

PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: 87961

Project Name	IMPROVING EFFICIENCY AND TRANSPARENCY OF THE PUBLIC FINANCE MANAGEMENT SYSTEM PROJECT
Region	Europe and Central Asia
Country	Belarus
Sector(s)	Public sector and institutional reforms, ECSP4
Theme(s)	Public Finance Management
Lending Instrument	Grant
Project ID	P147073
Borrower	Government of Belarus
Implementing Agency	Ministry of Finance
Environmental Category	C
Date PID Prepared/Updated	March 20, 2014
Estimated Date of Appraisal Completion	March 6, 2014
Estimated Date of Approval	April 9, 2014
Decision	Appraisal completed, proceed with negotiations and approval
Other Decision (as needed)	

I. Introduction and Context

Country Context

Belarus is an upper middle income country with a population of 9.5 million. Belarus transition experience was rather distinct from other transition economies in the region. The country preserves an economic model based on the dominance of public sector with a high level of social equity, and the government continues to play a much more active role in Belarus than in neighboring transition economies. Redistribution of resources through the government budget is one important mechanism used to maintain the existing economic model, so the overall size of the national budget remains high and social spending receives a priority attention.

After a decade of strong economic growth, Belarus has faced repeated macro-economic crises in recent years. Loose fiscal and monetary policies in 2010 generated a short-term economic recovery but resulted in a widening current account deficit (15 percent of GDP in 2010) and heightened pressure on foreign exchange reserves. This eventually put the economy in a tailspin during much of 2011, leading to the loss of control of the exchange rate and sharply accelerating inflation. After a period of multiple exchanges rates and severe foreign exchange liquidity constraints, the Belarusian Rubel (BYR) lost close to 70 percent of its value vis-à-vis the US dollar and inflation soared to 109 percent in December 2011. 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. Growth declined to 1.5 percent in 2012 (from 5.5 percent the previous year) and further to 0.9 percent in

2013. Inflation was contained, but remained high in regional comparison at 21.9 percent during 2012 and 16.5 percent in 2013. Strong export growth, especially during the first half of 2012 and terms of trade gains reduced the current account deficit to 2.8 percent of GDP in 2012. However, external pressures re-emerged and the current account deficit saw a renewed expansion to 9.6 percent of GDP in January-November 2013 as a result of sharply declining net exports.

Sectoral and Institutional Context

Public finances were severely affected by recent macro-economic turmoil, but prudent fiscal management contained the fiscal balance throughout the crisis years. Since the 2008/2009 crisis Belarus has experienced a sharp and continuous contraction of revenues. The Government avoided a substantial deterioration of the fiscal position through commensurate expenditure consolidation. The overall expenditure envelope has contracted by 13 percentage points of GDP – from close to 50 percent of GDP in 2008 to about 36 percent at the end of 2011 (40 percent – in 2012), which was one of the largest contractions in the size of government 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 declines while social sectors were largely protected from spending cuts. Despite moderate deficits, public debt has more than doubled as a share of GDP from 12.9 percent in 2008 to over 32 percent by the end of 2013. About half of the public debt outstanding matures within the next few years exerting increased fiscal pressures on the budget.

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. The pattern of the recent adjustment constrains 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. It is therefore critically important 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. The Ministry of Finance is interested in developing a comprehensive PFM reform program and requested World Bank assistance in its design and implementation.

Relationship to CAS

The project is fully aligned with the World Bank Group Country Partnership Strategy for FY14-17 (CPS FY14-17) for Belarus and contributes to the achievement of more transparent management of public resources which is one of expected outcomes under CPS Pillar 1 aimed at improving competitiveness of the Belarus economy.

II. Project Development Objective

The project development objective (PDO) is to contribute to improving efficiency and transparency of the national public finance management (PFM) system of Belarus. The PDO is to be achieved through assistance in i) preparing a comprehensive public financial management modernization program, ii) preparing the functional and technical design of an integrated financial management system, and iii) building capacity for future reform and project implementation.

Key Results

The achievement of PDO will be assessed on the basis of the following results indicators:

- (a) Strategic vision for PFM reform formulated and internalized by the stakeholders;
- (b) Implementation of PFM reform initiated;
- (c) High quality of Financial Management Information System (FMIS) design assured;
- (d) Capacity for PFM reform and project implementation built.

III. Project Description

The project is organized into 3 components. Planned implementation period is 26 months.

A. Development of PFM reform strategy and action plan and support for their implementation.

Support under this component will include diagnostic studies, consultancy to develop the PFM strategy and action plan and support the initial phase of their implementation, peer learning, stakeholder consultations and communication activities;

B. Design of an Integrated Financial Management Information System. This will include the development of FMIS technical and functional design; preparation of tender documentation for procurement and customization of the software and hardware; technical assistance in building capacity for managing FMIS development and implementation; workshops and study visits to inform FMIS design;

C. Project Management Capacity Building component will finance relevant training, project operating costs and audit.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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	

V. Financing (in USD Million)

Total Project Cost:	1.2	Total Bank Financing:	1.2
Total Cofinancing:	0.0	Financing Gap:	0.0
Financing Source			Amount
BORROWER/RECIPIENT			0.0
Total			1.2

VI. Implementation

The project will be implemented by the Ministry of Finance of Belarus through its subordinate institution, the Data Processing Center. The Ministry of Finance will carry the ultimate responsibility for the project, functions of the project implementation unit are assigned to the Data Processing Center. Estimated implementation period is 26 months.

VII. Contact point

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