

World Bank Group – Belarus Partnership

Country Program Snapshot



April 2015

THE ECONOMY

Recent years have been characterized by a slowdown in growth, increased macroeconomic volatility, and several balance-of-payments crises. Until 2008, despite limited progress on advancing structural reforms, Belarus's GDP grew on average by 8.3 percent per year, more rapidly than in both the Europe and Central Asia (ECA) region (5.7 percent) and the Commonwealth of Independent States (CIS) (7.1 percent). Rapid economic growth was propelled by a combination of favorable external factors, including strong demand for Belarusian exports by key trading partners (in the CIS, especially Russia), underpriced energy imports from Russia, and large terms of trade gains stemming from exporting goods, such as oil products and fertilizers.

The global economic crisis of 2008–09 affected the economy through lower export demand and reduced access to external borrowing, resulting in a current account deficit of 12.5 percent of GDP in 2009. The Government responded by suppressing domestic demand and instituting a one-off adjustment of the exchange rate supported by external financing, including from the International Monetary Fund (IMF). In 2010, stabilization gains were reversed by expansionary fiscal and monetary policies, and the current account deteriorated to a deficit of 15 percent of GDP. Exchange rate pressures were alleviated throughout 2011 by a nominal devaluation of the Belarusian ruble (BYR) to the U.S. dollar of 62.5 percent, and the economy returned to tentative stability in 2012. Nevertheless, the weak external environment, exacerbated by persistent inflation, resulted in a further deceleration of growth.

Although real GDP grew modestly in 2013–14, the macroeconomic situation remains fragile. In 2013, real GDP growth slowed to 1 percent, slightly accelerating to 1.6 percent in 2014. This modest growth, however, was accompanied by double-digit inflation—16.5 and 16.2 percent in 2013 and 2014, respectively, year-on-year—that resulted from rapid monetary expansion. Although the National Bank of the Republic of Belarus (NBRB) maintained its refinancing rate unchanged at 23.5 percent from June 2013 to April 2014, it cut the rate to 20 percent by August, thereby boosting credit-driven investment and growth. Pressures on the BYR intensified at the end of 2014 from the rapid weakening of the Russian ruble (RUR) and

the sharp reduction in demand from Russia, Belarus' main trading partner. Exports to Russia declined 8.9 percent in U.S. dollar terms in 2014.

In the last quarter of 2014, heightened devaluation expectations triggered increased deposit outflows and foreign exchange demand. As a result, the NBRB adopted a set of temporary administrative measures on December 19, 2014 (abolished or revised in January 2015), including a tax on foreign exchange purchases at 50 percent (instead of the earlier 30 percent), mandatory sales of foreign exchange revenues by exporters, and a prohibition on foreign exchange trade at the interbank market. The refinancing rate was increased to 25 percent, followed by a sharp rise in the liquidity support interest rate from 24 to 50 percent (to encourage the growth of BYR deposits). The NBRB then moved to a floating exchange rate peg against a currency basket (with revised weights to increase the share of RUR to 40 percent, with 30 percent each for the U.S. dollar and the euro). In order to contain inflation, administrative price control was reintroduced for consumer goods, along with a price increase ban until January 15, 2015. In February 2015, price controls were partially relaxed, including permission to adjust prices on the rate of depreciation. Between December 18, 2014 and February 1, 2015, the BYR lost 38 percent of its value against the U.S. dollar.

With economic weakness resulting in lower fiscal revenues, expenditures were curtailed to sustain fiscal discipline. The Government managed to match the decrease in profit and foreign trade tax revenues (by 21.3 and 33.2 percent, respectively) with the containment of current spending growth and selected capital expenditure items, helping to decrease real consolidated budget expenditures by 4.8 percent in 2014. As a result, the general government budget remained in surplus at 1.2 percent of GDP in 2014 (0.2 percent in 2013), even as growth slowed. However, the practice of below-the-line recapitalization of state-owned commercial banks (0.9 percent of GDP in 2013), including the Belarus Development Bank (0.6 percent of GDP in 2013), implies a shallow deficit.

During 2015 and most likely 2016, the economy of Belarus is expected to shrink—for the first time since 1995. The macroeconomic crises of the past years have revealed deep structural constraints

in Belarus' state-centered economic policy model. The room for expansion of domestic demand through credit and wage growth, employed to prop up GDP growth in the past, has become very narrow. Although Belarus will not pass on oil customs duties to Russia from 2015 onward, shortfalls in export revenues, large external debt repayments (about US\$4 billion in 2015 and US\$1.6–1.7 billion in 2016), and limited access to external financing will exacerbate balance of payment pressures. By March 2015, foreign reserves (excluding monetary gold) had reached the very low level of 0.9 months of goods and services imports, with bleak prospects for increasing. The weakening economy will put downward pressure on real wages and create higher unemployment (triggered also by returning labor migrants from Russia), posing poverty risks. Overall, economic growth could recover over the medium term, if the external environment improves and structural reforms are implemented.

Since 2008, Belarus has advanced dramatically in reforming its basic business regulations, showing most progress in the areas of business and property registration, licensing and inspections, and the costs of tax administration. This progress is reflected in Belarus' *Doing Business* (DB) rankings: from 115th place in 2008 to 63rd in 2014 and 57th in 2015. The recent upward movement occurred mainly due to improvements in the paying taxes

Belarus	2014
Population, total (millions)	9.5
Life expectancy at birth, female (years) (2013)	77.9
Life expectancy at birth, male (years), (2013)	67.3
Poverty (% population below national poverty line) (2013)	5.5
GDP, current US\$ (billions)	71.4
Real GDP growth (annual %)	1.6
Inflation, consumer prices (eop, %)	16.2
General Government budget balance (% of GDP)	1.2
Current account balance (% of GDP) (Jan-Sept 2014)	-5.7
FDI, net inflows (% of GDP) (Jan-Sept 2014)	2.8
Gross External Debt (% of GDP) (Jan-Sept 2014)	55.4

subcomponent. Tax compliance costs to businesses have been reduced by the introduction of an electronic system for filing and paying certain taxes. Regionally, Belarus ranks 15th out of the 26 ECA countries, ahead of its closest CIS neighbors, Russia and Ukraine. Nevertheless, it ranks low on getting electricity (148th), trading across borders (145th), and getting credit (104th). During 2010–13, the shares of the private sector in total employment and value added in GDP increased by 6 and 5 percentage points, reaching 35 and 48 percent, respectively. However, the state-owned-enterprises (SOEs) remain in a privileged position with access to subsidized lending (often at negative real interest rates) and various forms of state support.

In recent years, the Authorities have adopted several reform plans to tackle economic imbalances and their underlying structural roots so as to put the Belarusian economy on a sustainable path of robust growth. A joint action plan of the Government and the NBRB was adopted in October 2013 and later revised through the “Plan of Actions to Maintain the Balanced Economic Development in 2014–2015.” The latest plan contains actions across several areas, including monetary and credit policies, fiscal policy, state asset management (including privatization), corporate governance of SOEs, utility tariff reform, and a competition and anti-trust framework. These plans are important steps in the direction of structural reforms and, if implemented consistently, would help address some of the structural constraints in the economy. There is, however, a need for a more concrete, realistic, and comprehensive set of actions focusing on allocating resources efficiently, promoting privatization, restructuring SOEs, removing the remaining price distortions, and strengthening market incentives. Moreover, implementation of these measures requires a change in social protection policies, given the possible increase in unemployment.

Over the past decade, rapid economic growth has translated into remarkable progress in poverty reduction, although the recent crisis was associated with a modest poverty increase. The absolute poverty rate (national poverty line) declined from 30.5 percent in 2002 to about 11 percent in 2006 and has more than halved in recent years, falling to 5.4 percent in 2009. It remained almost stable at 5.2 percent in 2010 but increased to 7.3 percent in 2011, as a result of declining real

incomes in the context of high inflation in that year, and gradually improved to 6.3 percent in 2012 and 5.5 percent in 2013, due to a rapid increase in real wages and incomes. Poverty rates according to the international poverty lines of US\$2.50 and US\$5 per day were 0.1 percent and 4 percent, respectively, in 2010 (the latest available data), far below the ECA regional averages of 18.8 and 5.8 percent.

This positive trend in poverty reduction is matched by Belarus's high level of shared prosperity. Growth in consumption for the poorest 40 percent of the population was not only higher than in other countries of the region, but also above national average growth in consumption, suggesting a positive trend in income equality between 2002 and 2008. Belarus also ranks high in terms of the Human Development Index (HDI) (53rd out of 187 countries in 2013, up from 65th position several years ago), thanks largely to the achievements in education.

CHALLENGES AHEAD

The current economic challenges reinforce the need for structural reforms. Macroeconomic adjustment that effectively combats the sources of external imbalances in Belarus is a critical and necessary—but insufficient—condition for achieving sustainable economic growth over the medium term. Continuous stability-oriented macroeconomic management, especially by means of monetary policies, will suffocate and not reinvigorate growth. Belarus can achieve significant productivity gains from policies that would engender a reallocation of capital and labor from less productive to more productive sectors and firms, particularly private ones. This requires well-functioning product, labor, and financial markets to allow resources to move to high-productivity sectors and enterprises rather than be bottled up in low-productivity uses. World Trade Organization (WTO) accession provides an additional impetus for structural reforms, as it could ignite the stronger liberalization of markets for goods and services. The right policy choices today can reshape the long-term trajectory of the economy and ultimately yield high payoffs for ordinary citizens, accessing better paid and higher-productivity jobs.

The projected recession is expected to have a labor market impact, accentuating the need for change in social protection and labor market

policies. Existing labor market and social protection systems are inherently linked to an increasingly outdated growth model, based on delayed restructuring, low labor mobility both within and across sectors, and low official unemployment. The economic slump will reduce demand for jobs in both SOEs and the private sector, while existing social safety nets are unprepared to cope with the consequences of the recession and to meet the demands of a more dynamic labor market. Rather than protecting jobs (while waiting until the recession is over), labor market policies should aim to protect workers' incomes (and thus partially prevent a rise in poverty) and their ability to earn income in the future. The financing of respective programs can be obtained from a rationalization of state support and subsidies as well as a reduction in directed lending, with a respective decrease in interest rate subsidies.

In addition, energy efficiency and security need to be further improved. Belarus has made good use of the transition period to significantly increase its energy efficiency by almost three times since 1990, significantly better than Russia or Ukraine. However, Belarus is still one and a half times more energy intensive than Poland and two times more so than Germany. Efficiency levels could be improved through better demand management, including tariff adjustments and metering. The Government has made some steps toward increasing residential district heating to cost-recovery levels and gradually phasing out subsidies. Operational efficiencies on the supply side could also be achieved through targeted investments, adequate incentives, and private participation, where appropriate (through industry unbundling and the development of public-private partnerships). In addition, it is essential to diversify energy sources, making greater use of domestically available fuels, including renewables. This is especially urgent, as the dependence on underpriced energy imports from Russia exposes the economy to the risks associated with volatile commodity prices and in particular, the outcome of the annual energy trade agreement with Russia.

Finally, it is important to ensure that there is an active dialogue and consultation with stakeholders, including the private sector and citizens, on the reform program as the country responds to the current macroeconomic and structural challenges.

Ongoing Projects Supported by World Bank Loans	Amount (US\$mln)	Undisbursed (US\$mln)	Closing Date
Road Upgrading and Modernization	150	14	11/30/2015
Integrated Solid Waste Management	42.5	37	12/30/2016
Energy Efficiency	215	98	12/31/2016
Water Supply and Sanitation	150	10	09/20/2018
Biomass District Heating	90	89	12/31/2019
Transit Corridor Improvement	250	250	06/30/2020
Forestry Development Project	40.71	40.71	12/31/2020
Total:	938.21	538.71	

THE WORLD BANK PROGRAM IN BELARUS

The World Bank Group Country Partnership Strategy for Belarus guides World Bank and International Finance Corporation (IFC) support to Belarus from 2013 to 2017.

World Bank Group assistance to Belarus is being concentrated in three areas:

- Increasing the competitiveness of the economy by supporting structural reforms, including reducing the role of the state, transforming the SOE sector, and promoting private and financial sector development and integration into the global economy.
- Improving the quality and efficiency of public infrastructure services and the use of agricultural and forestry resources, and increasing global public goods benefits.
- Enhancing human development outcomes through better education, health, and social services.

The strategy builds on rigorous analyses of Belarus' key development challenges. It is aligned with the country's development priorities and commitments, and with the Bank's twin goals of eradicating extreme poverty and promoting shared prosperity. Comprehensive structural reforms are key to Belarus' development and vital to the successful implementation of the strategy. Based on lessons learned during the implementation of the previous Country Assistance Strategy, support under the current strategy is calibrated according to the pace, depth, and scope of structural reforms.

Analytical and advisory support is being provided in important policy areas to make the case for reforms and/or the analytical basis for any new lending. The dialogues are focused on sets of issues, including supporting macroeconomic stabilization; enhancing labor and capital markets efficiency, including by shifting to more market-based financial intermediation; reforming utility tariffs; promoting WTO accession; and advancing small and medium-sized enterprise (SME) and private sector development through improvements in the investment and business climates.

Belarus joined the World Bank in 1992. The current investment lending portfolio includes seven operations for a total amount of US\$938 million. Since the Republic of Belarus joined the Bank, lending commitments to the country have totaled US\$1.43 billion; in addition, grant financing totaling US\$28 million has been provided to programs, including those with civil society organizations.

KEY ACHIEVED AND EXPECTED RESULTS

The World Bank-supported programs have delivered important development results already in the areas of the environment, energy efficiency, and the provision of public services.

For example, as a result of Bank support:

- 53 kilometers of a road located between Minsk and Bobrujsk were upgraded from a two- to four-lane motorway, reducing transport costs for road users and lowering injuries;
- Pupils, teachers, doctors, and patients are now receiving upgraded and more reliable utility services in 1,000 social sector buildings in all regions of Belarus;

- 2,926 tons of persistent organic pollutants (POPs) were eliminated;
- A system of Integrated Environmental Permitting contributing to the reduction of emissions and pollution was designed, and the first National Inventory of Greenhouse Gas Sources and Sinks was prepared;
- Eighty-five civil society initiatives have been funded to implement small projects that promote development, dialogue, cooperation, and social accountability at the community level.

Other expected results are:

- Construction of a modern mechanical waste separation plant in Grodno will prevent the burial of 20,000 tons of waste in the landfill by the end of the project. A related public awareness campaign will result in the participation of 80 percent of Grodno residents in a waste source separation program by 2016, up from 16 percent before the project;
- 324,000 people living in 20 districts across the country will be connected to clean and reliable water services by 2018;
- 243,000 people will benefit from energy efficiency in heat and power generation by 2016;
- 145 megawatts of additional electric capacity based on modern gas turbines and engines is being installed and the efficiency of heat and power generation at the project sites will be increased by 15–30 percent; the reduction of carbon dioxide emissions per year is estimated to be about 250,000 tons by 2016;
- 79,000 Belarusians living in 13 towns will benefit from the efficient use of renewable biomass in heat and electricity generation by 2019. The cost of the heat supply is expected to be reduced on average by 63 percent;
- 86.7 kilometers of a road linking Minsk and Grodno will be upgraded. Handling capacity of the Bruzgi border crossing point (Belarus-Poland) is expected to

increase from the current 700 trucks to 1,700 trucks per day by 2020;

- 4.5 million hectares of forests outside protected areas will be managed as biodiversity friendly by 2016.

INVESTMENT PROJECTS

Energy Efficiency

In 2009, a US\$125 million loan was provided for improving energy efficiency in heat and power generation. As a result, about 90 megawatts of additional electric capacity based on modern gas turbines and engines is being installed. The efficiency of heat and power generation at the project sites will increase by roughly 30 percent. It is estimated that about 90 million cubic meters of natural gas will be saved annually, which would lead to the reduction of approximately 165,000 tons of carbon dioxide emissions per year.

In 2013, US\$90 million in Additional Financing for the project was approved to scale up energy-efficiency improvements in heat and power generation for 120,000 people.

Waste Management

Belarus attaches a high priority to environmental protection, particularly to waste management. The *Integrated Solid Waste Management Project* supports the design, construction, and supervision of a 120,000 ton-per-year modern mechanical waste separation plant in the city of Grodno and the improvement of the collection of separate waste in the city. The initiative seeks to recover recyclable materials and includes the implementation of public information and awareness-raising activities.

A project component financed by the Global Environment Facility helped to ensure environmentally sound management of the destruction of high-priority stockpiles of POPs, provided secure storage for lower risk stockpiles, and supported planning infrastructure to manage the future generation of POPs.

Water Supply and Sanitation

The World Bank is supporting Belarus in increasing the quality of water supply and

sanitation services to people living in 19 regions across the country under the *Water Supply and Sanitation Project*. The project finances water supply development through the rehabilitation and construction of deep wells, pumping stations, transmission mains, distribution networks, ground and elevated reservoirs, and iron-removal plants.

Transport Infrastructure Development

A US\$150 million *Road Upgrading and Modernization Project* is aimed at developing Belarusian transport infrastructure on a strategic route, the Trans-European Transport Corridor IX, connecting the Black Sea with the Baltic countries. The project financed the reconstruction of existing two-lane road sections between Minsk and Bobrujsk into a modern four-lane motorway, decreasing vehicle operating costs by 6 percent. It also envisages the improvement of road safety features in line with European Union (EU) road standards.

Transit Corridor Improvement

A US\$250 million *Transit Corridor Improvement project* supports the upgrade of sections of the M6 Transit Corridor linking Minsk and Grodno as part of the national strategy to connect all six oblast centers to high-standard roads. It will help to address border crossing delays at the western border with Poland by streamlining customs clearance procedures, thereby facilitating growth in trade.

Forestry Development

On March 27, 2015, the Bank approved a US\$40.71 million loan to Belarus for a *Forestry Development Project* to enhance silvicultural management and reforestation and afforestation, increase the use of felling residues, and improve the contribution of forests to the public good.

ANALYTICAL AND TECHNICAL ASSISTANCE

Economic Policy Dialogue

The *Belarus Country Economic Memorandum*



(CEM), the key analytical product of the Bank, framed the discussion around understanding the sources of growth, assessing the needed economic and structural rebalancing, and identifying the untapped potential for the medium-term economic development of Belarus. The report argues that a new growth strategy is needed to address the major challenges the Belarus economy is facing beyond the macroeconomic issue of adequately financing its external imbalances: (i) how to reallocate labor and capital to high-productivity segments of the economy; (ii) how to restructure the SOE sector; and (iii) how to support the underdeveloped private sector and the services sector.

Structural reforms are critical to improving competitiveness, long-term economic growth, and shared prosperity in Belarus. The World Bank attaches great importance to providing Belarus with timely advice on implementing its reform agenda and developing a long-term vision. The Bank provides technical assistance to the Government of Belarus in designing and implementing structural reforms to support a more efficient allocation of resources, transform the SOE sector, and enhance private sector development.

Fiscal Policy Dialogue

The *Programmatic Public Expenditure Review* provides analysis of the general government budget structure and the key sources of fiscal pressure, and advice on the fiscal reform options available across priority areas of the budget: pensions, social assistance, housing and communal services, and subsidies in the agriculture sector. The second volume is devoted to options for achieving efficiency in the areas of intergovernmental fiscal relations, education, and health spending, and also

quantifies the fiscal and possible social impact of proposed reform measures.

The **Public Expenditure and Financial Accountability (PEFA) Assessment** analyses the performance of Belarus Public Finance Management (PFM) systems. Belarus scored well under 14 out of 28 PEFA indicators. The analysis demonstrated that there is a high level of use of information systems in the PFM processes and



relatively strong control over the payroll, debt, and guarantees, which together with a strong culture of compliance and ex-post controls result in highly accurate and fully complete treasury transactions. At the same time, the report highlights the need for promoting stronger oversight of the aggregate fiscal risks resulting from the operation of public enterprises and for strengthening the policy and strategic focus of the budget process through the development of medium-term budgeting.

The World Bank also provides technical assistance, training, and advice aimed at strengthening medium-term fiscal planning and results-based budgeting, including a program supporting improvements in transparency and efficiency of PFM through assistance in preparing a comprehensive PFM modernization program and an integrated financial management system in Belarus.

Privatization

The Bank provides technical assistance to help the country prepare and test the new case-by-case approach to privatization (with support from recognized international financial advisors), which would lead to an improvement of governance in privatized companies and thus increased productivity and competitiveness. The program is supported by a grant from the Ministry of Finance of Austria.

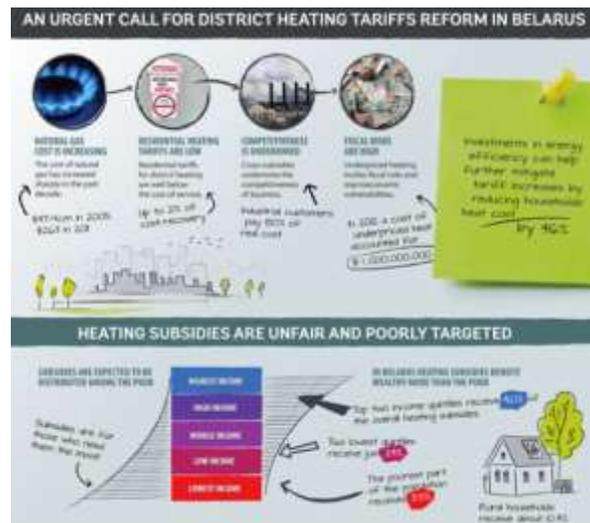
Financial Sector

The Bank supports the development of the non-bank financial sector and the enhancement of financial consumer protection and financial literacy, including through

strengthening the regulatory and institutional framework.

Energy and Energy Efficiency

Belarus is highly dependent on imported energy resources. The *Heating Tariff Reform and Social Impact Mitigation Study* analyzes the social, sectoral, and fiscal impacts of the heat tariff reform under consideration by the Government and provides recommendations on developing a sustainable district heating sector and on measures to mitigate the impact of the reforms on people in need. The study recommends enhancing customer communications and engagement to address the existing knowledge gap among residential consumers on tariff setting and the proposed reform; improving social protection mechanisms; and encouraging investments in energy efficiency at both the production and consumption stages.



Under a *Biomass-Based District Heating Program*, experts provided recommendations on existing legislation on renewable energy, barriers to and options for the increased use of biomass energy for heat production, and energy efficiency, as well as opportunities to increase private sector participation in the sector.

Water and Sanitation

The *Municipal Water Sector Review* offers a diagnostic of water and wastewater services, addressing the sector's institutional, organizational, technical, and economic aspects, with a specific focus on urban areas. It documents the achievements made so far, identifies areas that need strengthening, and suggests policies to help guide

the Government as it seeks to increase the efficiency and sustainability of water and wastewater services.

Forestry and Agriculture

Belarus is an active participant of *Forest Law Enforcement and Governance (FLEG)*, an EU-funded, six-country regional program coordinated by the World Bank. The program promotes sound and sustainable forest management practices, including the reduction of illegal forestry activities.

The Bank prepared a *Forest Policy Note* to provide strategic advice on defining sector goals and opportunities for the development of the *Forest Strategic Plan for 2015–2030*.

A technical assistance program supported agricultural policy institutions in introducing internationally accepted monitoring and evaluation methodologies.

Education

Cooperation between the Bank and Belarus in the education sector grew out of the second phase of the Public Expenditure Review. The ongoing *Education Technical Assistance Program* paves the way for the Bank’s first sustained engagement in Belarus’s education sector. The program aims to inform education policy and strengthen Government capacity in a number of areas. The assistance addressed issues of per student financing of secondary education, teacher remuneration, and student assessments, selective topics of interest to Belarus in the higher education sector, through a series of workshops with international experts and the delivery of information about global and regional best practices.

Health Care

The public health delivery system, although providing widely accessible and affordable health services, is characterized by high levels of expenditure but relatively poor outcomes. Through its *Improving Quality of Health Care Technical Assistance Program*, the World Bank informs the Government’s health sector reform strategy to improve the quality and efficiency of health services. Advice is being provided on improving the financing of the health care sector, developing economic incentives and payment practices for

services provided by health care institutions, improving the prevention and control of noncommunicable diseases, and developing eHealth instruments.

Information Technology

The World Bank is a catalyst of global knowledge and best practices in the development of information and communications technologies (ICT). A South-South knowledge exchange between the Republic of Korea and the Republic of Belarus, “Together to the InfoSociety,” facilitated by the World Bank in June 2014, provided a platform to discuss Korea’s ICT experience in such sectors as health, land registration, and cyber security, as well as Belarus ICT sector development.

Major Cities of Belarus



INTERNATIONAL FINANCE CORPORATION

The IFC helps Belarus in its efforts to improve the investment climate and promote the development of the private sector. IFC supports the development of small and medium-sized businesses through its real sector investments and financial intermediaries.

In the financial sector, IFC supports the development of the privately owned segment of the banking industry, providing investments and accompanying advisory services.

In the real sector, IFC supports the development and modernization of private companies through direct investments and technical expertise, focusing on manufacturing, agribusiness, and energy efficiency.

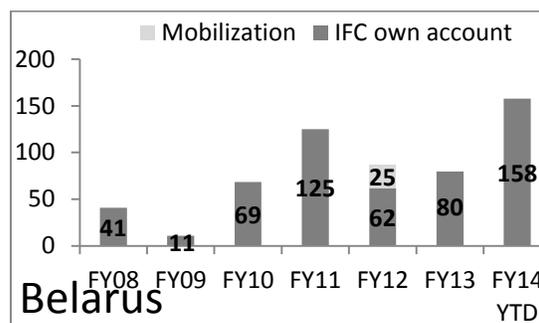
IFC has already invested over US\$577 million in 47 projects in different sectors in Belarus. During fiscal year 2014, IFC committed a record US\$158 million in Belarus from its own account, up from US\$80 million the previous year.

IFC's Portfolio in Belarus

In addition, IFC is implementing several advisory programs in Belarus, focusing on the following priority areas:

- i. Helping the Government expand the private sector and improve the investment climate through better regulatory policies;
- ii. Enhancing the competitiveness of Belarusian food producers by improving their food safety practices.

IFC advisory programs in Belarus are being implemented in partnership with United States Agency for International Development (USAID), the Swedish International Development Cooperation Agency (SIDA), and the Ministry of Finance of Austria.



BELARUS: ROAD UPGRADING AND MODERNIZATION PROJECT

Key Dates:

Approved: November 11, 2010

Effective: July 5, 2011

Closing: November 30, 2015

IBRD financing in million US Dollars*

<i>Financier</i>	<i>Amount</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan	150.0	136.3	13.7

*

Source Client Connection as of March 5, 2015

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



The project is part of the Government's National Transport Development Program "Roads of Belarus" for the period 2006–15. Among the objectives of the program are the creation of an enabling environment for development of the national economy, enhancement of road safety, implementation of the Government's social policy, and facilitation of its private sector business initiative. The overall program includes the construction of four-lane motorways between Minsk and all five oblast capitals. In addition, the Government envisages relying increasingly on revenues from road tolling for the funding of road maintenance and the further upgrading of the road network.

The **Project Development Objective** is to reduce transport costs for road users on the upgraded sections of the M5 road and introduce a modern axle load control system in Belarus as a tool to increase road sector sustainability. There are three components to the project. The first component is upgrading 53 kilometers of the M5 road located between Minsk and Bobrujsk from a two- to a four-lane road. The second component is modernization of the road tolling system. This component originally included the supply and installation of a modern electronic road tolling system; however, the project was restructured and an axle load monitoring and control system replaced the road tolling. The third component is technical assistance and capacity building, which is aimed at strengthening the institutional capacity of road sector institutions in Belarus and helping them to converge toward European standards and methods.

Key Achieved and Expected Results: 52.7 kilometers of the M5 road sections were upgraded, including by reconstructing the existing two lanes and constructing two additional lanes to carry a design axle load of 11.5 tons. Several indicators on the upgraded sections of the road are expected to be reduced by the end of the project: (i) vehicle operating costs by 6 percent; (ii) the riding quality measured by the IRI (International Roughness Index) from 3.2 in 2010 to less than 2; and (iii) the number of fatalities from 12 per year in 2010 to five per year by the end of the project.

The road has been opened for traffic. Capacity-building services are also under way, particularly for the supervision of road works under international requirements. In 2012, the Government signed a concession contract for the construction of an electronic state-of-the-art road tolling system for trucks on all of the most important roads of Belarus, and for its 20-year operation. The system became operational in July 2013. The electronic tolling component as originally designed therefore became obsolete. The project was restructured to replace road tolling with an axle load monitoring and control system and extended by 12 months to November 30, 2015, to address delays related to the "Weigh-in-Motion" component. The contract for services to install the system on the gantries and integrate with the e-tolling system has been signed

Key Partners: (i) Ministry of Transport, (ii) Belavtodor, and (iii) Minskavtodor-Center.

BELARUS: ENERGY EFFICIENCY PROJECT

Key Dates:

Approved: May 28, 2009

Effective: September 30, 2009

Closing: December 31, 2016

IBRD financing (million US Dollars)*:

<i>Financier</i>	<i>Amount</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan 7698	125.00	111.3	13.6
IBRD Loan 82810	90.00	5.7	84.3

*Source Client Connection as of March 5, 2015.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Energy import prices have increased in Belarus in recent years. For instance, the natural gas import price from Russia more than doubled in 2007 to US\$100 per thousand cubic meters, and further increased to US\$150 per thousand cubic meters in 2009. It is projected that the natural gas import price will gradually increase to European market levels. In recent years, Belarus has made significant efforts to reduce energy intensity and improve efficiency. The achieved results are encouraging; energy intensity has declined by about 60 percent over the past 15 years, decreasing from about 0.76 tons of oil equivalent per dollar of GDP in the mid-1990s to 0.23 in 2010. Belarus adopted several national energy-efficiency programs starting in 1996. The aim of the programs is to strengthen energy security through capital investments in asset renovation, efficient utilization of fuel and energy resources, and more extensive use of domestic and renewable sources of energy such as biomass.

The **Project Development Objective** is to improve energy efficiency in heat and power generation in selected towns in Belarus. The project helps to convert six existing heat-only boiler plants to combined heat and power plants (CHPs) in different locations across Belarus. The key indicators of project performance are a reduction in gas consumption and total efficiency in heat and power generation.

Key Achieved and Expected Results: It is expected that about 145 megawatts (MW) of additional electric capacity based on modern combined cycle gas turbines and gas engines will be installed. Furthermore, the efficiency of heat and power generation at the project sites is expected to increase by roughly 30 percent. It is estimated that about 133 million cubic meters of natural gas will be saved annually, which would lead to a reduction of about 165,000 tons of carbon dioxide emissions per year. 243,000 people will benefit from energy efficiency in heat and power generation by 2016.

Implementation is progressing well and the project is on track to meet its development objective. Out of eight CHPs to be rehabilitated under the project, six are in commercial operation. The closing date for the original loan has been extended to December 31, 2015.

Key Partners: The Bank team has worked closely with the Energy Efficiency Department of the State Standardization Committee, as well as with the Ministry of Energy and oblast executive committees.

BELARUS: WATER SUPPLY AND SANITATION PROJECT

Key dates:

Approved: September 30, 2008

Effective: February 17, 2009

Closing: September 20, 2018

IBRD financing (million US Dollars)*:

<i>Financier</i>	<i>Amount</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan 7589	60.00	47.9	12.1
IBRD Loan 8352	90.00	0.8	89.2



* Source Client Connection as of March 5, 2015

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Belarus is quite rich in water resources, and those available are sufficient to meet both current and future demands. During the past five years, total water use has declined by 5 percent, while industrial use has fallen by 17 percent, continuing a trend that began in the early 1990s. The reliability and safety of the water and sanitation services are less than satisfactory due to service interruptions, high losses in the distribution systems, and substantial operating costs as a result of aging infrastructure and the need for maintenance. The population, especially in rural areas using dug wells for water supply, is exposed to health risks.

The **Project Development Objective** is to increase access to water supply services and to improve the quality of water supply and wastewater services in selected urban areas in six participating oblasts of the Borrower. The objective will be achieved through the rehabilitation and reconstruction of water supply and sanitation facilities and networks, including the adoption of advanced technologies for water treatment. The project complements the Government's National Water Development Program "Chistaya Voda" (Clean Water) and contributes to innovation, modernization, and capacity development in the Belarus water sector.

In March 2014, the Board approved an Additional Financing to the project to finance the upgrade and reconstruction of wastewater treatment plants in four towns: the rehabilitation of trunk wastewater transmission systems in the cities of Mogilev and Grodno, and the upgrade of water production facilities and distribution systems in the towns of Rogachev and Shklov. The project also strengthens the capacity of the participating utilities to provide better information to customers and develop social accountability mechanisms for water and wastewater services.

Key Achieved and Expected Results: The project finances the rehabilitation and construction of deep wells, pumping stations, transmission mains, distribution networks, ground and elevated reservoirs, and iron-removal plants. It also supports the rehabilitation of wastewater collection systems and treatment plants, including the installation of pumping stations, sludge dewatering systems, collection networks, monitoring stations, and small laboratories to test treated wastewater.

220,000 people have received access to drinking water that is in compliance with national quality standards, and 40 kilometers of transmission and distribution pipelines have been laid or replaced. Completed works are in general of good quality and have delivered the expected outcomes. Out of 19 subprojects under the original loan, 16 have had all works concluded, while the three remaining will need between five and 24 additional months to be completed. The original loan was extended by 24 months.

Key Partners: (i) Ministry of Housing and Utilities; (ii) Ministry of Finance; and (iii) the six participating oblasts and vodokanals (water and wastewater utilities).

BELARUS: INTEGRATED SOLID WASTE MANAGEMENT PROJECT

Key Dates:

Approved: June 17, 2010

Effective: October 6, 2010

Closing: December 30, 2016

IBRD financing in million US Dollars*:

<i>Financier</i>	<i>Amount</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan 79320	42.51	5.6	36.9
Global Environment Fund	5.5	5.5	-

* Source Client Connection as of March 5, 2015

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Belarus attaches high priority to environmental protection, particularly to waste management issues. Specific objectives are to: (i) ensure 100 percent coverage of separated municipal waste collection in large cities and maximize recovery of valuable materials; and (ii) practice environmentally sound management of high-priority chemical pollutants, specifically persistent organic pollutants (POPs).

The **Project Development Objective (PDO)** is twofold: (i) to increase the environmental benefits of integrated solid waste management in the city of Grodno by recovering and reusing recyclable materials; and (ii) to strengthen the national capacity to manage hazardous wastes associated with POPs and reduce environmental and health risks associated with the presence and release of POPs into global and local environments.

Key Achieved and Expected Results: The project supports the design, construction, and supervision of a 120,000 ton per year modern mechanical waste separation plant in the city of Grodno and the improvement of the collection of separate waste in the city. The initiative seeks to recover recyclable materials and includes the implementation of public information and awareness-raising activities. Construction of a modern mechanical waste separation plant in Grodno will prevent the burial of 20,000 tons of waste in the landfill by the end of the project. A related public awareness campaign will result in the participation of 80 percent of Grodno residents in a waste source separation program by 2016, up from 16 percent before the project.

The main share of project funds will be committed upon completion of the tender for the supply and installation contract for the Mechanical Waste Separation Facility (MRF) in Grodno. The contract for the construction of the MRF in Grodno was signed with the China Machinery Engineering Corporation and became effective on December 18, 2014. The contractor has commenced preparatory activities on site, including earth works and site leveling.

The Global Environment Facility–financed component helped to strengthen the national capacity to manage hazardous wastes, specifically those associated with POPs, and supported Belarus in meeting its obligations under the Stockholm Convention on POPs. The activities (i) helped to ensure environmentally sound management of the destruction of high-priority stockpiles of POPs and associated contaminated equipment, (ii) provided secure storage for lower-risk stockpiles, and (iii) supported planning infrastructure to manage the future generation of POPs. 2,926 tons of POPs stockpiles and wastes were recovered and packaged, 1,793 tons have already been destroyed, and 964 tons of remaining stockpiles are being stored at a secure location, which significantly exceeded the original project objective of eliminating 1,800 tons of the dangerous substance.

Key Partners: (i) Ministry of Housing and Communal Services, which is responsible for the setting up and implementation of solid waste management policy; (ii) oblast and municipal/city governments of Grodno; and (iii) Ministry of Natural Resources and Environment.

BELARUS: BIOMASS DISTRICT HEATING PROJECT

Key Dates:

Approved: March 31, 2014

Effective: July 31, 2014

Closing: December 31, 2019

IBRD financing in million US Dollars*:

<i>Financier</i>	<i>Amount</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan 83510	90.0	1.1	88.9

*Source Client Connection as of March 5, 2015.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Lacking a sufficient energy resource base, Belarus relies heavily on imported energy resources to meet domestic energy demand. The Government plans to increase the share of local fuels, mainly biomass, in the energy supply from 25 percent in 2011 to 32 percent in 2020. District heating plays an important role in the energy system of the county, as 60 percent of the population relies on it for heat supply.

The **Project Development Objective** is to scale up the efficient use of renewable biomass in heat and electricity generation in selected towns of Belarus.

The project finances the replacement of existing gas and oil boilers by biomass boilers, the provision of wood-chipping equipment and biomass fuel storage facilities, the installation of individual building-level heat substations with temperature control, and the upgrading of district heating networks.

The project also helps participating utilities to communicate more proactively with their customers, including on existing grievance redress mechanisms and feedback analysis, to enhance service delivery and facilitate a shift from volume-based to energy content-based biomass pricing.

Key Achieved and Expected Results:

The project helps to scale up the efficient use of renewable biomass in heat and electricity generation, thereby lowering operating costs and improving fuel security in 13 towns of the country and enhancing the living and working conditions of 79,000 Belarusians.

By improving energy efficiency and replacing imported natural gas and oil with less expensive local wood biomass, the project would reduce the cost of the heat supply on average by 63 percent in participating project towns, thereby reducing the burden of heating costs on household budgets.

The project contributes to the reduction of greenhouse gas emissions, with total projected lifetime carbon dioxide emissions savings projected to be 2.1 million tons.

Key Partners: Energy Efficiency Department of the State Standardization Committee, Ministry of Energy, Ministry of Forestry, Ministry of Housing, and 13 participating district heating utilities: Grodno oblast: Volkovysk; Brest oblast: Ivanovo, Baranovich, and Bereza; Gomel oblast: Zarechie, Kalinkovich, and Zyabrovka; Minsk oblast: Starye Dorogi, Kholopenichi, and Cherven; and Mogilov oblast: Kadino, Cherikov, and Veremeiki.

BELARUS: TRANSIT CORRIDOR IMPROVEMENT PROJECT

Key Dates:

Approved: December 17, 2014

Effective: -

Closing: June 30, 2020

IBRD financing in million US Dollars*

<i>Financier</i>	<i>Amount</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan 84590	250	0	250

*Source Client Connection as of March 5, 2015.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



The potential of Belarus as a transit and trade hub is currently not fully exploited. The project will invest in the key transit corridor connecting Belarus and Poland and support ongoing reform of the roads and customs sectors, promoting cross-border trade and transit transport services and laying the foundation for new business and investment opportunities.

The **Project Development Objective** is to improve transport connectivity, border crossing procedures, and safety for domestic and international road users on selected sections of the M6 corridor.

The project supports the improvement of sections of the M6 Transit Corridor linking Minsk and Grodno as part of the national strategy to connect all six oblast centers to high standard roads. It will help to address border crossing delays at the western border facing Poland by streamlining customs clearance procedures, thereby facilitating growth in trade.

Key Achieved and Expected Results:

86.7 kilometers of a road linking Minsk and Grodno will be upgraded. As a result of the border management enhancement component of this project, the handling capacity of the Bruzgi border crossing point is expected to increase from the current 700 trucks to 1,700 trucks per day. The activities will be complemented by IFC advisory work studying constraints in border clearance procedures and recommending business process improvements. The project will also support improved road safety and network management through a more market-orientated approach to the development of roadside services and the development of a Traffic and Road Safety Coordination Center.

Domestic and international road users will benefit from reduced journey times between Minsk and Grodno, lower road accident risks, and a better travel experience with improved public amenities and services as well as real-time traffic information, including detour suggestions due to severe weather and road maintenance works. This project will also promote private participation in the roads sector through the development of roadside services.

Key Partners: (i) Ministry of Transport, (ii) Belavtodor, and (iii) Minskavtodor-Center.

BELARUS: FORESTRY DEVELOPMENT PROJECT

Key Dates:

Approved: March 27, 2014

Effective: -

Closing: December 31, 2020

IBRD financing in million US Dollars*

<i>Financier</i>	<i>Amount</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan	40.71	0	40.71
GEF grant	2.74		2.74

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Belarus is one of the most forested countries of the region, with forests accounting for nearly 40 percent of the country's territory and 2 percent of GDP. The Government recognizes the importance of institutional change, investment, new technologies, and capacity building in the forestry sector, as well as a growing demand for wood products from both the wood processing and wood energy enterprises.

The **Project Development Objective** is to enhance silvicultural management and reforestation and afforestation, increase the use of felling residues, and improve the public good contribution from forests..

The new project also builds on the World Bank Forest Sector Policy Note, which provided strategic advice on defining sector goals and opportunities in conjunction with the development of the National Forest Strategic Plan for 2015–2030, and the on experience and knowledge gained from the European Neighborhood and Partnership Instrument East Countries Forest Law Enforcement and Governance (FLEG) Program (2008–12, 2012–17), which is being implemented by the World Bank.

Key Achieved and Expected Results:

The project will modernize selective forestry sector operations and protect and enhance the quality of forest resources. It provides direct support to 25,000 employees of 88 forestry enterprises and generates better-skilled and semi-skilled jobs in the rural forest, wood processing, and wood energy sectors.

Four million hectares of forests outside protected areas will be managed in a more biodiversity-friendly manner by 2020. The engagement brings investments in goods and machinery to support the development and intensification of silviculture, including the purchase of 74 modern forest harvesters needed for younger-aged thinning operations and 52 forwarders. Six new heavy-duty chippers will help to utilize wood waste from felling operations and develop the use of woody biomass from logging residues.

The project will also facilitate the modernization of forest nurseries to produce container-grown seedlings of improved quality; the installation of video and communications equipment for the monitoring, surveillance, and detection of fires; the introduction of fire-fighting equipment to help extinguish the fires once started; and the development of a web-based interface to allow the sharing of information, including geo-information. It is estimated that measures on the prevention, improved detection, and more timely and effective response to forest fires are expected to reduce future losses by 30 percent.

Key Partners: Ministry of Forestry, Ministry of Natural Resources and Environmental Protection, and 88 participating forestry enterprises.

BELARUS: BELARUSKY NARODNY BANK

Key Dates:

Approved: December 19, 2013

Signed: December 31, 2013

Invested: April 28, 2014

Financing (\$million):

<i>Financier</i>	<i>Amount</i>	<i>Fiscal Year</i>
IFC	7.0	2014
FMO (B loan)	6.0	



Founded in 1992, Belaruskyy Narodnyy Bank (BNB) is a mid-size universal commercial bank with headquarters in Minsk. In 2008, the bank's majority stake was acquired by JSC Bank of Georgia (BoG), followed by IFC's equity investment in 2010. Currently, BoG holds 79.99 percent of shares, while IFC holds 19.99 percent. IFC has also supported BNB, one of the few private financial institutions in Belarus focused on lending to small and medium-sized enterprises (SMEs), with other financial products, including trade finance and debt financing. In particular, in FY14, IFC arranged a financing package for BNB, which included a US\$7 million loan for IFC's own account and also a syndicated loan from the Netherlands Development Finance Company FMO.

Project Development Objective: IFC provided BNB with debt financing to help expand access to finance for SMEs and drive Belarus's economic development. The project is expected to help strengthen the SME sector and will also contribute to Belarussian banking sector development.

Key Achieved and Expected Results:

It is expected that with the IFC financing the project will:

- Help expand lending to SMEs, strengthening the sector
- Contribute to Belarus's banking sector development
- Help enhance the competitiveness of local SMEs and contribute to creating more jobs
- Strengthen the long-standing partnership with the Bank of Georgia Group via support of its cross-border growth.

BELARUS: IFC AGRIBUSINESS STANDARDS ADVISORY

Key Dates:

Project start: 2013

Project closure: 2016

IFC implements the program in partnership with the Ministry of Finance of Austria.



IFC Agribusiness Standards Advisory program for Europe and Central Asia assists local companies in applying food safety, environmental, and social standards throughout the agribusiness value chain while strengthening the capacity of local consultants. Improved standards help agribusiness firms meet regional and export market requirements while building a foundation to mobilize investments, and help the agribusiness industry realize its full potential. In Belarus, the work is built on the success and experience of the Belarus Food Safety program.

Belarus has a vibrant food industry that is strongly export oriented. At the same time, only a small number of the country's 800 food processing companies have food safety management systems in place and are able to respond adequately to food safety threats. The absence of adequate safety management systems makes the sector vulnerable to food safety incidents and hinders export growth.

The **Project Development Objective** is to help firms become more competitive and gain access to new markets. The project also works with government and industry experts to build up local capacity through trainings, workshops, and awareness-raising campaigns.

Key Expected Results:

- Increase the number of companies with food safety, environmental, and social management systems in place, boosting competitiveness and investment attraction;
- Facilitate an increase in domestic and export sales for client companies;
- Facilitate investments in the agricultural sector;
- Build the capacity of local consultants and firms;
- Promote sustainable business models across the region.

Key Partners: The project team is working closely with food processing companies, food retailers, and packaging producers across the country.

BELARUS NATIONAL QUALITY INFRASTRUCTURE AND BUSINESS REGULATION IMPROVEMENT PROJECT (NQI&BR)

Key Dates:

Project start: 2014

Project closure: 2017

IFC implements the program in partnership with the Swedish International Development Cooperation Agency (SIDA) and the United States Agency for International Development (USAID).



IFC is implementing the **National Quality Infrastructure and Business Regulation Improvement Project** in Belarus to help the country improve its business and investment climate. The main project components are focusing on: a) the improvement of micro, small, and medium-sized enterprise (MSME) policies and a lowering of the barriers to growth, including a reduction in the implementation gap at the national and subnational levels; and b) the competitiveness, growth, and diversification of exports. Working to enhance the effectiveness and efficiency of the National Quality Infrastructure (NQI) and trade logistics, the project will prioritize food production and the trucking/logistics sectors. It is expected that the sector-driven reforms will complement and catalyze broader private sector growth, trade, and domestic and foreign direct investments in the Belarusian economy.

The **Project Development Objectives** are: a) to support business operations reform, focusing on a reduction of regulatory costs and burdens, permits, inspections, and business formalities, and encourage private sector growth by upgrading MSME policy and improving implementation at the national and municipal levels; and b) to increase the international competitiveness of Belarus' businesses by reducing the compliance costs associated with the requirements and services administered by the NQI system and by improving trade logistics.

Key Expected Results:

- Reduce the time and cost of business formalities through the online Registry of Administrative Procedures;
- Develop the MSME Policy (Strategy) and upgrade the Law on SME Support and related regulations;
- Create the SME Development Agency and improve its capacity;
- Improve NQI procedures, reduce the range of products subject to mandatory certification, and improve market surveillance/relevant inspections;
- Reduce the number of documents (by 30 percent) required to import/export, including documents required by the relevant technical inspections (phytosanitary, veterinary, etc.);
- Realize Annual Compliance Cost Savings, which are expected to reach US\$7 million.

Key Partners: Ministry of Economy, State Standardization Committee, and State Customs Committee.