in pilots are reflected in the national reform strategy in the education sector by 2016 (Y/N)</i></p> <p>Government health care reform strategy informed as evidenced by <i>Monitoring framework to assess pilot reforms' results in place by 2015 and utilized to design health sector reforms strategy (Y/N)</i></p>	<p><u>Planned AAA:</u> Education Sector TA (FY14-15)</p> <p>Improving Quality of Healthcare TA (FY 14-16)</p> <p><u>Planned Lending:</u> Education Services Transformation Project (FY15)</p>

Annex 3: Overview of Main Trust Funds in Belarus

1. **Trust Funds resources made notable contribution to the CAS FY08-11 outcomes** as they were closely integrated into the core program of the World Bank Group, linked to the analytical work and responded to the country priorities, including strengthening institutional capacity and contributing to a dialogue on tackling present macroeconomic vulnerabilities and advancing economic liberalization; increasing efficiency of resource allocation, building statistical capacity, addressing energy efficiency and renewable energy, hazardous waste management, and forestry and agriculture issues.
2. **The Trust Funds portfolio increased to 17 grants totaling USD 16 million in FY13**, managed by the Bank and IFC, up from 4 programs totaling USD 3.5 million in FY08 and 4 programs totaling USD 2.2 million in FY10. Partnership with other donors resulted in leveraging funds for technical assistance and advisory services but also for project preparation and co-financing, including financing from United States Agency for International Development (USAID), Swedish International Development Cooperation Agency (SIDA), Danish Ministry of Foreign Affairs, Federal Ministry of Finance of Austria, multilateral grant facilities, such as ESMAP, SAFE, and grants from TFSCB, IDF and GEF.
3. Trust Fund to help Strengthen Financial Management Performance and Accountability (SAFE) was part of **on-going dialogue on PFM** issues across the budget cycle with a particular focus on improving medium-term fiscal planning and supporting introduction of output based financing arrangements in education and health sectors.
4. **Privatization TA**, financed by the Federal Ministry of Finance of Austria, is another key product with the implementation period FY11-FY16. It is focused on providing advice on legal and institutional instruments and implementation capacity building to successfully launch and roll out a privatization program consistent with international best practice.
5. IFC in partnership with the Swedish International Development Cooperation Agency (SIDA), the United States Agency for International Development (USAID), and the Ministry of Finance of Austria is implementing Regulatory Simplification and Investment Generation Advisory Project in Belarus to help the country **improve its business and investment climate**.
6. Technical assistance, training, and key advisory services aimed at **strengthening medium-term fiscal planning processes** were provided under a Strengthening Accountability and the Fiduciary Environment (SAFE) grant. Trust Fund for Statistical Capacity Building (TFSCB) supported an introduction of a regular **National Labor Force Survey**—a priority area for the development of the country’s statistics—providing relevant, precise, and complex statistical information on labor conditions, economic activity, employment, and unemployment.
7. Under a Biomass-Based District Heating Program (ESMAP), experts are looking at existing legislation on **renewable energy**, barriers and options for increased use of biomass energy for heat production, and energy efficiency, as well as opportunities to increase private sector participation in the sector.
8. Belarus is an active participant of the Forest Law Enforcement and Governance (FLEG), an EU-funded, six-country regional program coordinated by the World Bank. The program promotes **sound and sustainable forest management practices**, including the reduction of illegal forestry activities.
9. The detailed list of active TF products is below.

Table 7. Belarus Active Trust Fund Products
(Figures in thousands of USD)

Trust Fund	Trust Fund Name	Net Grant Amount	Funds Disb. to Date	Grant Sign Date	Grant Closing Date	Program Source	Managing Unit	Donor Name	Project Name	Exec. By
TF010358	Belarus: Strengthening Medium Term Fiscal Planning	237.00	223.83	7/8/2011	12/31/2012	SAFE	ECSP4	MULTIPLE DONORS	Strengthening Medium Term Fiscal Plan	Bank
TF012769	Belarus Biomass Based District Heating Poverty and Social Impacts	45.00	21.82	7/16/2012	6/30/2013	PSIA	ECSEG	MULTIPLE DONORS	Biomass-based District Heating	Bank
TF013949	Biomass-based District Heating	150.00	29.94	1/15/2013	12/31/2013	ESMAP	ECSEG	MULTIPLE DONORS	Biomass-based District Heating	Bank
TF013998	Public-Private Infrastructure Advisory Facility, Belarus : Private Sector Participation options in the water sector	74.86	0.00	1/14/2013	6/30/2014	PPIAF	ECSUW	MULTIPLE DONORS	Municipal Water Sector Review	Bank
TF014102	Belarus TA on Consumer Protection and Financial Literacy	55.00	18.41	1/31/2013	6/15/2014	FINC	FFIMS	MULTIPLE DONORS	Belarus TA on CPFL	Bank
TF014368	Fiscal Governance TA	240.00	0.00	3/11/2013	12/31/2014	EPFM	ECSP3	MULTIPLE DONORS	Fiscal Governance TA	Bank
TF097296	Belarus Food Safety Improvement Project	976.25	754.13	6/29/2010	9/30/2013	IFC	CEUSB	Austria - Federal Ministry of Finance		Bank
TF098004	Belarus Regulatory Simplification and Investment Generation Project	1,417.26	1,056.39	10/4/2010	12/31/2013	IFC	CEUIC	Swedish International Development Cooperation Agency (SIDA)		Bank
TF098370	The Belarusian Entrepreneur Support and Training	1,696.50	1,086.09	11/10/2010	9/30/2013	IFC	CEUIC	United States Agency for International Development (USAID)		Bank
TF098695	Belarus LFS	315.27	233.82	2/18/2011	5/31/2013	TFSCB	ECSP3	MULTIPLE DONORS	Belarus LFS	Bank
TF099008	Belarus Privatization - Bank Analytical Activities	659.74	263.94	1/31/2011	2/28/2015	FS-7PF	ECSPF	Austria - Federal Ministry of Finance	BY Privatization	Bank
TF099009	Belarus Privatization - Supervision of RE activities	500.00	93.29	1/31/2011	2/28/2015	FS-7PF	ECSPF	Austria - Federal Ministry of Finance	BY Privatization	Bank
TF012046	Strengthening innovative early-stage enterprises through scaling up existing Business Incubators in Belarus Project	75.00	50.00	5/4/2012	10/31/2013	INFOD	FIEID	Finland - Ministry for Foreign Affairs	ECA 3a - Incub. &Innov Sys - BY - Mogilev	Recipient
TF012047	Strengthening innovative early-stage enterprises through scaling up existing Business Incubators in Belarus Project	75.00	0.00	4/17/2012	6/30/2013	INFOD	FIEID	Finland - Ministry for Foreign Affairs	ECA 3a - Incub. &Innov Sys - BY - BAVIN	Recipient
TF096993	Integrated Solid Waste Management Project (between Belarus and IBRD)	5,500.00	4,331.33	7/5/2010	9/30/2013	GEFIA	ECSEN	MULTIPLE DONORS	Belarus POPs Stockpile Management Project	Recipient
TF098603	TF program for BY Privatization MOFA Program	3,600.00	450.00	12/22/2010	2/28/2015	FS-7PF	ECSPF	Austria - Federal Ministry of Finance	BY Privatization	Recipient
TF098649	Strengthening Institutional Capacity for Monitoring and Evaluation of Agricultural Policy Instruments Project	496.00	27.71	9/22/2011	9/22/2014	IDF	ECSAR	IBRD 1818 H Street, NW	IDF-M&E of AG POLICY INSTRUMENTS	Recipient
Totals of March 6, 2013		16,112.88	8,640.70							

Annex 4: Findings from IEG Evaluations, Client Surveys and Stakeholder Consultations

Stakeholder Consultations

1. **CAS Completion Report discussions and CPS visioning meetings** were held with small groups of targeted counterparts with day-to-day experience of working with the World Bank Group. The stakeholders shared their views regarding key priority areas for the next four years and the role of the Bank in addressing them.
2. **The outcomes of the meetings were important for outlining the CPS concept and developing a three pillar approach** verified during subsequent consultations with representatives of the authorities, business unions, academia, civil society organizations and the donor community in early 2013. A strategic dialogue with the Intergovernmental CPS Working Group provided a platform for discussing the needs of the country and the ways of addressing expectations in the framework of a future partnership.
3. **Consultations with wider groups of multi-stakeholders across regions** included a series of face-to-face meetings with central and local authorities, public professionals, parliamentarians, civil society organizations, students and academia, private sector, development partners, and beneficiaries of World Bank Group' supported programs carried out in January-April 2013. The discussion focused on opportunities in such areas as economic competitiveness, human development, improvement of infrastructure services and global public goods, gender, approaches to supporting the governance and social accountability agenda, the existing mechanisms and possible new frameworks for participation of beneficiaries in World Bank Group supported programs. Discussions at regional level were centered on regional development issues, results and effectiveness of programs supported by the Bank, and ways beneficiaries could be informed about its programs and participate in monitoring service delivery.
4. **Overall, participants of the consultations agreed with the CPS approach and rationale** and outlined the following key areas of focus for the WBG partnership with Belarus: quality of life, municipal sector services, education and employment, private sector's role, efficiency of resource allocation, public administration, climate change, renewable energy, and forestry and agriculture. They emphasized the importance of taking into account the specifics of the country, providing technical assistance and advice, and sharing regional and global expertise and knowledge.
5. **Many stakeholders stressed that the key issue for the Government was to improve the competitiveness of the private sector and reduce the role of the state**, and that the country modernization agenda should be used in the dialogue on enhancing management efficiency, restructuring, promotion of private sector development, and reducing the dominating role of the state. WTO accession could become a driving force to liberalize the economy and develop private participation.
6. **It was noted that social agenda is an important element of economic transformation**, and the country needs international experience and best practices on social reforms, in particular on integration of education and labor issues, restructuring of enterprises with due account of social aspects, ways to improve labor force mobility inside the country, and developing incentives for families to increase birth rate. It was recommended that the Bank pay closer attention to health, education and social protection areas.
7. **The participants admitted successful earlier cooperation in the area of environment and forestry development**, and importance of regional cooperation, as one of the participants put it "*forest cannot be divided by borders*" suggesting to strengthen cross-country exchanges and coordination.
8. **Representatives of the civil society proposed to include information and awareness raising components in every project**, more effectively use available mechanisms of public participation (e.g. public hearings, as the legislation provides for participation in decision-making and consultations) and develop instruments for beneficiaries' engagement in monitoring and assessing the provision of services in projects supported by the WBG, thus contributing to improving results and enhancing dialogue with authorities and service providers on beneficiaries' needs. Improving accountability in service delivery is

very important but it was admitted that there is neither experience nor technologies on how to introduce them and involve local communities.

9. **CSO representatives requested the Bank to reinforce its role as a facilitator between CSOs and authorities on development issues, directly engage with CSOs in implementation of programs and projects** and do it more systematically across the following areas (i) quality of life, (ii) environment; (iii) renewable energy, and (iv) climate change, noting that energy efficiency is an example of positive cross-sector cooperation.

10. **Topical webpages in Russian and English on the World Bank country internet site were launched**, containing information about results of the World Bank Group support to the country, proposed priorities for the CPS to provide a channel to participate in discussion to parties not involved in face-to-face consultations and ensure that information about the CPS reaches all interested.

Client Opinion Survey

11. **In January 2013, a client survey about stakeholders' views of the World Bank and its work in Belarus identified a significant role for the Bank in Belarus and suggested areas for improvement in the mid-term.** One hundred ninety stakeholders - drawn from a range of central and local state institutions, implementing agencies, civil society, media, privates sector, academia, beneficiaries and international agencies – were invited to provide their opinions on the Bank's assistance to the country. A total of one hundred fifteen stakeholders participated in the country survey (61percent response rate). Participants in the survey were drawn from among the central and local authorities; project management units, overseeing implementation of projects supported by the Bank; local government officials; bilateral and multilateral agencies; private sector organizations; private banks; CSOs; the media; academia/research institutes/think tanks; and program beneficiaries. Respondents were asked about the country development challenges and priorities, familiarity with the World Bank and their overall attitude toward the institution, the Bank's effectiveness and results in Belarus, the role the Bank should play in Belarus's development in the near future, and communication and information sharing. The main findings are summarized in the text box below.

Independent Evaluation Group recommendations

12. While reviewing the lessons of projects completed during the lifetime of FY08-FY11 CAS, the Independent Evaluation Group (IEG) emphasized the importance for program success of ensuring the Government's commitment, selecting projects with visible economic and social benefits, and quantifying outcome indicators at design stage. IEG also pointed out significance of associated technical assistance and sufficient capacity development to carry out reform programs. Proper macroeconomic framework was noted as critical for the medium-term effectiveness of the WBG supported reforms.

CLIENT OPINION SURVEY MAIN FINDINGS

Overall results suggest that private sector development and such areas as economic growth, competitiveness and diversification, foreign direct investment, transformation of state-owned enterprises, and energy are perceived to be the top development priorities for the country, and key drivers to improving people's lives in Belarus. Respondents see a critical role for the Bank in these top priority areas related to private sector development and areas related to public sector reform, social protection, and environmental sustainability in terms of Bank financial resources and knowledge products. These choices are consistent with the priorities identified in this CPS and the findings of the CAS Completions Report.

While two thirds of respondents believe that the Bank's most effective instrument in helping to promote development and reduce poverty in Belarus is investment lending, the survey findings suggest that technical assistance, capacity development, and knowledge products are valued highly in the country. Respondents are quite positive about the substance and technical quality of the Bank's knowledge work (research, data, conferences, etc.), including its accessibility, usefulness, relevance, and adaptability to country's specific development challenges and would like to see more attention given to dissemination of the knowledge work and its contribution to good policy making.

The survey findings suggest that the Bank's greatest strength as an effective development partner is related to the way it collaborates with the Government. The Bank receives high ratings in areas such as staff accessibility, following through over time, straightforwardness and honesty. The areas worth further consideration are related to greater flexibility in terms of Bank's products and services and changing country circumstances.

With more than forty percent of stakeholders noting that the way the Bank can be of greater value in Belarus is to reach out more to groups outside of government, and the survey findings strongly suggest that the more stakeholders engage with the Bank, the more positive they are about most indicator measurements in the survey, such as overall effectiveness, staff capability, collaboration, etc. This analysis supports continued strategic efforts to engage with key stakeholders and beneficiaries of the programs, to ensure productive collaboration and partnerships that lead to more effective development results on the ground.

About ninety percent of respondents get most of information about economic and social development issues in Belarus from Internet, however top three preferable ways of getting information from the Bank also include seminars and direct contacts with Bank representatives, apart from online resources. Only one percent of participants would like to receive information about the Bank from social media.

Table 8. Key Recommendations from Stakeholder Consultations on the FY14-17 CPS

Sector/ Issue	Key Issues Raised	Suggestions/Recommendations
Social issues/ employment	Social reform agenda is an important element of economic reforms.	<p>Support is needed in deinstitutionalized social services to the elderly and the disabled.</p> <p>Pension system should address the issue of aging and shrinking of the labor force.</p> <p>WBG should provide methodological and advisory support and sharing best practices on employment with the focus on:</p> <ul style="list-style-type: none"> • employment policies in the context of enterprise restructuring and labor shedding • matching labor market needs and education sector • facilitation of self-employment for those who have lost their jobs as a result of restructuring • ways to improve labor force mobility inside the country
Health	New approach to planning health expenditures is needed.	Technical assistance and training for healthcare professionals on improving health care system financing and overall support to health financing reform was requested.
Education	Pilot on reforming education financing is to be launched.	It is important to bring international experience to improve the quality of education and the regulatory framework, develop per student financing formula, and provide training to the financial staff and school principals in using the formula.
Governance	<p>Importance of participatory monitoring, encouraging accountability of the beneficiaries through transparency and empowerment was noted.</p> <p>Cooperation at the national level between the state agencies and CSOs varies from non-collaborative to systematic (e.g. Ministry of Natural Resources and Environmental Protection has a public advisory council providing a discussion platform for CSOs and state agencies).</p> <p>Local authorities are ready to cooperate with CSOs if they see a practical implication/solution to local issues.</p>	<p>The quality of public administration should be a priority focus for WBG support.</p> <p>CSOs should become implementation agencies for state programs and get access to public funds.</p> <p>Public councils should become a promising mechanism of collaboration between the state and CSOs.</p> <p>WBG should create mechanisms for CSOs involvement in WBG-supported projects. WBG should finance small local initiatives.</p> <p>WBG should facilitate establishing channels of citizens' feedback on quality of services, bring experience and global best practices for participatory monitoring and beneficiaries' involvement.</p> <p>Monitoring and evaluation mechanisms and criteria should be developed and introduced across the sectors.</p>

Sector/ Issue	Key Issues Raised	Suggestions/Recommendations
Gender	<p>Gender discrimination is often hidden and difficult to identify, measure and assess.</p> <p>Issue of domestic violence has received proper attention recently.</p> <p>Different fields of education and occupation result at difference in wages between men and woman.</p> <p>The country has a strong legacy of traditional gender roles.</p>	<p>There is a need to develop gender disaggregated statistics</p> <p>Gender wage gap should be assessed.</p> <p>It is important to look carefully at life expectancy gap between men and women and international experience of addressing it.</p> <p>The public at large should be better informed about gender issues.</p>
Transport	<p>Road project supported by the Bank led to attraction of other investors.</p> <p>Price of houses along reconstructed roads (RUMP) has increased; their residents could take part in economic and financial activities.</p>	<p>WBG could contribute to developing regional cooperation e.g. road connections with Poland, Ukraine and other countries.</p>
Energy and energy efficiency	<p>Energy efficiency measures get attention in all the regions. Belarus capacity in renewable energy is underestimated (solar, hydro, biogas).</p>	<p>It was recommended to enhance energy efficiency policy implementation, e.g. energy certification of buildings, involvement of citizens, awareness-raising among general public, etc.</p> <p>WBG assistance in implementation of the new program of energy system development till 2016, in particular energy savings in electricity generation sector, was requested.</p> <p>It is important to ensure investments in:</p> <ul style="list-style-type: none"> • using biomass in district heating systems • retrofitting energy efficiency infrastructure in social sector buildings • expanding the use of renewable energy (biogas) • building hydro power generation facilities
Environment	<p>Successful earlier cooperation - reconstruction of enterprises to eliminate ozone depleting substances; improved regulatory framework on environmental permits and POPs, etc. - was noted.</p>	<p>WBG could provide support to modernization of Hydromet to bring the quality of the service to the EU standards.</p>
Forestry	<p>IBRD supported Forestry project in 1990s and FLEG helped to train high-level specialists; they remained in the sector and held leading positions.</p> <p>New technologies and innovations do not work without training.</p>	<p>WBG investment to construction of forest roads, fire protection of forests, development of forest seed centers and nurseries, and use of wood chips for energy production was requested.</p> <p>WBG could promote knowledge exchange with the European neighbors on the up-to-date forest management practices.</p>

Sector/ Issue	Key Issues Raised	Suggestions/Recommendations
	<p>There is a strong need for cross-border decisions.</p> <p>Forest is a strategic natural resource. Belarus plans to develop:</p> <ul style="list-style-type: none"> • environmental tourism • wood chips • fire protection 	
Agriculture/rural development	<p>The country plans:</p> <ul style="list-style-type: none"> • double output of milk and develop new milk farms • reduce energy consumption and costs in agriculture • modernize farms and processing enterprises • use alternative sources of energy <p>The country is facing acute problems in rural territories and needs to develop their potential.</p>	<p>The WBG could support:</p> <ul style="list-style-type: none"> • modernization of food processing industry • access of agricultural products to Customs Union markets and the EU market • establishing a unified center for food products quality control • harmonizing the national standards with those of the EU
Business environment/private sector development	<p>Directive #4 on liberalization of economy led to more active dialogue of the state with the business, although its norms are often neglected.</p> <p>There is reduction of tax burden on SMEs.</p> <p>Development of the service sector was noted.</p> <p>The 2011 crises took significant assets from private businesses. Wages growth with no growth of productivity could lead to another crisis.</p> <p>Wrong state policies to address inefficiencies (merging inefficient and efficient companies, unwillingness to privatize poorly managed facilities) raise serious concerns.</p> <p>It is difficult to get public support for privatization, to a certain extent resistance to reforms comes from the fact that state-owned-enterprises perform social functions.</p> <p>There is inconsistency between declaration and actions of the Government and policy reversals (nationalization of earlier privatized companies and increasing state assets).</p> <p>There are infringements at all government levels.</p>	<p>The key issue is to improve the competitiveness of the private sector and reduce the role of the state.</p> <p>Private business needs access to financial resources and protection of property rights.</p> <p>Modernization and attraction of investments could be achieved by privatization but it requires political will.</p> <p>WBG should contribute to increase the role of the private sector and continue dialogue on structural reforms taking into account experience of other countries.</p> <p>Professionals with technical skills to participate in competitive fields are needed as well as experts to prepare companies to privatization.</p> <p>Proposed amendments to the privatization law (state representatives in privatized companies) could be detrimental to private business development and attraction of investors.</p>

Sector/ Issue	Key Issues Raised	Suggestions/Recommendations
	Business community presented to the Government recommendations for private sector development based on WBG advice; however, most of them failed to be reflected the private enterprise development program adopted in 2012.	
Financial and Fiscal		<p>Suggestions for the WBG support:</p> <ul style="list-style-type: none"> • development of financial market legislation, securities market, insurance market; leasing and banking regulations • deepening cooperation on financial literacy, including special courses in primary school curriculum, textbooks and courses for unemployed on financial literacy • assistance on simplification of the tax procedures based on ICT establishing tax consultancy and advisory service
Statistics		WBG could expand cooperation on assessing living standard and poverty level, labor force migration and introduction of national accounts methodology based on international standards
Civil Society	<p>CSOs rely on membership fees and donations; international support requires registration; CSO economic activity is not allowed; and activity of non-registered organizations is prohibited.</p> <p>Law on social services is a mechanism of public order for social contracting, but there is a lot of skepticism about its enforcing.</p> <p>Resolving issues at the community level (elderly people, disabled) require systemic approach, the country's social services are not ready to respond to them.</p>	<p>It is important to maintain the practice of joint events with CSO and government representatives.</p> <p>Regulation of humanitarian and technical assistance and CSO registration should be simplified.</p> <p>It is critical to involve local authorities as partners and the Bank should work more with local authorities and arrange capacity building events for local communities, including local administration.</p> <p>It was recommended to include design of local development agenda as a requirement for IBRD supported operations.</p> <p>Hands-on training for CSOs on getting information on operations supported by the WBG was requested.</p>

Annex 5. Gender Assessment Summary

Belarus has invested significantly in the human capital of its population—both in men and women. This continued and significant investment in health and education has helped to close gender gaps in key areas of primary and secondary schooling and women’s access to maternal and child care. Also, as a result of the socialist legacy, women’s participation in the labor market has been long standing. The legal framework governing men and women’s employment is “gender blind”. In addition, the laws do acknowledge women’s role in child bearing and there are sensible benefits related to parental leave (for both women and men).

Gender disparities are best understood by analyzing men and women’s (human capital) endowments and economic opportunities. The dialogue can also be broadened to discuss the institutional framework, social norms and agency as factors which shape women’s and men’s ability to act independently. By covering these three aspects, we are able to obtain a useful overview of the main gender gaps that remain in Belarus. Yet all of this should be considered against the backdrop of a society facing a demographic transition and a rapidly aging society. Belarus’s main challenges in gender equity remain in access to economic opportunities and agency.

Endowments. Gender gaps in education are not large at the school level, but men begin to lag behind at the tertiary level. There are no gender gaps in gross primary and secondary enrollment rates, which are about 100 percent. Yet, women are more likely to continue on into higher education and a large gender gap in favor of women exists (100 and 71 percent for women and men, respectively). However, female students in particular are concentrated in tertiary subjects that are not well suited to the demands of the labor market. Women are also less likely than men to receive vocational training, which compounds the occupational segregation that is prevalent in Belarus’s labor market (NSC 2010).

Women’s health indicators are relatively strong for an upper middle income country, but men’s life expectancy is low. There is a large gender gap of 12 years in life expectancy, which is 65 for men and 77 for women (WDI 2012). Unhealthy and risky behaviors among men lead to notably higher mortality rates from cardiovascular diseases and injuries (WHO 2012). On the positive side, maternal and infant mortality rates have improved in the past decade and are now comparable to those of developed countries (WDI 2012). However, about 70 percent of women are ill during pregnancy (NSC 2011). This in addition to the male mortality rates indicate that the Government may wish to focus on improving the quality of existing health services and their accessibility.

Economic Opportunities. The gender gap in labor market participation in Belarus is relatively low compared to other upper middle income countries, but this is driven by below average male participation. In first quarter 2012, the female and male participation rates were 62 and 69 percent respectively for persons between the ages of 15-64 years. The key issues facing women in the labor market are occupational segregation and lower earnings. The raw monthly wage gap in Belarus was estimated at 26.3 percent in 2011 and only a small share of this can be explained by observable characteristics. Though it is difficult to identify the reasons for women’s lower earnings, possible causes include the need for women to balance their domestic responsibilities with the demands of work. Moreover, though child care is available, there are wide regional disparities in the availability of pre-school education.

Women’s employment benefits have mixed impacts on their careers and long term welfare. In Belarus, women are entitled to 126 days paid maternity leave—which is not overly generous. However, employers are obliged to keep women’s jobs open (while on leave for family reasons) for up to three years, and this may hurt their employment opportunities. Women also have a lower retirement age (55 years) compared to men (60 years). The earlier retirement age for women adversely affects career progression and wages—and ultimately their pension income. This latter impact is especially detrimental to women’s welfare since they have longer life expectancy and higher pension income would be important for warding off poverty in old age.

Agency. Though women are earners and well-educated, they continue to face gender based exploitation in some key areas. On the one hand, women in Belarus are in a stronger position than

women in the ECA region. For example, one out of four formal sector firms have a woman as a top manager (BEEPS, 2009) compared to only 19 percent for the region. Also, women hold one third of the seats in Parliament and are also well represented in mid-level positions in sub-national governments. However, Belarus also faces problems with human trafficking. According to the United States Department of State (2011), Belarus is a source, destination, and transit country for persons (especially, women) subjected to sex trafficking and forced labor. Another problem women face is domestic violence, though there is no robust data that quantifies the extent of the problem. However, opinion polls show that there is a high societal tolerance for domestic violence. The legal support for victims may improve with the adoption of the drafted Law on Prevention of Domestic Violence, which outlines specific rights for victims to assistance, protection, and compensation (CEDAW 2011).

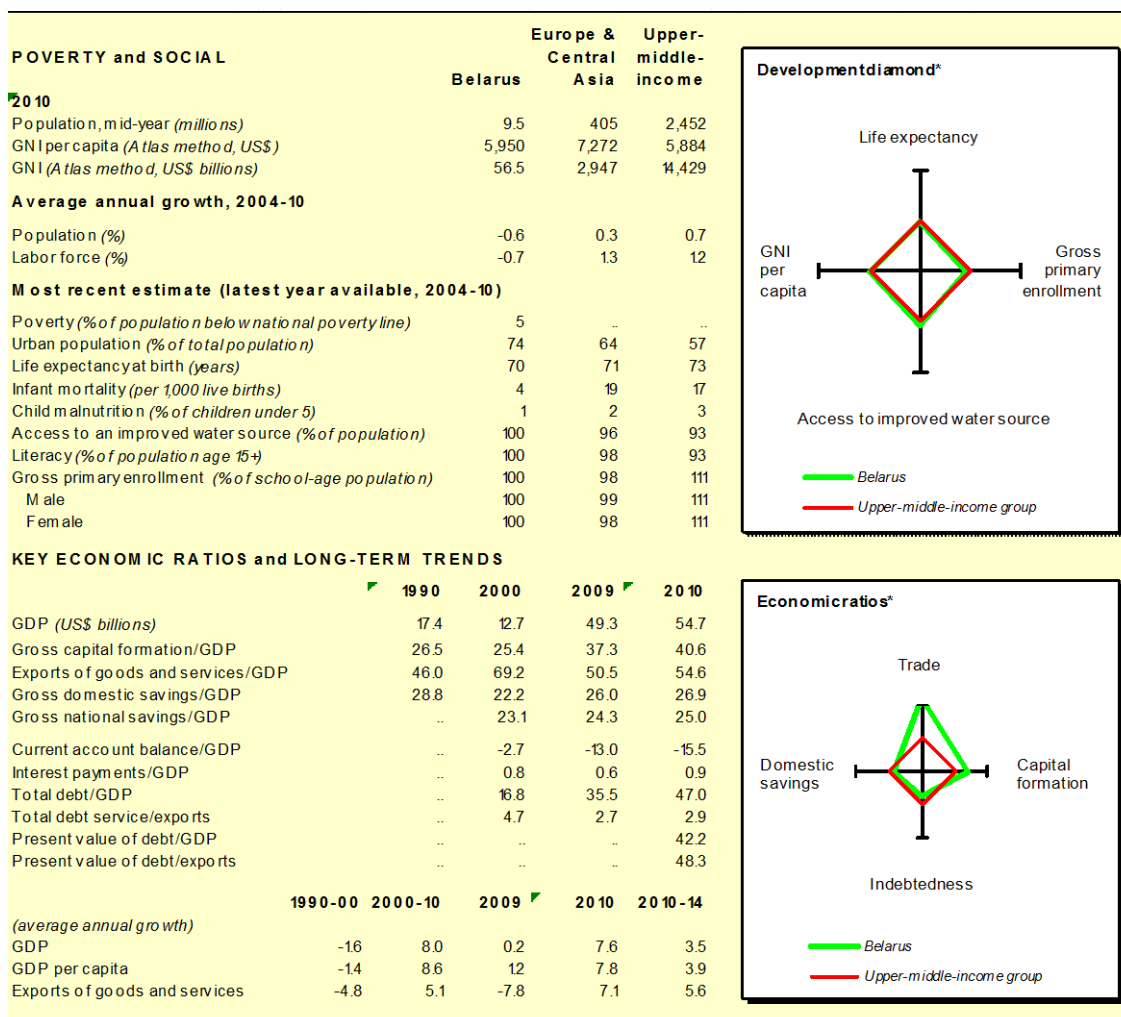
Annex 6. GAC Filter at the Pre-Concept Stage

Description of proposed intervention	<ol style="list-style-type: none"> 1. Type (Investment, TA, etc.) 2. PDO 3. Components
A. Sectoral Issues	<ol style="list-style-type: none"> 1. What are the GAC issues specific to the sector (related to legal, regulatory and policy framework, enforcement and implementation)? 2. What are the ownership issues in the sector? Is there a reliable reform champion in the sector/project (institution, organization, individual)? 3. What is the track record of the sector in public procurement and financial management? 4. What is the track record of the leadership in the sector? Are there any alleged or confirmed corruption or conflict of interest? 5. Who are the actors to be involved in the project and affected by it? Who are the beneficiaries of the existing system? Who are the winners and losers of the proposed changes? 6. Do vested interests play a major role in policy decisions in the sector? What could be the vested interests involved? 7. Is there a potential for GAC improvement in the sector, including on demand side?
B. Government Issues	<ol style="list-style-type: none"> 1. What is the institutional capacity of the government to absorb the proposed reform? How do we plan to overcome existing capacity challenges? 2. Is there evidence that the government is ready to move with the project? What is government's track record in implementing similar reforms? 3. What is a track record of the local authorities where the project is to be implemented? 4. What is the implementation track record of the implementing agency (Agency)? What is the Agency track record in public procurement and financial management? Are there any past alleged or confirmed abuses? Are there any INT cases with this Agency? 5. Is the Agency fully empowered to implement the project? Who among the counterparts is responsible/accountable for project deliverables? 6. What is the track record of the leadership in the Agency? Are there any alleged or confirmed corruption or conflict of interest problems with the leadership of the Agency?
C. Demand-Side Involvement	<ol style="list-style-type: none"> 1. Who are civil society champions for the reform that the proposed operation supports? 2. How we can use both "operational" and "advocacy" CSOs? 3. Is project going to use CSOs/communities/beneficiaries for monitoring and evaluation, and for implementation? At what stages of

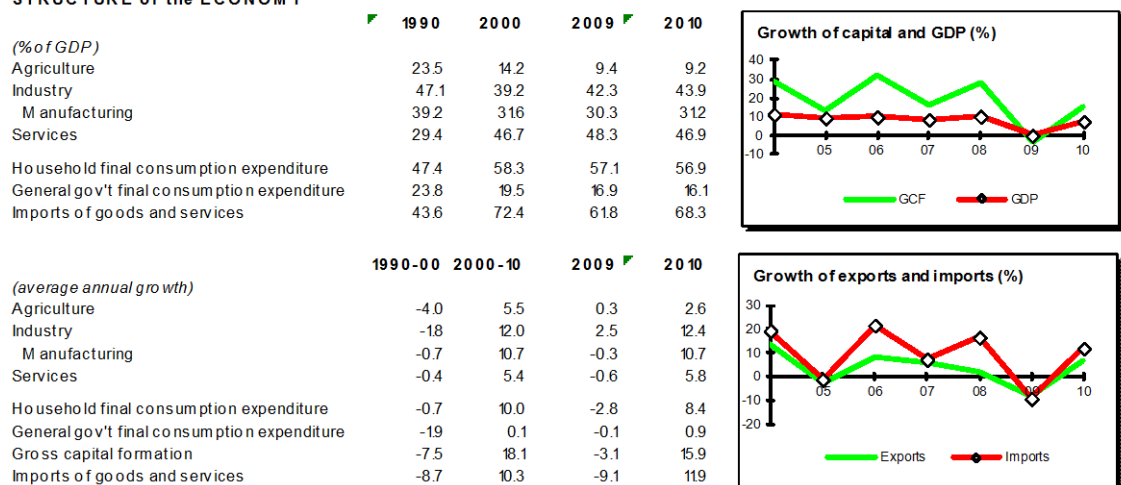
	<p>the project will CSOs/communities/beneficiaries be involved?</p> <p>4. Is there an appropriate CSOs capacity to follow on GAC?</p> <p>5. Is there a consultation/communication strategy for the sector/project? Is beneficiary survey available? How would we know that we have reached the targeted beneficiaries?</p>
<i>D. Partners Issues</i>	<p>1. What are the complementarities with the existing engagement of the development partners?</p> <p>2. Is it possible to leverage support for this activity?</p>
<i>Conclusion</i>	<p>1. Top three risks identified</p> <p>2. Can the Bank help mitigate or manage these risks?</p> <p>3. Given the governance conditions in the sector or agency, how can the project design be adjusted to keep the risk at a manageable level?</p>

CAS ANNEXES

CAS Annex A2: Belarus At-a-Glance



STRUCTURE of the ECONOMY



Note: 2010 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

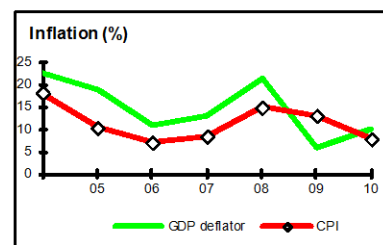
*The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

CAS Annex A2: Belarus At-a-Glance (Continued)

Belarus

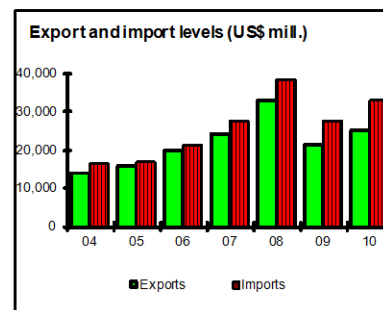
PRICES and GOVERNMENT FINANCE

	1990	2000	2009	2010
Domestic prices				
<i>(% change)</i>				
Consumer prices	..	68.6	13.0	7.8
Implicit GDP deflator	..	65.3	5.7	10.2
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	..	44.2	45.7	29.9
Current budget balance	..	8.9	11.1	5.7
Overall surplus/deficit	..	0.2	-0.7	-2.6



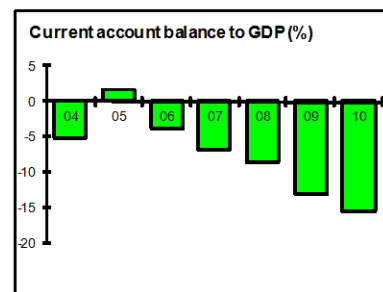
TRADE

	1990	2000	2009	2010
<i>(US\$ millions)</i>				
Total exports (fob)	..	7,331	21,282	25,226
Food and agricultural raw materials	..	503	2,283	3,207
Mineral products	..	1,482	8,063	7,203
Manufactures	..	4,673	8,921	11,484
Total imports (cif)	..	8,646	27,571	33,081
Food	..	455	1,452	1,677
Fuel and energy	..	2,583	11,310	12,060
Capital goods	..	847	3,380	4,307
Export price index (2000=100)	..	100	193	222
Import price index (2000=100)	..	100	161	182
Terms of trade (2000=100)	..	100	120	122



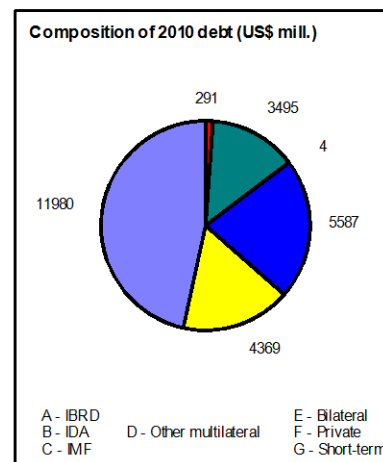
BALANCE of PAYMENTS

	1990	2000	2009	2010
<i>(US\$ millions)</i>				
Exports of goods and services	..	7,641	24,865	29,826
Imports of goods and services	..	8,087	30,383	37,252
Resource balance	..	-446	-5,518	-7,426
Net income	..	-47	-114	-1,334
Net current transfers	..	155	242	267
Current account balance	..	-338	-6,390	-8,493
Financing items (net)	..	414	8,833	7,684
Changes in net reserves	..	-76	-2,443	809
Memo:				
Reserves including gold (US\$ millions)	..	357	7,104	8,210
Conversion rate (DEC, local/US\$)	2.49E-4	77.1	2,789.5	2,978.5



EXTERNAL DEBT and RESOURCE FLOWS

	1990	2000	2009	2010
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	..	2,140	17,490	25,726
IBRD	..	105	256	291
IDA	..	0	0	0
Total debt service	..	369	179	1,411
IBRD	..	20	5	3
IDA	..	0	0	0
Composition of net resource flows				
Official grants	0	..	70	105
Official creditors	..	-27	1,155	1,623
Private creditors	..	70	134	2,479
Foreign direct investment (net inflows)	..	119	1,884	1,403
Portfolio equity (net inflows)	0	1	1	1
World Bank program				
Commitments	..	0	325	223
Disbursements	..	6	216	37
Principal repayments	..	14	3	1
Net flows	..	-9	213	36
Interest payments	..	6	2	2
Net transfers	..	-15	211	34



Note: This table was produced from the Development Economics LDB database.

3/29/12

CAS Annex B2 -Selected Indicators* of Bank Portfolio Performance and Management

(As of 4/22/2013)

Indicator	2010	2011	2012	2013
Portfolio Assessment				
Number of Projects Under Implementation ^a	5	5	5	5
Average Implementation Period (years) ^b	3.2	2.5	3.8	4.6
Percent of Problem Projects by Number ^{a, c}	0.0	20.0	20.0	20.0
Percent of Problem Projects by Amount ^{a, c}	0.0	27.0	13.0	10.4
Percent of Projects at Risk by Number ^{a, d}	0.0	20.0	20.0	20.0
Percent of Projects at Risk by Amount ^{a, d}	0.0	27.0	13.0	10.4
Disbursement Ratio (%) ^e	10.6	14.8	16.9	24.8
Portfolio Management				
CPPR during the year (yes/no)	yes	yes	yes	yes
Supervision Resources (total US\$)	348,755	573,339	459,366	300,357
Average Supervision (US\$/project)	87,189	95,557	91,873	60,071

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	7	2
Proj Eval by OED by Amt (US\$ millions)	395.6	237.6
% of OED Projects Rated U or HU by Number	28.6	0.0
% of OED Projects Rated U or HU by Amt	37.9	0.0

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP)
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

CAS Annex B3 - Belarus: IFC Investment Operations Program

(As of 3/31/2013)

	2010	2011	2012	2013*
<u>Original Commitments (US\$m)</u>				
IFC and Participants	68.5	124.9	86.4	52.4
IFC's Own Accounts only	68.5	124.9	61.6	52.2
<u>Original Commitments by Sector (%)- IFC Accounts only</u>				
Finance & Insurance	87.8%	72.0%	49.7%	100.0%
Food & Beverages	1.9%			
Chemicals		4.0%		
Primary Metals		24.0%	50.3%	
Wholesale and Retail Trade	10.2%			
Total	100.0%	100.0%	100.0%	100.0%
<u>Original Commitments by Investment Instrument (%) - IFC Accounts only</u>				
Guarantee	61.1%	64.0%	47.7%	100.0%
Loan-LN	14.6%	32.0%	50.3%	
Quasi-Equity	10.2%	4.0%		
Straight Equity	14.1%		2.0%	
Total	100.0%	100.0%	100.0%	100.0%

CAS Annex B6 - Key Economic Indicators – Belarus

Indicator	Actual			Estimate			Projected		
	2008	2009	2010	2011	2012	2013	2014	2015	2016
National accounts (as % of GDP)									
Gross domestic product ^a	100	100	100	100	100	100	100	100	100
Agriculture	10	10	11	9	10	9	9	9	9
Industry	45	43	42	43	45	44	43	41	40
Services	44	47	47	48	45	47	48	50	51
Total Consumption	70	74	72	63	60	66	66	66	66
Gross domestic fixed investment	33	36	39	38	30	31	32	32	33
Government investment	5	4	3	3	3	1	2	2	2
Private investment	29	32	36	35	27	30	30	30	31
Exports (GNFS) ^b	61	51	54	81	85	79	78	77	76
Imports (GNFS)	69	62	68	82	78	76	75	75	75
Gross domestic savings	30	26	28	37	40	34	34	34	34
Gross national savings ^c	29	25	26	30	32	27	26	26	26
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	60763	49210	55212	64272	63267	65432	67870	70535	73305
GNI per capita (US\$, Atlas method)	5540	5610	6130	6380	5900	6860	7110	7380	7650
Real annual growth rates (% , calculated from 00 prices)									
Gross domestic product at market prices	10.2	0.2	7.7	5.5	1.5	2.5	2.8	3.0	3.0
Gross Domestic Income	17.3	-6.9	8.9	17.6	10.0	..	..	..	..
Real annual per capita growth rates (% , calculated from prices)									
Gross domestic product at market prices	12.3	0.3	7.9	5.7	1.5	3.0	3.2	3.4	3.4
Total consumption	17.1	-0.9	4.8	6.9	6.9	6.3	2.9	3.0	2.9
Private consumption	19.6	-1.0	5.0	7.7	8.3	6.6	1.4	2.1	2.7
Balance of Payments (US\$ millions)									
Exports (GNFS) ^b	36246	24343	29340	46536	51756	51500	52603	54033	55736
Merchandise FOB	31627	20595	24506	40928	45506	45410	46254	47369	48743
Imports (GNFS) ^b	40891	29939	36821	47717	48820	49653	51241	52905	54621
Merchandise FOB	38122	27700	33795	44394	45009	47093	48522	50013	51545
Resource balance	-4645	-5595	-7481	-1181	2936	1847	1362	1127	1116
Net current transfers	171	274	317	-2484	-3239	-3018	-3030	-3030	-3030
Current account balance	-4959	-6133	-8280	-5026	-1819	-3065	-3796	-4293	-4692
Net private foreign direct investment	2188	1877	1393	4002	1442	2500	2500	2500	2500
Long-term loans (net)	2247	4908	2376	2657	384	2186	187	-556	1385
Official	1498	1187	1062	1925	1923	1997	681	457	840
Private	748	3720	1314	732	-1539	189	-494	-1012	545
Other capital (net, incl. errors & omissions)	1527	-3094	5319	-4424	-88	-50	950	700	450
Change in reserves ^d	-1003	2443	-809	2791	81	-1572	159	1648	356
<i>Memorandum items</i>									
Resource balance (% of GDP)	-7.6	-11.4	-13.5	-1.8	4.6	2.8	2.0	1.6	1.5
Real annual growth rates (00 prices)									
Merchandise exports (FOB)	1.7	-12.4	2.6	33.4	10.9	0.3	1.8	2.3	2.5
Primary	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	15.5	-12.8	5.9	15.3	16.1	2.0	2.3	2.4	2.4

(Continued)

CAS Annex B6 - Key Economic Indicators – Belarus (continued)

Indicator	Actual			Estimate			Projected		
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Public finance (as % of GDP at market prices)^e									
Current revenues	50.6	45.7	41.6	38.8	40.8	40.1	39.8	39.6	39.6
Current expenditures	37.1	34.6	35.1	30.7	33.5	34.0	33.2	33.2	33.5
Current account surplus (+) or deficit (-)	13.5	11.1	6.5	8.0	7.2	6.1	6.6	6.5	6.1
Capital expenditure	12.0	11.8	8.2	5.2	6.5	5.9	6.8	7.3	7.5
Foreign financing	2.3	2.6	0.0	4.0	-0.7	4.5	2.1	-0.7	2.4
Monetary indicators									
M2/GDP	23.1	26.5	28.9	35.3	33.2	35.7	34.5	33.3	32.0
Growth of M2 (%)	28.4	21.2	30.5	120.8	67.0	37.7	19.1	21.5	18.6
Private sector credit growth / total credit growth (%)	97.9	230.2	79.4	131.9	-1.7	261.3	75.8	69.0	52.7
Price indices (YR00=100)									
Merchandise export price index	261.0	192.6	222.5	273.9	274.2	270.0	270.1	270.5	271.7
Merchandise import price index	194.0	161.0	182.5	206.6	191.3	190.4	191.8	193.1	194.4
Merchandise terms of trade index	134.5	119.6	121.9	132.6	143.3	141.8	140.8	140.1	139.8
Real exchange rate (US\$/LCU) ^f	92.1	90.3	94.5	89.8	92.7	92.7	92.7	92.7	92.7
Real interest rates									
Consumer price index (% change)	14.8	13.0	7.8	53.2	59.2	25.8	20.6	22.4	20.1
GDP deflator (% change)	21.2	5.7	11.1	71.3	74.9	25.0	20.0	22.0	20.0

a. GDP at factor cost.

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

CAS Annex B7 - Key Exposure Indicators– Belarus

As of 4/22/2013

Indicator	2007	Actual			Estimated			Projected		
		2008	2009	2010	2011	2012	2013	2014	2015	2016
Total debt outstanding and disbursed (TDO) (US\$m) ^a		15154	22050	28546	36566	34116	39180	40103	40824	42635
Net disbursements (US\$m) ^a	
Total debt service (TDS) (US\$m) ^a		1143	1248	2671	2569	3335	5773	5880	6682	5606
Debt and debt service indicators (%)										
TDO/XGS ^b		40.9	88.3	95.1	76.8	64.4	73.9	73.9	73.0	73.7
TDO/GDP		24.9	44.8	51.7	56.9	53.9	59.9	59.1	57.9	58.2
TDS/XGS		3.1	5.0	8.9	5.4	6.3	10.9	10.8	12.0	9.7
Concessional/TDO		17.5	14.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IBRD exposure indicators (%)										
IBRD DS/public DS		..	2.0	0.9	1.0	0.3	0.4	0.8	0.9	4.5
Preferred creditor DS/public DS (%) ^c		..	8.2	11.5	15.8	21.2	60.3	51.8	6.2	12.8
IBRD DS/XGS		0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
IBRD TDO (US\$m) ^d		42	256	291	318	424	492	547	581	567
Of which present value of guarantees (US\$m)										
Share of IBRD portfolio (%)		0.0	0.2	0.3	0.3	0.4	0.5	0.5	0.6	0.5
IDA TDO (US\$m) ^d		..	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IFC (US\$m)		37.1	59.7	94.8	156.2	122.8	132.6			
Loans		33.2	55.6	90.1	147.5	116.3	125.1			
Equity and quasi-equity /c		3.8	4.1	4.7	8.7	6.5	7.6			
MIGA										
MIGA guarantees (US\$m)										

- a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
- b. "XGS" denotes exports of goods and services, including workers' remittances.
- c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.
- d. Includes present value of guarantees.
- e. Includes equity and quasi-equity types of both loan and equity instruments.

CAS Annex B8 (IFC) - Committed and Disbursed Outstanding Investment Portfolio – Belarus

(As of 1/31/2013)

(In USD Millions)

<u>FY Approval</u>	<u>Company</u>	<u>Committed</u>						<u>Disbursed Outstanding</u>					
		<u>Loan</u>	<u>Equity</u>	<u>**Quasi Equity</u>	<u>*GT/RM</u>	<u>Total</u>	<u>Partici pant</u>	<u>Loan</u>	<u>Equity</u>	<u>**Quasi Equity</u>	<u>*GT/RM</u>	<u>Total</u>	<u>Partici pant</u>
2011/ 2012	Alutech	57.4	0.0	0.0	0.0	57.4	0.0	43.2	0.0	0.0	0.0	43.2	0.0
2008/ 2009/ 2010/													
2010/ 2011/ 2012/	2012 BBSB	2.2	1.5	0.0	0.0	3.7	0.0	2.2	1.5	0.0	0.0	3.7	0.0
2005/ 2010/ 2011/	2013 BPS-Bank	0.0	0.0	16.3	0.0	16.3	0.0	0.0	0.0	0.0	16.2	16.2	0.0
2010/ 2011/ 2012/	2012/ 2013 BelgazBank	0.0	0.0	12.9	0.0	12.9	0.0	0.0	0.0	0.0	12.9	12.9	0.0
	2013 Belnarodny	3.3	2.8	2.9	0.0	9.0	0.0	3.3	2.8	0.0	2.9	9.0	0.0
	2012 DB Juice	0.0	3.3	0.0	0.0	3.3	0.0	0.0	3.3	0.0	0.0	3.3	0.0
	2008 Erilin	0.0	0.0	5.1	0.0	5.1	0.0	0.0	0.0	5.1	0.0	5.1	0.0
2009/ 2010/ 2011/													
2012/ 2013	MTBank	10.0	0.0	3.5	0.0	13.5	0.0	10.0	0.0	0.0	3.5	13.5	0.0
	2010 OMA DIY	0.0	0.0	7.0	0.0	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2008 Rubliovskiy	3.8	0.0	19.0	0.0	22.8	0.0	3.8	0.0	19.0	0.0	22.8	0.0
	2009 Tigullio	0.0	0.0	3.0	0.0	3.0	0.0	0.0	0.0	3.0	0.0	3.0	0.0
Total Portfolio:		76.7	7.7	69.7	0.0	154.0	0.0	62.5	7.6	27.1	35.5	132.6	0.0

* Denotes Guarantee and Risk Management Products.

** Quasi Equity includes both loan and equity types.

CAS Annex B8 - Operations Portfolio (IBRD/IDA and Grants)

(As of 3/5/2013)

Closed Projects 8






IBRD/IDA *

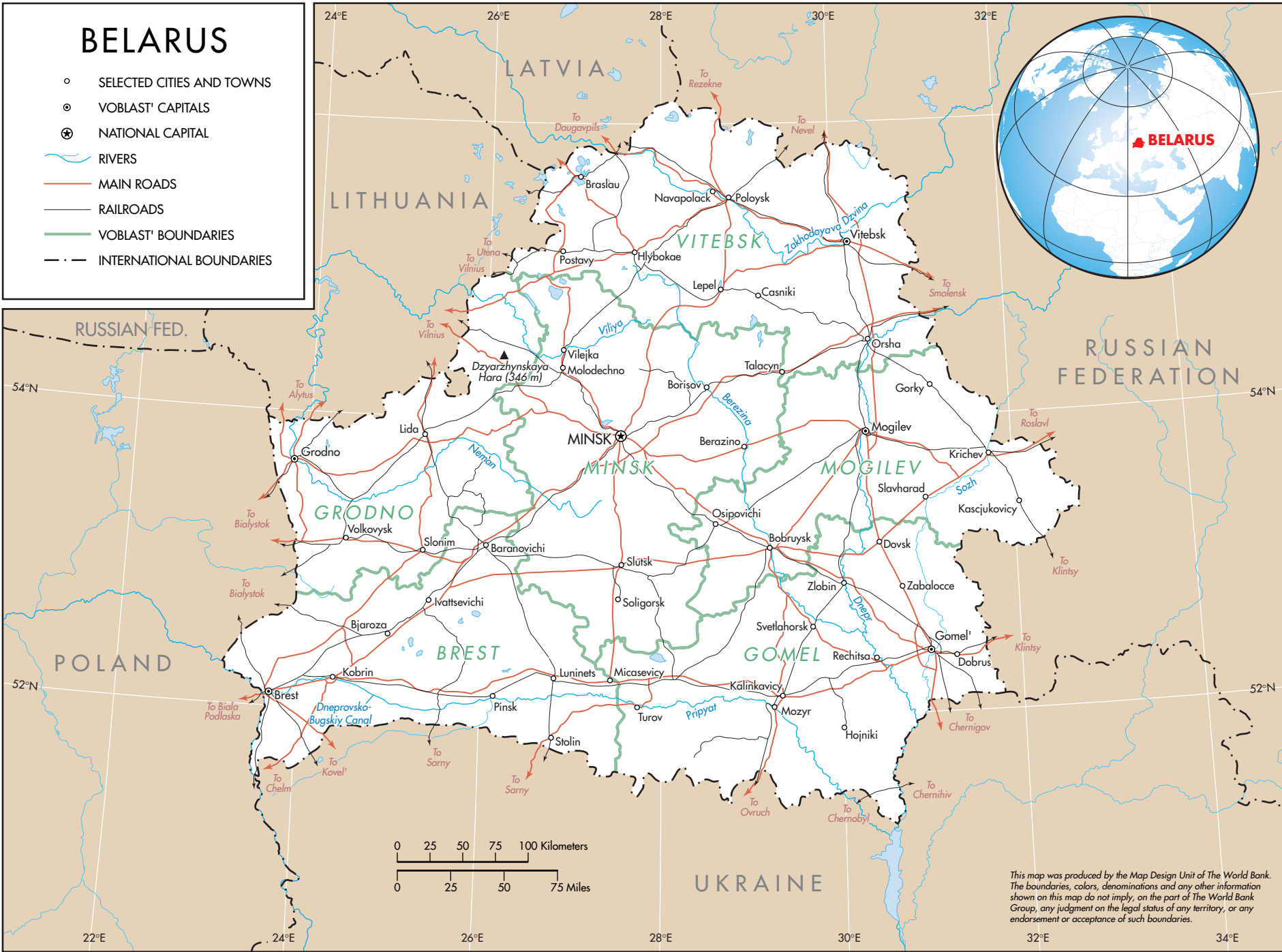
Total Disbursed (Active)	207.50
of which has been repaid	6.26
Total Disbursed (Closed)	237.38
of which has been repaid	110.56
Total Disbursed (Active + Closed)	444.88
of which has been repaid	116.81
Total Undisbursed (Active)	245.15
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	245.15

Active Projects

Project ID	Project Name	<u>Last ISR</u>			Fiscal Year	<u>Original Amount in US\$ Millions</u>				<u>Difference Between Expected and Actual Disbursements</u> ^{a/}	
		Supervision Rating		Cancel.		Undisb.	Orig.	Frm Rev'd			
		<u>Development Objectives</u>	<u>Implementation Progress</u>								
P111110	Belarus POPs Stockpile Management	S	MU	2010			5.5		1.2		
P108023	Energy Efficiency	S	S	2009	125				75.2	16.3	8.2
P114515	Integrated Solid Waste Management	MS	MU	2010	42.5				41.4	14.0	
P095115	Post-Chernobyl Recovery	S	S	2006	80				8.4	-21.6	-2.6
P118375	Road Upgrade and Modernization	MS	S	2011	150				81.1		-7.9
P101190	Water Supply and Sanitation	MS	MS	2009	60				39.1	39.1	3.5
Overall Result					457.5		5.5		246.3	-25.5	1.3

BELARUS

- SELECTED CITIES AND TOWNS
- ⊙ VOBLAST' CAPITALS
- ⊛ NATIONAL CAPITAL
-  RIVERS
-  MAIN ROADS
-  RAILROADS
-  VOBLAST' BOUNDARIES
-  INTERNATIONAL BOUNDARIES



This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.