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The World Bank

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Report No: PAD1557

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US$ 10 MILLION

TO THE

REPUBLIC OF BELARUS

FOR A

PUBLIC FINANCIAL MANAGEMENT MODERNIZATION PROJECT

March 5, 2016

Governance Global Practice
EUROPE AND CENTRAL ASIA

CURRENCY EQUIVALENTS

(Exchange Rate Effective March 5, 2016)

Currency Unit	=	BYR (Belarusian Ruble)
US$1	=	21,235 BYR

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ASFS	Automated System for Financial Settlements
BYR	Belarussian Ruble
CPS	Country Partnership Strategy
CQS	Consultant Qualification Selection
CSO	Civil society organization
DA	Designated account
DC	Direct contracting
DeMPA	Debt Management Performance Assessment
ECA	Europe and Central Asia
FBS	Fixed Budget Selection
FM	Financial Management
FMIS	Financial Management Information System
FTE	Full time equivalent
GDP	Gross Domestic Product
GPN	General Procurement Notice
GRS	Grievance Redress Service
HLD	High-level design
IBRD	International Bank for Reconstruction and Development
IC	Individual Consultant selection procedure
ICB	International Competitive Bidding
ICR	Implementation Completion and Results Report
ICT	Information and Communications Technology
IPSAS	International Public Sector Accounting Standards
IT Center	Republican Unitary Enterprise “Data-Processing Center of the Ministry of Finance”
IUFR	Interim unaudited financial report
LCS	Least Cost Selection
MoF	Ministry of Finance
PDD	Public Debt Department
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability
PFM	Public financial management
PFMMP	Public Financial Management Modernization Project
PIU	Project Implementation Unit
POM	Project Operation Manual
QBS	Quality Based Selection
QCBS	Quality and Cost Based Selection
SH	Shopping
SOE	State-owned enterprise
SPN	Specific Procurement Notice
SSS	Single (or Sole) Source Selection
TA	Technical assistance
Training Center	Public Educational Institution Center for Qualification Upgrading of MoF Executives and Specialists
TSA	Treasury Single Account
UCoA	Unified Chart of Accounts
US$	United States Dollar
WB	World Bank

Regional Vice President:	Cyril E Muller
Country Director:	Qimiao Fan
Senior Global Practice Director:	James Brumby
Practice Manager:	Adrian Fozzard
Task Team Leader:	Oleksii Balabushko

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BELARUS PUBLIC FINANCIAL MANAGEMENT MODERNIZATION PROJECT (P146997)

PROJECT APPRAISAL DOCUMENT

EUROPE AND CENTRAL ASIA

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Report No.: PAD1557

Basic Information			
Project ID P146997	EA Category C - Not Required	Team Leader(s) Oleksii Balabushko	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [ ]		
	Series of Projects [X]		
Project Implementation Start Date 01-Jul-2016	Project Implementation End Date 30-Jun-2019		
Expected Effectiveness Date 29-Jul-2016	Expected Closing Date 30-Sep-2019		
Joint IFC No			
Practice Manager/Manager Adrian Fozzard	Senior Global Practice Director James A. Brumby	Country Director Qimiao Fan	Regional Vice President Cyril E Muller

Borrower: Ministry of Finance			
Responsible Agency: Ministry of Finance			
Contact:	Maksim Ermolovich	Title:	First Deputy Minister
Telephone No.:	375172224593	Email:	minfin@minfin.gov.by

Project Financing Data(in USD Million)					
[X]	Loan	[ ]	IDA Grant	[ ]	Guarantee
[ ]	Credit	[ ]	Grant	[ ]	Other

Total Project Cost:	10.00	Total Bank Financing:	10.00
Financing Gap:	0.00		

Financing Source	**Amount**
Borrower	0.00
International Bank for Reconstruction and Development	10.00
Total	10.00

Expected Disbursements (in USD Million)

Fiscal Year	2017	2018	2019	2020	0000	0000	0000	0000	0000	0000
Annual	2.00	4.00	4.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cumulative	2.00	6.00	10.00	10.00	0.00	0.00	0.00	0.00	0.00	0.00

Institutional Data

Practice Area (Lead)

Governance

Contributing Practice Areas

Cross Cutting Topics

[ ] Climate Change

[ ] Fragile, Conflict & Violence

[ ] Gender

[ ] Jobs

[ ] Public Private Partnership

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Public Administration, Law, and Justice	General public administration sector	100		
Total		100		

☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
Public sector governance	Public expenditure, financial management and procurement	100
Total		100

Proposed Development Objective(s)

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)

Components

Component Name	Cost (USD Millions)
Budget management regulations and procedures	4.925
PFM IT solutions	3.45
Change management	1.60

Systematic Operations Risk- Rating Tool (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate

7. Environment and Social	Low
8. Stakeholders	Moderate
9. Other	
OVERALL	Substantial

Compliance	
Policy	
Does the project depart from the CAS in content or in other significant respects?	Yes [ ] No [X]
Does the project require any waivers of Bank policies?	Yes [ ] No [X]
Have these been approved by Bank management?	Yes [ ] No [X]
Is approval for any policy waiver sought from the Board?	Yes [ ] No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X] No [ ]

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**

Legal Covenants

Name	**Recurrent**	**Due Date**	**Frequency**
Implementation Arrangements Documents		30-Jun-2016	

Description of Covenant

To facilitate carrying out of the Project, the Borrower, through MoF, shall issue a resolution and, immediately thereafter, enter into an agreement with the IT Center, all under terms and conditions acceptable to the Bank (Implementation Arrangements) which shall include, inter alia, the obligation of the IT Center to: (i) implement the Project in accordance with the pertinent provisions of this Agreement (including compliance with the pertinent provisions set forth in the Procurement and Financial Management sections and the provisions of Article V of the General Conditions), the Anti-Corruption Guidelines and the POM; (ii) use the proceeds of the Loan exclusively for the purposes of the Project; (iii) promptly inform the Borrower, through MoF, and the Bank of any condition which interferes, or threatens to interfere, with the performance of its obligations under the Implementation Arrangements; and (iv) take or permit to be taken all actions to enable the Borrower to comply with the obligations referred to in this Agreement as applicable to the IT Center.

Conditions

Source Of Fund	Name	Type
IBRD	Approval of Project Operational Manual and Procurement Plan	Effectiveness

Description of Condition

The Procurement Plan was approved. Approval Project Operational Manual is expected by effectiveness.

Source Of Fund	Name	Type
IBRD	Implementation Arrangements	Effectiveness

Description of Condition

The Implementation Arrangements have been duly signed and are in full force and effect.

Team Composition

Bank Staff

Name	Role	Title	Specialization	Unit
Oleksii Balabushko	Team Leader (ADM Responsible)	Senior Public Finance Specialist	Public Finance	GGO15
Joseph Huntington La Cascia	Procurement Specialist (ADM Responsible)	Senior Procurement Specialist	Procurement	GGO03
Galina S. Kuznetsova	Financial Management Specialist	Sr Financial Management Specialist	Financial Management	GGO21
Andrew James Mackie	Team Member	Sr Financial Management	Financial Management	GGO21

		Specialist		
Dolly Elizabeth Teju	Team Member	Program Assistant	Administrative Support	GGO15
Elena Nikulina	Team Member	Senior Public Sector Specialist	Public Finance	GGO15
Irina Babich	Team Member	Sr Financial Management Specialist	Financial Management	GGO21
Lilia Razlog	Team Member	Senior Debt Specialist	Debt Management	GMF13
Robert H. Montgomery	Safeguards Specialist	Lead Environment Specialist	Environment	GEN04
Yelena Slizhevskaya	Team Member	Consultant	Program Support	GGO15

Extended Team

Name	Title	Office Phone	Location

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
Belarus	Minsk	Horad Minsk	X		

Consultants (Will be disclosed in the Monthly Operational Summary)

Consultants Required? Consultants will be required

I. STRATEGIC CONTEXT

A. Country Context

1. 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.

2. 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 Dollar in 2014, despite interventions by the National Bank and adoption of temporary capital controls in December. Between January 2015 and early March 2016, Belarusian Ruble further depreciated against the USD by almost 45 percent. Foreign reserves, including gold, declined by 18 percent since the beginning of 2015, and by March 2016 stand at USD 4.111 billion, covering about one and a half months of imports of goods and services.

3. The medium term outlook remains bleak because of low oil prices, weak external environment, limited access to external liquidity, and large public debt refinancing needs. The economy contracted by 3.9 percent in 2015 and slowdown is expected to continue 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.

B. Sectoral and Institutional Context

6. 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 the 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 (included guaranteed debt) has more than doubled as a share of GDP from 12.9 percent in 2008 to 30.1 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: large foreign currency denominated debt repayments are expected in 2016 and 2017.

7. 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.

8. In this context, it is important for 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 Public Financial Management (PFM) reform program and requested World Bank assistance for the program design and implementation through diagnostic analysis, technical assistance and a PFM lending operation.

9. 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).

10. The Government's PFM Reform Strategy, prepared in 2015 by the MoF, 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.

D. Higher Level Objectives to which the Project Contributes

11. The proposed PFM Modernization Project (PFMMP) supports the Government of Belarus PFM Strategy aiming at improving efficiency of PFM systems across PFM cycle. The Strategy was approved in December 2015. The project is aligned with the 2014 to 2017 Country Partnership Strategy (CPS) for Belarus, contributing to the achievement of more transparent management of public resources, one of the expected outcomes under CPS pillar 1 aimed at improving competitiveness of the Belarus economy. The project is aligned with the World Bank

Group's twin goals of shared prosperity and reduced poverty by supporting government reforms that enable the Government of Belarus to become more effective and efficient and by improving allocative efficiency of the PFM system. The proposed institutional reforms will strengthen the overall governance environment by improving transparency and accountability in the PFM. The project will improve value for money in Government programs and facilitate service delivery.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

12. The PDO for the project is 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).

13. This project will support the Government's PFM reforms, FMIS design and FMIS implementation as part of a series of investment projects financed by two IBRD loans. The project will provide the Government with the tools that will enable it to support broader institutional reforms, including changes in management approach such as greater delegation of authority to decision-makers within agencies and service delivery units. However, the project does not anticipate that these management reforms will take place in the project timeframe. Consequently, the project focuses on technical reforms in public financial management and the broader organizational change management objectives and activities are limited at this stage. The opportunities for organizational change will be reassessed during preparation of the second project in the series.

B. Project Beneficiaries

14. The immediate beneficiaries of the project are the management and officials of the beneficiary institutions: MoF, Ministry of Economy, and Ministry of Trade. The ultimate beneficiaries of the project are the private sector and households who will benefit from improvements in transparency and more efficient management of public resources which will ultimately lead to improvements in the volume and quality of public services.

C. PDO Level Results Indicators

15. The project is expected to achieve the PDO through improving the Government's ability to plan the budget from a medium term perspective by focusing on results, improving debt management and enhancing treasury coverage, improving budget transparency, and creating a basis for implementation of the FMIS. The achievement of the PDO will be assessed on the basis of the following results and the respective indicators:

a) Improved alignment of policies and budgets, as indicated by the expansion of coverage of budget expenditures by programs;

b) Increase the level of consolidation of cash balances, as indicated by a decrease in the share of central government expenditures channeled outside the Treasury Single Account (TSA);

c) Improved budget transparency, as indicated by the annual publication of a citizens' budget that includes information on budget execution, the medium term financial program and analysis of links between financing and results;

d) Development of the foundations for the FMIS, as indicated by the approval of bidding documents for FMIS based on approved revised business processes and Unified Chart of Accounts.

III. PROJECT DESCRIPTION

A. Project Components

16. The project will consist of three interconnected components. Component 1 supports reforms across the PFM cycle. Component 2 draws on the outputs of the ongoing PFM TA Grant and Component 1 activities to define new business processes and prepare functional and technical requirements for the future FMIS system, design and modernization of a debt management solution. Component 2 also supports upgrade of the existing Automated System for Financial Settlements (ASFS) as an interim solution pending the delivery of the integrated FMIS during the second project in a series. The upgrade will include expansion of server capacity to ensure that the system can be operational for the next 5-7 years and expand its service to funds currently outside of the TSA. Component 3 finances change management and project management activities to facilitate results of components 1 and 2. The project design seeks to expand capabilities of the MoF in critical PFM areas and help the Government of Belarus to address binding constraints on PFM systems performance.

PFM Capabilities Addressed by the Project

Capability	**Issues**	**Project Activities**	**Status at the end of the project**
Policy-based budgeting	Weak multi-year perspective and weak link between policy and budgeting (PEFA 2013 PI-12 is D)	TA supporting: medium term planning and program budgeting; revenue forecasting; tax expenditure analysis; macroeconomic and macro-fiscal forecasting	The Government reconciles resource allocations and strategic policies through the budget process; the program budget classification aligns resources with policy objectives and tracks the application of funds during execution; MoF and agencies begin to monitor results of the programs financed by the budget; multi-year expenditure program prepared and used as basis for budget preparation. Further development of program budgeting will be supported by the second project in the series.
Cash management	Considerable amounts of central government funds are managed outside of the Treasury system	Budget execution TA. Modernization of Information and Communication Technology (ICT) infrastructure for existing Treasury system	Central government funds (extra-budgetary funds and extra-budgetary resources of central government agencies) are managed through a TSA, lowering borrowing needs and improving cash availability.
Budget transparency	The budget execution data published on the web has limited information.	Budget transparency TA. Modernization of ICT infrastructure	MoF publishes on line budget execution data disaggregated at the level of approved budget; information on medium term financial program; and analysis of performance information. The MoF publishes a reader friendly citizens' budget.

Internal financial control and audit	Focus on input controls with little consideration of performance. Lack of clear vision on objectives of internal audit reform.	Internal financial control and audit TA	Government has a clear vision for direction of internal audit reforms. Concept of internal financial control reform is developed. Planning and initial stages of implementation will be addressed by the second project in the series.
Debt management	Regulatory and legal deficiencies to the development of debt market. Limited portfolio analysis of government debt and contingent liabilities. Insufficient middle office capacities and technological solutions.	TA for improvement of legal and regulatory framework; design and improvement of the ICT solutions for debt management.	MoF optimizes existing regulatory framework for government debt management; produces comprehensive analysis of government debt portfolio and periodic management reports which capture contingent liabilities.
Accounting and reporting	Financial statements are not consistent with international accounting standards.	Accounting TA, Program budgeting TA	MoF approved Unified Chart of Accounts integrated with the budget classification. The conceptual framework for public sector accounting reform, implementation plan and first standards are approved. Further reforms will be supported by the second project in the series.
Ability to implement FMIS	Lack of clarity of reform agenda and technical capacity needed to start implementation of large scale reform with ICT component	Change management activities. Preparation of FMIS bidding documents.	MoF has clarity on its business requirements, future FMIS design and is ready to launch procurement of the FMIS. Procurement and implementation of FMIS will be supported by the second project in the series.

Component 1 – Budget management regulations and procedures

17. *Budget preparation*. The Government of Belarus' PFM Reform Strategy plans to introduce a medium term budget framework and to link state programs and budgeting process through introduction of program budgeting. This sub-component supports this process and will include technical assistance on macroeconomic forecasting, revenue forecasting and tax expenditure analysis, medium term budgeting and program budgeting including monitoring and evaluation of program implementation.

18. *Debt management system.* The MoF formulated its medium term debt management priorities in the Public Debt Management Strategy for 2015-2020, approved by the Prime Minister. This highlights the importance of maintaining sustainable levels of public debt and reaffirms the Government's commitment to sound debt management practices. This sub-component will support implementation of the medium term debt management strategy in line with medium term macro and budget framework. Activities will include: strengthening analytical capacity of the MoF for effective borrowing policies, including support to establishment of a separate middle office; improvement in debt management practices including risk analysis, cash flow forecasting and debt reporting; and introduction of management of contingent liabilities for central government external and domestic loan guarantees and local borrowing.

19. *Budget execution and reporting.* This sub-component seeks to enhance the Government's ability to efficiently use resources for service delivery by improving treasury operations, support preparation and initial stages of implementation of public sector accounting reform, and develop the concept for modernization of internal financial control system. This component will finance technical assistance and procurement to support:

a) Strengthening of treasury controls over budget spending and improvements in cash management by expansion of coverage of the TSA and strengthening management of commitments, integrating procurement procedures into the budget execution process and developing cash forecasting capacity.

b) Support the initial stage of implementation of public sector accounting reform through: definition of institutional responsibilities; development of the conceptual framework of public sector accounting reform; development of the initial set of priority accounting standards in line with the approved action plan; and redesign of the public sector chart of accounts and its integration with the budget classification.

c) Development of a conceptual framework for modernizing public sector internal financial control system and creation of the basis for introduction of an internal audit function within public sector to refocus financial control activities on prevention of irregularities and improvements in the efficiency and effectiveness of public spending.

d) Enhancement of budget transparency by improving the format and content of budget information, development of user friendly versions of budget documents and explanatory material on the budget process, including an annual citizens' budget. Procurement of data extraction and business-analysis software to be used for preparing budget execution data in a reader friendly format.

Component 2 – PFM IT solutions

20. This component will form a basis for future FMIS implementation by: developing new or revising existing business processes based on the reform initiatives in the areas of PFM reform, including budget planning, execution, debt management, procurement, accounting and reporting; and preparing tender documentation, including specifications based on the revised business processes. The component will also support preparation for FMIS procurement including market analysis of existing off the shelf solutions, comparative analysis of available hardware and preparation of draft specifications. In addition this component will support the design and initial improvements of debt management IT solutions, business process management software, and upgrade of the current ASFS infrastructure, including user support software, to ensure functionality of the existing system before the new FMIS is procured and implemented.

Component 3 - Change management

21. The change management component will support the implementation of regulatory and procedural reforms through a program of capacity building and project management activities. This component will support the operation of the project implementation office, which will: carry out project procurement, financial management activities and organize audit; help the MoF coordinate project activities; and interact with all local and international entities involved in the project. The component will also support additional training needs not covered under Component 1 activities, publication of training materials, training of trainers, as well as capacity building, and procurement of equipment for Public Educational Institution Center for Qualification

Upgrading of Executives and Specialists of the MoF of the Republic of Belarus (MoF Training Center).

B. Project Financing

22. The total project cost is estimated at US$10 million (Table 1). This will be financed with an IBRD loan in the amount of US$10 million. The Government of Belarus contribution will be in-kind including facilities. The amount of the Government contribution has not been estimated.

Table 1. Project Cost and Financing

Project Components	**Project cost**	**IBRD Financing**	**% Financing**
1. Budget management regulations and procedures	4,925,000	4,925,000	100%
2. PFM IT solutions	3,450,000	3,450,000	100%
3. Change management	1,600,000	1,600,000	100%
Total Costs	9,975,000	9,975,000	100%
Total Project Costs	9,975,000		
Front-End Fees	25,000		
Total Financing Required	10,000,000		

C. Series of Project Objective and Phases

23. The program objective for the series of projects is to improve efficiency and accountability of the national public finance management system of Belarus. The series of projects will be financed by two loans. Amount of the first loan – US$10 million. The estimated amount of two loans is US$100 million.

24. The first operation will support institutional reforms, putting in place the legislative and organizational framework for the PFM system, redesigning core business processes and investing in capacity development. This will lay foundations for the second operation, which will finance the acquisition and implementation of an FMIS and provide technical assistance for further implementation of the core reforms in program budgeting and accounting.

25. This phased approach offers several advantages over the single project approach. It provides support for preparatory work but commits the World Bank to financing of the FMIS only when essential PFM reforms have been implemented, the regulatory framework has stabilized and the authorities have approved a FMIS design that is satisfactory to the Bank and meets the clients' needs. This helps the authorities make informed decisions and provides assurance that funding will be available for FMIS implementation whilst minimizing financing costs and addressing implementation risks.

Stage	**Trigger**
Pre-initiation	Approval of a high level design for FMIS
Initiation	Unified chart of accounts approval
Concept	Approved business processes
Appraisal	Approved bidding documents for FMIS

26. The series approach allows to adjust implementation to the pace of reforms. Triggers tie preparation and appraisal of PFMMP 2 to progress the design and implementation readiness of

the FMIS system and reflect milestones in the development of the regulatory environment, business process reengineering, FMIS design, and implementation capacity. PFMMP 2 could be accelerated depending on the pace of the Government reforms and meeting the triggers for FMIS implementation readiness. In case all the requirements are met, both the first and second project in a series could run in parallel.

D. Lessons Learned and Reflected in the Project Design

27. The design of the project builds on the experience of several recent PFM operations with FMIS components implemented by the Europe and Central Asia (ECA) countries (including Albania, Russia, Georgia, Ukraine, Moldova, Kyrgyzstan and Tajikistan). It also incorporates lessons learnt from twenty five years of World Bank experience in supporting the development of FMIS systems and documented in the 2011 study[1].

28. PFM reforms are complex, lengthy and high risk undertakings. Adequate preparation and sequencing of the reforms is an important factor for their success. The design of the project series takes this lesson into account. The first operation focuses on reforms that are feasible to undertake within the project timeframe and are prerequisites for successful FMIS design and implementation.

29. Political commitment and system-user ownership are critical for the success of PFM reforms and FMIS implementation. Considerable efforts have been taken during project preparation in ensuring broad stakeholder consultation encompassing central agencies, line agencies and oversight institutions and then developing a shared national vision for PFM reform.

30. FMIS implementation is often hampered by lack of clarity regarding system requirements, frequent change-orders and short-comings in procurement and contact arrangements. In order to address these risks, the project allows regulatory reforms and business process reengineering to be completed before completion of design of the FMIS. This will help stabilize system requirements prior to procurement and implementation. The project also allows the authorities' to undertake market consultations prior to procurement and provides support to the preparation of tender documentation.

31. Legacy systems will continue to operate until replacement systems are fully functional and so will need to be strengthened and upgraded to meet business needs. The project provides for on-going support to the legacy system to address this concern. Where legacy systems have been developed in-house or in close collaboration with local suppliers, there may be resistance to the acquisition of replacement systems. The project will ensure that the pros and cons of alternative solutions are reviewed and debated before proceeding with the acquisition of any replacement system.

[1] "Financial Management Information Systems: 25 Years of World Bank Experience on What Works and What Doesn't", World Bank, 2011.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

32. The project will be implemented over a three-year period by the MoF. The MoF will be responsible for project implementation, monitoring and coordination with stakeholders. The First Deputy Minister of Finance will be assigned the role of the Project Coordinator and the Deputy Minister of Finance the role of the Deputy Project Coordinator. The Coordinator will be supported by a Steering Committee including the heads of the units involved in the project. An appropriately staffed Steering Committee was established under ongoing preparatory technical assistance project financed from the ECA PFM TA grant. This working group will be expanded and continue to support the new project. The Department for Prospective Development will ensure coordination of work among different units of the MoF during project preparation and implementation. The other beneficiaries of the project and key stakeholders (Ministry of Economy, State Control Committee, Ministry of Trade, and IT Center) will assign coordinators of the relevant activities internally.

33. MoF will delegate the responsibility for managing day-to-day administration of the Project to the Republican Unitary Enterprise Data-Processing Center of the Ministry of Finance (hereinafter – IT Center). Such delegation will be done through the issuance of a ministerial resolution followed by a more specific implementation agreement between the MoF and the IT Center, both established as an effectiveness condition. The IT Center will establish the Project Implementation Unit (PIU) with responsibilities for project administration, including fulfillment of all procurement and financial management procedures. The IT Center already has experience in working with World Bank's procurement and FM procedures from the implementation of the PFM TA grant. Given that the Project will finance consulting services and procurement of goods and limited non-consulting services, the IT Center's procurement and financial management capacity is assessed as sufficient.

B. Results Monitoring and Evaluation

34. The results framework with project specific indicators and actionable monitoring arrangements has been developed jointly with the Government counterparts to support monitoring of implementation progress and results of project implementation. The results framework may be revisited during mid-term review and adjusted to take into account new instruments that may become available to measure intended outcomes. The MoF and IT Center will maintain a robust system for monitoring and evaluation of the target outcomes and outputs building on the current system of the PFM TA Grant monitoring and evaluation. The monitoring and evaluation system will support the successful implementation of the project by maintaining records on implementation and generating the following performance reports: mid-year project progress reports; and annual reports prepared within 45 days of the end of the financial year, focusing on results-based accountability and accomplishments against performance expectations. The IT Center will collect inputs from different department of the MoF and from the Ministry of Economy (in part related to macroeconomic forecasting activity) and consolidate them into draft report. Any issues relating to monitoring and evaluation will be resolved by the working group chaired by the First Deputy Minister of Finance. The capacity of the MoF and IT Center is sufficient to ensure monitoring and evaluation based on the experience obtained during PFM TA Grant implementation. Details of frequency of reporting, data sources and division of responsibilities is provided in the Annex 1.

35. The Bank will monitor implementation progress during semi-annual implementation support missions. Implementation progress will be reported to the World Bank management through Implementation Status Reports, a mid-term review and, at the completion of the Project, an Implementation Completion and Results (ICR) report.

C. Sustainability

36. The outputs generated during the project period – changes to regulatory framework, procedures and business processes and capacity building – are permanent system improvements. The change management strategies supported by the project, including communications, consultations and stakeholder workshops, are expected to deepen ownership of the reforms within and across institutions. Broad-based training in technical and soft skills will generate benefits for civil servants and reduce sustainability risks from staff turnover. Reforms are also expected to generate tangible benefits in terms of improvements in the efficiency of public spending, improvements in transparency and efficiency in processing of public procurement and reallocations in resources towards service delivery and productive investments which should help build a broader constituency in support of reforms.

37. The project is the first in a series. This continuity in support and the extended time frame for capacity building will also enhance sustainability of the results. The business processes developed under the first project and approved by the Government will create a foundation for the future FMIS system to be implemented under the second project.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

38. The overall risk of the project is substantial. The major risk of PFM projects with FMIS components is slow and inadequate implementation of FMIS. The MoF's decision to follow a phased approach through a series of projects helps mitigate this risk by committing funds to the acquisition of the FMIS only when the essential foundations have been put in place: a strategy laying out PFM reforms and putting in place whole-of-government institutional framework for PFM reform implementation; the regulatory framework for PFM reforms, laying out the procedural and institutional arrangements for PFM reform implementation; the system design and business process reengineering, including detailed specifications for the FMIS system; and change management activities to support PFM reform implementation and develop capacity to use the FMIS system. Nonetheless, there are a number of risks related to capacity and reform pace that contribute to the substantial risk rating.

39. *Macroeconomic risks*. External and domestic imbalances pose a substantial risk to PFMMP implementation. Macroeconomic instability could undermine the government's focus on PFM reforms and shift the fiscal management towards short term consolidation, crowding out institutional reforms that seek to strengthen budget management. This risk is mitigated by continuing engagement with the MoF.

40. *Sector strategies and policies*. There was a risk of delays in the approval of the overall PFM reform strategy, which provides a basis for project implementation, at the time of appraisal. The MoF has finalized the work on the strategy based on several concept notes on various dimensions of PFM reforms covering accounting, treasury, medium term and result-oriented budgeting. The document was discussed and agreed with other ministries and interested bodies.

The PFM reform strategy was approved on December 23, 2015 (signing condition). The sector strategy risk however continues to be substantial due to risks with continued ownership and implementation of the Strategy by all government agencies. The Project will mitigate the risk by continuing engagement with the MoF and other government bodies. The awareness and training events planned under the Project will contribute to sustaining the ownership of reforms.

41. *Institutional capacity*. The institutional framework is hierarchical and control-oriented leaving limited scope for the implementation of modern management approaches, which typically require delegation of authority to decision makers throughout institutions. While the Ministry's staff are well educated and highly professional, the introduction of modern financial management systems will require significant changes in organizational culture. Institutional capacity challenges are compounded by shortages of staff in some of the MoF's divisions directly responsible for the functions addressed by the reform strategy, in particular, public sector accounting. Responsibility for public sector accounting reform was assigned to the Treasury and a new unit was created within the Treasury and fully staffed. Newly appointed staff are already working with the consultants under the PFM TA Grant. Recognizing the need for capacity building, the change management component figures prominently in the Project encompassing training and training of trainers to support longer-term institutional development.

42. *Implementation Capacity*. The coordination of project implementation across thematic departments of the MoF will be a significant challenge for the Project Coordinator (First Deputy Minister of Finance). The Department for Prospective Development has limited capacity and experience. The PIU is established under the IT Center which has gained its experience in procurement, financial management and contract management accumulated through the implementation of a PFM TA Grant that financed a few relatively small activities and used simplified procurement methods. These implementation risks are mitigated by strengthening PIU capacity and additional training for the MoF and IT Center in more advanced aspects of project management envisaged under component 3.

VI. APPRAISAL SUMMARY

A. Economic and Financial (if applicable) Analysis

43. Economic and financial analysis of the project considers direct benefits and costs associated with the changes in economic welfare arising from the project. The reforms proposed under PFMMP are expected to generate economic benefits, mainly in the form of additional efficiency gains. However, quantifying many of these benefits may naturally present a challenge. The analysis presented below focuses on the qualitative assessment of efficiency gains expected to result from selected project activities: mainly expansion of the TSA coverage and respective increase of the short-term Treasury liquidity. Some of the benefits will only be realized after the completion of the whole series and implementation of the FMIS solution.

44. Implementation of medium-term budgeting, strengthened result orientation, improved data quality following unified chart of accounts and accounting reform are likely to bring efficiency gains to the government. They also lay the ground for the second project in series which would finance implementation of FMIS and roll out of these reforms. The implementation of the FMIS will generate, among others, cost savings stemming from more effective expenditure controls, public procurement, and treasury and cash management. There will be

potential improvements in transaction processing and record keeping through automation that can reduce administrative overhead costs.

45. For the first project in a series financial benefits considered for this analysis are related to expansion of the TSA coverage resulting in increase in cash availability, reduction of borrowing requirements, and savings from reduction in bank fees for balances currently outside of TSA. The economic analysis suggests that project is feasible. The net present value is US$21.8 million depending on pace of consolidation of cash balances. A detailed analysis is included in Annex 5.

B. Technical

46. The 2014 PEFA Assessment and ongoing PFM TA Grant assessed the strengths and weaknesses of the PFM system. PEFA results suggested that the low level of government funds consolidation, weak oversight of fiscal risks, weak alignment of policy and budget and weak reporting standards pose particular risks for Belarus' PFM system. The Government's PFM reform strategy draws on the PEFA Assessment and lays out an ambitious program that aims to provide Belarus with a comprehensive modern PFM system strongly based in international standards and good practices.

47. The ongoing technical assistance project financed from the ECA PFM Trust Fund (PFM TA grant) provides support in:

(a) Defining details of the PFM reform agenda, including: formulation of the concept for the potential public sector accounting reform in Belarus; development of the conceptual design of a unified Chart of Accounts for the public sector; and formulation of action plan for consolidation of public funds on the TSA and improving liquidity and commitments management. It is expected that the outputs from these consultancy assignments will become available in May 2016 – before the effectiveness of the PFMMP – to inform project implementation.

(b) Development of the high-level design (HLD) of the new FMIS, including description of FMIS functionality, comparative analysis of existing and future business models and business processes, description of information flows, IT architecture and technical solutions options. The HLD is expected to be completed in fall 2016.

(c) Building counterpart's capacity in project management, including management of IT projects: during November 2015 – October 2016 consultants will assist the MoF and IT Center in: developing project management methodology and procedural rules; infrastructure for the Project Office operation; and managing projects based on Key Performance Indicators.

48. The initial information for preparing HLD for the new FMIS is already available in the Concept Paper for FMIS Modernization (FMIS Concept). It was prepared in 2014 by a consulting company and IT Center under the contract with the MoF and outside of the scope of the PFM TA Grant. The FMIS Concept provides a general overview of the possible characteristics of a new FMIS including objectives, basic design components, approach to implementation, risks and limitations and expected results. One of the major risks identified is the lack of clarity on future PFM processes. Therefore it is envisaged that provisions of the FMIS Concept are subject to further change in line with the approaches approved in the PFM reform strategy. The FMIS Concept is also missing details on identification of key policy changes required, scope and timeline, number and location of users, transition arrangements from legacy

systems, storage and disaster recovery, capacity building requirements, change management considerations, ongoing maintenance and upgrading needs. All these details are expected to be elaborated in the FMIS HLD.

49. The Project scope and activities are aligned with the Government's PFM reform program. The Project supports the initial steps in implementation of the Government PFM Strategy and lays foundation for the future FMIS system by developing functional and technical requirements based on the new business processes. The Bank's role is primarily to provide technical advice on reform and FMIS implementation, bringing to bear knowledge of international good practices and the Bank's experience gained during years of engagement with previous PFM reform initiatives in the region.

C. Financial Management

50. The Bank conducted an assessment of the financial management (FM) arrangements for the project in September 2015 and confirmed that the arrangements are satisfactory and acceptable for project implementation. FM risk is assessed as moderate. All fiduciary functions for the project, including procurement, FM and disbursement, will be carried out by the IT Center. The IT Center has some experience of applying the World Bank fiduciary rules in supporting the ongoing PFM TA grant. There are no overdue audits under the ongoing grant. The FM arrangements of the IT Center have been reviewed as part of the grant preparation and supervision and found to be satisfactory. Project FM arrangements will be similar to those in the ongoing grant. There will be at least one full-time FM position for support to the IT Center financed from the loan. The Project Operation Manual (POM) for the ongoing grant will be used for the PFMMP with adjustments.

51. The IT Center will provide annual audited financial statements together with the auditor's opinion and the management letter to the World Bank within six months of the end of the fiscal year. Following the Bank's formal receipt of audited financial statements from the Borrower, the Bank will make them available to the public on its website in accordance with the World Bank Policy on Access to Information. In addition, the Borrower will make the audited financial statements available to the public in a manner acceptable to the Bank.

52. Regarding the disbursement arrangements, the proceeds of the IBRD loan will be disbursed in accordance with the disbursement procedures of the Bank: advances, direct payments, and reimbursement accompanied by appropriate supporting documentation – summary sheets with records and/or statement of expenditures – in accordance with the procedures described in the Bank's Disbursement Guidelines. The IT Center will open a designated account (DA) in a commercial bank acceptable to the Bank in US dollars to cover the Loan's shares of eligible project expenditures. The ceiling of the designated account will be specified in the disbursement letter.

D. Procurement

53. All procurement activities under the project will be implemented by the IT Center in accordance with the World Bank's "Guidelines: Procurement of Goods, Works and Non-consulting Services Under IBRD Loans and IDA Credits and Grants" dated January 2011 and revised as of July, 2014 (Procurement Guidelines); and "Guidelines: Selection and Employment of Consultants Under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 and revised as of July 2014 (Consultant Guidelines), and the provisions

stipulated in the Legal Agreement and POM. An assessment of the IT Center's procurement capacity was undertaken in December 2013 and updated during the pre-appraisal mission. The staffing of the PIU comprises three staff members of IT Center: a project manager, a procurement specialist and an accountant. Additionally three consultants have been hired: a procurement specialist, a financial management specialist and a secretary/interpreter.

54. Given that this project largely entails consulting services and limited goods and some non-consulting services and that the agency has some familiarity with the World Bank's simple procurement procedures from the implementation of the PFM TA Grant, the procurement capacity of the agency to implement the project is assessed to be sufficient. Therefore, the procurement risk for the proposed project is rated moderate. The main risk is that the PIU does not have experience with more complex World Bank procurement methods. To mitigate the procurement risks IT Center will implement measures agreed with the Bank which would include: PIU and MoF staff undertaking ICT Procurement Training (completed) and training on the World Bank Consultant Guidelines.

E. Social (including Safeguards)

55. The project is likely to have positive social impacts and mitigate some of the key deficiencies associated with the current budgetary process. Consultations with civil society organizations (CSOs) that were carried out as part of the project preparation revealed several weaknesses in the budgetary process in Belarus, related to lack of transparency and insufficient information provision, lack of citizen engagement opportunities and the need for program budgeting. The consultations identified a number of mitigation measures that could be undertaken as part of the project.

56. The public has little access to information regarding governmental budgetary priorities, considerations that underlie budget-setting decisions, and justifications for different budgetary allocations. CSOs note that the government presents the state budget to citizens without sufficient explanation and without disaggregation of specific budgetary allocations. While more than 80 percent of respondents indicated in a recent survey that they would be interested in more information about the national budget, citizens' financial literacy is typically low and the budgetary information that becomes public is often overly complex and difficult to comprehend. The project will address these concerns by helping the MoF improve the format and content of budget related information and develop user friendly versions of budget documents, as well as explanatory materials on the budget process. CSOs should be engaged in this process and contribute to the development of methodologies and approaches to budget transparency.

57. Civil society representatives identified program budgeting as a priority for improving transparency of the budget process. Reports of budgetary spending by different departments are not linked to concrete budgetary objectives and so it is difficult to assess the extent to which budgetary objectives have been achieved. The project will address this concern by assisting the MoF to strengthen strategic budget planning, integrate a program approach to budget preparation, and improve public access to information about program allocations and spending. Lack of budget transparency hinders gender-focused analysis, concealing the impact of public policy on men and women. The project will support program budgeting reform by developing a methodology to assess various social issues including how gender considerations could be introduced in selected relevant programs and which gender-disaggregated data could be collected.

F. Environment (including Safeguards)

58. The Project has been rated as Category C for environmental purposes. None of the envisaged activities trigger environmental safeguards. Hence, the proposed Project will not be subject to the Environmental Impact Assessment procedures or any permission relating to environmental protection aspect.

G. Other Safeguards Policies Triggered *(if required)*

59. The project is limited to the provision of technical assistance to support reforms to the Public Financial Management system. It does not trigger World Bank safeguard policies.

Safeguard Policies Triggered by the Project	**Yes**	**No**
Environmental Assessment (OP/BP/GP 4.01)	[ ]	[X]
Natural Habitats (OP/BP 4.04)	[ ]	[X]
Pest Management (OP 4.09)	[ ]	[X]
Cultural Property (OPN 11.03, being revised as OP 4.11)	[ ]	[X]
Involuntary Resettlement (OP/BP 4.12)	[ ]	[X]
Indigenous Peoples (OP 4.20, being revised as OP 4.10)	[ ]	[X]
Forests (OP/BP 4.36)	[ ]	[X]
Safety of Dams (OP/BP 4.37)	[ ]	[X]
Projects in Disputed Areas (OP/BP/GP 7.60)[*]	[ ]	[X]
Projects on International Waterways (OP/BP/GP 7.50)	[ ]	[X]

H. World Bank Grievance Redress

60. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

[*] By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas.

Annex 1: Results Framework and Monitoring

Country: Belarus

Project Name: BELARUS PUBLIC FINANCIAL MANAGEMENT MODERNIZATION PROJECT (P146997)

Results Framework

Project 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)

These results are at	Project Level

Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values		
		2017	2018	End Target (2019)
Improved alignment of policies and budgets (Percentage)	16.00	16.00	25.00	50.00
Increase the level of consolidation of cash balances (by reducing balances outside of TSA) (Percentage)	11.00	Decision on approach and mechanism of consolidation of cash balances of the central government agencies is approved	7.00	7.00
Improved budget transparency (Text)	Citizens’ budget not prepared	Citizen’s budget template is developed	Citizens’ budget is published on annual basis online and includes information on budget execution disaggregated at the level of approved	Citizens’ budget is published online on annual basis and includes information on budget execution disaggregated at the level of approved budget; information on medium term financial program; and analysis of links between

			budget; information on medium term financial program.	financing and results. Citizens' questions and feedback are published on the website along with responses of the MoF to frequently asked questions.
Foundations for FMIS (Text)	Future business processes to be supported by FMIS are not fully defined	FMIS High Level Design is approved	Revised business processes developed	Bidding documents for FMIS are prepared based on approved revised business processes and Unified Chart of Accounts and cover the following functionality including planning, execution, financial control, accounting and reporting, debt management

Intermediate Results Indicators

Indicator Name	Baseline	Cumulative Target Values		
		2017	2018	End Target (2019)
Improved capacity for macroeconomic forecasting for medium term budgeting (Text)	No financial programming model is used	No financial programming model is used	Financial programming model is obtained and training of staff is ongoing	Financial programming model is used for preparation of macroeconomic forecast
Tax expenditures assessment (Text)	Tax expenditure assessments not conducted	Methodology for tax expenditures assessment developed	Methodology for tax expenditures assessment is approved	Tax expenditure estimates are prepared as part of the annual budgeting process
Program budgeting methodology (Text)	Program budgeting methodology does not clearly link objectives and resources	Program budgeting methodology review is ongoing.	Program budgeting methodology is drafted.	Program budgeting methodology is approved, allows looking at different social dimensions, including gender, in selected relevant programs.
Integration of budget and financial reporting based on international standards (Text)	Methodological basis for public sector financial and budget reporting are not integrated and deviate from applicable	Structure of a Unified Chart of Accounts integrated with the budget classification, including program classification, is developed	Unified Chart of Accounts integrated with the budget classification, including program classification approved. Mapping tables prepared.	Unified Chart of Accounts integrated with the budget classification and guidelines for its application are approved.

	international standards			
Enhanced quality of debt management reports (Text)	Debt management reports do not cover contingent liabilities	Debt management reports do not cover contingent liabilities	The explicit list of contingent liabilities is prepared.	100% of sovereign loan guarantees are included in debt management reports. Risk analysis of government contingent liabilities is produced
Conceptual framework for public sector accounting reform (Text)	Public sector accounting reform is defined as a priority in PFM Strategy, but reform direction is not defined	The conceptual framework for public sector accounting reform and action plan for its implementation developed	The conceptual framework for public sector accounting reform and action plan for its implementation developed	Public sector accounting reform implementation launched by finalizing development of first 3-4 accounting standards compliant with IPSAS
Modernization of business processes (Text)	Future business processes to be supported by FMIS are not fully defined	-	Revised business processes developed	Revised business processes approved

Indicator Description

Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Improved alignment of policies and budgets	Coverage of budget expenditures by state programs. State programs refer to programs that define government priorities, objectives, activities and are financed from the republican budget, local budgets and state extra budgetary funds in full or in part.	Annual	MoF budget execution reports	MoF
Increase the level of consolidation of cash balances	Extra-budgetary means of budget organizations as well as expenditures of several extra-budgetary funds managed outside the TSA as a share of republican budget expenditures	Annual	MoF data	MoF

Improved budget transparency	Citizens' budget is published online on annual basis and includes information on budget execution disaggregated at the level of approved budget; information on medium term financial program; and analysis of links between financing and results. Citizens' questions and feedback are published on the website along with responses of the MoF to frequently asked questions.	Annual	MoF web-site	MoF
Foundations for FMIS	Development of budding documents based on functional requirements on approved revised business processes and Unified Chart of Accounts and cover the following functionality including planning, execution, financial control, accounting and reporting, debt management.	Annual	IT Center information	IT Center

Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Improved capacity for macroeconomic forecasting for medium term budgeting	Financial programming model is used for preparation of macroeconomic forecast	Annual	Information from the MoE	MoE
Tax expenditures assessment	Methodology for tax expenditures assessment developed and approved. Tax expenditure estimates are prepared as part of the annual budgeting process	Annual	MoF budget preparation documents	MoF
Program budgeting methodology	Program budgeting methodology is approved, allows looking at different social dimensions, including gender, in selected relevant programs	Annual	(i) Belarus Government legislation and other regulatory documents on program budgeting: (ii) relevant sector programs	MoF
Integration of budget and	Unified Chart of Accounts integrated with	Annual	Information from the MoF.	MoF

financial reporting based on international standards	the budget classification and guidelines for its application are developed and approved			
Enhanced quality of debt management reports	100% of sovereign loan guarantees are included in debt management reports. Risk analysis of government contingent liabilities is produced	Annual	Information from the MoF	MoF
Conceptual framework for public sector accounting reform	Conceptual framework for public sector accounting reform is developed. Implementation of the reform is launched	Annual	(i) Information from the MoF; (ii) Belarus Government legislation and other regulatory documents on public accounting	MoF
Modernization of business processes	Future business processes to be supported by FMIS are revised and approved	Annual	Information from the MoF	MoF

Annex 2: Detailed Project Description

BELARUS: Public Financial Management Modernization Project

Component 1: Budget Management Regulations and Procedures (US$4.925 million)

1. This component will support PFM reforms of the Government of Belarus across the PFM cycle.

Sub-component 1.1: Budget Preparation

2. The sub-component will help enhance the ability of the Government to plan for medium term period and in a more strategic way. The project will support implementation of medium term budgeting based on results. This sub-component will finance technical assistance on:

3. ***Macroeconomic and macro-fiscal forecasting*****.** The sub-component will support capacity development in the area of macroeconomic forecasting in the Ministry of Economy and the Economic Research Institute and enhance capability of MoF to prepare fiscal forecasts. In particular the activity will comprise of:

(a) Technical assistance on selection and use of financial programming model and relevant training;

(b) Technical assistance on identifying gaps in capacity and methodology for macroeconomic forecasting

4. ***Revenue forecasting and tax expenditures*****.** The sub-component will enhance the Ministry of Finance's capacity to forecast revenue in a medium term perspective providing a solid basis for medium term budgeting. Assessing tax expenditures and tax gap are critical elements of fiscal policy. The Government intends to include the tax expenditure estimation into the annual budgeting process. This would allow the Government to make more informed decisions regarding which tax privileges and exemptions to grant and which inefficient tax privileges to abolish. The activity will include:

(a) Advice on methodology for estimating tax expenditures (including tax privileges and exemptions) and assessing their efficiency;

(b) Development of a methodology to estimate tax gap;

(c) Development of a new model for revenue forecasting including use of factor analysis;

(d) Advice on informational exchange between MoF and other government bodies;

(e) Capacity building for the Tax Policy and Budget Revenues Department of the MoF.

5. ***Medium-term budgeting.*** The sub-component will: support development of medium term budgeting methodology, including definition of medium-term expenditure limits for state programs; explore the possibility of creating reserve funds for countercyclical fiscal policy; and develop a mechanism for multi-year allocations and transfer of unused funds into next fiscal year.

6. ***Program based budgeting and performance monitoring.*** The sub-component will support development/revision of program based budgeting methodology, including strengthening of the links to the Program of Social-Economic Development of the Republic of Belarus. The activity will include advice to the Ministry of Finance on the budget programs structure and format, quality assurance of program based budget submissions; development of a program

budget classification; and advice on the development and use of cost norms in budget preparation and analysis. Support will also be provided for developing the methodology for indicators that would assess efficiency and results of budget programs. The methodology of budget programs development should allow looking into various social dimensions, including gender, where relevant. The respective capacity building activities will also be envisaged.

Sub-component 1.2: Debt Management

7. ***Improvement of the debt management system***. The Ministry of Finance's (MoF) Public Debt Management Strategy for 2015-2020, approved by the Prime Minister, highlights the importance of maintaining sustainable levels of public debt and reaffirms the Government's commitment to prioritize its debt service and repayment obligations. The MoF would like to strengthen its formulation and implementation of the medium term debt management strategy in line with medium term budget framework. This requires strengthening analytical capacity for effective borrowing policies, diversification of borrowing instruments, effective policies for issuance of government guarantees, as well as installation of modern IT solutions for implementation of debt management functions. Importantly, implementation of more complex tasks would require strengthening analytical function in the PDD and enhancing its staff capacity, including establishing a dedicated analytical unit (middle office) in the PDD. This activity would support implementation of the Debt Management Strategy and include:

(a) Technical assistance on optimization and simplification of regulatory framework (instructions and procedural manuals) on domestic and external market borrowing by local and foreign investors to facilitate improvements in the overall investment climate;

(b) Technical assistance on institutional strengthening of public debt management function, supporting the creation of the middle office within PDD (in consultation with the Treasury);

(c) Technical assistance on improvement in debt management practices including: development of the methodology of risk classification for government guarantees; development of the internal procedures for annual process of debt management strategy analysis and updating synchronized with the medium term financial program's calendar; improvement in cash flow forecasting methodology with introduction of short term liquidity instruments (Treasury and PDD, in consultation with National Bank); update of reporting and standardized analysis of government debt portfolio in line with functional characteristics of the IT system.

(d) Technical assistance on introduction of contingent liabilities management for: central government external and domestic loan guarantees and borrowing of local authorities. Analysis of the implications of applying a broader definition of public debt and indirect contingent liabilities of public sector which require continuous monitoring, such as SOEs.

Sub-component 1.3: Budget Execution and Reporting

8. ***Budget Execution***. The PFM strategy seeks to enhance the efficiency of treasury controls over budget spending and improve the ability of the Ministry of Finance to manage the government's cash position. The ongoing PFM TA Grant will help the MoF develop an approach for expanding TSA to include extra-budgetary funds, extra-budgetary means of budget organizations, balances on accounts of the regional authorities and donor financing of development projects. The Ministry of Finance intends to develop a plan for phased

consolidation of all public funds into the TSA. The first phase of the plan is expected to involve the transfer of extra-budgetary means of central government agencies and budget organizations to the TSA. This will be also an essential step towards unification of budget execution procedures for all types of budget funds. Other planned improvements to treasury controls include strengthening management of commitments and integration of procurement procedures into the budget execution process. This activity will include

(a) Support for implementation of the first phase of the plan of consolidation of public funds into TSA;

(b) Technical assistance on strengthening management of commitments and improving recording in the treasury system of information required to efficiently monitor and prevent accumulation of spending arrears;

(c) Fuller integration of procurement procedures into the budget execution process as part of reengineering of relevant business processes for their incorporation into the functional requirements for the future FMIS system;

(d) Development of cash forecasting tools and procedures and building capacity for their use.

9. ***Accounting and Financial Reporting.*** The Government PFM reform strategy defines the improvement of the national accounting and reporting in the public sector through the convergence with international standards in the public sector (IPSAS). The transfer to standards compliant with IPSAS will: help improve the quality of financial statements; allow better management of public assets; provide greater transparency and facilitate better understanding of the Government's financial position; improve the quality of strategic planning, management of public finances and development of economic policy; and allow comparability of financial statements with those in other countries. Under the ongoing ECA PFM TF grant, work has started on the gap analysis comparing the existing national public sector accounting and reporting system and IPSAS. The results of the gap analysis will include preliminary recommendations on the best approach to reforming the national system to achieve convergence with IPSAS taking into account capacity constraints. The same grant also supports consultancy work on the development of the conceptual design of the unified chart of accounts in the public sector, integrated with the budget classification. The analysis will provide the background on the benefits for the integration of the chart of accounts with budget classification in the reform context and the new FMIS. Following the formal adoption of the PFM reform strategy and obtaining the results of the gap analysis, the following activities will be supported under the project:

(a) Development of the conceptual framework of national public sector accounting and reporting system reform, including definition of institutional responsibilities;

(b) Development of a comprehensive and time bound implementation plan, including proposed changes to the current legislation, and a mechanism for development, approval and adoption of accounting and reporting standards compliant with international standards;

(c) Development and preparation for adoption of the initial set of standards in line with the implementation plan, including public consultations and application recommendations;

(d) Development of the unified chart of accounts (UCoA) integrated with the budget classification (including mapping tables);

(e) Preparation of the guidelines for its application**;**

(f) Development of the financial reporting templates to be compiled in line with the IPSAS, as well as methodological instructions for reports compilation;

(g) Capacity building on IPSAS issues for the Ministry of Finance staff and other stakeholders involved in reform process, as well as training of trainers on the implementation of new standards and UCoA, integrated with the budget classification.

10. ***Internal Financial Control and Audit***. The sub-component will help to lay the foundation for modernizing public sector internal financial control and audit system to refocus on stimulating efficiency of public spending and prevention of irregularities in the management of public funds. The project will help familiarize interested stakeholders in Belarus with the modern approaches to internal financial control and audit. The working group including the representatives of the Ministry of Finance, State Control Committee and other control bodies will be assisted in developing options for modernizing internal financial control system and audit and formulating the conceptual framework for the reform that would fit the specific circumstances of Belarus. The project will also finance activities aimed at building internal consensus on the newly developed conceptual framework. Capacity building activities on internal financial control and audit will be included into the activity.

11. ***Budget transparency***. The availability of budget data to the public is currently limited. In addition the format of information is not user friendly. The Government of Belarus plans to improve public access to key budget information, including medium term financing program, and by budget programs. The activity will support improvements in public access to information on the budget through improving the format and content of budget related information; development of user friendly versions of budget documents as well as explanatory material on the budget process, including Citizens' Budget. The project will support:

(a) Preparation of a format for an annual Citizens' Budget for publication on the web and in paper format and recommendations on possible automation of the information provision using existing IT solutions of the Ministry of Finance;

(b) Preparation analysis of the budget execution for citizens, explain the budget process and link the budget execution to achievement of policy results; and draft a citizens budgets for 2018 and 2019 jointly with the Ministry of Finance staff;

(c) Capacity building for relevant MoF staff on preparation and presentation of Citizens' Budget, including feedback loop and support on use of surveys to assess citizen's satisfaction with public services financed under the budget programs;

(d) Procurement of data extraction software and business-analysis software used for data analysis, forecasting, generation of analytical reports to be used for preparing budget execution data in a reader friendly format. These products will be used by all processes of operational reports generation and data analysis;

12. Additionally, the MoF will undertake further development of its website contents to provide better presented information on fiscal and public expenditure policies and plan, and to make public documents on the medium term program financing.

Component 2: PFM IT Solutions (US$3.45 million)

13. The component supports preparation for implementation of the FMIS solution based on reforms and improvements in PFM processes outlined in the Component 1 of the Project.

14. ***Business Processes***. This component will provide technical assistance to develop list of business processes and their structure based on PFM Reform Strategy and activities undertaken under Component 1 of the project including in the areas of budget planning, execution, debt management, procurement, accounting and reporting. A description of business processes at the level sufficient to procure the FMIS solution will also be an output of the Component. The procurement of business process management software will support this work.

15. ***Market Analysis***. Analysis of existing solutions for implementation of FMIS including ensuring the compliance with information and data security requirements in Belarus will be essential input into decision of the Government on procurement of FMIS and bidding documents for the future system. This will allow to make an informed decision about the level of customization, period of implementation, procurement and maintenance costs of available solutions.

16. ***FMIS Specifications and Bidding Documents Development***. The component will prepare for the procurement of a Financial Management Information System. Based on business process description, market analysis, and information security requirements specifications will be prepared. The draft bidding documents will be an output of this activity. This will facilitate prompt launch of procurement process under the second project in the series. The FMIS system is expected to include the following functionality:

(a) Budget planning;

(b) Budget execution (Treasury system);

(c) Debt management;

(d) Financial control;

(e) Accounting and reporting.

17. ***Support to current ICT infrastructure expansion as an interim solution***. Since FMIS will take several years before it is acquired and 4-6 years before it becomes operational, the Project envisages upgrade of the existing ASFS to ensure its capacity is adequate for servicing budget execution and handling additional funds brought into the TSA. The project will provide assistance to a user support unit for the current ASFS as well as for the new FMIS. It is important to ensure proper interaction with system users by establishing a single entry point. Procurement of specialized software and hardware, as well as training in using the software is envisaged.

18. ***Debt Management Solution***. The project will support the design and initial improvements of the IT solution for public and publicly guaranteed debt management. The IT solutions should support comprehensive recording, monitoring, settlement, and effective accounting of all central government debt and direct contingent liabilities, generation of operational reports, as well as support analytical and forecasting analysis. The solutions should be integrated with the current ASFS and later on with the new FMIS. In particular, relevant IT solutions should support the connectivity with secure financial messaging system of the Treasury for efficient internal processing of government debt service transactions (payment orders) and information exchange with the Registry of government securities (Central Depositary).

Component 3: Change Management (US$1.6 million)

19. The change management component will support the implementation of regulatory and procedural reforms through a program of capacity building and communication activities.

Sub-component 3.1: Capacity Building.

20. The component will also support additional training needs not covered under capacity building activities of Component 1, including organization of training and awareness raising events, development of training programs for the MoF Training Center, publication of training materials, and training of trainers. Component resources will be also used to support communication activities, including workshops, conferences, study visits, and communication through different media to reach internal and external audiences.

Sub-component 3.2: Strengthening the Ministry of Finance Training Center.

21. As the project success will depend on building capacity throughout the Government to implement PFM reforms, establishing a strong platform for training is important. The MoF Training Center has been used in the past to deliver training for staff of MoF, other ministries and local governments. This sub-component will support strengthening capacity of the MoF Training Center through exposure of Training Center staff to business practices used by similar centers in other countries and technical assistance on developing a business model for training delivery. This sub-component will also finance procurement of equipment and software to facilitate training process, including:

(a) Procurement of equipment for simultaneous interpretation;

(b) Procurement of video conference equipment;

(c) Procurement of printers for copying and printing training materials;

(d) Procurement of servers and other necessary hardware and software for the Training Center.

Sub-component 3.3: Project Management.

22. Funds under this component will be used to support the functioning of the project implementation unit within the IT Center of the MoF, which will carry out day-to-day project management including: procurement, financial management, and organization of audit activities; help the Ministry of Finance coordinate project activities and interact with all local and international entities involved in the project. In addition the subcomponent will finance audit and operational expenses.

Annex 3: Implementation Arrangements

BELARUS: Public Financial Management Modernization Project

Project Institutional and Implementation Arrangements

1. The Project will be implemented over a three-year period by the Ministry of Finance of Belarus. The Ministry of Finance will be responsible for project implementation. The First Deputy Minister of Finance will be assigned the role of the Project Coordinator, and the Deputy Minister of Finance the role of the Deputy Coordinator. The Coordinator will chair the Steering Committee including the heads of the units involved in the project. The Steering Committee formed under ongoing preparatory technical assistance project financed from the ECA regional PFM TA grant will be expanded and continue to provide support under the new project. The Department for Prospective Development will ensure coordination of work among different units of the Ministry of Finance during project preparation and implementation. The other beneficiaries of the project (Ministry of Economy, State Control Committee, Ministry of Trade, IT Center) will assign coordinators of the relevant activities internally.

2. The Ministry of Finance will delegate the day-to-day responsibility for project administration, including procurement and financial management functions, to the IT Center. Such delegation will be done through the issuance of a ministerial resolution followed by a more specific implementation agreement between the MoF and the IT Center, both established as an effectiveness condition. There is already an operational Project Implementation Unit (PIU) established in the IT Center for the purposes of the PFM TA grant implementation. The functions of this PIU will be further expanded to include provision of support for the PFMMP activities.

3. A high-level Government Supervisory Board will be established under the First Deputy Prime Minister to coordinate and guide the policy side of the Project implementation. It was agreed that the Interagency Supervisory Board that was established to steer the PFM Reform in Belarus would serve the purpose. The decision of the Council of Ministers on approving the PFM Reform Strategy and establishing the Boar was adopted on December 23, 2015.

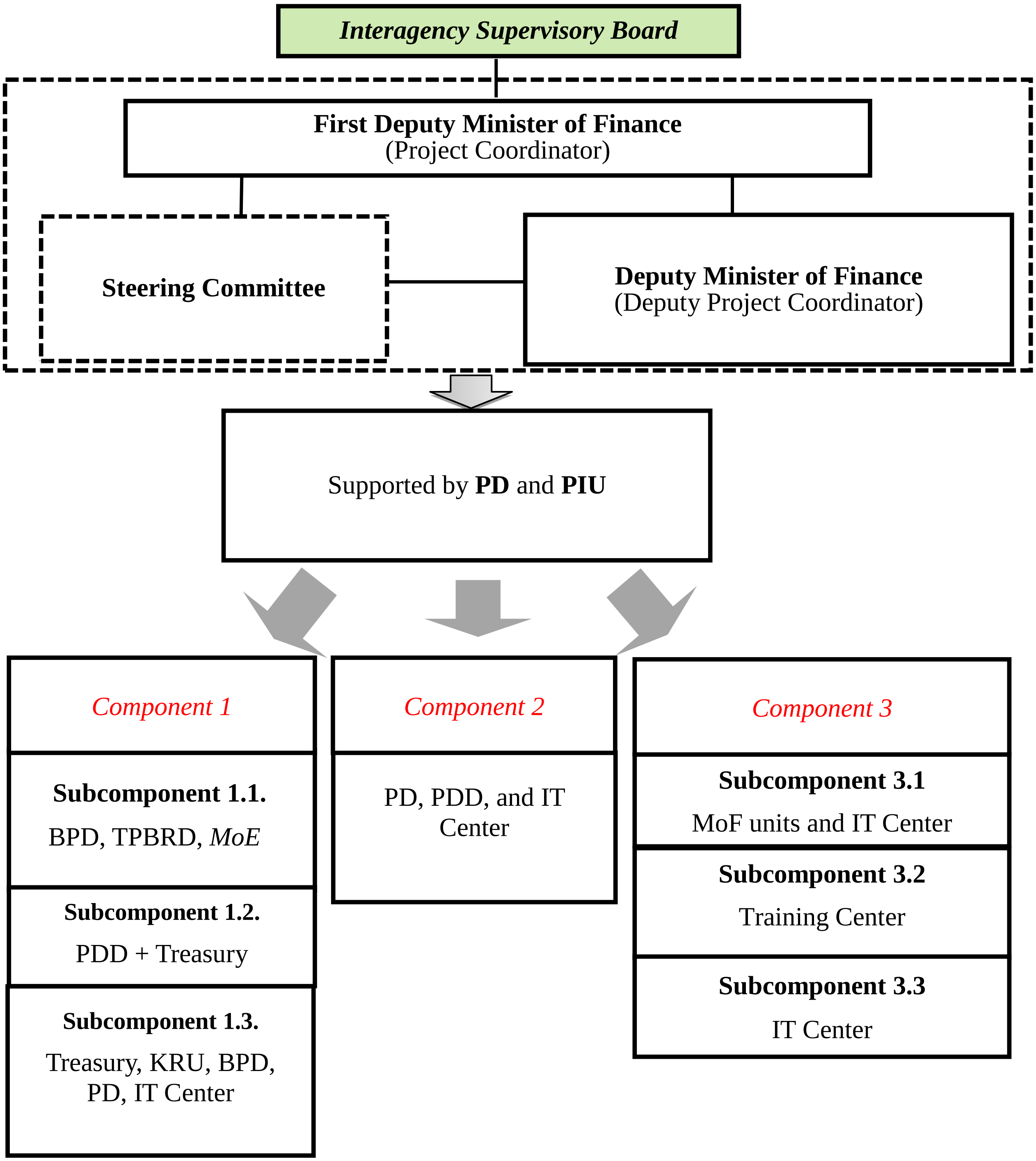
4. The figure below represents roles and responsibilities of different agencies and departments within the MoF in project implementation, including by component.

Financial Management, Disbursements and Procurement

Financial Management

5. All fiduciary arrangements for the project will be carried out by the IT Center. In particular, it will be responsible for all payments under the project. It has experience of the WB fiduciary rules in supporting the PFM TA Grant. There are no overdue audits under the ongoing grant. The IT Center is in compliance with the financial covenants of this grant.

6. The internal control procedures for the project are described in the current POM, which will need only a slight modification. The full-time FM position will be established to support project implementation. Currently, there is a part-time FM consultant supporting the PFM TA Grant activities. Existing accounting software 1-C will be used for project accounting and reporting purposes. Project records will be maintained on a separate set of accounts that are segregated from the other records of the IT Center. The available 1-C software meets the minimum requirements but has been modified further to fully meet the project needs.



Note: **BPD** – Budget Policy Department, **Treasury** – Main State Treasury, **PDD** – Public Debt Department, **TPBRD** – Tax Policy and Budget Revenues Department, **KRU** – Control and Inspection Department, **PD** – Prospective Development Department, **MoE** – Ministry of Economy

7. The IT Center will be responsible for producing all financial reports for the Bank. Project interim unaudited financial reports (IUFRs) will be prepared based on the agreed sample format, starting from the quarter in which the first project disbursements occur. The IUFRs will be due within forty five (45) days of the end of the quarter.

8. The project audit will be conducted by independent private auditors acceptable to the World Bank using International Standards on Auditing. The auditors will be engaged through standard terms of reference acceptable to the World Bank and procured by the IT Center in accordance with World Bank's procurement guidelines. The cost of the audit will be financed from the proceeds of the loan.

9. The audited financial statements together with the auditor's opinion and the management letter will be provided to the World Bank by the IT Center within six months of the end of the fiscal year. Following the Bank's formal receipt of the project's audited financial statements from the Borrower; the Bank will make them available to the public on its website in accordance with its Policy on Access to Information. In addition, the Borrower will make the project's audited financial statements available to the public in a timely manner acceptable to the Bank.

Disbursements

10. The proceeds of the IBRD loan will be disbursed in accordance with the traditional disbursement procedures of the Bank. The proceeds will be used to finance project activities through the disbursement procedures currently used, that is: Advances, Direct Payments, Special Commitments and Reimbursement accompanied by appropriate supporting documentation (Summary Sheets with records and/or Statement of Expenditures (SOEs)) in accordance with the procedures described in the Bank's Disbursement Guidelines. The minimum application size for direct payment, reimbursement and special commitment will be specified in the Disbursement Letter.

11. The Borrower will open a segregated Designated Account in a Commercial Bank acceptable to the Bank and agreed with the MOF in US dollars to cover the Loan's shares of eligible project expenditures. The Ceiling of the Designated Account will be specified in the disbursement letter. The IT Center will be responsible for submitting quarterly replenishment applications with appropriate supporting documentation along with a reconciled bank statement. The Designated Account will be audited annually in conjunction with the audit of the project financial statements.

12. Further, an account in BYR for payments in BYR will be opened in the same commercial bank. The treasury system will not be used for making project-related payments as currently the Treasury account is only being used for executing payments for central government budget program/activities.

Procurement

13. The project risk for procurement is deemed "Moderate". The assessment concluded that the IT Center procurement staff are familiar with Bank procurement procedures and have acquired the adequate experience and capacity under the previous and currently implemented WB TF Grants. However risks have been identified with respective mitigation, taking into account the circumstances outlined in Section VI – (D) above. The procurement related risks are summarized in the table below:

Summary Risk Assessment

Description of Risk	Rating of Risk	Mitigation Measures	Rating of Residual Risk
The IT Center does not have experience with more complex World Bank procurement methods.	Moderate	ICT Procurement Training (completed) and Training on the World Bank Consultant Guidelines.	Low

14. Procurement for the project will be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works and Non-consulting Services Under IBRD Loans and IDA Credits and Grants" dated January 2011 and revised as of July, 2014 (Procurement Guidelines); and "Guidelines: Selection and Employment of Consultants Under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 and revised as of July 2014 (Consultant Guidelines) and the provisions stipulated in the Legal Agreement (LA) and POM. The World Bank Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credit and Grants dated October 15, 2006 and revised on January 2011, would also apply. The implementation arrangements will be described in the Project Operational Manual (POM) which will be prepared by the Implementing Agency and submitted for the Bank's review and approval.

General Procurement Notice

15. A General Procurement Notice (GPN) will be published on XXXX, 201X in UNDB on-line and in its printed version. Specific Procurement Notices (SPN) and REOI will be published for all ICB procurement and consulting contracts per Guidelines, as the corresponding bidding documents and RFPs become ready and available.

Thresholds for Procurement Methods

16. **Goods (including ICT) and Non-consulting services** shall be procured under contracts awarded on the basis of International Competitive Bidding (ICB). The following methods other than ICB may be used for procurement of Goods (including ITC) and Non-Consulting Services: Shopping (SH) for contracts estimated to cost US$100,000 or less; and Direct Contracting (DC).

17. **Consultant Services and Training.** Consultancy services to be provided by consulting firms shall be procured through Quality and Cost Based Selection (QCBS) method. Other methods such as Fixed Budget Selection (FBS), Quality Based Selection (QBS), Consultant Qualification Selection (CQS), Least Cost Selection (LCS) and Single Source Selection shall be made available through legal agreement irrespective of the amount. Individual Consultants (IC) will be selected in accordance with Section V of the Consultancy Guidelines. For assignments estimated to cost US$300,000 and less, the shortlist may comprise only of national firms according to the paragraph 2.7 of the Consultant Guidelines. However, if foreign firms express interest, they shall be considered.

18. **Operating expenditures.** Operating expenditures are not subject to the Procurement and Consultant Guidelines. Nevertheless, in case of selection/appointment of the managerial and key staff of the IT Center, the Borrower shall provide the Bank team with the TOR and the

qualification assessment report of the selected candidate for review and no-objection, prior to offering the contract. Operating cost will not include salaries of civil servants.

Post Review Ratio

19. Contracts not subject to Bank's prior review will be post reviewed by the Bank's supervision missions and/or during regular post reviews by PAS on sampling basis, that is, one out of every five contracts on an annual basis. The minimum post-review ratio is 20 percent on an annual basis.

Filing and Record Keeping

20. The IT Center will be responsible for adequate filing and record keeping. The IT Center has experience in this activity from the PFM TA Grant.

Anti- Corruption Measures

21. The borrower shall ensure that the project, including procurement, is carried out in compliance with the current version of the Bank's Anti-Corruption Guidelines. All bidding documents, including contracts, used under the Project shall include the latest version of the provisions on fraud and corruption. All members of the evaluation committees shall sign a disclaimer on absence of conflict of interest and confidentiality for each evaluation process.

22. **Procurement plan.** For each contract to be financed under the project, the selection method, the estimated cost, prior review requirement, and time frame have been agreed between the borrower and the Bank and presented in the procurement plan.

23. In the case of a slice and package arrangement, the prior review threshold is determined based on the aggregate value of individual contracts to be awarded under such arrangement. The TOR of consulting assignments (individual and firm) and technical specifications of ICT packages are subject to prior agreement with the TTL. All cancellation of selection process and/or re-invitation shall be subject to Bank's prior review. All the contracts whose cost estimation was below the Bank's prior review threshold are subject to prior review if the financial offer of the selected firm exceeds such threshold at the proposals evaluation stage. Irrespective of the thresholds the selection of all consultants (firm and individuals) hired for legal work or for procurement activities as well as the individual hired for long-term technical assistance or advisory services for duration of the Project (or most of it) are subject to prior review.

24. The Procurement Plan will be updated at least semiannually or as required to reflect the actual project implementation needs and improvements in institutional capacity. The Procurement Plan its updates or modifications, shall be subject to the Bank's prior review and no objection before implementation. The final version of the Procurement Plan will be disclosed (without cost estimation) and posted on the Bank's external website in accordance with paragraph 1.18 of Procurement Guidelines and paragraph 1.25 of the Consultants Guidelines.

Environmental and Social (including safeguards)

25. Environmental and social screening of the project resulted in its classification as a Category C operation. The project will not support any physical works and neither will it provide such technical assistance that may carry tangible indirect environmental impacts. Based on the World Bank's safeguard policy, the project activities do not require environmental assessment and they are not subject to clearance according to the national environmental legislation.

26. The project is likely to have positive social impacts and mitigate some of the key deficiencies associated with the current budgetary process. Consultations with civil society organizations (CSOs) that were carried out as part of the project preparation revealed several weaknesses in the budgetary process in Belarus, related to lack of transparency and insufficient information provision, lack of citizen engagement opportunities, and need for program budgeting. These deficiencies are summarized, accompanied by mitigation measures that could be undertaken as part of the project.

27. The public has limited access to information regarding governmental budgetary priorities, considerations that underlie budget-setting decisions, and justifications for different budgetary allocations. CSOs note that the government presents the state budget to citizens without explanation and in a general format, without disaggregating specific budgetary allocations. While more than 80 percent of respondents indicated in a recent survey that they would be interested in more information about the national budget, citizens' financial literacy is typically low and budgetary information that becomes public is often overly complex and difficult to comprehend. The project will address these concerns by helping the Ministry of Finance improve the format and content of budget related information and develop user friendly versions of budget documents, as well as explanatory materials on the budget process. CSOs should be engaged in this process and contribute to the development of methodologies and approaches to budget transparency.

28. Program budgeting has been identified by civil society representatives as a priority for understanding the budget process. Reports of budgetary spending by different departments are not linked to concrete budgetary objectives and so it is difficult to assess to what extent budgetary objectives are achieved. The project will address this concern by assisting the Ministry of Finance strengthen strategic budget planning, integrate a program approach to budget preparation, and improve public access to information about programmatic allocations and spending. In addition, lack of budget transparency hinders gender-focused analysis. The project will contribute to introduction of program based budgeting, which would allow to look at different social dimensions, including gender, in selected relevant programs.

Monitoring & Evaluation

29. The Bank will monitor implementation progress during semi-annual implementation support missions. Implementation progress will be reported to the World Bank management through Implementation Status Reports, a mid-term review and, at the completion of the Project, an Implementation Completion and Results (ICR) report.

Annex 4: Implementation Support Plan

BELARUS: Public Finance Management Modernization Project

Strategy and Approach for Implementation Support

1. The Bank will provide project implementation support for mitigation of implementation risks stemming from implementation capacity issues and multi-stakeholder nature of PFM reforms. The assessment of the relevant implementation risks has been assessed and presented using SORT framework. The key features of the implementation support strategy are reflected below.

2. ***Technical and Change Management Support***. The client has invested significant time and effort in project preparation. The first component of the project supports budget management reforms and is based on the PFM Reform Strategy of the Government of Belarus. The strategy draws on the results of the ongoing PFM TA Grant and PEFA Assessment carried out by the World Bank in 2014. The second component focuses on definition of new business processes based on reforms and developing functional and technical requirements for future FMIS system. In addition the second component supports upgrade of the existing ASFS. The third component provides change management support including training. In addition to the support offered through the project, the Bank team will provide on-going support to the planning and implementation of project activities and related change management interventions. The quality assurance for the technical design will be ensured through review of the procurement and substantive aspects of project activities. Where needed, the Bank team will bring international expertise during supervision missions.

3. ***Result Monitoring***. Regular supervision missions will assist the Government in tracking progress towards achievement of the project objectives and advise on adjustments in project design. The everyday monitoring activities will be conducted by the Project Implementation Unit.

4. ***Procurement.*** The implementation support by the Bank will include: procurement relevant training for the PIU (ICT procurement training has been completed, and consulting services procurement training is planned); detailed guidance on the Bank's Procurement Guidelines; review of procurement documents; and monitoring procurement progress against the Procurement Plan. Periodic site visits for post reviews will be carried on selected contracts subject to post review.

5. ***Financial Management***. As part of its project implementation support and supervision missions, the Bank will conduct risk-based financial management implementation support and supervisions within a year from the Project effectiveness, and then at appropriate intervals. During project implementation the Bank will supervise the Project's financial management arrangements in the following ways: review the project's quarterly IFRs as well as the Project's annual audited financial statements and auditor's management letters and remedial actions recommended in the auditor's management letters; and during the Bank's on-site missions, review the following key areas: project accounting and internal control systems; budgeting and financial planning arrangements; and disbursement arrangements. As required, a Bank-accredited Financial Management Specialist will participate in the implementation support and supervision process.

6. The team will maintain continuity of the dialogue with Government counterparts on technical and policy aspects of project implementation. The Bank will ensure two implementation support missions annually. Field based team will ensure uninterrupted implementation support between the formal missions.

Main focus in terms of support to implementation

Time	*Focus*	*Skills Needed*	*Resource Estimate*	*Partner Role*
First twelve months	Launching work of high level IWG to steer and supervise project implementation; selection of consultancies under Component, upgrading MoF Training Center systems and infrastructure.	Senior Public Finance Specialist - TTL; Senior Public Sector Specialist- component 1 of the project; Procurement Specialist; FM Specialist; Accounting reform specialist; Local consultant on PFM Debt Management Specialist	US$150,000 per year	*NA*
12-36 months	Selection and implementation of Component 2 activities (business process and FMIS design); capacity building to support implementation of accounting reform and program budgeting.	Senior Public Finance Specialist - TTL; Senior Public Sector Specialist- component 1 of the project; Procurement Specialist; FM Specialist; Accounting reform specialist; Local consultant on PFM; IT Specialist	US$150,000 per year	*NA*

Skills Mix

Skills Needed	*Number of Staff Weeks*	*Number of Trips*	*Comments*
TTL Project Management	15 weeks	2-3 missions per year	HQ based
Budget specialist, oversight of component 1	10 weeks	2 mission per year	HQ based
Procurement Specialist	5 weeks	1 mission per year	HQ based
FM Specialist	5 weeks	2 mission per year	CO based
Accounting reform specialist	6 weeks	2 mission per year	HQ based
PFM Consultant	20 weeks	None	Field based
IT Specialist	4 weeks	1 mission per year	International
Debt Management Specialist	2 weeks	1 mission per year	HQ based

Annex 5: Economic and Financial Analysis

BELARUS: Public Finance Management Modernization Project

1. Economic and financial analysis of the project considers direct benefits and costs associated with the changes in economic welfare arising from the project. The reforms proposed under PFMMP are expected to generate economic benefits, mainly in the form of efficiency gains. However, quantifying many of these benefits presents a challenge. The approach is to provide a qualitative discussion of some efficiency gains expected as a result of the project and supplement it with financial analysis of costs and selected benefits, which could be realistically estimated. The analysis presented below focuses on the qualitative assessment of efficiency gains expected to result from selected project activities (mainly expansion of the Treasury Single Account coverage and respective increase of the short-term Treasury liquidity). Some of the benefits will only be realized after the completion of the whole series and implementation of the FMIS solution.

2. Implementation of medium-term budgeting, strengthened result orientation, improved data quality following unified chart of accounts and public sector accounting reform are likely to bring efficiency gains to the government. They also lay the ground for the second project in series which would finance implementation of FMIS and roll out of these reforms. The implementation of the FMIS will generate, among others, cost savings stemming from more effective expenditure controls, public procurement, and treasury and cash management. There will be potential improvements in transaction processing and record keeping through automation that can reduce administrative overhead costs.

3. For the first project in a series financial benefits considered for this analysis are related to expansion of the TSA coverage and resulting in: increase in cash availability and reduction of borrowing requirements; and savings from reduction in bank fees for balances currently outside of TSA.

4. This analysis is based on data obtained from the Ministry of Finance as well as qualitative analysis of project benefits. The analysis are based on the following key assumptions:

a) The time horizon is ten years, including three years for the project implementation and seven years thereafter.

b) Costs associated with the project implementation include staff time which is equivalent to five full time equivalent (FTE) per month in 20 government entities. An average monthly FTE in government is US$500 in 2015, and it will grow in real terms by 2 percent annually. The costs will accrue in each year of the project implementation.

c) Costs associated with change management comprise staff time of 5 FTEs per month. The average monthly FTE in government is US$500 in 2015, and it will grow in real terms by 2 percent annually. The costs will accrue from year 1 through year 4.

d) The exchange rate is BLR 18250 to US$ as of December 12, 2015.

e) The annual inflation rate in Belarus is assumed to average at 15 percent and the annual inflation rate in the USA is assumed to average 2 percent.

5. Expansion of TSA coverage enables orderly execution of the budget. It provides a control function for budget execution by verifying each payment or overflow against the budget, appropriation, cash limit or plan and any other conditions that the government might set.

Through cash management and planning, it ensures lower cost of borrowing and optimal use of cash. It will also enable timely and accurate fiscal reporting, especially of budget execution thus giving the government an opportunity to do course correction in budget and fiscal management to meet any emerging situation.

Increase in cash availability and reduction of borrowing requirements.

6. In 2014, Belarus central government units had 2.44 trillion rubles in balances outside of the TSA. The amount of expenditures outside of the TSA was 13.7 trillion BYR (11.21 trillion from revenue generating activities and 2.45 trillion from other targeted funds).

7. Expansion of the TSA will bring these funds into the TSA thereby improving cash management and reducing borrowing needs. For this analysis we will assume that 30% of balances outside of TSA will be brought into TSA in year 3 and 50% in year 4 and thereafter. Current average balances outside of TSA is 2.2 trillion rubles in 2014. Belarus public debt (which is only external and denominated in US$) has an average interest rate of 5 percent. The savings will be estimated by multiplying balances brought into the TSA by average interest rate.

Increase in cash availability and reduction of borrowing requirements.

8. There will also be an immediate and direct savings from reduced banking fees. In 2014 the estimated banking fees stood at 136.6 billion rubles, which is over US$7 million. For this analysis we will assume that savings start at year 3 of the project reducing banking fees by 30% in year 3, and 50% thereafter.

Costs.

9. The costs of the project include loan financed activities, loan related fees and interest, staff time additionally required from Government of Belarus. The loan related fees and interests are calculated based on a US$10 million loan for a period of 8 years with grace period of the first 5 years. The frond end fee is 0.25% of the loan amount, and commitment fee is 0.25% of the undisbursed amount. The interest rate for a loan is LIBOR + 0.35%.

Net Present Value of Benefits

	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
	0	1	2	3	4	5	6	7	8	9	10
Banking fees (no project)	136.6	157.09	180.6535	207.7515	238.9143	274.7514	315.9641	363.3587	417.8625	480.5419	552.6232
Savings from reduction in banking fees (Scenario 1)	0	0	54.19605	103.8758	119.4571	137.3757	157.9821	181.6794	208.9313	240.271	276.3116
Net Present Value (Scenario 1)	**$16,103,368.12**										
Balances outside of TSA (no project)	2200	2530	2909.5	3345.925	3847.814	4424.986	5088.734	5852.044	6729.85	7739.328	8900.227
Balances brought into the TSA (Scenario 1)	0	0	872.85	1672.963	1923.907	2212.493	2544.367	2926.022	3364.925	3869.664	4450.114
Savings from improved cash management (Scenario 1)	0	0	43.6425	83.64813	96.19534	110.6246	127.2183	146.3011	168.2463	193.4832	222.5057
Net Present Value (Scenario 1)	**$12,967,573.16**										

10. The Net Present Value is US$21.7 million. The net present value is calculated based on refinancing rate of 25% and projected inflation rate of 15%. As costs are denominated in US$ a real interest rate of 10% was used. In addition the project efficiency gains as a result of improvement in budget planning process, revenue and macroeconomic forecasting which were

not quantified at this stage would bring additional economic benefits. This suggest that the project is justified for implementation.