

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

Report No.: PIDA46490

Project Name	BELARUS PUBLIC FINANCIAL MANAGEMENT MODERNIZATION PROJECT (P146997)
Region	EUROPE AND CENTRAL ASIA
Country	Belarus
Sector(s)	General public administration sector (100%)
Theme(s)	Public expenditure, financial management and procurement (100%)
Lending Instrument	Investment Project Financing
Project ID	P146997
Borrower(s)	Ministry of Finance
Implementing Agency	Ministry of Finance
Environmental Category	C-Not Required
Date PID Prepared/Updated	08-Dec-2015
Date PID Approved/Disclosed	08-Dec-2015
Estimated Date of Appraisal Completion	11-Dec-2015
Estimated Date of Board Approval	28-Mar-2016
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

Belarus is an upper middle income country with a population of 9.5 million. Belarus' transition experience was distinct from others in the region. The country preserves an economic model based on the dominance of public sector with a high level of social equity. Redistribution of resources through the government budget is used to maintain the existing economic model, consequently the overall size of the national budget is large and social spending receives priority attention.

After a decade of strong economic growth, Belarus has faced repeated macro-economic crises in recent years. Loose fiscal and monetary policies in 2010 generated a short-term economic recovery but resulted in a widening current account deficit (15 percent of GDP in 2010) and heightened pressure on foreign exchange reserves. The authorities counteracted the crisis through a combination of tightened macroeconomic policies and a new, more favorable energy deal with Russia. Together these measures stabilized the economy. Real GDP grew modestly by 1 percent in 2013 and 1.6 percent in 2014, the macroeconomic situation remains fragile. Sharp depreciation of currencies of the country's main trading partners (Russia and Ukraine) put pressure on the

Belarusian Ruble, which lost 19.6 percent of its nominal value against the US\$ in 2014, despite interventions by the National Bank and adoption of temporary capital controls in December. Belarusian Ruble further depreciated against the US\$ by almost 32 percent from January to October 2015. Foreign reserves, excluding gold, declined by 11 percent since the beginning of 2015, and by October stand at US\$ 3.045 billion, covering one month of imports of goods and services.

The medium term outlook remains bleak because of low oil prices, weak external environment, limited access to external liquidity, and large external public debt refinancing needs of about US\$ 4 billion during 2015. The economy is expected to contract by 3.5 percent in 2015 and by 0.5 percent in 2016 due to weak external and domestic demand. Macroeconomic stabilization is essential but insufficient to reinvigorate growth. Without structural reforms, existing imbalances and vulnerabilities (low growth, persistent current account deficits, reliance on external debt flows, and erosion of competitiveness) are likely to intensify.

Sectoral and institutional Context

Public finances were severely affected by recent macro-economic turmoil but prudent fiscal management contained the fiscal balance throughout the crisis years. Since the 2008/2009 crisis Belarus has experienced a sharp and continuous contraction of revenues. The government avoided a substantial deterioration of the fiscal position through commensurate expenditure consolidation. The overall general government expenditure envelope has contracted by 15 percentage points of GDP, from close to 54 percent of GDP in 2008 to about 39 percent at the end of 2014: one of the largest contractions in government expenditure in the region. This was achieved through a significant reduction of capital spending and to a lesser extent through cuts of current transfers, the wage bill and other discretionary current expenditure items. The adjustment also changed the functional composition of the budget, with spending on economic affairs and general public administration experiencing the sharpest reductions while social sectors were largely protected from spending cuts. Despite moderate deficits, public debt (including guaranteed debt) has more than doubled as a share of GDP from 12.9 percent in 2008 to 34.1 percent by the end of 2014. About half of the public debt outstanding matures within the next few years exerting increased fiscal pressures on the budget: external debt repayment needs are about US\$ 3.3 billion in 2016 and US\$ 2.8 billion in 2017.

The macro-economic outlook for the medium term dictates the need to supplement strict fiscal discipline with stronger emphasis on allocative and operational efficiency of public spending during the coming years. Recent adjustments constrain future fiscal choices. Further cuts in discretionary spending, especially in public investment and non-wage recurrent expenditures threaten to undermine the productivity of public spending, lead to deterioration of public infrastructure and undermine growth prospects.

In this context, it is important for the Government to improve efficiency of public spending and develop instruments for strategic reallocation of resources. The Government realizes that this requires changes in the way it manages public finances. In response, the Ministry of Finance (MoF) has initiated a comprehensive PFM reform program and requested World Bank assistance for the program design and implementation through diagnostic analysis, technical assistance and a PFM lending operation.

The Public Expenditure and Financial Accountability (PEFA) Assessment carried out in 2014

argued that Belarus' PFM system managed to deliver fiscal discipline in recent years but still had notable weaknesses that undermined the efficient allocation and application of public funds. The Government's focus on annual budgeting without a medium term macro-fiscal outlook hindered strategic planning, fiscal adjustment and spending agencies' ability to align their medium term objectives and plans with the resources available. Fragmentation of cash balances in multiple bank accounts outside of treasury hinders the government monitoring its cash position in real time. This, combined with limited capacity to forecast cash flow, and absence of links between procurement and treasury systems, results in cash rationing instead of proactive cash management. Cash flow constraints lead to cuts or the postponement of approved expenditures in year. The structure of controls focuses on compliance and enforcement and is not conducive to improvements in resource allocation and operational efficiency. The quality and timeliness of financial information is inadequate for high level decision making. Central government, local governments, budget organizations and state owned enterprises account for their transactions differently hindering the development of useful aggregated financial reporting of financial information. The debt management function remains fragmented, hampering debt portfolio management according to both PEFA and Debt Management Assessment (DEMPA).

The Government's PFM Reform Strategy, prepared in 2015, responds to the PEFA assessment with an ambitious reform program in the areas of medium term budgeting, program budgeting, treasury, debt management, and accounting. An ongoing technical assistance project financed from the ECA PFM Trust Fund (PFM TA grant) supports the Government in developing the PFM reform program and preparing for implementation of the PFM Modernization Project.

II. Proposed Development Objectives

To improve policy alignment of the budget, consolidate cash balances, improve budget transparency and lay foundations for implementation of an Integrated Financial Management Information System (FMIS)

III. Project Description

Component Name

Budget management regulations and procedures

Comments (optional)

Component Name

PFM IT solutions

Comments (optional)

Component Name

Change management

Comments (optional)

IV. Financing (*in USD Million*)

Total Project Cost:	10.00	Total Bank Financing:	10.00
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Financing Gap:	0.00	
For Loans/Credits/Others		Amount
Borrower		0.00
International Bank for Reconstruction and Development		10.00
Total		10.00

V. Implementation

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

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