

**INTEGRATED SAFEGUARDS DATA SHEET  
APPRAISAL STAGE**

**Report No.: ISDSA15338**

**Date ISDS Prepared/Updated:** 01-Aug-2016

**Date ISDS Approved/Disclosed:** 01-Aug-2016

**I. BASIC INFORMATION**

**1. Basic Project Data**

<b>Country:</b>	Belarus	<b>Project ID:</b>	P152276
<b>Project Name:</b>	Belarus Competitiveness Enhancement Project (P152276)		
<b>Task Team Leader(s):</b>	Karen Grigorian, Johanna Jaeger		
<b>Estimated Appraisal Date:</b>	18-Jul-2016	<b>Estimated Board Date:</b>	27-Oct-2016
<b>Managing Unit:</b>	GTC10	<b>Lending Instrument:</b>	Investment Project Financing
<b>Is this project processed under OP 8.50 (Emergency Recovery) or OP 8.00 (Rapid Response to Crises and Emergencies)?</b>			No
<b>Financing (In USD Million)</b>			
Total Project Cost:	80.00	Total Bank Financing:	80.00
Financing Gap:	0.00		
<b>Financing Source</b>			<b>Amount</b>
Borrower			0.00
International Bank for Reconstruction and Development			80.00
Total			80.00
<b>Environmental Category:</b>	B - Partial Assessment		
<b>Is this a Repeater project?</b>	No		

**2. Project Development Objective(s)**

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.

**3. Project Description**

The proposed components and subcomponents are as follows:

Component 1. Improving Business Environment and FDI Support

The objective of this component is to accelerate implementation of activities that support and complement the GoB's Strategic Action Plan to improve investment climate and advance deregulation. The basis for this plan is provided by Presidential Directive #4 (On Developing Business Initiative and Stimulating Business Activity in the Republic of Belarus), the Set of Measures to Reach Social and Economic Development Goals in the Republic of Belarus in 2016 and Provide for Macroeconomic Balance, approved by Resolution #28/2 of the Council of Ministers of the Republic of Belarus of January 18, 2016, and the SME Support Strategy for 2016-2020 approved by Resolution #149 of the Council of Ministers of the Republic of Belarus of February 23, 2016.

### 1.1 Launching e-Registry of Administrative Procedures.

Encouraging new market entrants and the growth of MSMEs requires facilitating administrative procedures for private businesses. ERAP is the GoB's initiative to move administrative procedures for businesses online. This sub-component's support for ERAP will help to reduce administrative burden for firms by increasing clarity and reducing compliance cost and time through online processing. Moving respective administrative procedures online will follow a review of the current procedures by an inter-agency working group, followed by a comprehensive redesign and simplification of business processes. ERAP will provide enhanced information services with respect to various business regulations and administrative procedures and it is expected to expand significantly the scope of online services provided to businesses.

This Project component will assist the GoB in implementing the next phase of the information resource, which will provide more full-featured information services and an online transactional system for getting necessary permits and approvals online. The development of the software for the information resource, acquiring hosting facilities, and integration with the National Automated Information System (AIS) are the immediate anticipated expenses. Costs related to the redesign of current business processes within the regulatory system to accept applications from an online transactional system, training of officials and outreach (publicizing the online mechanism) will also be covered. The first stage of ERAP creation (an informational portal) is currently being prepared with the advisory and technical assistance of IFC Advisory Project and should be implemented by the beginning of 2018.

### 1.2 Strengthening Institutional Arrangements for FDI Support and Capacity-building for PPPs

In terms of FDI support, the main objective of this subcomponent is the transformation of the NAIP into a private sector focused agency capable of providing a wide range of services required by existing and potential private investors to complete successfully the investment development process. This subcomponent will support the NAIP's capacity-building in investment promotion services aimed at retaining and generating additional investor interest, primarily in strategically important sectors, including PPPs.

The subcomponent will address the NAIP's institutional weaknesses, identified during its institutional needs assessment, in the key areas of strategic planning and implementation of FDI promotion activities. Specifically, it will support intensive staff training and coaching in various promotional techniques and mechanisms including country image building, demand-driven marketing, client servicing capacity both within and outside the country, improved marketing reach through local and international fora and online promotion techniques. The NAIP's management

and internal systems will also be strengthened (e.g. staff recruitment and training, investor tracking). A digital database portal of investment projects and properties, including brownfield and greenfield, is contemplated to provide information on current business opportunities. In addition, the subcomponent will finance the development of target sector-relevant studies and marketing materials for promotion missions and participation in relevant trade shows/events. Capacity building activities will complement and build on the experience of the Privatization Trust Fund.

Overall, this subcomponent will lend support to the implementation of a clear FDI attraction strategy with targets based on competitive sectors for FDI promotion. It will strengthen the operational capacities of the NAIP in investor targeting, facilitation, and aftercare. This activity will aim at developing a more proactive approach to investment promotion and provide the NAIP with an effective outreach capacity. Based on specific sector targeting studies, NAIP staff will receive comprehensive investment promotion guidance, including in lead generation, marketing and follow-up techniques. NAIP staff will also be coached and trained in the planning and execution of outward promotion missions to selected target markets.

The NAIP's investor aftercare mandate represents an excellent opportunity to retain and build on existing investments by nurturing investors. Enhancing these services and taking actions to improve the investment environment through the proper functioning of the Foreign Investment Advisory Council (and the planned Investment Ombudsman's Office) is contemplated as the key mechanism for investment retention and confidence (MIRC). FIAC's mixed public-private board is already mandated to identify obstacles in the investment environment and recommend reforms. However, the NAIP can improve FIAC's effectiveness by implementing a fully resourced FIAC secretariat unit made up of legal and market professionals. The Project, therefore, supports the NAIP to become a private sector champion and play an advocacy role for further reforms aimed at strengthening public-private dialogue and improving the investment climate.

The overall approach for institutional strengthening in the PPP area will focus on the following four inter-related activities: methodological support, PPP Unit technical support, capacity-building and staff training, and project pipeline development.

A. **Methodological Support:** Methodological support will include mainly assistance to develop the following processes and models: (i) the Value for Money Model, taking account of domestic regulations; (ii) the Cost-Benefit Analysis and Model; (iii) the Financial Risk Assessment Model for PPPs (P-FRAM), a tool developed jointly by the World Bank and IMF; and (iv) Public Investment Management (PIM) arrangements applicable to PPP projects (PIM4PPP). The PIM4PPP diagnostic tool, developed by the World Bank, is based on a list of key performance indicators and involves assessing the public framework for developing and tendering PPP projects. Capabilities of relevant institutions and overall government are assessed with respect to a number of key performance indicators. In the initial assessment, performance indicators are graded to establish a baseline against which improvements can be measured as a capability building program is implemented. These composite indicators (constituents of which are a rich set of sub-indicators evaluating various dimensions of PIM framework) help inform capacity-building efforts.

B. **PPP Unit Technical Support** will include website modernization and upgrading, assistance with PPP project and National Investment Plan databases, project management software, assistance with using the International Infrastructure Support System, and assistance with private sector liaison.

C. Capability Building and Staff Training will include workshops for line ministries, the PPP Unit and regional authorities in basic PPP training and specific issues related to pilot PPPs to be selected for further preparation. It is envisioned that a suitable pilot PPP project will be chosen as a live case study for practical training. Practical training linked to live projects is significantly more effective in achieving sustainable capacity improvements than theoretical courses alone.

➤( Learning by doing)➤( is the best way to build staff capability. The case study pilot project will be further developed as part of capability building and training.

D. PPP Project Pipeline Development: Further PPP project pipeline development is needed to build on the work already done by the GoB and other donors. This activity will develop a balanced pipeline of viable PPP projects reflecting the country's infrastructure needs. This step will: (i) review the work already done by line ministries, the PPP Unit, and international partners such as UNDP to compile the long list of prospects; (ii) explore any new proposals for PPPs coming from the private sector and government departments; (iii) prepare road maps for further development of the most promising projects, with assistance from consultants if needed; and (iv) identify one or two pilot projects that will be used as case studies for staff training. The road maps will prioritize and develop budgets for: (i) a pre-feasibility study; (ii) a full technical feasibility study; (iii) environmental and social impact assessments; (iv) legal costs for legal due diligence and drafting project contracts and financing agreements; (v) expenses for transaction advisors and arrangers; (vi) costs for financial modeling and tax advice; (vii) licensing and permitting fees.

## Component 2. Supporting SME, Innovation and Entrepreneurship Development

### 2.1 Roll out of Business Development Services(BDS) Instruments using a Matching Grant Mechanism

The sub-component will support implementation of the GoB's plans to strengthen state support to innovation activities of Belarusian SMEs, to enhance capacity and effectiveness of the Belarusian Innovation Fund (BIF) to support SMEs through matching grants. The BIF is the GoB's private equity arm specializing in investments in innovation industries, with a focus on science and technology. This sub-component will finance a matching grant program to encourage both demand for and supply of BDS. The BDS market remains underdeveloped in Belarus and presents a major constraint to strengthening the SME sector, including in areas of technology upgrade, know-how adoption and monetization of intellectual property. The focus is on promoting productivity improvements of SMEs.

This sub-component will provide two types of matching grants. The first type, commercialization grants, will support all stages of research commercialization with assistance for business plan creation, market assessment, IP analysis, prototype development and scaling up of capacity. The second type, SME development grants, will support SMEs, including start-ups, to obtain BDS through technoparks and other intermediaries. The priority for business development services will be given to business entities engaged in the development and commercialization of scientific and technical products. Project design will provide equal opportunities for female-headed businesses. The existing regulatory framework allows for adoption of good international practices recommended by WBG to be incorporated in the Operations Manual that will govern the grant program. All types of SMEs engaged in the development and commercialization of scientific and technical products would be eligible for the program.

## Component 3. Line of Credit and Institutional Strengthening of DBB

### 3.1 Line of Credit (LoC)

This subcomponent will facilitate increased access and availability of finance for MSMEs by financing wholesale lending by the DBB for its MSME business line. Funding will be made available to PFIs for eligible sub-borrowers and sub-projects on market terms. An initial appraisal of interested financial intermediaries will be undertaken by the World Bank, while the DBB will subsequently assume this role with the support of the NBRB, in line with World Bank requirements for financial intermediary financing. The LoC will be open for participation by all banks meeting eligibility criteria, on a first come-first serve basis, with an initial set ceiling per institution that may be expanded and/or re-allocated as necessary.

The interest rates to final borrowers will be market-based. The DBB will on-lend funds to PFIs at interest rates that take into account, at minimum, DBB's cost of funding, operating costs and appropriate credit risk margin. The PFIs will on-lend the funds to final borrowers at market rates based on their own credit risk assessment. Subsidiary finance to PFIs will be denominated in USD with the currency risk being borne by PFIs and final borrowers.

Sub-borrowers will be creditworthy private sector MSMEs. The proposed criteria for final borrowers will be in line with the DBB's MSME pilot program criteria and Project-specific criteria. The following criteria for MSMEs have been agreed upon during Project preparation: (i) privately owned (more than 50 percent) and independent; (ii) domestic (more than 50 percent) (iii) duly licensed and registered with the tax authorities; (iv) creditworthy and in sound financial condition; (v) with prior operating experience in the activity to be financed; and (vi) having the requisite organizational, management, staff and financial and other capacity.

Consistent with good practice in other World Bank credit lines, the DBB will be the borrower and implementing agency for this component through a separate loan agreement with the World Bank and supported by a GoB guarantee.

### 3.2 Institutional Strengthening of the DBB

The objective of this subcomponent is the provision of operational support and capacity-building to the DBB as well as knowledge and awareness-raising activities targeting banks and MSMEs. The technical assistance to be provided under this sub-component builds on an assessment conducted by the World Bank under the 2014 Development Module Financial Sector Assessment Program (FSAP) related to institutional, regulatory and supervisory strengthening of the DBB. Areas of technical assistance include (i) strengthening of the functioning of the DBB including establishing robust operating principles, policies, procedures, and governance, design and roll out of new finance instruments, setting up and implementing monitoring, disclosure, and evaluation practices and impact assessment methodologies, (ii) implementation of the DBB's IT strategy to enhance internal systems and ICT processes, (iii) knowledge and awareness raising activities targeting banks and MSMEs, and (iv) project management and monitoring.

## Component 4. Project Implementation

This component will fund the day-to-day PMU functions for Components 1 and 2 (Project administration, procurement, financial management, disbursement, M&E, safeguards, and public

awareness), legal and regulatory compliance, and related operational costs, including staff and consulting services. Under this component some additional technical assistance might be provided to the MoE in order to facilitate compliance with Project implementation requirements, such as preparation of the Project Operational Manual.

#### **4. Project location and salient physical characteristics relevant to the safeguard analysis (if known)**

#### **5. Environmental and Social Safeguards Specialists**

Alexei Slenzak (GEN03)

Esma Kreso (GEN03)

Jennifer Shkabatur (GSU03)

<b>6. Safeguard Policies</b>	<b>Triggered?</b>	<b>Explanation (Optional)</b>
Environmental Assessment OP/BP 4.01	Yes	Support to SMEs under Component 2 through provision of matching grants, the line of credit under Component 3 and other support may include activities that have an environmental impact associated with their undertaking. Since the precise nature of such activities is not known prior to project Appraisal, the Environmental Management Framework (EMF) has been developed for screening. The screening would categorize project activities by their potential impact and further guide the development of adequate due diligence documentation. It would screen out potential higher risk activities, corresponding to a World Bank category A, and activities that might trigger additional safeguards policies. The EMF also includes a project-specific exclusion list.
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	

Projects in Disputed Areas OP/BP 7.60	No	
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## II. Key Safeguard Policy Issues and Their Management

### A. Summary of Key Safeguard Issues

<p><b>1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:</b></p>
<p>Since majority of the activities to be financed under the project are not known at this stage, there are no determined and associated environmental impacts that could be identified. The EMF in place does include provisions to avoid financing activities that can have a large-scale and irreversible environmental impact, corresponding to a Category A or triggering additional safeguards policies.</p>
<p><b>2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:</b></p>
<p>There are no long-term negative impacts that can be associated with the operations. Experience from similar operations in the region provides evidence of improved environmental consciousness of the MSME entrepreneurs, in particular for those environmental protection measures that may lead to savings and economic benefits (rational use of water in a production line for example).</p>
<p><b>3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.</b></p>
<p>n/a</p>
<p><b>4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.</b></p>
<p>The EMPs for subprojects shall be developed by qualified specialist(s) as contracted by the final beneficiary and approved by the two Project Management Units (PMUs) - DBB (in case of the MSME line of credit sub-project) and NAIP (in the case of the state-owned enterprises) (privatization) which each has an Environmental and Social Specialist. EMPs should be agreed with the World Bank, and if it is necessary, should be corrected.</p>
<p><b>5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.</b></p>
<p>The draft Environmental Management Framework along with an announcement of the Public consultations workshop has been disclosed on the websites of the Ministry of Economy (MoE) and the Development Bank of the Republic of Belarus (DBB) on July 7, 2016. The comments to the EMF were received from two DBB bank-partners, which will be taking into account in the final version of the EMF.</p> <p>The Public consultations workshop was held in the office of the National Investment and Privatization Agency of the MoE in Minsk, on July 14, 2016 starting at 11:00 and lasting until 13:00. The Minutes of Meeting and a list of attendees was prepared and attached to the EMF. In general, 14 participants attended the Public consultations workshop, which presented the Ministry of Economy, Ministry of Natural Resources, NAIP, DBB and bank-partners.</p> <p>Main discussion and comments during the Public consultations workshop was related to the updating of the EMF and developing the Methodological Guidelines for the bank-partners in order to give them a clear explanation how to use the screening procedure and checklist in determining the category of the sub-projects and which of them are needed a preparation of the EMPs in the future.</p>

The Ministry of Natural Resources expressed their concern that EMF, in particular, a chapter ►( Environmental Assessment Procedure in Belarus►( did not take into account all comments which were given from the Ministry►( s side last year. The Ministry emphasized that a chapter needs to be updated, because there are also new changes to the current legislation regarding the environmental impact assessment, state expertise and public hearing in Belarus, which were made in January 2016. At this moment, a new law and changes are under the final review and signing by the President of the Republic of Belarus. The representatives of the Ministry of Natural Resources asked the MoE to send to them a draft EMF for agreement and comments with official letter. In such case, the MoE can receive the official responses and comments from the Ministry of Natural Resources. In other case, the Ministry of Natural Resources will relieve of its responsibility regarding this document. The Ministry also asked to clarify in the EMF a legal base of the Environmental Management Plan (EMP), which should be prepared at the later stage, because there is no such definition and term under the Belarusian legislation. The Ministry also stated that the EMF should have more detail information about the procedure of EMP►( s preparation and its deadlines.

Based on the results of the Public consultations and the fact that new national legislation will become effective after the signing by the President of the Republic of Belarus this year, the EMF will need to be updated as soon as the Ministry of Natural Resources provides its official comments, and new legislation enter into the force this year.

### ***B. Disclosure Requirements***

<b>Environmental Assessment/Audit/Management Plan/Other</b>	
Date of receipt by the Bank	22-Jul-2016
Date of submission to InfoShop	22-Jul-2016
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors	
<b>"In country" Disclosure</b>	
Belarus	07-Jul-2016
<i>Comments:</i> "In- country" Disclosure took place on July 7, 2016	
<b>If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.</b>	
<b>If in-country disclosure of any of the above documents is not expected, please explain why:</b>	

### ***C. Compliance Monitoring Indicators at the Corporate Level***

<b>OP/BP/GP 4.01 - Environment Assessment</b>			
Does the project require a stand-alone EA (including EMP) report?	Yes [ <input checked="" type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input type="checkbox"/> ]
If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?	Yes [ <input checked="" type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input type="checkbox"/> ]
Are the cost and the accountabilities for the EMP incorporated in the credit/loan?	Yes [ <input checked="" type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input type="checkbox"/> ]
<b>The World Bank Policy on Disclosure of Information</b>			



Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ] NA [ <input type="checkbox"/> ]
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ] NA [ <input type="checkbox"/> ]
<b>All Safeguard Policies</b>	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ] NA [ <input type="checkbox"/> ]
Have costs related to safeguard policy measures been included in the project cost?	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ] NA [ <input type="checkbox"/> ]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ] NA [ <input type="checkbox"/> ]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ] NA [ <input type="checkbox"/> ]

### III. APPROVALS

Task Team Leader(s):	Name: Karen Grigorian, Johanna Jaeger	
<b>Approved By</b>		
Practice Manager/ Manager:	Name: Lisa A. Kaestner (PMGR)	Date: 01-Aug-2016