INTEGRATED SAFEGUARDS DATA SHEET
CONCEPT STAGE

Report No.: ISDSC14844

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I. BASIC INFORMATION

A. Basic Project Data

Country:	Belarus	**Project ID:**	P152276
Project Name:	Belarus Competitiveness Enhancement Project (P152276)		
Task Team Leader(s):	Karen Grigorian,Johanna Jaeger		
Estimated Appraisal Date:	09-Nov-2015	**Estimated Board Date:**	15-Mar-2016
Managing Unit:	GTC10	**Lending Instrument:**	Investment Project Financing
Sector(s):	SME Finance (30%), General finance sector (10%), Other domestic and international trade (20%), General industry and trade sector (40 %)		
Theme(s):	Infrastructure services for private sector development (30%), Micro, Small and Medium Enterprise support (30%), e-Services (10%), Ot her Financial Sector Development (10%), Other Private Sector Development (20%)		

Financing (In USD Million)			
Total Project Cost:	150.00	Total Bank Financing:	150.00
Financing Gap:	0.00		

Financing Source	**Amount**
Borrower	0.00
International Bank for Reconstruction and Development	150.00
Total	150.00

Environmental Category:	B - Partial Assessment
Is this a Repeater project?	No

B. Project Objectives

The Project Development Objective is to enhance Belarus’ private and financial sector competitiveness by supporting broad structural reforms, fostering delivery of public services to businesses, and improving access to finance.

C. Project Description

The proposed components and subcomponents are as follows:

Component 1. Supporting broad structural reforms to improve business environment for private sector and financial sector development

The objective of this component is to reduce major policy and administrative barriers for private sector development in Belarus. It will support implementation of broad structural reforms outlined in the Structural Reforms Roadmap of the Government. This component will utilize a results-based lending instrument that would help to sharpen the results focus of the government's reforms and prioritize its budget allocations. The specific set of disbursement-linked indicators (DLIs) will be agreed with the Government during the preparation stage. Very preliminary the team identified the set of DLIs presented in Annex 7. The main reform activities, which would serve as a policy basis for DLIs finalization, include:

A) Business Environment: (i) Adoption and implementation of the Government's Action Plan to improve investment climate and advance deregulation; (ii) Making operational the e-portal of administrative procedures

B) SOE Reforms: (i) Adoption and implementation of the Government's Action Plan to accelerate restructuring and privatization of SOEs on a case-by-case basis; (ii) Adoption of SOE Reform Strategy to advance SOEs' financial autonomy, streamline corporate governance and accountability arrangements; (iii) Introduction of amendments to the Insolvency Law to facilitate SOE restructuring

C) FDI Promotion and Advocacy: Strengthening the governance structure and ensuring financial sustainability of the NAIP

D) Strengthening Government Support for SMEs: (i) Adopting a new SME Support Strategy; (ii) Establishing a new SME Agency and ensuring its financial sustainability; (iii) Launching a new matching grant program to facilitate SME upgrading.

E) Financial Sector Reform: The activity will support the efforts of NBRB and other relevant state bodies aimed at maintaining banking sector stability and deepening of financial intermediation.

Component 2. Supporting Implementation of Structural Reforms, Improving public Services, Promoting SOE Reforms and Enterprise Upgrading, and Strengthening the Financial Sector

The objective of this component is to strengthen government capacity to implement core structural reforms and improve provision of relevant public services to attract FDI, promote exports, facilitate new local business entry and upgrade of the existing SMEs, and support SOE restructuring. The component will also support the efforts of NBRB and other relevant state bodies aimed at maintaining banking sector stability and deepening of financial intermediation. It includes six subcomponents.

2.1 Improvements in the investment climate. The project will help implement the government's SME Strategy and support system-wide reduction of the private sector' regulatory compliance burden including a range of approvals, permits, clearances, and inspections. Overall, this component will build on the legislative and institutional reforms and the development of an integrated ICT system initiated with support from the IFC Advisory Project. The specific investment climate reforms to be selected under the project will be informed by government priorities, capacity of counterpart team and political economy considerations. For this sub-component, the team intends to keep certain level of flexibility in line with recent WB experience elsewhere. Improving the regulatory practices and systems across all levels of the government and enhancing public-private dialogue will facilitate competitiveness of SMEs and accelerate the sector's growth. This sub-component will also support capacity building within the MOE to promote further deregulation initiatives and may support introduction of Regulatory Impact Assessment (RIA) mechanism.

One of the immediate priorities in streamlining regulatory services is the introduction of the Government's e-portal of "Online delivery of regulatory services". This activity will help finance implementation of regulatory reforms that have been already initiated. In particular, it would help the Government implement the next phase of the online portal which provides enhanced information services with respect to various business regulations. The Government made significant progress in introducing the portal and plans to implement a more fully-featured and searchable information resource. This would be followed by the development and piloting of an online transactions system to support business entities' efforts in complying with regulatory requirements (getting the necessary permits and approvals online). The development of the software for the portal, purchase of necessary hardware and their integration with existing sectoral systems are the immediate anticipated expenses. Costs related to the redesign of current business processes within the regulatory system, training of officials and outreach (publicizing the online mechanism), etc. would also be covered. Moving respective administrative procedures online would trigger a major redesign of respective business processes and simplification of the current procedures.

2.2 Supporting the Establishment of a SME Support Agency. Authorities are reviewing a proposal for a strategic decision to transfer Fund for Entrepreneurial Support to the Development Bank of Belarus as part of the broad effort to consolidate financial instruments under a specialized agency. At the same time, recognizing the importance of non-financial services to SMEs and limited grant support for start-ups, the MOE decided to establish a new modern SME Support Agency. This sub-component will provide adequate support for the initial stage of Agency's operations, including financing to retain experienced consultants who will guide the process, as well as procure necessary equipment and support services for the Agency.

As part of this sub-component, legal advisory will be provided to the SME Support Agency in order to expand its ability to deliver some critical legal services to the private sector and strengthen the Agency's image and reputation among private stakeholders. Legal support would be provided: (i) to develop amendments to critical pieces of business regulation to reduce the administrative burden and remove major inconsistencies within the existing body of commercial legislation; (ii) to provide strategic legal advisory services to business groups and associations on interpretation and compliance with the existing regulations; and (iii) design programs of legal education for entrepreneurs.

2.3 Strengthening market for Business Development Services (Matching grants to support start-ups spin-offs, and SMEs' upgrades). The twin objective of the sub-component is, first, to accelerate development of so-called 'first mover' firms – firms which do new things and establish a new national best practice and, second, to diffuse the experience of those 'first movers' widely enough so that they could become demonstration cases and role models for other SMEs to follow. The project will finance a matching grant program to encourage both demand for and supply of BDS aimed at deepening the BDS market, which remains underdeveloped in Belarus and presents a major constraint for strengthening the SME sector. The focus is at improving SMEs' access to know-how and new technologies at promoting productivity improvements.

Matching grants provided under the project are expected to facilitate upgrading of small and medium private enterprises. The new government's SME Strategy, which is being finalized by the MOE with

WBG support, provides for rollout of competitive matching grants to MSMEs to increase their management skills and export capabilities. Grants of maximum of US$25,000 per beneficiary would be allocated to improve access to relatively basic consulting services and technology for enterprise upgrading. Potential beneficiaries of this grant window are all SMEs (subject to broad eligibility criteria). This activity is expected to generate market demand for business development services of general nature (accounting; diagnostic of problems such as SWOT analysis; management consulting; legal support; training of SME personnel; purchaseof business software, etc.).

This Project's activity would aim to scale up and mainstream a similar small grant program that has been funded by the EBRD in Belarus since 2012 and which identified considerable unsatisfied demand for business service development across local SMEs. This sub-component would also include competitive grants to encourage development of start-ups and spin-offs within the process of SOE restructuring (to encourage respective teams and business units to split from a SOE and start its own private business). Competitive grants might be also provided to facilitate capacity building in local centers for entrepreneurial support and business incubators and training for business associations.

2.4 Strengthening Investment and Export Promotion services (Institutional Strengthening of NAIP). The primary goal of this activity is to generate additional interest of private investors in Belarus, especially in sectors of strategic interest to the country. The National Agency of Investment and Privatization (NAIP) was established as a private sector-focused development agency to streamline transaction processes, work as an intermediary between the private sector and government, and promote Belarus's competitive strengths within a clear investment promotion strategy. This activity will finance capacity building at the NAIP to expand its capabilities to serve prospective investors who require local networking, market information and other pre-investment and aftercare services.

This sub-component will support the NAIP in providing facilitation services and information to foreign investors and local exporters, thus completing the investment and export development processes. NAIP's capacity to service clients can be enhanced through innovative mechanisms like country image building, demand-driven marketing tools and online promotion techniques. It will also provide international best practice to identify target-sector relevant studies and marketing materials to prepare and execute outward promotion missions and participation in trade shows/events. Moreover, the project would support NAIP to become a private sector champion within the administration. The Agency will play an advocacy role for further structural reforms aimed at improving the investment climate and improve public-private dialogue (see Annex 8 for additional detail).

2.5 Support for case-by-case SOE restructuring and privatization. The primary instrument in this area would be support for pilot restructuring of identified SOEs aimed at facilitation of their competitiveness by supporting divestiture of their non-core assets, various spin-offs and encouraging private SMEs' access to the existing SOEs' premises and equipment. This strategy could be complemented by partial privatization of SOEs' assets and an option of converting some underutilized assets into an industrial park to host a cluster of inter-related SMEs. It is expected that the NAIP would receive additional support under the project (sub-component 2.4) to develop capabilities for implementing this restructuring pilot. SMEs, which would emerge in the restructuring process, would also benefit from improved access to finance to be supported through matching grants (under sub-component 2.3) and line of credit (under component 3). The design of this sub-component would reflect lessons learned from the earlier Bank projects to advance SOE restructuring in the FSU, e.g. in Moldova.

2.6. Support for reforms in the financial sector. The project will also support the efforts of NBRB and other relevant state bodies aimed at maintaining banking sector stability and deepening of financial intermediation. More specifically, this activity aims to support NBRB in its plans to implement financial sector reforms aimed at moving towards more efficiency and improved allocation of capital as part of the broader structural reform agenda of the government. As part of this sub-component technical assistance will be provided to NBRB and other relevant authorities in achieving the agreed upon financial sector activities under Component 1 which tentatively include the i) adoption and implementation of a Financial Sector Development Strategy, (ii) establishment of an integrated financial sector supervisor (megaregulator) under the auspices of NBRB, (iii) measures to maintain stability of the banking sector that could include an independent Asset Quality Reviews of systemic banks as well as steps to strengthen the deposit insurance scheme, (iv) strengthening governance and supervision of DBB, (v) establishment of a national collateral registry for movable assets to expand opportunities for SMEs to obtain commercial credit and (vi) rationalization and gradual reduction of government lending programs (GLPs).

Component 3. Improvements in MSMEs' access to finance through the MSME line of credit

3.1. Line of Credit for MSME Financing

This sub-component will facilitate increased access and availability of finance for MSMEs by financing wholesale lending by DBB for its MSME business line. Funding will be made available to eligible participating financial institutions (PFIs) for eligible sub-borrowers and sub-projects on market-conforming terms. In this regard, the initial appraisal of interested financial intermediaries will be undertaken by the World Bank, while DBB will be subsequently tasked with this role with the support of the NBRB, in line with the World Bank requirements for financial intermediary financing. During the identification mission in May 2015 initial appraisals of three interested banks were completed. Further appraisals of interested financial intermediaries will continue throughout project preparation. The line of credit will be open for participation by all banks meeting eligibility criteria on a first come-first serve basis.

The interest rates to final borrowers will be market-based to ensure sustainability and avoid creating further interest rate distortions in the market. DBB will on-lend funds to PFIs at interest rates that take into account at a 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 assessment and risk of the borrower. Sub-loans will be available for investments and for working capital finance. In order to allow for competitively-priced, BYR-denominated lending to enterprises, in parallel to the availability of USD and EUR denominated loans, DBB is currently exploring potential swap arrangements with NBRB.

Sub-borrowers will be creditworthy private sector MSMEs. The proposed criteria for final borrowers will follow DBB's MSME pilot program criteria as well as additional criteria to meet project objectives. The following criteria for MSMEs are tentative and will be finalized during project preparation: (i) privately owned (more than 50%) and independent; (ii) duly licensed and registered with the tax authorities; (iii) creditworthy and in sound financial condition; (iv) prior operating experience in the activity to be financed; and (v) co-financing of at least 20 percent.

Consistent with good practice in other WB credit lines, it is proposed that DBB be the borrower and implementing agency for this component through a separate loan agreement with the WB supported

by a guarantee of the Republic of Belarus (see Annex 11). There are multiple reasons for separate implementation arrangements for this component centered on a line of credit. Most importantly, it would safeguard the independence of DBB and participating commercial banks from potential interference by any state body in credit line decisions, which is a legitimate risk in the Belarus context. Also, by its nature, the line of credit will have a large number of individual payments to banks which would need to be processed very fast given the commercial nature of credit decisions. Experience in other transition economies has demonstrated that a qualified financial institution is far more agile in this respect than government bureaucracy. Moreover, a direct loan agreement will allow the WB financing support to MSMEs to go hand in hand with further institutional strengthening of DBB, with specific covenants to be included in the Loan Agreement with this institution. Finally, it would be important for DBB to have a direct loan agreement with the World Bank in order to build its credentials as a reliable borrower and partner in the international arena. These implementation arrangements would be fully consistent with the lessons drawn from the World Bank's extensive engagement in line of credit operations in other ECA countries (Turkey, Ukraine, Croatia, etc). A preliminary appraisal of DBB has been conducted which concluded that DBB generally qualifies to take on the role as World Bank borrower. DBB's financial condition is sound, it has adequate capital position and its policies and procedures follow good banking standards. While rated as generally satisfactory further action is recommended as regards to strengthening of external regulation and supervision of DBB's activities which is currently being discussed in an active dialogue with the World Bank Group and other IFIs.
3.2. Technical Assistance and Capacity Building

The objective of this sub-component will be the provision of operational support and capacity-building to the DBB. The technical assistance provided under this component will build upon an assessment undertaken by the World Bank under the 2014 Development Module FSAP related to institutional, regulatory and supervisory strengthening of DBB. It includes but is not limited to defining and establishing robust operating principles, policies, procedures, and governance, design and roll out of new finance instruments, setting up and implementing monitoring and evaluation practices, impact assessment methodologies, and so forth.

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) and assessments of compliance with the legal and regulatory framework. It will fund PMU(s) staff, consultant services for strengthening the legal and regulatory framework and project awareness, as well as operational costs. As mentioned above, implementation arrangements for Component 3 will be managed by DBB and funded under Component 3.

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

The project will support Micro, Small and Medium Enterprises throughout Belarus.

E. Borrowers Institutional Capacity for Safeguard Policies

The borrower will ensure that the safeguards issues are properly addressed through either appointing a staff member within the PIU, or, in case of insufficient capacity, hiring a consultant to conduct screening project activities, assist in preparation of due diligence documentation and supervision, where necessary. ToR for such a position will be reviewed and cleared by the Bank team.

F. Environmental and Social Safeguards Specialists on the Team

Esma Kreso (GENDR)
Jennifer Shkabatur (GSU03)
Klavdiya Maksymenko (GSURR)

II. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
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, an Environmental and Social Management Framework (ESMF) will be 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 ESMF will also include a project-specific exclusion list. Interventions dealing with State Owned Enterprises (SOEs) shall also be dealt with in a manner to be outlined in the ESMF, including assessment of accumulated environmental damages related to the SOEs' operations and potential impacts associated with privatization of such enterprises.
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	The project is highly unlikely to trigger OP 4.12 on Involuntary Resettlement. No land acquisition, displacement of any third party (formally or informally occupying or using the land on which various subcomponents will be implemented), or restriction of access to resources or income streams is expected under the proposed Project. The team

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		will work closely with the social safeguards specialists during project preparation stage to ensure 4.12 is not triggered. The team will also integrate monitoring of the project into the PMU from the perspective of thoroughly examining activities that could potentially trigger 4.12 The Project will not support any sub-projects/grants that would necessitate involuntary land acquisition or any form of resettlement. The Environmental Management Framework (EMF) to be prepared by the Borrower will specify that private businesses will be eligible to become project beneficiaries under the condition that they have not acquired and/or would not acquire land for the needs of activities to be supported with the project proceeds through a process which involved and/or would involve land expropriation. Additionally, project funds will not support any sub-loans used to invest in a business, which would require the involuntary displacement of existing occupants or economic users of any plot of land, regardless of its current ownership, or loss of or damage to assets including standing crops, kiosks, fences and other. The LoC operations manual will define a screening procedure to be followed, and the implementing agency will closely monitor the screening procedure with the support of the Bank. With these restrictions, the project is highly unlikely to trigger OP/BP 4.12 "Involuntary Resettlement". In cases where new construction is involved, sites presenting situations that would trigger OP 4.12, will be excluded from project consideration. However, re-habilitation or reconstruction (which could involve demolition of no longer suitable structure and construction of a new one) of the existing buildings within the same footprint would be permissible.
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	

III. SAFEGUARD PREPARATION PLAN

A. Tentative target date for preparing the PAD Stage ISDS: 01-Oct-2015

B. Time frame for launching and completing the safeguard-related studies that may be needed.

[1] Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.

The specific studies and their timing[1] should be specified in the PAD-stage ISDS:

In order for the due diligence documentation (ESMF) to be completed, reviewed with public consultations and disclosed in time for appraisal, a rough draft should be prepared by early September 2015, with public consultations being done in late August or early September, and the document finalized and disclosed in country and through Infoshop by mid-September 2015.

IV. APPROVALS

Task Team Leader(s):	Name: Karen Grigorian,Johanna Jaeger	
Approved By:		
Safeguards Advisor:	Name: Agnes I. Kiss (SA)	Date: 15-Sep-2015
Practice Manager/ Manager:	Name: Lisa A. Kaestner (PMGR)	Date: 16-Sep-2015

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