

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA68758

Project Name	Belarus Competitiveness Enhancement Project (P152276)
Region	EUROPE AND CENTRAL ASIA
Country	Belarus
Lending Instrument	Investment Project Financing
Project ID	P152276
Borrower(s)	Development Bank of Belarus, Ministry of Finance
Implementing Agency	Ministry of Economy, National Agency for Investment Promotion and Privatization
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	03-Aug-2016
Date PID Approved/Disclosed	05-Aug-2016
Estimated Date of Appraisal Completion	15-Jul-2016
Estimated Date of Board Approval	27-Oct-2016
Appraisal Review Decision (from Decision Note)	The chair authorized the team to appraise the project.

I. Project Context

Country Context

The Republic of Belarus (Belarus) is an upper middle income country with a gross domestic product (GDP) per capita of about US\$7,150 (current prices, 2015) that faces deep structural constraints in its state centered economic model. The slowly expanding private sector, comprised mainly of small and medium-sized enterprises (SMEs), remains marginalized due to the dominance of state-owned enterprises (SOEs). The share of the private sector in total employment (37 percent in 2015) is among the lowest in the ECA region. Belarus is a member of the Eurasian Economic Union (EEU), with manufacturing and agricultural exports mainly oriented to EEU markets. Over the medium term, economic growth is likely to stay below potential, reliant mostly on the dynamics of domestic consumption and investment growth alongside improvements in the external environment. Persistent inflation pressures, an expected further rise in unit labor costs and an accumulation of structural vulnerabilities, such as lack of trade diversification, insufficient foreign direct investment (FDI), and a rising gap between real wage and productivity growth, will continue to negatively impact export competitiveness. While these challenges are serious, appropriate policy decisions, taken now, could improve the anticipated long-term trajectory of the economy. Consistent and comprehensive implementation of structural reforms to improve institutional structures, increase market efficiency and reduce impediments to efficient allocation of resources will create necessary conditions for dynamic economic growth.

Sectoral and institutional Context

Over the last 8 years, Belarus has made strides in improving various aspects of its business environment. The World Bank's 2016 Doing Business (DB) ranking for Belarus is 44, above the ECA regional average of 55. While in recent years Belarus has been among the top reformers globally, several core issues affecting the country's investment climate, such as excessive state intervention in enterprises, are highly specific and not adequately reflected by standard international indicators like the DB index. World Bank Group (WBG) surveys suggest that MSMEs face excessive administrative pressure, caused by regulatory complexity, inconsistency in implementation and overregulation, with 59 percent of micro, small and medium-sized enterprises (MSMEs) stating that "inconsistency of legislation" is an impediment to their activities.

Recent regulatory streamlining has delivered some results (evidenced by an upward trend in number of MSMEs and other indicators). The GoB is now focused on further improvement of the business climate to enable the development of a more dynamic private sector. From 2009 to 2014, the number of MSMEs grew at an average rate of 7 percent per year. This impressive growth rate was achieved largely due to the rising number of micro enterprises, in contrast to small and medium-sized firms. The share of MSMEs in GDP remains low (14 percent in 2015), reflecting the privileged position of large SOEs.

The Development Bank of Belarus (DBB) aims to scale up its wholesale financing operations to maximize development impact while sustainably increasing lending to private MSMEs. Starting in August 2014, the DBB has launched a new wholesale lending program, targeted at MSMEs. As of July 1, 2016, 549 individual projects have been financed, totaling BYR 2,216 trillion. World Bank team assessed the financial conditions and eligibility criteria of the Development Bank's pilot scheme and views the program as a good first step in expanding DBB's wholesale activities in support of private sector growth. Going forward, the DBB plans to combine management of government-directed lending with traditional development banking functions, with the aim to enhance transparency and efficiency in the allocation of government resources and foster market-based finance for the private sector. The planned scaling-up of wholesale financing will complement and catalyze the activities of commercial banks. With the DBB playing a growing role in the financial sector, the Government of Belarus (GoB) is in active dialog with the WBG and other international financial institutions (IFIs) about how to strengthen its governance as well as external regulation and supervision of its activities.

II. Proposed Development Objectives

The PDO is to strengthen conditions for private sector led growth by: improving the business environment, upgrading innovation capacity of SMEs, strengthening institutional capacity to promote private investment and improving MSME access to finance.

III. Project Description

Component Name

Component I. Improving Business Environment and FDI Support

Comments (optional)

Component Name

Component II. Supporting SMEs, Innovation and Entrepreneurship Development

Comments (optional)**Component Name**

Component III. LoC and Strengthening of DBB

Comments (optional)**Component Name**

Component IV. Project Implementation

Comments (optional)**IV. Financing (in USD Million)**

Total Project Cost:	80.00	Total Bank Financing:	80.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			0.00
International Bank for Reconstruction and Development			80.00
Total			80.00

V. Implementation

The Ministry of Economy (MoE) and DBB will serve as implementing agencies for the Project. Each of the MoE and DBB will sign a separate loan agreement with the World Bank covering its activities under the Project. A Project Management Unit (PMU) will be established under each of the MoE and DBB to assist end beneficiaries (such as SME support entities) in undertaking Project-supported activities. The MoE PMU will be responsible for Components 1 and 2 and the DBB PMU will be responsible for the implementation of Component 3.

In addition, the GoB will establish a Project Steering Committee to improve inter-agency coordination. The Steering Committee will include the MoE, Ministry of Finance (MoF), DBB and other stakeholders.

The World Bank team and GoB counterparts have agreed that the MoE PMU should be managed by the NAIP (a subsidiary agency of the MoE), which has relevant experience managing the Belarus Privatization Trust Fund provided by the Austrian Federal Ministry of Finance and administered by the World Bank. The World Bank team has been satisfied with the NAIP's past performance, its compliance with the World Bank procedures and guidelines related to Project implementation.

A smaller PMU will be established at the DBB to implement fiduciary functions under the Line of Credit (LoC).

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	

Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

World Bank

Contact: Karen Grigorian
 Title: Senior Private Sector Speciali
 Tel: 458-7451
 Email: kgrigorian@worldbank.org

Contact: Johanna Jaeger
 Title: Sr Financial Sector Spec.
 Tel: 458-9782
 Email: jjaeger@worldbank.org

Borrower/Client/Recipient

Name: Development Bank of Belarus
 Contact: Sergei Roumas
 Title: Chairman
 Tel: 80173859612
 Email: office@brrb.by

Name: Ministry of Finance
 Contact: Maksim Ermolovich
 Title: First Deputy Minister
 Tel: 375172224593
 Email: minfin@minfin.gov.by

Implementing Agencies

Name: Ministry of Economy
 Contact: Elena Boligatova
 Title: Head of Division of Cooperation
 Tel: 3751722647609
 Email: extrade@economy.gov.by

Name: National Agency for Investment Promotion and Privatization
 Contact: Natalia Nikandrava
 Title: Director
 Tel: 375172002219
 Email: nn@investinbelarus.by

VIII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: <http://www.worldbank.org/infoshop>