

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

**STRATEGY FOR
BELARUS**

**As approved by the Board of Directors at its meeting on 12 December
2006**

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EXECUTIVE SUMMARY

For the past ten years the Bank's activities in Belarus have been limited by the country's slow progress in democratic and market transition. Previous Country Strategies have drawn attention to inconsistencies in Belarus' commitment to, and application of, principles of multi-party democracy, pluralism and market economics in accordance with Article 1 of the Agreement Establishing the Bank. During the last two-year Strategy period there has been no improvement in the political environment while some progress in the economic sphere has been seen in the area of macroeconomic management. In some aspects of democratic governance there has been significant backtracking.

As a result of the difficult conditions still present in Belarus, the Bank will continue to concentrate its operations in the private sector where its investments can have the greatest potential transition impact. The Bank will maintain the three alternative scenarios as a graduated response to domestic circumstances, referred to as a **Baseline, an Intermediate and a Regular Scenario**. This approach is consistent with that adopted in previous Strategies. As in the past, the Bank will remain ready to expand its operations outside the private sector, should domestic circumstances in Belarus allow. This Strategy identifies clear, measurable, political and economic benchmarks that the Bank will monitor regularly and specifies the operational response that could follow in the event of significant progress.

The Bank will continue to remain engaged in Belarus, despite the persistent lack of progress in government policies favouring democracy and market formation, so long as it can contribute to the development of a dynamic private sector and an entrepreneurial class. Through its lending and an active policy dialogue with the authorities, the Bank has made some strides in these areas. During the previous Strategy period, the Bank's activities expanded significantly with commitments of EUR 41.5 million in new business for 7 private projects and committed about EUR 700,000 in technical assistance funds. The private sector remains small by comparison with more advanced transition countries; however, it is growing and continues to require external sources of finance.

While it is important to build democracy and markets through the development of civil society, the private sector and a thriving middle class, a real breakthrough in Belarus will only be possible when government policies and institutions change. In particular, weak mechanisms of accountability, constraints on political competition and lack of political will to uphold Constitutional guarantees of basic civil, political and human rights continue to raise serious concern within the international community. The leadership in Belarus faced key tests of its commitment to adhere to democratic norms in the organisation of the parliamentary and presidential elections in October 2004 and March 2006. In both cases, the elections were severely criticised by most international and independent domestic observers.

In the economic sphere, macroeconomic performance has improved while there has been very little progress in structural and institutional reform. Average annual growth exceeded 9% over the last three years, driven by rapid expansion in domestic investment and private consumption. Macroeconomic stabilisation has advanced since the last Country Strategy. Tighter monetary policy coupled with on-going re-monetisation of the economy have resulted in much lower inflation, although administered price controls and interest rate caps have also played a role. Exchange rate stability has further underpinned disinflation. The country's external position has improved. Exports have been buoyant due to high commodity prices and strong demand from Russia. For the first time, the current account recorded a surplus of about 1.5% of GDP in 2005, although the trend is unlikely to hold in 2006. Belarus' external debt continues to be low. Greater transparency in fiscal accounts and some reduction in the tax burden have been achieved in recent years, but the size of the government remains large.

Favourable external factors have allowed the government to continue its policy of enterprise support and directed wage increases while maintaining macroeconomic stability. However, this

growth strategy is not sustainable in the long term. To ensure sustainable private sector-led growth over the longer term, fundamental market-oriented reforms and improvements in the country's business climate are needed. Yet Belarus has made little progress in advancing structural and institutional reforms since the last Country Strategy. The state continues to dominate the economic environment through budget and off-budget financing, support to enterprises through state-owned banks, and various targets imposed on enterprises. The privatisation process remains stalled, and the state regained its stakes in some formerly privatised enterprises. Private enterprises experience excessive regulation and a high tax burden. Finally, the law on "golden shares" remains a serious concern for investors, although the recent abolishment of the golden share for the banking sector is a positive development.

In light of these political and economic challenges, the Bank is proposing to maintain a Baseline Scenario in which the operational focus will remain on the private sector, particularly on financing of micro, small and medium-sized companies. As in the previous Strategy, all of the Bank's operations must demonstrate that the proposed investments are not effectively controlled by the state or state entities, and government officials will not personally benefit financially from such investments. The Bank will continue to ensure that all EBRD operations in Belarus are subject to the Bank's Environmental Procedures and incorporate, where appropriate, Environmental Action Plans.

Accordingly, in the coming Strategy period the Bank will focus on the following priorities under the Baseline Scenario:

- Portfolio management of existing investments in Belarus, including continued support to MSMEs through approved Lines of Credit with privately-owned banks.
- Advisory services to SMEs via the Bank's TurnAround Management (TAM) and the Business Advisory (BAS) programmes, provided funding from donors will be made available;
- Selective direct investments in local and foreign private companies, including through the Direct Investment Facility (DIF) programme; and
- Expansion of the trade facilitation programme to additional bona fide private banks.
- In accordance with the need to support private MSMEs, Foreign Direct Investment, as well as competition in the financial sector, the Bank will consider providing MSME credit lines directly to individual private banks, and equity investments in private banks, together with related technical assistance, when the investments are small and particularly if this can be done alongside reputable international strategic investors, and the State has no control, including veto power over decision making.

If substantial progress is made in democratic reforms and if the authorities embark on a consistent programme of economic liberalisation and reform, the Bank would be in a position to conduct a broader range of operations either on an Intermediate or a Regular Scenario. As in the past, the Bank will employ a number of benchmarks in gauging political and economic progress. Should evidence of significant progress under these benchmarks emerge, the resultant improved investment climate would allow the Bank to consider on a project-by-project basis and in consultation with the Board of Directors, further involvement in the Belarus economy.

The Bank will continue to engage actively in policy dialogue with the authorities in a range of issues related to the political situation, economic reforms and improvements in the business environment. In these areas as well as in its specific project-related discussions with the authorities, the Bank will continue its close cooperation with other IFIs and international institutions. A special effort will be made towards the donor community to raise technical assistance funding to support institutional development provided to local private sector enterprises including through the micro-lending programme and the TAM/BAS programmes. The Strategy recognises the link between the promotion of entrepreneurial activity at the grass roots level and the consequent emergence of civil society which could contribute towards political and economic reforms. Under current conditions, enhanced support for private sector

investment and development remains the most appropriate way for the Bank to maintain and grow its engagement in Belarus.

LIST OF ABBREVIATIONS

| | |
|-------|--|
| ATC | Assessment of Transition Challenges |
| BAS | Business Advisory Service |
| BEEPS | Business Environment and Enterprise Performance Survey |
| CIS | Commonwealth of Independent States |
| DIF | Direct Investment Facility |
| EBRD | European Bank of Reconstruction and Development |
| EC | European Commission |
| ENP | European Neighborhood Policy |
| EU | European Union |
| EUR | EURO |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| GEF | Global Environmental Facility |
| IBRD | International Bank for Reconstruction and Development |
| IFC | International Finance Corporation |
| IFI | International Financial Institution |
| IMF | International Monetary Fund |
| MSEFF | Micro and Small Enterprises Framework |
| MSMEs | Micro, Small and Medium Enterprises |
| NBRB | National Bank of the Republic of Belarus |
| NGO | Non-Governmental Organisation |
| ODIHR | Office of Democratic Institutions and Human Rights |
| OSCE | Organisation for Security and Co-operation in Europe |
| EvD | Evaluation Department |
| SBA | Stand-by Arrangement |
| SDR | Special Drawing Right |
| SMP | Staff Monitored Programme |
| STF | Systemic Transformation Facility |
| TACIS | Technical Assistance to CIS |
| TAM | TurnAround Management |
| TC | Technical Co-operation |
| TFP | Trade Facilitation Programme |
| UNCHR | United Nation Committee for Human Rights |
| VAT | Value Added Tax |
| WB | World Bank |

COUNTRY STRATEGY

1. THE BANK'S PORTFOLIO

1.1 OVERVIEW OF BANK'S ACTIVITIES TO DATE

As of 30 September 2006, the Bank had signed a total of 11 investment projects covering energy, transport, telecoms, agribusiness, general industry and banking, for a total commitment of EUR 185 million (total project cost of EUR 283 million). Four projects have been in the public sector, totalling EUR 107 million (58%) and seven in the private sector, totalling EUR 78 million (42%). Disbursements stood at EUR 167 million, net portfolio was EUR 56 million. Six new TC projects have been signed since July 2004.

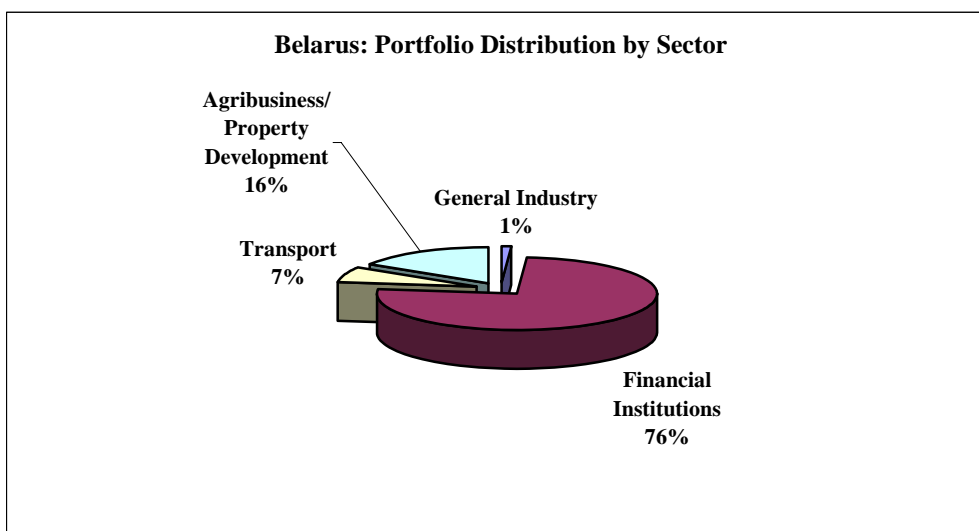
Table 1: Commitments and Portfolio at 30 September 2006
(EUR million)

by Sector

| Sector Name | CUMULATIVE COMMITMENTS | | | | | CURRENT PORTFOLIO ¹ | | |
|--|------------------------|--------------------|--------------|-----------------|------------|--------------------------------|-----------|----------------|
| | No. of projects | Total Project Cost | EBRD Funding | % of total EBRD | Disbursed | No. of projects | Portfolio | % of Portfolio |
| Financial Institutions | 5 | 97 | 64 | 33% | 54 | 5 | 47 | 83% |
| Infrastructure | 2 | 121 | 73 | 40% | 73 | 1 | 2 | 4% |
| <i>Energy</i> | 1 | 31 | 31 | 17% | 31 | 0 | 0 | 0% |
| <i>Transport</i> | 1 | 90 | 42 | 23% | 42 | 1 | 2 | 4% |
| Enterprises | 4 | 65 | 49 | 27% | 40 | 2 | 7 | 13% |
| <i>Agribusiness/Property Development</i> | 2 | 31 | 17 | 9% | 8 | 2 | 7 | 13% |
| <i>General Industry</i> | 1 | 3 | 1 | 1% | 1 | 0 | 0 | 0% |
| <i>Telecom</i> | 1 | 31 | 31 | 17% | 31 | 0 | 0 | 0% |
| Country Total | 11 | 283 | 185 | 100% | 167 | 8 | 56 | 100% |

¹ Details of net portfolio are provided in Annex 5.

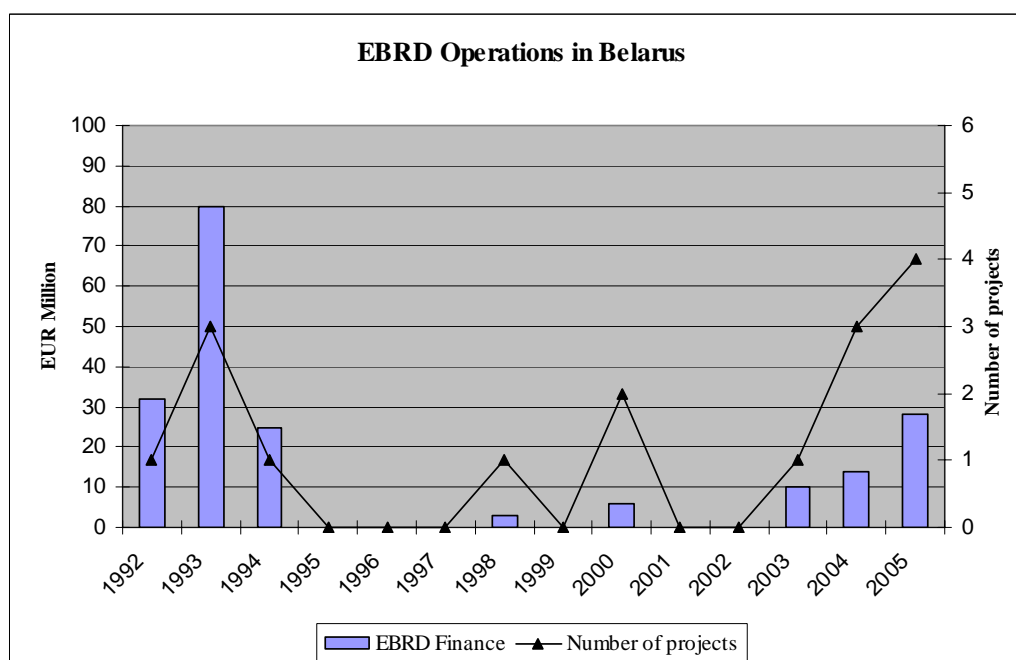
Net portfolio distribution by sector:



The level of private sector activity increased significantly during the previous Strategy period (from 30% to 43% of total commitments and from 61% to 93% of portfolio). This resulted from seven new transactions during 2004-2006, two of which were with privately-owned companies outside of the financial sector.

Following minimal levels of activity between 1995 and 2003, improved business levels are evident subsequently. Notable features of the portfolio include:

- in 1998 the Bank purchased equity in Priorbank;
- in 2000 the Bank purchased equity in Milavitsa (exited in April 2006), and provided a TFP line to Priorbank;
- in 2003 the Bank arranged for the first international syndication for Priorbank;
- in 2004 the Bank signed MSME loans with Priorbank and Belgasprombank and a TFP facility to Belgasprombank;
- during 2005 the Bank signed four projects including two projects in the industrial sector, and two in the banking sector, including a mortgage finance facility with Priorbank.



1.2 PORTFOLIO PERFORMANCE

The current EBRD portfolio in Belarus has a weighted project risk rating of 6.26, compared with the Bank average of 6.02 for CIS countries and 5.43 for the Bank as a whole. The portfolio disbursement ratio currently stands at 88%. There are no problems with repayments under the current projects.

1.3 PROJECT PIPELINE

The 2006 pipeline is mainly in the financial sector, reflecting clear evidence of demand for MSME financing. In addition, five industrial projects, two with foreign sponsors, are under active discussion reflecting clear signs of growth of private sector investment as well as the effect of the establishment of free economic zones. There is some evidence of growing interest from foreign investors in Belarus, particularly in the property, light industrial and agribusiness sectors. The Bank will increase its efforts to promote engagement with these investors.

1.4 IMPLEMENTATION OF THE PREVIOUS COUNTRY STRATEGY

The Bank has followed the Baseline Scenario outlined in the previous country Strategy, approved in July 2004. During this period the Bank signed seven operations, for a total amount of EUR 41.5 million. Apart from portfolio management of the existing investments, the main strategic objectives have been:

- i) continued support to MSMEs through the reflows of the sovereign SME Line of Credit approved in 1994 and providing SME/MSE credit lines directly to individual private banks;
- ii) selective direct investments in local and foreign private companies;
- iii) advisory services to MSMEs via the Bank's TurnAround Management (TAM) and the Business Advisory (BAS) programmes;
- iv) expansion of the trade facilitation programme (TFP) to private banks;
- v) equity investments in private banks, together with related technical assistance.

As of end-September 2006, 348 loans have been issued to SME borrowers and 5,323 loans to MSEs and individual entrepreneurs. The government and the National Bank of the Republic of Belarus have been responsive and cooperative in improving micro-lending legislation. At the same time, the Bank did not manage to increase the number of partner banks, due partly to a lack of eligible candidates but also to a shortage of TC funds for supporting the development of MSE lending techniques within additional banks. According to official estimates, there are currently 213,500 MSMEs in Belarus (180,500 individual entrepreneurs and 33,000 small companies as of end-April 2006). For the Bank's MSME programmes to reach a higher proportion of eligible enterprises will require engagement with more banks and adoption of approaches providing for better coverage of more remote regions.

The Bank signed two projects in the enterprise sector during the period, one in brewing (debt and equity) and another one in retail (debt and equity, syndicated). The brewing project is disbursing and the retail project still awaits implementation, due to continuous problems with securing land.

Additional equity investments in banks were not achieved due to the shortage of viable strategic investors although this situation is improving and at least one further bank equity investment is now under consideration. There were no TAM/BAS activities during the period due to the absence of donor funding for such activity in Belarus. In total TAM has carried out 24 projects in the country.

1.5 PORTFOLIO RATIO

Investments in the private sector represent 93% of the current portfolio (a significant change from 61% in July 2004). The share of public sector projects will continue to decline as the sovereign projects continue to repay (Minsk Wholesale Market; Brest-Minsk-Russian Border Highway and Sovereign Belarus SME Line of Credit).

1.6 TRANSITION IMPACT OF THE BANK'S PORTFOLIO AND LESSONS LEARNED

Transition

The Bank took a number of initiatives to be an active participant in supporting transition in Belarus where there were opportunities related to the private sector. Given the slow pace of reforms in the country, the overall transition impact of the Bank's portfolio so far has been *minimal* but is gradually strengthening due to the increased MSME financing and broader opportunities in the private sector.

The financial sector operations have contributed to the development of the local partner banks and their ability to lend to the private sector, as well as to the development of institutional and core competences. These operations have broadened the access to medium-term funds for growing micro, small and medium businesses.

Throughout the past Strategy period the Bank maintained a policy dialogue with the government and the NBRB. As a result changes to legislation have been incorporated simplifying micro-lending procedures.

Outside the financial sector, the Bank's equity investment in Milavitsa, a local manufacturer, under the Direct Investment Facility, had a good transition impact through improvement in the management and corporate governance standards of the investee company. The Bank exited Milavitsa in April 2006. It is too early to evaluate the transition impact of the two projects signed in 2005 (Olivaria Brewery and Minsk Retail Network). Although the transition risks are high, the transition impact potential for both of the transactions is excellent. The transaction with Olivaria Brewery is aimed at the improvement of the company's corporate governance and strengthening of its competitive position. During recent months there has been strong interest from foreign strategic investors to invest into Belarus's brewing sector. The success of Minsk Retail Network project remains to be seen given delays in project implementation caused by problems with obtaining a suitable land plot.

Lessons Learned

Although no projects signed during the previous Strategy period underwent ex-post EvD reviews, the following general lessons from the previous Strategy can be drawn:

- **Lack of technical assistance may jeopardise core projects.** Financing of technical assistance for micro-lending is an on-going need. In spite of the fact that MSE financing is one of the core EBRD activities in Belarus, at the end-2005 the funds available for micro-lending technical assistance had been fully utilised and there were no donors available at the time willing to support the programme. The Bank consequently found it necessary to provide bridge financing over a three month period until donors were subsequently identified. Ensuring that TC funding is readily available before committing partner banks and consultants to such programmes, should receive careful attention.
- **Finding ways to reach out to MSMEs in the regions.** The access to micro clients in the regions is restricted due to the insufficiently developed branch network of partner banks and their limited capital. The Bank therefore needs to continue promoting additional channels such as establishment of a micro-lending institution, use of non-banking financial institutions and engagement with additional partner banks
- **Active policy dialogue with the authorities from an early stage of project development may speed up its implementation phase.** The Bank has been successful in policy dialogue with the government and the NBRB in the area of micro-lending, although introduction of the specific changes into the legislation took several years. Currently, apart from one element (lengthy registration of collateral) the major impediments have been removed. Another example is allocation of land through tender to Minsk Retail Network project.

Because of changes in legislation and internal procedures within the municipality, four consecutive tenders for the same land plot have taken place over the past eighteen months. The results of the tenders were not recognised by the Minsk municipality in three cases and there were no bidders given the unacceptable tender requirements in another. The company lost the recent tender in April 2006 and the client together with the Bank will continue policy dialogue with the authorities on speeding up the process of land allocation. Another example of delays in project implementation is the development of a sawmilling project the Bank is considering. The project has an experienced foreign strategic investor, but given changes in legislation, regulations related to wood supplies, introduction of new taxes, etc., the development of this project by the sponsor has taken several years, and the design of the project has changed considerably. Reliable timber supply remains one of the major impediments for successful project implementation. The Bank will continue to support both of these sponsors in their dealings with the authorities.

2. OPERATIONAL ENVIRONMENT

2.1 THE GENERAL REFORM ENVIRONMENT

2.1.1 Political Developments

The political situation in Belarus has been stable during the past Strategy period, with the executive maintaining effective control over all other branches of power, over the society and over most means of mass communication. While the president remains popular with much of the electorate, signs have begun to emerge that a growing segment of the population is dissatisfied with their lack of political choice, their lack of access to political decision making and their lack of voice. Protests have become larger and more common, despite legal and security measures taken by the authorities to suppress freedom of assembly and expression. Opposition groups have become more organised, despite having been practically shut out of all institutions of governance.

The parliamentary elections of October 2004 fell significantly short of OSCE commitments, as universal principles and constitutionally guaranteed rights of expression; association and assembly were seriously challenged. As a result of the unequal conditions and explicit restrictions on political parties, only one opposition candidate was elected in the 110 districts. A referendum on whether the Constitution should be amended to allow the president to serve more than two consecutive terms also took place in October and it passed overwhelmingly. The referendum was not monitored by the OSCE, although an invitation to do so was sent by the Belarussian government. The success of the referendum allowed the incumbent President to run for a third term at the March 2006 presidential elections, where he prevailed with 83% of the votes. While some positive aspects of the conduct of the presidential election were noted by observers, the overall assessment by the OSCE and most independent domestic observers was on balance negative. The international observers of the Commonwealth of the Independent States (CIS), on the other hand, concluded that the elections were free, open and transparent.

While non-governmental organisations and some independent media outlets continue to function, pressure from various state agencies has intensified over the past two years. The number of independent media outlets has declined, primarily due to a deteriorating operating environment in which libel legislation is applied very strictly and state interference is frequent. A number of moderate weeklies, satellite TV and the internet are the main sources of independent information, but their circulation remains limited. In the run up to the election, suppression of the independent media intensified. The government also tightened control over the activities of independent associations, think tanks and NGOs, many of which were forced to close or start operating from neighbouring countries. Civic involvement in political decision making has been further impeded by amendments to the criminal code in late 2005, which have introduced tougher sentences for a wide range of political activities and have de facto restricted freedom of expression, association and peaceful assembly.

Despite this, civil society in Belarus has demonstrated its resilience and adaptability, even if its size and influence remains limited when compared to more advanced transition countries. The Congress of Democratic Forces, which nominated a single opposition candidate for the presidential election, also strengthened the image and cohesiveness of the opposition and managed to mobilise a substantial number of protesters in the week following the election.

Relations with the West remain severely strained. After the presidential election a travel visa ban was extended to the Belarusian officials believed to be directly involved in the conduct of the election and the subsequent crackdown on opposition protests. Belarus remains part of the European Neighbourhood Policy (ENP), although there is currently no Action Plan, thus affecting the country's capacity to benefit from full cooperation with the EU.

A more detailed political assessment is included in Annex 1.

2.1.2 Legal Environment

Despite some encouraging legislative developments, the pace of market-oriented law reform remains, as was the case at the time of the previous Country Strategy, slow and halting and continues to lag significantly behind the much more dynamic pace of law reform, particularly commercial law reform, in the Russian Federation.

Over the course of the past two years, important new laws regulating the procedure for the conduct of commercial litigation, the registration of rights to immovable property and joint stock companies and other commercial enterprises have been adopted.

The Commercial Procedure Code was re-enacted in 2004 and lays down a comprehensive body of rules governing the procedural aspects of commercial litigation. Part IV is particularly noteworthy. It regulates in considerable detail the procedures for the enforcement of court decisions and ought in principle to improve the protection of contractual rights. Notwithstanding the enactment of this Code, however, there does not appear in practice to have been any increase in the certainty of judicial decision-making or any reduction in the time required to pursue a claim through to issuance of a final and non-appealable decision.

The enactment in 2004 of amendments to the Civil Code to improve the system for the registration of rights to immovable property should make ownership rights more certain and transparent. However, the benefit of these reforms is diminished by the continued wide scope for state and administrative interference in commercial transactions, including transactions involving the transfer of rights to land and other immovable property.

The Law of Belarus On State Regulation of Foreign Economic Activity, which entered into force in 2005, gives the President of Belarus and other state authorities extensive and wide-ranging powers to regulate foreign economic activity in Belarus. The precise scope of these powers is difficult to determine because they are expressed in vague terms. For example, the Law provides that “measures affecting foreign trade in objects of intellectual property” can be introduced by statute or presidential decree if these are felt to be necessary to uphold among other things “public morality or the legal order”. This and other similar formulations suggest that foreign investment and international trade with Belarus will continue to be subject to extensive state regulation and the possibility of extensive administrative interference. In 2005, the Investment Code was also amended and refined to regulate in more detail aspects of foreign investment activity.

In January of 2006, a new and comprehensive law regulating joint stock companies and other commercial enterprises was enacted. Though broadly in line with companies legislation in the Russian Federation, the provisions regulating corporate finance are sparse by comparison and give much less scope and flexibility for capital structures tailored to meet diverse risk appetites. Generally, the reform of capital markets legislation in Belarus, including in relation to clearing and brokerage activities, continues to lag badly behind developments in this sector in the Russian Federation, where the pace of change is much faster and new and more sophisticated capital markets products, including structured finance products such as securitisations, are now being successfully packaged and administered. No such developments are possible in the current legislative framework in Belarus. The overall trend of commercial law reform over the past two years continues, as was the case at the time of the previous Country Strategy, to evince an ambivalent attitude on the part of Belarus to the introduction of market-oriented legal reform and to the liberalisation of commercial enterprise that this would entail.

Belarus now has some elements of a governmental policy for promoting Public Private Partnership and improving its legal environment. The country does not have a specific Concession Law; however, the Investment Code dated 2002 as amended in 2006, contains detailed provisions regulating concessions. Although substantial work remains to be done to enable an effective legal and regulatory environment for private sector investment into public utilities and services, clear signs are evident of the Government’s intent to attract private sector investment into some

municipal services as well as renewable energy projects.

2.1.3 Social Conditions

Belarus population is estimated at about 9.8 million¹ and is declining over time due to a fall in birth rates and increasing mortality rates among adults. The average life expectancy at birth has declined from 70 years in 1992 to 68 years in 2002², but remains higher than in most other CIS countries. Life expectancy is higher on average for women (74 years) than for men (62 years). Belarus has a Human Development Indicator of 0.786, making it the second highest of the former CIS countries³. Belarus has the lowest rate in the CIS of child mortality in the 1-5 years age group (18 deaths per 1,000 population) and the best indicator with respect to reducing the level of baby mortality (15 cases per 1,000 newly born). Belarus also has one of the lowest maternal mortality rates in the CIS (35 cases per 1,000,000 births). The UNDP estimates that one out of five citizens has reached retirement age, increasing pressures on the shrinking working population, as shown by the rising dependency ratio.

As in many CIS countries, employment in industry and agriculture has decreased over time and there has been a shift toward the tertiary sector. Services now account for more than fifty per cent of total employment in Belarus. The official unemployment rate is low, at 1.5% as of end-2005, slightly higher for females than for men. The country has one of the highest shares of registered unemployed among CIS countries and one of the highest participation rates by registered unemployed in active market and training programs, as well as public works.

Belarus is an ILO member state and has ratified all eight core ILO conventions: C29 and C105 on forced labour, C87 and C98 on freedom of association, C100 and C111 on discrimination and C138 and C 182 on child labour.⁴ However, the Constitutional rights of workers to form and join independent unions on a voluntary basis and to carry out actions in defence of worker rights have been seriously undermined. Measures to suppress independent unions include the conversion of all government employees to short-term contracts, the arrest of members of independent trade unions for distributing union literature, the confiscation of union materials, excessive fines, and pressure on union members to join pro-government unions. There is no provision in the law that allows workers to remove themselves from dangerous work situations without risking loss of their jobs.

Poverty alleviation has been an important goal of the government. According to the authorities, 12.7% of the population live below the national poverty line as of end-2005. The incidence of poverty in Belarus has declined substantially since 1999, when it had reached a peak of 46.7% of the population, while inequality has increased only marginally. This has been achieved by maintaining an extensive system of social protection, services, and through administrative increases in wages.

The State has maintained control over medical services by safeguarding basic humanitarian principles and the constitutional rights of citizens to free medical assistance. Belarus' health services coverage (4.4 physicians per 1,000 people) is among the highest in the CIS region but the incidence of chronic and infectious diseases, like HIV/AIDS, is rapidly increasing, with serious implications for the budget. Total expenditures on health accounted for about 6% of GDP and are mostly concentrated on hospital care, while less attention is paid to health care prevention and public awareness campaigns.

¹ The majority of the population are Belarussians (81.2%), followed by Russians (11.4%), Polish (4%), Ukrainian (2.5%), and several other nationalities.

² World Bank, WDI Indicators 2005.

³ UNDP : Human Development Report 2005.

⁴ [ILO Application of International Labour Standards List](#)

Education is another priority area of the government's policy. The country has preserved the traditionally high level education standards. Among the strategic priorities of national educational development are accessibility, continuity and integration into international educational practices. The State spends about 7% of GDP for education purposes which is intended to increase to 10% of GDP by 2010.

2.1.4 Environmental Situation

The environmental situation in Belarus overall has improved over the last 2 years. However, further improvements are required in the area of reducing air emissions from transport, industry and energy generation sectors as well as controlling and reducing water pollution, soil contamination and waste generation from industrial, agricultural and domestic sources. The majority of environmental improvements have taken place as a result of increased environmental expenditure (accounting for about 2% of the GDP) to finance energy efficiency measures in all sectors, switch to the use of local sources of energy (e.g. biomass), acquisition and installation of pollution abatement equipment and raising the level of environmental education and awareness of the public. Consequences of the 1986 accident at the Chernobyl nuclear power plant in Ukraine still affect the population, environment and economy of Belarus significantly. Twenty years after, about 20% of the country is still contaminated with long-lived isotopes of caesium above acceptable levels.

The 1992 Law on Environmental Protection (last amended in 2002) lists international cooperation in environmental protection both as a major principle of environmental protection and as a major aim of the national policy in environmental protection. Key directions of the country's environmental performance, such as improving administrative, economic and regulatory mechanisms of environmental protection and management, combating soil and water contamination and improving overall energy efficiency are outlined in several documents, including the National Action Plan on the Rational Use of Natural Resources and Environmental Protection (NEAP⁵) for 2001-2005 and the National Strategy for Sustainable Development for the period to 2020 (NSSD-2020⁶). In the period 1999-2003, Belarus made particular efforts to introduce the norms and principles of international environmental legal acts and commitments, striving to make this legislation compatible with the EU's body of environmental law. Updates of the national environmental legislation include a framework for integrated environmental licensing, environmental assessment (ecological expertise), norms for pollutant emissions and effluents, and environmental certification. The Law on State Ecological Expertise currently in effect does not cover all aspects of environmental impact assessment (EIA), and serious discussions regarding the introduction of strategic environmental assessment (SEA) is in its early stages.

The harmonization of national environmental legislation with international legislation is one of the priorities of the country's environmental policy and compliance with the mandatory international requirements regarding environmental protection and the rational use of natural

⁵ NEAP proposes broadening and strengthening international cooperation as a way to solve environmental problems effectively. The priority objectives are participation in the "Environment for Europe" process; implementation of international conventions, protocols and agreements to which Belarus is a Party; further development of bilateral and multilateral relations; attracting foreign investments for environmental programmes and projects.

⁶ NSSD-2020 focuses on the harmonization of national environmental legislation with international agreements and standards. The following measures are envisioned to achieve this: (1) improving environmental legislation and the system of environmental standards, norms and regulations in view of a transition to international standards and norms; (2) eliminating contradictions between environmental legislation and other legislative acts; (3) further harmonizing legislation with the principles and norms of international environmental agreements to which Belarus has signed up.

resources is one of its main objectives. The development of environmental legislation during the last two years further strengthens the state environmental control and monitoring functions, provides for an increased access of the population to environmental information, introduces a system of environmental certification and incentive, and reinforces the environmental impact assessment and compensation procedures.

Due to the fact that three of Belarus' neighbouring countries have recently become EU members, there are several EU and World Bank-funded initiatives within the country to harmonise its environmental legislation with the pertinent provisions of EC Directives, such as the EC Water Framework Directive. Most recently, Belarus has prepared several trilateral agreements on water management with neighbouring countries. Other environmental legislative harmonisation initiatives in the country include the introduction of a system of integrated environmental permits based on the provisions of the IPPC Directive and the BAT approach.

Belarus has made particular progress in acceding to global and regional environmental conventions and protocols. For example, the country acceded to the Stockholm Convention on Persistent Organic Pollutants in December 2003, ratified Kyoto Protocol by accession in August 2005, and became a party to the Espoo Convention in November 2005.

2.2 PROGRESS IN TRANSITION AND THE ECONOMY'S RESPONSE

2.2.1 Macroeconomic Conditions for the Bank's Operations

Macroeconomic performance has been robust over the period covered by the last country Strategy. Real GDP growth stood at 11.4% in 2004, the highest growth level since 1997, and remained strong at 9.2% in 2005 and 9.7% in the first ten months of 2006. On the demand side, the key drivers of growth have been private consumption and investment on the back of rapidly rising real wages and a significant increase in lending activities. High prices for commodity exports (oil products and fertilisers) and strong demand from Russia have contributed to the robust performance of the economy. On the supply side, growth has been broadly based, with industry, construction and services all expanding at high rates. Compliance with IMF statistical reporting standards has improved following the country's subscription to the Special Data Dissemination Standards (SDDS) in December 2004.

Since the last EBRD country Strategy, progress has been made in advancing macroeconomic stabilisation. Inflation has been on a downward trend since 2000, but remained among the highest in the region until 2004. At an estimated 8% in 2005 and a projected 6% in 2006, inflation in Belarus is now below the average inflation in the CIS countries. This slowdown in inflation was supported by a tightening of monetary policy and greater exchange rate stability, although administrative price controls on basic goods and utility services, as well as lending caps, have also played a role. On the back of falling inflation, the National Bank of the Republic of Belarus (NBRB) has lowered the refinancing rate nine times since July 2004, from 19% to 10.5%.

Since 2004, the NBRB refrained from direct budget financing, although pressures to re-capitalise state-owned banks remain high. Nominal broad money increased by 60% over 2005, down from triple-digits figures in the late 1990s. The growth in money supply was accompanied by an increase in money demand, induced by a booming economy and increased confidence of the population in the domestic currency. The share of deposits held in domestic currency has risen steadily and reached almost 51.4% by end-2005, compared with 37% at end-2003.

Exchange rate stability has further underpinned the disinflationary process. The nominal exchange rate has been stable and de facto fixed at around BYR 2,150 per US dollar since March 2005. Although the NBRB is officially targeting the Russian Rouble, it is also using the exchange rate against the US dollar as an "indicative" target, as the economy remains highly dollarised. A significant proportion of loans issued by domestic banks are denominated in

foreign currency, increasing the vulnerability of the banking system to sudden movements in the exchange rate. The prospective currency union with Russia remains on hold.

For the first time ever, the country ran a current account surplus in 2005 estimated at 1.5% of GDP. The trade deficit narrowed to an estimated 1.7% of GDP in 2005 from 9.4% in 2004, reflecting strong demand from Russia, Belarus' major export market, and high prices for oil products and fertilizers. In addition, Belarus continued to enjoy low prices for imports of Russian gas (about USD 47 per 1,000 cubic meters while the European market price currently stands at USD 230 per 1,000 cubic meters). However, this preferential treatment may come to a sudden halt, as Gazprom is pressing for a gas price increase for Belarus, in line with its strategy to extract higher profits from its exports to neighbouring CIS countries. On-going negotiations may settle at a lower price of around USD 110-120 per 1,000 cubic meters in exchange for a controlling stake in Belarus gas transmission company, Beltransgaz. The government aims at reducing energy dependence on Russia through the utilization of local energy resources that could constitute 25% of the national energy consumption in the medium term, but in the short term potential increases in import prices for Russian gas remain a source of economic vulnerability.

The trade deficit widened significantly in the first half of 2006 to an estimated 4.6% of GDP. Although exports remained buoyant, imports expanded at a much faster rate, reflecting fast growth in real income and an appreciating real exchange rate. The current account is expected to record a deficit for 2006 as a whole, as the projected surplus in services is unlikely to offset the widening trade deficit.

Progress has been made in fiscal consolidation, with incorporation in the fiscal accounts of the Social Protection Fund in 2004 and Innovation Funds in 2005. Since 2004 there has been a gradual reduction in tax rates, including of VAT and turnover tax. The government also limited the power of local authorities to introduce new taxes since 2006. Nevertheless, the fiscal burden remains among the highest in the region. The consolidated fiscal deficit was very modest, at less than 1% of GDP in the past two years, but quasi-fiscal activities remain large.

The government policy of enterprise support and directed wage increases, combined with a favourable external environment, should ensure positive growth in the short term. However, without significant progress in structural reforms and improvements in the business climate, growth is unlikely to be sustainable at current levels. Further growth in wages in excess of productivity increases and in the absence of widespread enterprise restructuring may erase the competitiveness of Belarusian products. The country is also highly vulnerable to external shocks, such as a drop in commodity prices. A possible deterioration of the external position poses risks to exchange rate stability, given the low level of official reserves (below one month of imports) and limited access to external financing. The fiscal position is also vulnerable to worsening of the external environment, as government revenue is highly dependent on external trade.

2.2.2 Transition Success and Transition Challenges

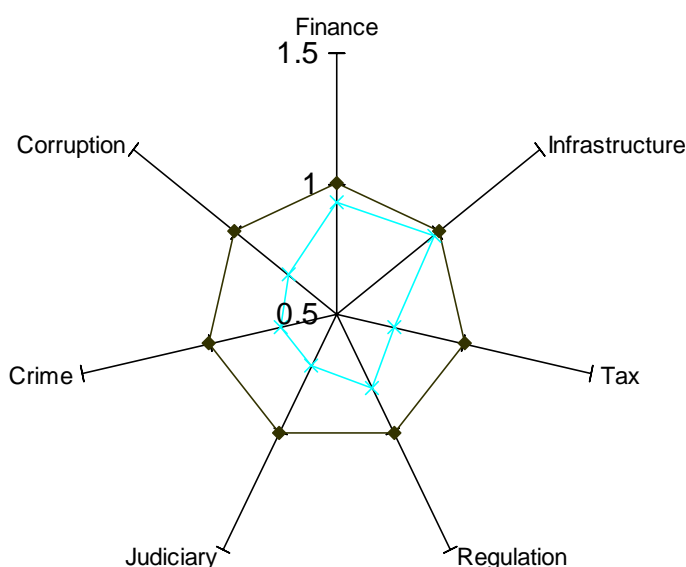
Market-oriented reforms and improvements in the business environment, together with the continuation of a responsible macroeconomic policy are needed for a sustainable private sector-led growth in the long term.

Little progress has been made on advancing structural reforms since the last EBRD country Strategy. The state continues to play a dominant role in the economy, with the majority of enterprises and banks still under state control. Privately-owned enterprises experience excessive state regulation and interference, and a high tax burden. The legislative and regulatory frameworks are complex and often revised. A vast number of economic activities are regulated by presidential decrees, which often contradict existing laws.

Despite the difficult business environment, there is evidence of a small but growing private sector in Belarus. EBRD estimates the private sector share in GDP at 25%, but methodological issues regarding the definition of private sector and companies complicate their precise measurement. In the 2005 EBRD/World Bank Business Environment and Enterprise Performance Survey (BEEPS), the Belarusian enterprises reported the highest growth in sales and fixed assets across the region. The BEEPS survey also revealed an improvement in the enterprise perceptions of the business environment in almost all categories in comparison to the 2002 BEEPS survey (see Chart 1 below). However, Belarus is lagging behind many transition countries in several dimensions of the business environment, in the first place business regulation and financing.

Chart 1. Sources: BEEPS 2002 and 2005. Note: The spider chart shows the changes in seven dimensions of the business environment in Belarus between 2002 and 2005. The line in the centre represents a benchmark of no change. Where the line falls inside the benchmark, this represents an improvement in that dimension of the business environment. Where the line falls outside of the benchmark, this represents a deterioration in the business environment.

Change in Perceptions of Business Environment in Belarus 2002-2005



As regards the areas of concern set out in the 2004 country Strategy, very limited progress has been made towards meeting the three economic benchmarks upon which future enhanced lending activities have been conditioned to:

Economic benchmark 1: Phasing out administrative interventions in the economy, particularly artificial restrictions on business;

- There have been some attempts to improve the business environment, including the streamlining of registration and licensing procedures. A presidential decree on business registration issued in April 2006 provides for the simplification of business registration procedures and is perceived by the business community as an advance on the previous version. Banking legislation has also progressed, especially in the area of micro-lending, where policy dialogue in the context of existing EBRD credit lines contributed to the elimination of key regulatory obstacles. However, the overall legislative and regulatory frameworks remain cumbersome and subject to frequent revisions. For example, Amendments to the Investment Code, which came into force on 1 January 2005, abolished the tax and import tariff preferences previously granted to foreign investors. New

amendments were adopted later, putting exemption from VAT and import tariffs on imported capital goods back into the Code. Another series of amendments, adopted in July 2006, eliminated some preferential treatment for foreign investors, including the freedom to set prices and a moratorium on legislative changes affecting businesses with foreign capital during five years following their registration.

- The instability and unpredictability of the business environment are frequently referred to as one of the major obstacles to doing business in Belarus. This was confirmed by the results of the 2005 BEEPS survey, according to which a majority of entrepreneurs perceives the uncertainty about regulatory policies as the top obstacle to doing business in Belarus. Issues related to financing and taxation also appear to be of concern. At the same time, entrepreneurs appear to be less worried about the quality of infrastructure, the functioning of the judiciary or street and organised crime than their counterparts in other transition countries.
- The economy continues to be heavily regulated. The government imposes various targets on enterprises, including wage growth, production and export targets. Regulation often takes the form of “recommendations”, such as recommended lending rates for banks (including privately owned) and recommended price formation.

Economic benchmark 2: Acceleration of the denationalisation and privatisation processes;

- Little progress was made in privatisation over the past two years. Incorporation of state enterprises into joint-stock companies continued, but these companies remain state-owned. In only a few companies minority stakes were sold to domestic buyers.
- At the same time, the state increased its stake in some enterprises and banks via different mechanisms. For example, indebted enterprises were offered government support in exchange for their shares. In this way the government gained back its shares in a number of previously privatised enterprises.
- Most of the major banks remain under state control and are involved in directed lending to priority enterprises and sectors (such as agriculture and housing construction) and socially important projects.

Economic benchmark 3: Putting in place measures to secure property rights and improve corporate governance.

- Excessive regulation, weak property rights and inadequate regulatory framework continue to undermine the business climate for domestic and foreign investors.
- The “golden share”, or special right of the state to participate in the management of privatised enterprises, remains a concern for investors. According to official information, as of 1 May 2006, the “golden share” was exercised in 14 joint stock companies (OAOs) out of 1,600 OAOs registered in Belarus. The government confirmed that the “golden share” will expire in eight enterprises in 2006. Recently application of the golden share rule was removed with regard to the country’s banks.

2.3 ACCESS TO CAPITAL

Financial intermediation remains at moderate levels. Domestic credit as a percentage of GDP was at about 25% in 2006, virtually unchanged since 2004. This is comparable with the average level of credit in the CIS but well below the average for the Eastern European countries. The access to credit among enterprises is uneven. Priority enterprises and sectors, such as agriculture, have easier access to long-term financing through state-owned banks, often at preferential rates. In the BEEPS 2005 survey, most enterprises didn’t report any improvement in access to finance between 2002 and 2005. However, in some market segments, especially in the area of micro-lending, there has been increased activity and access to credit has improved.

Domestic credit to households increased to 6% of GDP by the end of 2005 from around 4% by the end of 2004, the level comparable with Russia and above the CIS average. A significant proportion

of this is represented by government supported mortgages. But various consumer loans and market based mortgages are also growing rapidly.

The average cost of financing decreased over the last two years. The average lending rate declined in line with the discount rate, as the banks are required to apply lending caps of about three per cent on the discount rate to the loans issued in domestic currency. The lending rate on foreign currency denominated loans remained stable over the last two years.

As the consolidated budget was close to balance in 2004 and 2005, the government borrowing requirements were low. Access to international capital markets is limited and Russia remains the main source of external financing. Over the last two years, Russia provided two loans to Belarus, USD 175 million and USD 146 million in 2004 and 2005 respectively. In addition, Belarus attracted syndicated loans from foreign commercial banks.

Although Belarus does not have a sovereign rating yet, major state-owned Belarusian banks (Belarusbank, Belagroprombank and Belpromstroibank), as well as Belgazprombank, majority owned by Gazprom, are rated by Fitch. In February 2006, all of the foreign currency issuer default ratings for these banks were upgraded from CCC+ to B-. These ratings reflect the government support which these state-owned banks are likely to receive in case of financial difficulties (or in the case of Belgazprombank, from its majority owner). The banks were able to attract syndicated loans from foreign commercial banks. The major private Bank in Belarus, Priorbank, is a member of Raiffeisen group and has therefore better access to the international capital markets.

FDI inflows remain negligible at around one per cent of GDP in 2005, reflecting the instability of the business environment for foreign investors. The cumulative stock of net FDI per capita for the period of 1989-2005 stood at USD 251, which is below the CIS average of USD 440 and significantly below the average for the new EU members of around USD 3000.

3. STRATEGIC ORIENTATIONS

3.1 BANK'S PRIORITIES FOR THE STRATEGY PERIOD

As a result of the conditions present in Belarus, the Bank will continue to concentrate its operations in the private sector where its investments can have the greatest potential transition impact. The Bank will maintain the three alternative scenarios as a graduated response to domestic circumstances, referred to as a **Baseline, an Intermediate and a Regular scenario**. This approach is consistent with that adopted in previous strategies. As in the past, the Bank will remain ready to expand its operations outside the private sector should domestic circumstances in Belarus allow. The Bank's priorities under each scenario as well as the benchmarks conditioning the transformation from the Baseline to the Intermediate and the Regular scenarios are outlined below

Under the **Baseline Scenario**, the Bank's operational priorities will be:

- Portfolio management of existing investments in Belarus, including continued support to MSMEs through approved Lines of Credit with privately-owned banks.
- Advisory services to SMEs via the Bank's TurnAround Management (TAM) and the Business Advisory (BAS) programmes, provided funding from donors will be made available;
- Selective direct investments in local and foreign private companies, including through the Direct Investment Facility (DIF) programme; and
- Expansion of the trade facilitation programme to additional bona fide private banks.
- In accordance with the need to support private MSMEs, Foreign Direct Investment, as well as competition in the financial sector, the Bank will consider providing MSME credit lines directly to individual private banks, and equity investments in private banks, together with related technical assistance, when the investments are small and particularly if this can be

done alongside reputable international strategic investors, and the State has no control, including veto power over decision making.

As in the previous Strategy, all Bank operations must demonstrate that the proposed investments are not effectively controlled by the state or state entities, and government officials will not personally benefit financially from such investments. Please refer to section 3.2 (Sectoral Challenges and Bank Objectives) for the details of the proposed activities under the Baseline Scenario.

This Strategy identifies clear, measurable political and economic benchmarks that the Bank will monitor regularly, and specifies the operational response that could follow in the event of significant progress.

Political benchmarks

Institutions within the United Nations, OSCE, European Union and Council of Europe have all stressed the need for tangible evidence of progress in the following areas:

- 1) *Protection of human rights* – Guaranteeing the right to freedom of expression, freedom of association and peaceful assembly, in compliance with the country’s commitment under the OSCE 1990 Copenhagen Document and the United Nations High Commission for Human Rights International Covenant on Civil and Political Rights. Completing a full and impartial investigation in the cases of forced disappearance of several political opponents, in compliance with resolutions by the Council of Europe and the United Nations Commission on Human Rights (UNCHR).
- 2) *Freedom of the media* – Guaranteeing the right to freedom of the media in accordance to the OSCE commitments to safeguard free reporting and application of the recommendations of the OSCE Representative on Freedom of the Media.
- 3) *Pluralism* – Ensuring non-discrimination against political opponents, independent associations and NGOs in conformity with the country’s commitments under the International Covenant on Civil and Political Rights.
- 4) *Free and fair elections* – Implementation of the OSCE-ODIHR recommendations for the revision of the electoral code regarding election administration, candidate registration and access to state media.

Economic benchmarks

- 1) Strengthening market mechanisms by reducing interventions into the economy, hardening budget constraints of state-controlled enterprises and allowing more flexibility in determining prices, wage and production levels.
- 2) Enhancing the role of the private sector in the economy by facilitating entry of new businesses and advancing corporatisation and privatisation of small, medium and large enterprises.
- 3) Securing property rights, increasing transparency and improving the legal framework for corporate governance.
- 4) Strengthening financial sector discipline by phasing out direct state support to state-owned banks, phasing out recommended lending and allowing more private participation in the sector.

In the event of substantial progress in these areas, the Bank will consider advancing its operations in Belarus to the **Intermediate Scenario**. As provided in previous strategies, within the Intermediate Scenario, the Bank would be able to consider, on a project-by-project basis and in consultation with the Board of Directors, further involvement in the Belarus economy.

The Bank’s operational priorities under the Intermediate Scenario could include:

- Participation in privatisation support for local private companies and foreign strategic investors, provided it can be shown that the proposed investments are not effectively

controlled by the state or state entities and government officials will not personally benefit financially from such investments;

- Contribution to the commercialisation and privatisation of public utilities and services limited to provision of technical assistance;
- Encouragement of the privatisation and consolidation of state banks through the provision of technical assistance and very selective financing to the privatized banks.

If transition in Belarus were to proceed to the point that Belarus' commitment to democratic and free market principles is demonstrably achieved, the Bank would engage with Belarus according to a **Regular Scenario** with the normal range of its operations. In this case, the EBRD would be able to deploy the full range of its investment and lending facilities in Belarus, including financing of public sector projects and private-public partnerships. The Bank will continue to carefully monitor the political and economic situation in Belarus, and if the conditions for this Regular Scenario emerge, the Bank will propose a new Strategy for approval by the Board of Directors.

3.2 SECTORAL CHALLENGES AND BANK OBJECTIVES

3.2.1 Enterprise Sector

Although growing, the private sector in Belarus only accounts for about a quarter of the country's GDP and less than half of total employment. Over the last Country Strategy cycle, domestic enterprises have benefited from a more stable macroeconomic environment and the growth in households' real incomes. This is also confirmed by the results of the 2005 Business Environment and Enterprise Performance Survey (BEEPS), which showed that over 2002-2005 the Belarusian enterprises experienced the highest real growth in sales (above 30%) and fixed assets (around 27%) in the region over the last three years. The good price-quality mix of Belarusian goods, coupled with some imports-restriction policies, helped local enterprises to become the major beneficiaries of growth in domestic demand. Nevertheless, the competition from foreign producers increased. Enterprise restructuring and progress in structural reforms are key to preserving the competitiveness of Belarusian goods in the long-term.

Over 2002-2005, the share of small enterprises in retail sales almost doubled from 5.8% to 10.1%. Total sales of goods and services produced by small enterprises continued to grow and amounted to about USD 15 billion in 2005. The government intends to accelerate the development of the SME sector by minimising administrative restrictions and improving their access to finance, including further development of micro-lending. The recently adopted Programme of the Social and Economic Development of the Republic of Belarus for 2006-2010 sets targets for a growth in the number of SMEs (to 44,000-46,000), an increase in their share in total sales to 30 per cent, and an increase in their share in total employment to 23-25 per cent by the end of 2010⁷.

Baseline and Intermediate Scenarios.

MSMEs. – Under the Bank's existing MSME facility, over 300 MSME loans are issued monthly (compared with 400 loans for the whole of 2004). This is a substantial increase since the previous Strategy and demonstrates the improved legal base for micro-lending, awareness of MSMEs regarding funding opportunities, and increased demand for MSME loans. The Bank is playing the leading role in supporting the sector.

The Bank will continue to promote private sector development of SMEs through the Turnaround Management (TAM) and Business Advisory Services (BAS) Programmes,

⁷ Official statistics only cover small enterprises, as the concept of a medium-size enterprise is not well defined in Belarus. Individual entrepreneurs are not included in the statistics covering small enterprises. The ownership of small enterprises is mixed, but the majority are private.

designed to assist the development and growth of SMEs, enabling them to be more competitive on domestic and international markets. Areas of particular focus are management skills, market positioning, information systems, quality certification, technical and environmental upgrades. The scope of the support will largely depend on the availability of donor funds.

Larger private companies. The Bank will provide financing selectively to local and foreign private companies, including through the Direct Investment Facility (DIF) programme. Opportunities are likely to be found in wood-processing, packaging, printing, agribusiness, construction materials and light engineering as well as in commercial real estate development.

Institutional support. Given its hands-on experience with MSMEs, the Bank stands ready to help the authorities fulfil the ‘Programme for Support of Entrepreneurship’, developed in 2005 but still to be adopted by the government. Subject to availability of donor funding, advisory services will be provided to private sector companies via the Bank’s TAM and BAS programmes.

3.2.2 Financial Sector

Private participation in the financial sector is still limited. The sector is dominated by state-owned banks, which are involved in directed lending activities, while benefiting from some privileges granted by the government. For instance, six major banks (only one of which is privately owned) currently enjoy government guarantees on household deposits, giving them a competitive advantage over their rivals. Under a proposed new deposit insurance law, government guarantees on household deposits could be extended to all banks, but this legislation has not moved forward. At the same time, the “golden share” was abolished in the banking sector in August 2006, and declarations made by authorities that equal conditions for private and state-owned banks should be created, and that the 25% limit for foreign capital participation in the banking sector should be abolished. These developments provide some encouragement.

Priorbank remains the biggest private bank in Belarus, well ahead of other private banks in capital and assets, but there are signs of increased competition among other privately-owned banks. Belgazprombank, another EBRD partner bank, is active in MSME lending and is expanding its activities in other market segments, such as consumer loans. The Bank has been instrumental in supporting these positive developments, in particular in the area of improvement of micro-lending legislation for the whole banking system of Belarus. At the same time, in other areas the difficult environment has prevented the transition benefits of the Bank’s projects, migrating to the rest of the banking sector. According to the Assessment of Transition Challenges (ATC) prepared by the Bank (see Table in Annex 4)⁸, the transition gaps in Belarus’ banking and non-banking financial sector remain large.

Baseline Scenario. The Bank will continue to promote strengthening of financial intermediation in Belarus through provision of MSME credit lines directly to individual private banks, and equity investments in private banks, together with related technical assistance, when the investments are small and particularly if this can be done alongside reputable international strategic investors as long as the state has no control, including veto power over the decision making. The Bank will also expand the trade facilitation programme to additional private banks.

To achieve wider coverage of MSMEs and in addition to expanding the number of partner banks, the Bank has commenced work on establishment of a dedicated micro-lending

⁸ The Table in Annex 4 maps sector-specific transition challenges under the transition impact headings (i) Structure and extent of markets (e.g., extent of competition); (ii) Market institutions and policies (e.g., regulatory framework); and (iii) Market-based skills, conduct and innovation (e.g., improvements in corporate governance).

institution. The Bank will also seek to increase related technical assistance to partner banks as well as increase the number of partner banks, provided donor funds are available.

The Bank will continue to support the development of new financial products, such as mortgages as well as assisting establishment of a market and best practice for such products.

The policy dialogue with the government will focus on banking legislation/procedures for private sector MSME lending.

Intermediate Scenario. Encouragement of the privatisation and consolidation of state banks through the provision of technical assistance and very selective financing to the privatised banks.

3.2.3 Infrastructure

Belarus infrastructure and public utilities suffer from a lack of investment, which has led to deterioration in the quality of the operating assets over time. The key transition challenges over the next few years will be to promote structural reforms and allow private participation in the provision of public services. Currently there are no private sector companies in public utilities but the government has initiated work toward introducing and strengthening legislation to allow private participation in the sector. Further reform efforts are needed to strengthen the creditworthiness of municipalities and to promote long-term financial sustainability in the sector. The Bank will closely monitor progress in this regard.

Baseline Scenario. The Bank's policy dialogue with the government will focus on provision of advice that directly supports drafting and initial implementation of legislation and regulations for the purpose of enabling private sector ownership and operation of municipal infrastructure and domestic, resource-based, power projects.

Intermediate Scenario. In the event of substantial progress in achieving the benchmarks described above, the Bank could enhance the manner of its policy dialogue through provision of technical assistance in support of the commercialisation and privatisation of public utilities and services.

4. COOPERATION WITH OTHER IFIS AND MULTILATERAL DONORS

4.1 INTERNATIONAL MONETARY FUND (IMF)

The IMF and the Belarusian authorities have long disagreed about appropriate macroeconomic policies and the assumptions underlying them, and thus the Fund has made no disbursements to Belarus since late 1995. A Staff Monitored Program was implemented during 2001 with mixed results that have not provided a sufficient basis for a resumption of IMF financing. In early 2004, the authorities withdrew their long-standing request for discussions on a stand-by arrangement. Nevertheless, cooperation with the IMF continued in various areas, with important milestones including foreign exchange liberalisation, disinflation, subscription to the IMF's Data Dissemination Standard in 2004, as well as completion of the Financial Sector Assessment Program upon the authorities' request. However, the Fund has indicated that Belarus' growth strategy - involving continued centrally-mandated wage policies, rapid increases in recommended credits and other quasi-fiscal activities - is ultimately unsustainable in the absence of policy adjustment and structural reforms. Against this background, and given the likely reversal of the recent extraordinary improvement in Belarus' external environment, the IMF considers the authorities' macroeconomic projections including GDP growth of 50% during the period of 2006-2010 as envisaged under the Program of socio-economic development of Belarus, to be unrealistic. At the same time, the authorities have shown a keen interest in technical cooperation with the IMF. Recent technical assistance missions have advised the Belarusian authorities on banking supervision issues, government finance statistics, monetary

policy and monetary operations, monetary transmission mechanism and on other important issues.

4.2 INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

Based on the approaches of the last 2002 Country Assistance Strategy (CAS) expired in 2004 and the lessons from the CAS evaluation as a backdrop for a new country Strategy, IBRD has been focusing on updating the country knowledge base, providing “just in time” technical assistance on the issues of public finance management, budgeting, preparation of the National Strategy for Development of Statistics, anti money laundering, WTO accession, energy strategies, business environment. The following main studies were conducted and respective reports issued:

- Public Expenditures Review (2003);
- Poverty Assessment Report (2004)
- Country Economic Memorandum “Belarus: Window of Opportunity to Enhance Competitiveness and to Sustain the Economic Growth“ (2005)
- Financial Sector Assessment Report (2006)
- CIS Payments and Securities Settlement Initiative (CISPI) - Belarus Country Assessment (2006)
- Energy Sector Review (to be released soon).

The USD 50 million Post Chernobyl Recovery Project was approved by the World Bank Board on April 18, 2006. The project’s objective is to contribute to provision of better quality, reliable and efficient heat and hot water services, with emphasis on public institutions in the social and health sectors, to the population residing in the Chernobyl-affected area.

IBRD is now discussing possible approaches to a new Country Assistance Strategy for Belarus. In addition to continued IFC activities, the authorities have indicated that they prioritise the Chernobyl area – related water quality and forestry management projects, environment (waste management, POPs and Kyoto agenda) projects as well as to continue engagement on energy efficiency programs. (More information is contained in Annex 6).

4.3 INTERNATIONAL FINANCE CORPORATION (IFC)

Since 1992 IFC has been actively involved in providing advisory services the private sector in Belarus. In December 2004, IFC has launched Business Enabling Environment Project which aims at i) reducing the regulatory burden on SMEs and ii) improving SME’s access to information and business support services. By these means IFC seeks to improve the overall business climate in Belarus.

To remove administrative barriers to SMEs, the Project conducts annual surveys of regulatory and administrative barriers to SMEs, develops recommendations on improving the business environment for SMEs and cooperates with government agencies to produce practical solutions to the administrative barriers currently hindering business development. These solutions, as planned, will be introduced in the form of legislative changes, at either a regional or national level.

To improve SME’s access to information, in 2005 the Project launched an Internet portal www.bel.biz, which covers a multitude of business-related issues: business law, establishment and functioning of companies, financing, management, business support services. The portal is updated on a daily basis and contains all the information which an entrepreneur might require for running the business.

IFC also pursues investment activities in Belarus. To date, it has invested a total of USD 69.8 million in the financial and manufacturing sector, including credit lines extended to Priorbank

and Belgazprombank for on-lending to private enterprises and providing loan and equity for the refurbishment, modernization and expansion of Dednovo brewery facilities.

4.4 UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP)

UNDP's cooperation with the government is regulated by the Country Programme Document (CPD) which was developed in 2005 and covers the period of 2006-2010. The CPD was already approved by the UNDP Executive Board and is expected soon to be approved by the government. The CDP is focusing on five priority areas: economic growth and increase in living standards; effective and accountable governance; environmental sustainability; rehabilitation and sustainable development of Chernobyl affected areas; and cross border cooperation.

4.5 EU-TACIS

Relations between the European Union and Belarus are currently regulated by a Country Strategy Paper and a National Indicative Programme for the period 2005-2006, which set out the EU policy approach and related budget.

Belarus has been part of the European Neighbourhood Policy (ENP) since the policy's inception in 2004. Financial assistance for the implementation of the ENP will be offered through the European Neighbourhood and Partnership Instrument (ENPI), which replaces the MEDA and TACIS programmes from 2007 onwards. As of yet there is no bilateral Action Plan between the EU and Belarus.

For the next Strategy period, the EU will remain engaged in Belarus through a twin track approach involving support for civil society, rule of law and democratisation, and support for the needs of the population. The ENPI instrument will focus on i) support for social and economic development, including possible assistance in the areas of help for the most vulnerable parts of Belarusian society, particularly in Chernobyl-affected areas, public health, and SME development, and; ii) Support for strengthening democracy, good governance and respect for human rights, including at the level of regions and local communities, including people-to-people contacts, and capacity building for NGOs and professional associations as well as local and regional authorities. In addition, cross-border cooperation programmes (CBC) will continue under the ENPI.

4.6 USAID

The USAID program in Belarus strives to build NGO capacities in providing social services to vulnerable groups of population in the sphere of combating HIV/AIDS; pursuing anti-trafficking activities; support to orphans and vulnerable children, and promote economic policy dialogue and modern economic and accounting education. USAID assistance programs in economic reform focus on strengthening the SME sector and economic/business education and public dialogue on reform.

ANNEXES

- Annex 1: Political Assessment
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ANNEX 1: POLITICAL ASSESMENT

Compliance with Article 1

Previous Country Strategies have drawn attention to inconsistencies in Belarus' commitment to, and application of, principles of multi-party democracy, pluralism and market economics in accordance with Article 1 of the Agreement Establishing the Bank. During the last two-year Strategy period there has been no improvement in the political environment and progress in the economic sphere has been limited to the area of macroeconomic management. In some aspects of democratic governance there has been significant backtracking.

Political Accountability and the Rule of Law

The current constitution of the Republic of Belarus, approved in 1994 and amended in 1996, confers on the President a wide range of powers. Among others, the Constitution empowers the President to appoint one third of the members of the upper house of parliament (the Senate), issue decrees with the force of law, and appoint the chairman and five regular members of the 12-member Constitutional Court. Although the Constitution defines Belarus as a unitary, democratic state based on the rule of law providing for a constitutional government founded on the principle of the separation of powers, in practice the constitutionally guaranteed checks and balances that would underpin this principle have been gradually eroded.

For example, accountability through regular elections is hampered by continuing difficulties in the legal framework and uncertain political will to carry out free and fair democratic elections. The electoral code was amended and improved in 2000, following several rounds of consultations between the government of Belarus and experts from the OSCE Office of Democratic Institutions and Human Rights (ODIHR). However, some shortcomings in the legislation remain. In ODIHR's assessment, the electoral code still "fails to provide for a pluralistic representation on the Central Electoral Commission"; it also "excessively regulates campaign activities", thus inhibiting "the right to free speech and expression".

Recent elections have called into question the authorities' political will to hold free and fair elections. The parliamentary elections of 17 October 2004, for example, "fell significantly short of OSCE commitments as the universal principals and constitutionally guaranteed rights of expression, association and peaceful assembly were seriously challenged". While voting procedures on Election Day were generally carried out in accordance with the applicable legislation, political parties were marginalised from the entire electoral process. Their lack of access to state media, cases of discrimination against the opposition, restrictive regulations and arbitrary application of provisions for the registration of candidates in fact resulted in only one opposition candidate being elected in the 110 districts.

A nationwide referendum on constitutional amendments to abolish the two-term limit on the presidential mandate also took place on 17 October 2004. OSCE/ODIHR did not monitor the referendum, although it was officially invited by the Belarussian government to do so. In 2004 the Venice Commission adopted an Opinion on the Referendum which stated that the question submitted to the electorate partly contradicted the existing electoral law and in effect could further aggravate the democratic deficit in a country where checks and balances on the executive are not adequate. The referendum passed overwhelmingly, although some domestic observers questioned the fairness of the process and the integrity of the result.

Presidential elections were held on 19 March 2006. According to the official results announced by the Belarus Central Election Commission (CEC), the incumbent President Alexander Lukashenko won re-election to a third term with 83% of the vote on a 92.6% turnout. The main opposition candidate, Alexander Milinkevich, received 6% of the votes, while pro-government lawmaker Syarhey Haydukevich received 2.8% and head of the United Social Democratic Party Alexander Kazulin got 1.5%.

There were several positive aspects to the election, according to international observers. The International Election Observation Mission organised by the OSCE referred to the potential for genuine voter choice with the appearance of four candidates on the ballot, the opportunity for each candidate to make two 30-minute campaign statements on national radio free of charge, the ability of some opposition candidates to hold campaign rallies unimpeded, the general efficiency and orderliness of the preparations and the voting, and the level of cooperation with international observers.

Nevertheless, the overall assessment of the conduct of the election by the OSCE, some other international organisations, many independent domestic observers and several western capitals was, on balance, negative. According to the Belarus Helsinki Committee observation mission, the electoral campaign was conducted in an “atmosphere of fear”. Opposition parties and NGOs were excluded from any electoral commission, thus contravening the principles of transparency and pluralism, and had to operate “under unequal conditions”. The OSCE final assessment pointed to the arbitrary use of state power and widespread detentions during the electoral campaign, which “raised doubts regarding the authorities’ willingness to tolerate political competition on the basis of equal treatment before the law”. Other shortcomings included lack of equal access to media for the opposition, harassment against opposition members and NGOs, mounting pressure against state workers and university students, as well lack of transparency and partiality of the electoral administration. In addition to these problems, the OSCE assessment referred to a “problematic and non-transparent” vote count and inadequate safeguards for early voting.

These and other problems raised questions surrounding the legitimacy and accuracy of the official results. A large-scale peaceful protest was organised by opposition groups and independent civil society organisations following the election, which was broken up by the security forces, resulting in mass arrests. According to the Belarussian Helsinki Committee, approximately 1,500 to 2,000 people were arrested in the week after the elections, though the Belarussian authorities insist the number was considerably lower. Most of those detained received administrative sentences of 5 to 15 days or fines. In its resolution 1496, the Parliamentary Assembly of the Council of Europe (PACE) strongly condemned “the undemocratic conduct of the presidential election of 19 March 2006 in Belarus as well as the wave of intimidation, violence and persecution that hit Belarussian democratic forces before, during and after the vote.” Along with the PACE, the opposition and several western capitals have called for a repeat of the voting.

Other international bodies have been more supportive of the Belarussian authorities and the conduct of the election. The international observers of the Commonwealth of the Independent States (CIS), for example, concluded that the elections were free, open and transparent, and that, despite a few minor technical shortcomings, the election commissions guaranteed and protected the rights of all citizens. In general, the Belarussian authorities have insisted that international monitors should judge the elections according to the country’s own laws and practices, and not “abstract international standards”.

In the run-up to national elections, the operating environment for opposition parties, independent groups and NGOs has deteriorated considerably. In 2003, 51 NGOs were de-registered, compared to 38 in 2004 and 68 in 2005. In the past year a new decree was passed to amend a 2003 law on International Technical Aid Provided to the Republic of Belarus. The new measure bans foreign assistance in support of any activities related to elections, referendums or meetings which could alter the present constitutional regime, including seminars and conferences. Income tax is also payable on some grants. A further regulation determined that political parties and public associations cannot engage in economic activities. According to the figures by the Ministry of Justice, 1,284 applications for NGOs registration were received in 2005, out of which only 61 were successful. There are currently around 2,200 officially registered in the country.

The international community remains concerned about the cases of unexplained disappearances by members of the political opposition and media, namely Yuri Zakharenko, former Minister of the Interior (disappeared on 7 May 1999), Victor Gonchar, former Vice-President of the Parliament of Belarus (disappeared on 16 September 1999), Anatoly Krasovski, businessman (disappeared at the same time as Mr Gonchar), and Dmitri Zavadski, a cameraman for the Russian television channel ORT (disappeared on 7 July 2000). The Supreme Court sentenced the former head of the interior ministry's special police force, Valery Ignatovich in July 2002 for the murder of Zavadski and five other people in 2000. The government denies that the other above-mentioned high profile disappearances were politically motivated and has stated that no governmental official is linked to them. Nevertheless, on 26 January 2006 the Parliamentary Assembly of the Council of Europe adopted resolution 1482 in which it presses the current leadership to conduct a full and independent investigation into the fate of disappeared persons, as requested in a previous resolution (no. 1371 of 2004). At the same time the Assembly welcomed the proposal of the European Parliament to set up an international commission to investigate the above disappearances.

Despite the difficulties in the political environment, civil society and political opposition in Belarus has proven resilient and adaptable. In October 2005 the Congress of Democratic Forces, which represented all major opposition parties and public associations in the country, elected a single candidate to run against the incumbent President at the March presidential elections. Despite his loss, he has managed to present a more cohesive programme and to mobilise a much larger number of protesters during the week following the voting. Moreover, the size of the post-election protests – an estimated 15-20,000 people – was unprecedented by Belarussian standards and, in the words of the opposition; it represented “a powerful testament that major changes are under way in Belarus”.

Civil and Human Rights

The constitution as amended by the 1996 referendum guarantees all basic rights and freedoms, including freedom of speech, press, association, assembly, religion, and movement. However, rights groups report that many of these rights are not fully protected in practice and that the human rights situation has deteriorated over the past two years.

The United Nations Special Rapporteur, a special appointee with the specific mandate of examining, monitoring, advising and publicly reporting on the human rights situation in the country, has made numerous appeals to cease politically motivated arrests and detentions of independent journalists, opposition candidates and their supporters. However, following the elections a United Nation human rights panel of experts highlighted the large number of violations of the rights to liberty, freedom of expression, freedom of association, fair trial, and physical and mental integrity. The latest amendments to the Criminal Code in late 2005 introduced tougher sentences for a much wider range of political activities, including “discrediting Belarus to an international organisation or foreign government”, for insulting the President, or for being member of an unregistered group or political party.

The operating environment for the independent media has become more difficult. The number of independent media outlets has been gradually declining owing to a very strict application of libel and defamation legislation and arbitrary administrative rulings against independent media. Article 5 on “Abuse of freedom of information” of the current Media Law gives the Ministry of Information the power to warn a media outlet for “defaming the honour and dignity of the President”, which could possibly result in suspensions and closure of the paper, or sentences of up to five years for the journalist. Other articles give the Ministry of Information extensive powers to issue warnings and suspend a media outlet for the violation of the media legislation. This situation has in practice created an environment of implicit self-censorship among journalists.

There is no independent TV channel in Belarus with nationwide coverage. The only producer of broadcast news is the Belarussian Television and Radio Company (BT). According to the IFJ,

there are 97 privately-owned cable channels out of a total of 121, but only 19 of those are licensed to produce programmes on their own. In the past year cable operators were banned from broadcasting Polish programmes and news. As regards radio broadcasting, the six most popular stations are all owned by BT. In 2006 the European Union commissioned two main radio projects in order to address the information deficit in Belarus and create a forum for the debate of non-partisan information on the Belarussian political life in general, and the 2006 presidential elections in particular. The first channel, called *European Radio for Belarus*, started broadcasting music and news contents from Warsaw in late February. The EU also commissioned a Berlin-based independent Russian television company, RTVi, to broadcast a weekly 30-minute programme called "Window To Europe."

In November 2005 Belarus's state postal service Belposhta decided to exclude three private periodicals (*Narodnaya Volya*, *Salidarnasts* and *Zgoda*) from its distribution network for at least the first half of 2006. *Narodnaya Volya*, the largest independent newspaper, has been under constant pressure from the authorities. According to the IFJ, suppression of the independent media was significantly tightened in the run up to the 2006 presidential elections, with State media enjoying a virtual monopoly. Moderate weeklies such as *Belgazeta*, satellite TV and the internet remain the main sources of independent information, although their circulation is limited in comparison to state-owned or state-controlled media outlets. The largest state-owned paper is *Sovetskaya Belarussia* with a circulation of 500,000.

The OSCE and the International Federation of Journalists (IFJ) reported on the existence of a number of "indirect filters" on print media that contravene international standards and create a difficult operating environment, such as the registration and re-registration of newspapers, the virtual monopoly by the State on subscription, postal distribution and printing, frequent tax inspections, limited access to information through restrictions on press accreditation, and governmental pressure to companies not to advertise in independent papers, which has subsequently caused substantial loss of revenue.

The Representative on Freedom of the Media of the OSCE, in his report in March 2005, recommended that the Belarussian government cease all forms of restrictive practices on the media (including internet filtering), liberalise the legislation in respect of insult and libel cases, cease economic and administrative discrimination against independent periodicals, and foster an environment conducive to greater competition and balance of information among all media outlets, in order to guarantee freedom of expression in full compliance with Article 19 of the Universal Declaration of Human Rights (UDHR) and the International Covenant on Civil and Political Rights, both adopted by Belarus.

Finally, human trafficking remains a problem, although the authorities are cooperating in efforts to combat it. Belarus is a source country for women trafficked to Europe, Russia, North America, the Middle East, and Japan for the purposes of sexual exploitation and forced labour. The government of Belarus is making significant efforts in order to fully comply with the minimum standards for the elimination of trafficking, especially for the introduction of amendments to strengthen the legislation for victim protection and trafficking prevention. Moreover, at the United Nations Summit of September 2005 Belarus proposed to establish a *Global Partnership against Slavery and Trafficking in Human Beings in the 21st Century*, with the aim of improving the coordination efforts among all actors in countries of origin, transit and destination.

ANNEX 2: ENVIRONMENTAL DEVELOPMENTS

The environmental situation in Belarus overall has improved in the last 2 years, in spite of the reported average annual real GDP growth of 6.3%. However, further improvements are required in the area of reducing air emissions from transport, industry and energy generation sectors as well as controlling and reducing water pollution, soil contamination and waste generation from industrial, agricultural and domestic sources. Majority of environmental improvements have taken place as a result of increased environmental expenditure (accounting for about 2% of the GDP) to finance energy efficiency measures in all sectors, switch to the use of local sources of energy (e.g. biomass), acquisition and installation of pollution abatement equipment, raising the level of environmental education and awareness of the public.

The 1992 Law on Environmental Protection (last amended in 2002) lists international cooperation in environmental protection both as a major principle of environmental protection and as a major aim of the national policy in environmental protection.

Key directions of the country's environmental performance, such as improving administrative, economic and regulatory mechanisms of environmental protection and management, combating soil and water contamination, improving overall energy efficiency are outlined in several documents, including the National Action Plan on the Rational Use of Natural Resources and Environmental Protection (NEAP) for 2001-2005 and the National Strategy for Sustainable Development for the period to 2020 (NSSD-2020).

NEAP proposes broadening and strengthening international cooperation as a way to solve environmental problems effectively. The priority objectives are participation in the "Environment for Europe" process; implementation of international conventions, protocols and agreements to which Belarus is a Party; further development of bilateral and multilateral relations; attracting foreign investments for environmental programmes and projects.

NSSD-2020 focuses on the harmonization of national environmental legislation with international agreements and standards. The following measures are envisioned to achieve this: (1) improving environmental legislation and the system of environmental standards, norms and regulations in view of a transition to international standards and norms; (2) eliminating contradictions between environmental legislation and other legislative acts; (3) further harmonizing legislation with the principles and norms of international environmental agreements to which Belarus has signed up.

The harmonization of national environmental legislation with international legislation is one of the priorities of the country's environmental policy, and compliance with the mandatory international requirements regarding environmental protection and the rational use of natural resources is one of its main objectives. The development of environmental legislation during the last two years further strengthens the state environmental control and monitoring functions, provides for an increased access of the population to environmental information, introduces the system of environmental certification and incentives, and reinforces the environmental impact assessment and compensation procedures.

Due to the fact that three of Belarus' neighbouring countries have recently become EU members, there are several EU TACIS and World Bank-funded initiatives within the country to harmonise its environmental legislation with the pertinent provisions of EC Directives, such as the EC Water Framework Directive. Most recently, Belarus has prepared several trilateral agreements on water management with neighbouring countries. Other environmental legislation harmonisation initiatives in the country include the introduction of the system of integrated environmental permits based on the provisions of the IPPC Directive and the BAT approach.

Belarus has made particular progress in acceding to global and regional environmental conventions and protocols. For example, the country acceded to the Stockholm Convention on

Persistent Organic Pollutants in December 2003, ratified Kyoto Protocol by accession in August 2005, and became a party to the Espoo Convention in November 2005.

Multilateral assistance for environmental purposes, including ongoing and approved projects, to Belarus over the period 1996-2005 amounted to over USD 25 million and is its biggest source of external finance for environmental projects. GEF and EU TACIS are the largest multilateral donors to Belarus, with contributions of over USD 15.7 million and USD 8.1 million, respectively. EU TACIS support has gone to policy development, legislation, institutional strengthening and capacity-building mostly in the water sector. The most significant projects supported by GEF concerned the phasing-out of ozone-depleting substances (USD 6.9 million, completed in 2000), biomass energy development for heating and hot water supply (over USD 3.37 million), catalyzing sustainability of the wetland protected areas system in Belarussian Polesie (approx. USD 2.4 million), an ongoing regional project of about USD 7.2 million to prepare a strategic action programme for the Dnepr river basin and the development of implementation mechanisms. In addition, UNDP has prepared jointly with the government a project to remove barriers to energy efficiency improvements in the State sector which amounts to about USD 1.59 million from the GEF.

The World Bank is the major IFI that has been working with Belarus and extending loans to its environmental sector, focussing on non-lending services, including grants and analytical work. The only ongoing and most significant environmentally related World Bank project is the Social Infrastructure Retrofitting Project in the energy sector, with a USD 22.6 million loan, which began in 2001. It aims to assist in the rehabilitation of the heating system, thermal insulation and lighting in over 450 public buildings across the country. The project targets schools, hospitals, orphanages, and community homes for the elderly and the disabled. It also includes measures to reduce energy consumption.

In 2005, the UN ECE has completed their Second Environmental Performance Review. It highlights the progress made by Belarus in the management of its environment since the country was first reviewed in 1997 and gives special attention to the environmental compliance and enforcement mechanisms; information, public participation and education; and environmental management in industry, energy, transport, agriculture and ecotourism.

ANNEX 3: LEGAL TRANSITION

ASSESSMENT OF BELARUS' COMMERCIAL LAWS

The EBRD has developed and regularly updates a series of assessments of legal transition in its countries of operations, with a focus on selected areas relevant to investment activities: capital markets, company law and corporate governance, concessions, insolvency, secured transactions and telecommunications. The existing tools assess both the quality of the laws “on the books” (also referred to as “extensiveness”) and the actual implementation of such laws (also referred to as “effectiveness”). All available results of these assessments can be found at www.ebrd.com/law. This annex presents a summary of the results for Belarus, accompanied by critical comments of the Bank’s legal experts who have conducted the assessments.

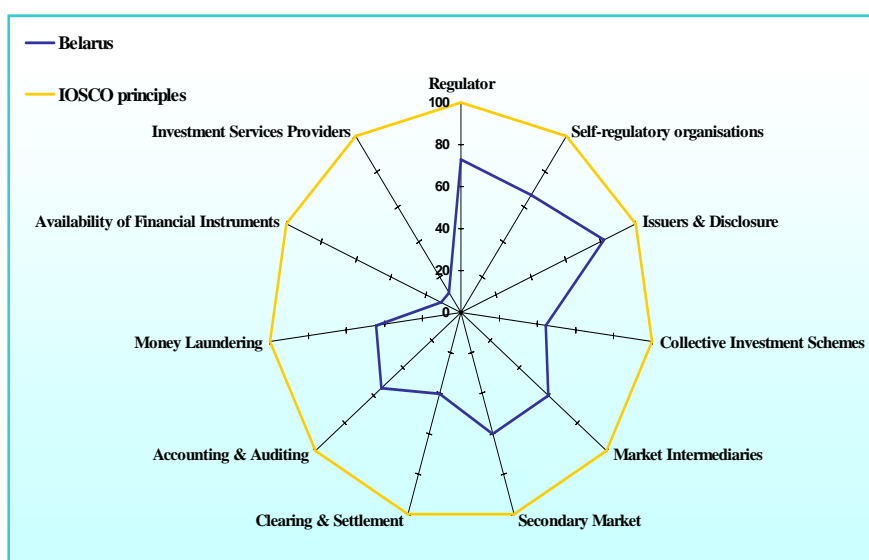
Capital Markets

The primary legislation governing the securities market essentially includes the Law on Securities and Stock Exchange, issued in June 1996 and last amended in November 2002 and the Law on Depository Activity and Central Depository of Securities, issued in July 1999 and last amended in June 2003.

The regulator of the securities market is the State Committee for Securities Supervision under the auspices of the Council of Ministers, established in September 2001, on the basis of the Presidential Edict no. 516.

The Belarusian Currency and Stock Exchange (“BCSE”) commenced trading foreign currency in March 1993. In January 1998, the first government bond was traded and in 1999 it started to carry out functions as Central Depository. From 2000 it started trading corporate securities. In 2005, the EBRD benchmarked the Belarusian securities markets legislation against the “Objectives and Principles of Securities Regulation” published by IOSCO. The results demonstrated that the national legislation is in “low compliance” with international standards.

Quality of securities market legislation – Belarus (2005)



Note: The extremity of each axis represents an ideal score, i.e., corresponding to the standards set forth in IOSCO’s *Objectives and Principles for Securities Regulations*. The fuller the ‘web’, the closer the relevant securities market legislation of the country approximates these principles.
Source: EBRD Securities Market Legislation Assessment 2005

As shown in the chart above, there are weaknesses in several sections under consideration, while legislation dealing with “Availability of Financial Instruments” and “Investment Service Providers” (“ISP”) is almost non-existent.

Generally speaking, the securities market of Belarus is still at a very early stage of development, with the exception of the market for state securities. The operational independence of the State

Committee for Securities is not assured by the law. The Committee's Chairman is appointed by the President of the Republic of Belarus and has day-to-day responsibility for decisions taken by Committee but all important matters are apparently referred to the Council of Ministers. The staff of the Committee is not legally protected from law suits arising from any actions taken when duly discharging their duties. In summary, the Committee lacks operational independence, has limited enforcement powers and does not have the skills and resources to be able to respond quickly to the market or the regulatory requirements of an active securities market.

The rules governing the qualification requirements for professionals operating collective investment schemes ("CIS") and the rules governing the offering documents of CIS are also deemed inadequate. The rules regulating the activities of market intermediaries need to be strengthened and financial reporting standards need to be brought in line with international standards.

Finally, Belarus still has no legislation prohibiting market or price manipulation, misleading statements, insider trading, front-running, or other fraudulent or deceptive conduct and market abuses; and the specific authority regulating ISPs' services is not separated from the body issuing the licenses to provide investment services (this authority has no power to impose sanctions on ISPs which do not respect the regulations and/or obligations and there is no process applicable to the suspension of an ISP's activities).

Company Law and Corporate Governance

The Law on Joint Stock Companies, Limited Liability Companies and Additional Liability Companies ("Company Law") entered into force in 1992 and was amended several times, most recently in January 2006. This law sets forth the basic framework for the formation and operation of companies in Belarus.

According to the results of the EBRD's 2004 Corporate Governance Sector Assessment Project which assessed corporate governance related "laws on the books", Belarus was rated as having achieved "very low compliance" when compared to the OECD Principles of Corporate Governance.

The latest amendment to the Company Law – enacted after the EBRD assessment - will enter into force in August 2006 and will substantially improve the Belarusian corporate governance legal framework. Among the various improvements, it is worth noting the new explicit provision on the management duty to act in the interest of the company, the requirement to have a majority of non-executive directors in the board and new procedures for approval of related party transactions.

While the laws on the books have improved, the effectiveness of corporate governance legislation remains a matter of concern.

In 2005, the EBRD launched a survey for testing the effectiveness of corporate governance (how the law works in practice). A case study dealing with related-party transactions was designed. The case study investigated the position of a minority shareholder seeking to access corporate information in order to understand if a related-party transaction was indeed entered into by the company and on how it was possible to obtain compensation in case damage was suffered. The effectiveness of the legislation was then measured according to four principal variables: complexity, speed, enforceability and institutional environment.

A number of procedures are available by law to minority shareholders to obtain disclosure from the company but they are all deemed quite complex. The time necessary to obtain disclosure is generally limited to 6-7 months but it is reported to be easy for the defendant to further delay the proceedings. In case of obstruction by the company, the procedure can to very difficult to

enforce. When considering redress, consultants could not identify any really effective actions: they can all be complex, unpredictable and difficult to enforce.

When considering the institutional environment, the survey evidenced limited reliability of company information and auditors' independence, which further reduce the possibility of obtaining a successful disclosure. The survey further reported a lack of experience and competence of courts, prosecutors and market regulator in corporate law cases and their potential partiality, especially when the case is against a powerful defendant.

As a result, the effectiveness of corporate governance legislation in the country is generally low.

Concessions

Belarus now has some elements of a governmental policy for promoting Public Private Partnership and improving its legal environment. The country does not have a specific Concession Law; however, the Investment Code dated 2002 as amended in 2006 contains detailed provisions regulating concessions.

Generally, the Investment Code seems to cover basic elements of concession granting standards. Although the part of the Investment Code relating to concessions may only be regarded as barely adequate when compared to modern international best practices, there are a number of positive features, e.g., rules and definitions such as publicity, reference to "equal rights and obligations" for all parties, possibility to contest and limitation of final negotiations.

A concession is defined as a contract between the Republic of Belarus and a concessionaire on the transfer, on a compensation basis and for a specified time period, of the right to perform, on the territory of the Republic of Belarus, a particular form of activity, subject to the exclusive right of the state to use the relevant property. According to the Investment Code, the maximum duration of a concession is 99 years.

The Investment Code is unfortunately not clear in many respects, leaving gaps and adding uncertainty as to its application. It does not, for example, identify the public authorities that are empowered to award concessions and enter into project agreements. Instead, it refers generally to the Republic of Belarus, represented by the Government or by the "republic administrative body authorised by the Government". The Investment Code seems implicitly to allow both domestic and/or foreign persons to be shareholders of the concessionaire. The Investment Code leaves, however, the possibility for the Government to restrict tenders to domestic investors only or to foreign investors only.

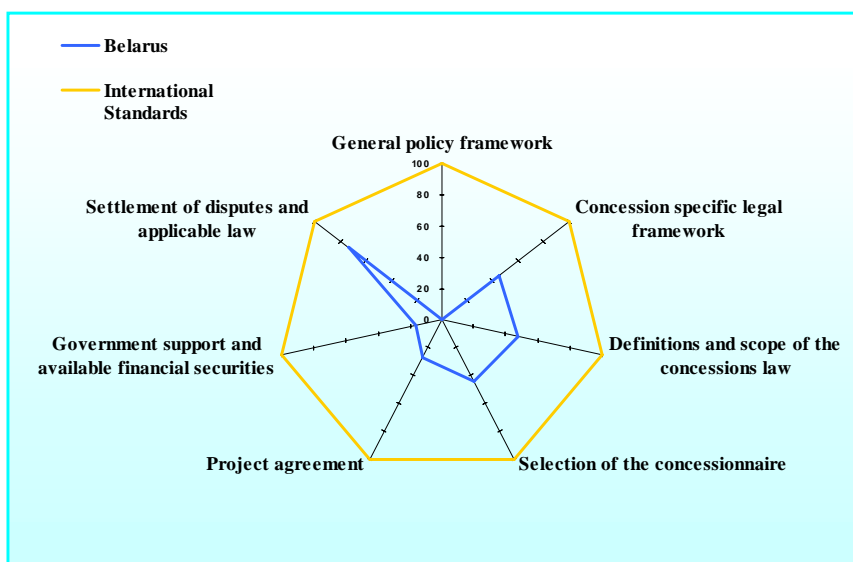
Many aspects of the Investment Code need to be further developed and specified in more detail, in particular, the scope of application of the Investment Code and the identification in the Investment Code of the sectors and/or types of infrastructure and/or services in respect of which concessions may or may not be awarded. The former relates particularly to clauses on a project agreement and financial aspects including those of governmental involvement. The Investment Code does not specifically provide for concessionaire compensation's rules or mechanisms. Neither does it provide the lenders with "step-in" rights in the event of concessionaire default. Other aspects of the Investment Code that will deter potential investors are that it does not provide for a restrictive list of termination events; and neither does it give an option for the lenders and the concessionaire to choose the applicable law to govern their finance relations. Furthermore, it does not permit the contracting authority to enter into a project agreement that is governed in whole or in part by foreign law.

On a more positive note, the Investment Code permits the contracting authority to enter into agreements that are subject to international arbitration. This, coupled with the fact that Belarus has ratified both the New York Convention on Recognition and Enforcement of Foreign

Arbitral Awards (1958) and the Washington Convention on the Settlement of Investment Disputes (ICSID) should be noted as a plus.

The EBRD Concession Laws Assessment undertaken in 2004 – 2005 to evaluate applicable regimes throughout the EBRD’s 27 countries of operations (the laws on the books only rather than how they work in practice), revealed Belarus laws to be in “very low compliance” with internationally accepted standards in this sector and that the country has one of the least advanced concessions legal regimes in the region.

Quality of concession legislation –Belarus (2005)



Note: the extremity of each axis represents an ideal score in line with international standards such as the UNCITRAL Legislative Guide for Privately Financed Infrastructure projects. The fuller the ‘web’, the more closely concessions laws of the country

approximate these standards.

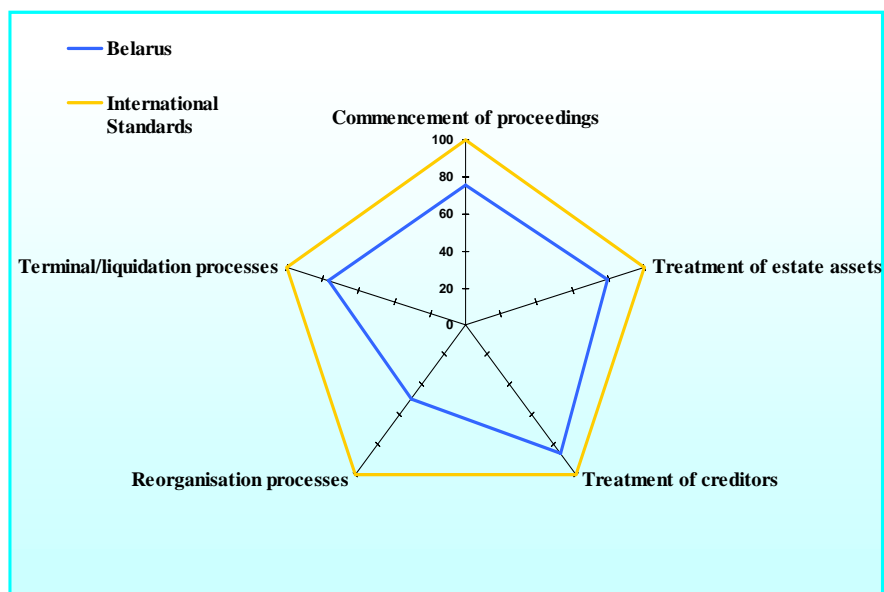
Source: EBRD Concessions Sector Assessment 2005

As can be seen from the above graph, at the time of the 2005 Assessment, concession legislation in Belarus fell short of international standards in almost all the dimensions measured in the 2005 Assessment and particularly, in terms of general policy framework. Given some recent developments in the country’s regulatory and policy framework for concessions it may receive an improved rating when the Assessment is updated in 2007.

Insolvency

Bankruptcy and insolvency are governed by the “Belarus Law on Economic Insolvency” 2000, as amended (the “Bankruptcy Law”). The law scored as “medium compliance” in the EBRD’s 2003/4 Insolvency Sector Assessment which measured the extensiveness of the statute. The Bankruptcy Law’s high points were its provisions relating to the avoidance of pre-bankruptcy transactions of the debtor and its recognition of and assistance to cross-border insolvency cases. The law was noted as being deficient in many respects, failing to address key issues, being ambiguous on others and taking some curious missteps.

Quality of insolvency legislation – Belarus (2004)



Note: The extremity of each axis represents an ideal score, i.e., corresponding to the international standards such as the World Bank's Principles and guidelines for Effective Insolvency and Creditor Rights Systems, the UNCITRAL Working Group on "Legislative Guidelines for Insolvency Law", and others. The fuller the 'web', the more closely insolvency laws of the country approximate these standards.

Source: EBRD Insolvency Sector Assessment, 2003/4

These failings included an inadequate definition of the debtor's assets, a failure to specify the effect of proceedings on secured creditors and owners of property occupied, used or possessed by the debtor, a prohibition on set-off, and a lack of protective standards in the creation and approval of reorganisation plans.

The law scored even more poorly in terms of the 2004 EBRD Legal Indicator Survey which looked to measure the overall effectiveness of the law. The Bankruptcy Law scored poor marks on all three scales – speed, efficiency, and predictability/transparency – with slightly better results for debtor initiated processes than those initiated by creditors.

Perhaps chief among the Bankruptcy Law's problems is that secured creditors continue to rank below tort claims, wage claims and fiscal claims such as taxes and duties. Additionally, the Bankruptcy Law continues to effectively prohibit, legal entities and individual entrepreneurs who have obligations for the supply of goods or services to the state or who are obliged to perform transactions, including foreign trade transactions, which benefit from a sovereign guarantee of the Republic of Belarus, from being subject to bankruptcy liquidation unless otherwise provided by the President of the Republic of Belarus.

There have been few changes since 2004 and the major problems continue to plague the Bankruptcy Law.

The major change since 2004 came in October 2005 with the adoption of Presidential Decree number 481 which gave authority to the head of state to grant exemptions from economic sanctions to entrepreneurs. Under the terms of an earlier Presidential Decree (number 508), there were economic sanctions placed on entrepreneurs to, ostensibly, prevent abuse of the insolvency system. This move should provide a bit of balance to the system, allowing well intentioned, but unfortunate debtors to avoid additional economic penalties as a result of bankruptcy.

Additional changes could be on their way. The government recently introduced draft legislation that would establish a new system for the rehabilitation of unprofitable state-owned enterprises.

These enterprises are not currently subject to the Bankruptcy Law, but if adopted, the new rules would make liquidation under the Bankruptcy Law an option for them.

Secured Transactions

Taking security over movable property is governed by the provisions of the Civil Code, dated 7 December 1998. The 1993 Pledge Law is, however, still in force and is meant to apply as far as it does not contradict the Civil Code provisions. Because both sets of provisions have not been precisely harmonised, it creates uncertainty for the market until the Pledge Law is either abrogated or amended.

The regime for secured transactions is similar to the one found in other CIS countries (especially Russia), with a number of serious shortcomings.

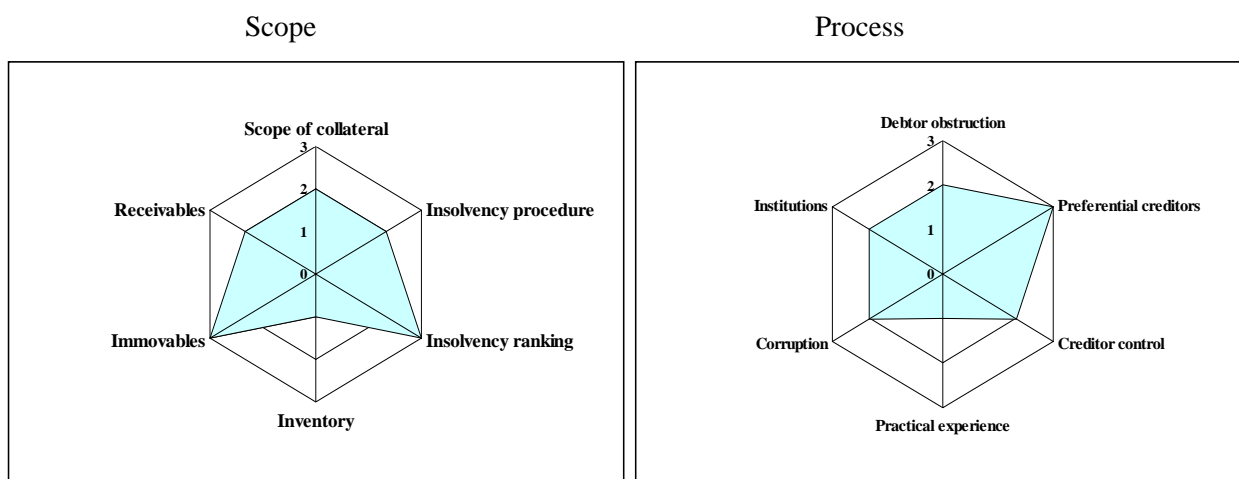
1) There is no general registration system, in which all charges over movable property would be recorded. The borrower, if a legal person, is required to keep a record of all pledges on its books. However, as this rule does not seem to be respected in practice, there is de facto no way a creditor can be certain that the security he would take would have a first ranking.

2) The regime would not withstand any level of sophistication by which the parties would wish to take security over a fluctuating pool of assets, or indeed would want to secure a credit line. The Civil Code only allows for charges over commodities in circulation and processing. It does not seem to cover other types of property, which may also be subject to constant change, such as accounts receivable. Specific identification of secured debt is also required.

3) Enforcement, however, has been found to function relatively efficiently. In a survey conducted by EBRD in summer 2003, Belarus was found to provide a regime and practice of enforcement which would allow a creditor to recover relatively swiftly a secured debt through enforcement of its security and realisation of the collateral. However, it is difficult to draw general positive conclusions as the debtor could severely obstruct the proceeding (for example, by requiring the court to suspend the procedure to allow him time to acquire the money needed to satisfy the debt). Also, secured creditors would rank after employee claims for injuries, as well as employee wages and the tax office claims.

Belarus has taken some positive steps towards adopting modern principles of secured transactions law as contained in the EBRD Model Law on Secured Transactions. However, it will be necessary to continue working on key elements in order to bring economic benefits to the credit sector. The Bank is not aware of any initiatives in this respect.

Obstacles to charge enforcement process – Belarus (2003)



Note: The fuller the web, the more serious the problems are in each of the respective categories. “Process” factors measure the impact that specific obstacles would have on the enforcement proceedings. “Scope” factors give an indication of how effective enforcement would be when conducted on various types of collateral and in the case of debtor insolvency. *Source*: EBRD Legal Indicator Survey 2003

Telecommunications

The communications sector in Belarus is currently governed by the Telecommunications Law 2005 and regulated by the Ministry for Communications and Informatisation (the “MCI”). There is no independent regulator and the MCI acts as both policy maker and regulator for the sector. The 2005 Telecommunications Law defines the legal, organizational and economic framework for the sector and revises provisions relating to radio frequency allocation, confidentiality and enforcement of state control. Given Belarus’ current status as a candidate for World Trade Organisation (“WTO”) membership, these revisions appear to have been motivated largely to satisfy WTO membership conditions.

Although fixed telephony penetration is low it has seen steady relatively growth over the past decade and, as at mid 2005, stood at just over 33%. This rate, however, disguises the low rural teledensity rates of approximately 23%, though some expansion of rural telecoms infrastructure is reportedly taking place with over 200 additional population centres recently added to the network.

State-owned Beltelecom currently maintains a monopoly on fixed-line services within Belarus, although as part of the Belarusian bid for WTO membership the government has indicated an intention to liberalise the market in 2007 or upon joining the WTO. While plans to privatise Beltelecom are understood to have been put forward in 1999, they were not pursued and there has been no firm indication since of any intention to look further at privatisation.

While there is a competitive base in the mobile market and mobile penetration rates are growing, sector development appears stifled by the overpowering presence of the state in the market place. Four operators currently provide service (Belcel, Velcom, MTS and, more recently, BeST), with the government holding a major stake in all four.

The stranglehold that Beltelecom currently maintains on the market place, together with stifling Soviet style regulation has undoubtedly impacted on investor confidence and therewith restricted sector growth. The absence of a functioning, internationally consistent legal and regulatory environment, within which the sector could develop means that Beltelecom will continue to dominate the marketplace for some time, despite the intended liberalisation. Similarly, the government’s continued presence within sector operators, both fixed and mobile, prevents meaningful private sector participation in the sector, depriving those operators, the sector and citizens of the undoubted benefits such private participation could bring.

Going forward, the government should take the opportunity of the indicated liberalisation and anticipated accession to the WTO to ensure the full implementation of policy and legislative changes necessary to comply with WTO regulatory standards for the sector. As a first step, the government should publicly commit to making liberalisation a reality; conduct a detailed sector review, rapidly initiating the necessary legislative and policy changes; and, move to establish an independent regulatory agency for the sector. The government should also immediately examine options for reducing state participation in sector operators. As the market responds to these initiatives, full implementation of the detailed elements of a modern regulatory framework applying international standards in the areas of tariffing, interconnection, licensing, spectrum allocation and universal access should follow.

ANNEX 4: SELECTED ECONOMIC INDICATORS

Belarus

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|---|---------|---------|---------|---------|-----------------|-------------------|
| | | | | | | <i>Estimate</i> | <i>Projection</i> |
| Output and expenditure | | | | | | | |
| | <i>(Percentage change in real terms)</i> | | | | | | |
| GDP | 5.8 | 4.7 | 5.0 | 7.0 | 11.4 | 9.2 | 9.5 |
| Private consumption | 8.0 | 17.9 | 11.4 | 7.4 | 9.6 | 14.8 | na |
| Public consumption | 5.8 | 3.1 | 0.3 | 0.3 | -0.2 | 0.4 | na |
| Gross fixed capital formation | 2.3 | -2.3 | 6.7 | 22.0 | 19.7 | 20.4 | na |
| Exports | na | na | na | na | na | na | na |
| Imports | na | na | na | na | na | na | na |
| Industrial gross output | 7.8 | 5.9 | 4.5 | 7.1 | 15.9 | 10.5 | na |
| Agricultural gross output | 9.3 | 1.8 | 0.7 | 6.6 | 12.6 | 1.7 | na |
| Employment | | | | | | | |
| | <i>(Percentage change)</i> | | | | | | |
| Labour force (end-year) | -0.1 | -0.4 | -0.4 | -0.5 | -1.2 | 0.0 | na |
| Employment (end-year) | -0.1 | -0.6 | -0.8 | -1.0 | -0.5 | 0.8 | na |
| | <i>(In per cent of labour force)</i> | | | | | | |
| Unemployment (end-year) | 2.1 | 2.3 | 3.0 | 3.1 | 1.9 | na | na |
| Prices and wages | | | | | | | |
| | <i>(Percentage change)</i> | | | | | | |
| Consumer prices (annual average) | 168.6 | 61.1 | 42.5 | 28.4 | 18.1 | 10.3 | 6.8 |
| Consumer prices (end-year) | 107.5 | 46.1 | 34.8 | 25.4 | 14.4 | 8.0 | 6.0 |
| Producer prices (annual average) | 185.6 | 71.8 | 40.4 | 37.5 | 24.1 | 12.1 | na |
| Producer prices (end-year) | 168.0 | 39.1 | 42.6 | 28.1 | 18.8 | 10.2 | na |
| Gross average monthly earnings in economy (annual average) | 200.9 | 108.8 | 53.8 | 32.5 | 38.6 | 33.4 | na |
| Government sector | | | | | | | |
| | <i>(In per cent of GDP)</i> | | | | | | |
| General government balance | -0.1 | -1.9 | -2.1 | -1.7 | 0.0 | -0.7 | -0.3 |
| General government expenditure | 45.9 | 46.8 | 46.6 | 47.7 | 46.0 | 49.1 | na |
| General government debt | 16.5 | 13.2 | 11.0 | 10.4 | 8.9 | 8.4 | na |
| Monetary sector | | | | | | | |
| | <i>(Percentage change)</i> | | | | | | |
| Broad money (M3, end-year) | 216.3 | 66.1 | 50.3 | 56.3 | 44.1 | 42.2 | na |
| Domestic credit (end-year) | 190.8 | 72.9 | 55.6 | 72.2 | 30.8 | 33.5 | na |
| | <i>(In per cent of GDP)</i> | | | | | | |
| Broad money (M3, end-year) | 17.2 | 15.2 | 15.0 | 16.8 | 17.7 | 19.7 | na |
| Interest and exchange rates | | | | | | | |
| | <i>(In per cent per annum, end-year)</i> | | | | | | |
| Refinancing rate | 80.0 | 48.0 | 38.0 | 28.0 | 17.0 | 11.0 | na |
| Treasury bill rate (3-month maturity) | na | na | na | na | na | na | na |
| Deposit rate (1 year) ¹ | 37.6 | 34.2 | 26.9 | 17.4 | 12.7 | 9.2 | na |
| Lending rate (1 year) ² | 67.7 | 47.0 | 36.9 | 24.0 | 16.9 | 11.4 | na |
| | <i>(Belarussian roubles per US dollar)</i> | | | | | | |
| Official exchange rate (end-year) | 1,180.0 | 1,580.0 | 1,920.0 | 2,156.0 | 2,170.0 | 2,152.0 | na |
| Official exchange rate (annual average) | 876.8 | 1,390.0 | 1,790.9 | 2,051.3 | 2,160.3 | 2,153.8 | na |
| External sector | | | | | | | |
| | <i>(In millions of US dollars)</i> | | | | | | |
| Current account | -338 | -411 | -326 | -434 | -1,194 | 434 | -860 |
| Trade balance | -884 | -807 | -914 | -1,256 | -2,184 | -501 | -2,000 |
| Merchandise exports | 6,641 | 7,334 | 7,965 | 10,073 | 13,942 | 16,109 | 20,500 |
| Merchandise imports | 7,525 | 8,141 | 8,879 | 11,329 | 16,126 | 16,610 | 22,500 |
| Foreign direct investment, net | 119 | 96 | 453 | 170 | 163 | 303 | 300 |
| Gross reserves, excluding gold (end-year) | 350 | 391 | 417 | 462 | 691 | 1,107 | na |
| External debt stock ³ | 1,265 | 2,523 | 3,308 | 4,087 | 4,865 | 5,111 | na |
| | <i>(In months of imports of goods and services)</i> | | | | | | |
| Gross reserves, excluding gold (end-year) | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.7 | na |
| | <i>(In per cent of exports of goods and services)</i> | | | | | | |
| Debt service | 4.2 | 3.4 | 4.1 | 4.6 | 4.0 | 4.0 | na |
| Memorandum items | | | | | | | |
| | <i>(Denominations as indicated)</i> | | | | | | |
| Population (end-year, million) | 10.0 | 10.0 | 9.9 | 9.8 | 9.8 | 9.8 | na |
| GDP (in billions of Belarussian roubles) | 9,134 | 17,173 | 26,138 | 36,565 | 49,992 | 63,679 | 76,701 |
| GDP per capita (in US dollar) | 1,043 | 1,242 | 1,474 | 1,810 | 2,361 | 3,032 | na |
| Share of industry in GDP (in per cent) | 31.0 | 29.9 | 29.6 | 30.8 | 32.7 | 32.3 | na |
| Share of agriculture in GDP (in per cent) | 14.2 | 11.9 | 11.8 | 9.8 | 10.3 | na | na |
| Current account/GDP (in per cent) | -3.2 | -3.3 | -2.2 | -2.4 | -5.2 | 1.5 | -2.4 |
| External debt - reserves (in US\$ million) | 914 | 2,133 | 2,891 | 3,625 | 4,174 | 4,005 | na |
| External debt/GDP (in per cent) | 12.1 | 20.4 | 22.7 | 22.9 | 21.0 | 17.3 | na |
| External debt/exports of goods and services (in per cent) | 16.6 | 29.9 | 35.6 | 35.3 | 31.0 | 28.1 | na |

¹ Data refer to weighted average interest rates on new one-year deposits in commercial banks.

² Data refer to weighted average interest rates for one-year loans by commercial banks.

³ Includes medium and long-term public and publicly guaranteed debt and an estimate of private debt.

ANNEX 5: APPROVED BANK OPERATIONS
(at 30 September 2006, EUR million)

by Sector

| Sector Name | COMMITMENTS | | | | | NET PORTFOLIO | | | | |
|-------------------------------|-----------------|--------------------|--------------|-----------------|------------|-----------------|-----------|----------------|--------------------|------------------|
| | No. of projects | Total Project Cost | EBRD Funding | % of total EBRD | Disbursed | No. of projects | Portfolio | % of Portfolio | Undrawn commitment | Operating assets |
| Financial Institutions | 5 | 97 | 64 | 33% | 54 | 5 | 47 | 83% | 10 | 38 |
| Infrastructure | 2 | 121 | 73 | 40% | 73 | 1 | 2 | 4% | 0 | 2 |
| <i>Energy</i> | 1 | 31 | 31 | 17% | 31 | 0 | 0 | 0% | 0 | 0 |
| <i>Transport</i> | 1 | 90 | 42 | 23% | 42 | 1 | 2 | 4% | 0 | 2 |
| Enterprises | 4 | 65 | 49 | 27% | 40 | 2 | 7 | 13% | 8 | 4 |
| <i>Agribusiness</i> | 2 | 31 | 17 | 9% | 8 | 2 | 7 | 13% | 8 | 4 |
| <i>General Industry</i> | 1 | 3 | 1 | 1% | 1 | 0 | 0 | 0% | 0 | 0 |
| <i>Telecom</i> | 1 | 31 | 31 | 17% | 31 | 0 | 0 | 0% | 0 | 0 |
| Country Total | 11 | 283 | 185 | 100% | 167 | 8 | 56 | 100% | 18 | 43 |

by Portfolio Class and Investment Type

| | COMMITMENTS | | | | | NET PORTFOLIO | | | | |
|----------------------|-----------------|--------------------|--------------|-----------------|------------|-----------------|-----------|----------------|--------------------|------------------|
| | No. of projects | Total Project Cost | EBRD Funding | % of total EBRD | Disbursed | No. of projects | Portfolio | % of Portfolio | Undrawn commitment | Operating assets |
| Private | 7 | 123 | 78 | 42 | 63 | 9 | 54 | 96 | 18 | 41 |
| Public | 4 | 160 | 107 | 58 | 104 | 2 | 2 | 4 | 0 | 2 |
| Country Total | 11 | 283 | 185 | 100% | 167 | 11 | 56 | 100% | 18 | 43 |
| Non-Sovereign | 6 | 94 | 53 | 29 | 61 | 8 | 47 | 84 | 18 | 34 |
| Sovereign | 5 | 189 | 132 | 71 | 128 | 3 | 9 | 16 | 0 | 9 |
| Country Total | 11 | 283 | 185 | 100% | 167 | 11 | 56 | 100% | 18 | 43 |
| Debt | 9 | 273 | 177 | 96 | 160 | 9 | 49 | 87 | 17 | 37 |
| Equity | 2 | 9 | 7 | 4 | 6 | 2 | 6 | 11 | 0 | 6 |
| Guarantee (TFP) | 0 | 1 | 1 | 0 | 1 | 0 | 1 | 2 | 1 | 0 |
| Country Total | 11 | 283 | 185 | 100% | 167 | 11 | 56 | 100% | 18 | 43 |

Signed Bank Operations

| Operation Name | COMMITMENTS | | | | | Public/ Private | Year of signing |
|---|--------------------------|--------------|------------|------------|-----------------|--------------------|--------------------|
| | Total Project Cost | Debt | Equity | Guarantee | EBRD Funding | | |
| Financial Institutions | | | | | | | |
| Belarus SME Credit Line | 29.6 | 23.7 | | | 23.7 | Private | 1994 |
| Priorbank (Equity) | 2.6 | | 2.6 | | 2.6 | Private | 1998 |
| Regional TFP: Priorbank | 0.1 | | | 0.1 | | Private | 2000 |
| Priorbank Syndication | 28.4 | 9.5 | | | 9.5 | Private | 2003 |
| Priorbank SME/MSE Credit Line | 7.9 | 7.9 | | | 7.9 | Private | 2004 |
| Priorbank syndicated mortgage line | 19.7 | 11.8 | | | 11.8 | Private | 2005 |
| Belarus MSEFF-Belgasprombank | 4.7 | 4.7 | | | 4.7 | Private | 2004 |
| Belarus MSEFF-Belgasprombank | 3.2 | 3.2 | | | 3.2 | Private | 2005 |
| Regional TFP: Priorbank Guarantees and Pre-Export | 0.5 | | | 0.5 | 0.5 | Private | 2004 |
| SUB TOTAL | 96.7 | 60.8 | 2.6 | 0.6 | 63.9 | | |
| Infrastructure | | | | | | | |
| <i>Energy</i> | | | | | | | |
| Orsha Power Plant Modernisation | 30.9 | 30.9 | | | 30.9 | Public | 1993 |
| <i>Transport</i> | | | | | | | |
| Brest-Minsk-Russian Border Highway | 90.0 | 42.4 | | | 42.4 | Public | 1993 |
| SUB TOTAL | 120.9 | 73.3 | | | 73.3 | | |
| Enterprises | | | | | | | |
| <i>Agribusiness</i> | | | | | | | |
| Minsk Wholesale Market | 8.4 | 4.8 | | | 4.8 | Public | 1993 |
| Minsk Retail Network | 12.5 | 5.4 | | | 5.4 | Private | 2005 |
| Olivaria | 10.1 | 3.0 | 3.5 | | 6.5 | Private | 2005 |
| <i>General Industry</i> | | | | | | | |
| DIF Milavitsa | 2.5 | | 1.0 | | 1.0 | Private | 2000 |
| <i>Specialized Industries</i> | | | | | | | |
| Telecom | 30.6 | 30.6 | | | 30.6 | Public | 1992 |
| SUB TOTAL | 64.1 | 43.8 | 4.5 | | 48.3 | | |
| Country Total | 281.7 | 177.9 | 7.1 | 0.6 | 185.5 | | |

ANNEX 6: BILATERAL ASSISTANCE

International Monetary Fund (IMF)

Belarus joined the IMF on July 10, 1992, and first borrowed in 1993, receiving SDR 70 million under the systemic transformation facility (STF). Another SDR 70 million was disbursed under the STF in 1995. A stand-by arrangement for SDR 196 million was approved in December 1995, but only the first tranche of SDR 50 million was drawn. The stand-by agreement expired in September 1996 with no further funds disbursed, as Belarus did not meet programme targets and conditions. In the wake of the Russian financial crisis in mid-1998, the IMF and Belarus began negotiations regarding financial support under the compensatory and contingency financing facility (CCFF), a programme designed to assist countries suffering from external price shocks. These negotiations were inconclusive; however, as programme agreements were again not met.

In 2001, the Fund staff reached agreement with the Belarusian authorities on a six month staff-monitored programme (SMP), which did not involve any borrowing from the IMF. The SMP was intended as a confidence-building measure to build a track record of positive macroeconomic policies leading to negotiations on a new stand-by arrangement. However, performance under the SMP was mixed, with quantitative performance targets on fiscal policy not met and a number of structural reform measures also not implemented. The Belarusian authorities continued to express interest in an SBA after the SMP expired in 2001, but since then the IMF staff and the authorities have been unable to agree on macroeconomic policies, As a result, in early 2004, the authorities withdrew their request for discussions on an SBA.

Despite the lack of agreement on macroeconomic policies, Belarus has benefited from IMF technical assistance in banking supervision issues, government finance statistics, monetary policy and monetary operations, monetary transmission mechanism and other areas. IMF technical assistance from 1992 amounted to more than USD 4.0 million. Also, from 1993 to early 2006, more than 500 Belarusian officials received IMF training, either in Washington or at the Joint Vienna Institute. In December 2004, Belarus subscribed to the IMF's Special Data Dissemination Standard and completed the Financial Sector Assessment Program in the course of 2005.

Relations with the International Bank for Reconstruction and Development (IBRD)

Belarus joined the World Bank in July 1992 although the World Bank Group programme in Belarus was rather limited during the period 1995–2000. Under the 1999 CAS, liberalisation of the exchange rate was set as a trigger for moving to a *low case* lending (one project per year) scenario. Unification of the exchange rate in September 2000 led to an improvement in the quality and intensity of the dialogue between Belarus and the Bank and allowed the Bank to proceed with the preparation of a USD 22.6m Social Infrastructure Retrofitting Project, approved on June 5, 2001.

The World Bank Group Strategy. The last CAS for 2002–04 was approved in 2002 to advance cooperation with Belarus in critical areas, help the country open up its economy and society, minimize social and environmental risks, and address global public good concerns. The CAS implementation results have been mixed. On the positive side, the economy has continued to grow, poverty incidence has fallen significantly, the Bank's Economic and Sector Work (ESW) has been highly commended, and the technical dialogue between the Bank and the government has reported positive results, some of which are likely to be sustainable. On the negative side, not a single lending operation was approved during this CAS period. The CAR, prepared in summer 2004, recommended to complete the key elements of current CAS before initiation of the new CAS. This included, completion of ongoing ESW, particularly the CEM and the FSAP; continuation of the environment initiatives, and resumption of the Chernobyl Project preparation.

Possible approaches to a new Country Assistance Strategy for Belarus are currently under discussion. In addition to continued IFC activities, the authorities have indicated that they prioritise the Chernobyl area – related water quality and forestry management projects, environment (waste management, POPs and Kyoto agenda) projects as well as to continue engagement on energy efficiency programs.

Lending operations. To date, the Bank has committed the total of USD 240.6 million, and USD 15.0 million has been provided in the form of grants. The IBRD Belarus active portfolio has one ongoing operation – *Social Sector Energy Retrofitting Project* totalling USD 22.6 million aims to assist in the rehabilitation of the heating system, thermal insulation, and lighting in over 450 public buildings across the country. The project targets schools, hospitals, orphanages, and community homes for the elderly and the disabled. It also includes measures to increase energy efficiency.

IBRD loan for the *Post-Chernobyl Recovery Project* (in the amount of USD 50.0 million) was approved by the Executive Directors Board on April 18, 2006. The project developed in close cooperation with IAEA is based on the conclusions of the *UN Chernobyl Forum* (2005) and the recommendations of the *Chernobyl Review* (2002) calling for a shift of the efforts to the socioeconomic rehabilitation of the affected areas to “revitalize selected districts most affected by the Chernobyl accident by improving local people’s incomes and living conditions”. The project’s objective is to contribute to provision of better quality, reliable and efficient heat and hot water services, with emphasis on public institutions in the social and health sectors, to the population residing in the Chernobyl-affected area.

Non-lending activities. In 2002 -2006 extensive analytical work was conducted. The most recent work includes the report entitled *Belarus: Chernobyl Review* (report No.23883-BY, July 15, 2002), a Public Expenditure and Institutional Review (*Belarus: Strengthening Public Resource Management*, Report No.26041-BY, June 20, 2003) and a Poverty Assessment Update (*Belarus Poverty Assessment: Preparing for the Future*, Report No.27431-BY, November 2004), Country Economic Memorandum (*Belarus: Window of Opportunity to Enhance Competitiveness and Sustain Economic Growth*, Report No.32346-BY, November 8, 2005) and *Financial Sector Assessment Program* (2006).

Social sphere. The World Bank technical engagement with Belarus has generated a significant amount of analysis in areas of relevance to the assessment of poverty and living conditions in the country. A strong platform for technical collaboration on poverty issues was provided by technical assistance under the *IDF grant for Strengthening of the Capacity of the Ministry of Social Protection in Policy Formulation and Analysis* for preparation and introduction of Targeted Social Assistance Program (TSAP). The project was successfully implemented during 2000-2003 and completed in June 2003.

In 2004 the Bank presented study “*Poverty Assessment .Can Poverty Reduction and Access to Services Be Sustained?* “ offering a number of improvements to the methodology for measuring poverty and living conditions in Belarus and contributing an in-depth analysis of the multiple dimensions of poverty. Driven by demographic and socio-economic factors, Belarus faces a need for deep pension system reform. To analyze current situation and discuss possible reform options the World Bank team conducted during FY 2004 a quite constructive *Pension Policy Dialogue* with the government.

Energy sector. *Energy Sector Management Assistance Program (ESMAP) grant* (USD 50,000) was approved in 2004 and completed in 2005. The project helped the Committee on Energy Efficiency explore market mechanisms to improve energy efficiency through operation of Energy Servicing Companies (ESCOs) and options of strengthening the energy efficiency

program by learning experience of neighbouring countries that have managed to weather the impact of multi-fold energy prices increases.

Private-Public Infrastructure Advisory Facility project (US 350,000 grant) was approved in 2005. The project will help forward the transition to market principles and encourage private sector involvement in the Belarus energy sector by providing regulatory, institutional and other support to create an environment that is conducive to private investment. While recognizing that the environment for private investments is not conducive in Belarus, the government has considered some reform scenarios that draw on experience gained by neighbouring countries, and is seeking technical assistance in the evaluation and implementation of such scenarios.

Energy Sector Review is currently under preparation to analyze the status of the sector, risks and challenges of the economy adjustment to the impact of higher energy prices (to be released soon).

Environment. *PHRD Climate Change Pilot Project* (USD 1.0 million, approved in 2003) is aimed at demonstrating opportunities for greenhouse gas (GHG) emission abatement through energy efficiency and renewable energy utilization in the supply of heat and hot water to social sector buildings, and assisting the Belarusian government with the development and implementation of emission standards for biomass-fired boilers, thereby removing an institutional barrier to broader introduction of energy supply based on biomass fuel.

GEF POPs Enabling Activity Project (USD 499,300). After a two-year dialogue and preparation activities in cooperation with UNEP, Belarus ratified the Stockholm Convention on Persistent Organic Pollutants (POPs) and selected the World Bank as a GEF Implementing Agency for the POPs activities. The project objective is to develop a National Implementation Plan (NIP) for POPs issues so that Belarus effectively addresses the reduction and elimination of persistent organic pollutants consistent with the protection of human health and the environment from the effect thereof, and meet its obligations under the Stockholm Convention. The government and the World Bank are now considering the preparation of a follow-on GEF investment project.

Economic development. The *Country Economic Memorandum (Belarus: Window of Opportunity to Enhance Competitiveness and Sustain Economic Growth*, Report No.32346-BY, November 8, 2005) was prepared during 2004-2005. The CEM took stock of the growth trends in the country's economy since 1996, reviewed the evidence of the accumulated challenges and risks within the existing growth patterns, and provided recommendations aimed at strengthening growth sustainability. While economic growth in the last nine years has been impressive, the study argues that maintaining the current growth strategy would lead to a gradual erosion of economic competitiveness. Policy adjustments by reorienting its policies toward ensuring a better business environment and a smaller size of government are urgently needed. The Bank team cooperated closely with the IMF, EBRD and other IOs on the assessments and recommendations by the CEM.

Private sector development. The most challenging reform agenda for Belarus is in the area of structural reforms and private business development. The Bank Group seeks to improve the general environment for the creation and operation of private business in Belarus through technical assistance, policy dialogue and ESW. The Bank and the IFC conducted a number of studies including *Improving the Business Environment* and *Costs of Doing Business Surveys* to track the developments in this area, define impediments to private business expansion and provide policy recommendations.

Public expenditure management. The 2002 CAS attaches great importance to fiscal issues, emphasizing the goals of greater effectiveness, transparency, and accountability in the use of

public resources. In 2003 the World Bank with the IMF participation completed the first *Public Expenditure Review* (PER) for Belarus.

The Bank provides continuous technical assistance to Belarus in the area of public expenditure management. The government has determined the following priority areas: modernization of budget classification, Budget Code preparation, MTEF, reform of inter-budgetary fiscal relations, and development of sector strategies. During FY2004 the Bank provided technical assistance to the Ministry of Finance for Budget Code preparation. In FY2005 efforts have been focused on assisting the government in the area of intergovernmental fiscal relations, in particular, in clarification of revenues and expenditures assignments for different level of the government and in the development of formula for intergovernmental fiscal transfers. In FY 2006 the assistance has been provided for preparation of budget programs' description and other basic documents required for the introduction of performance-based budgeting (PBB).

Financial sector. At the request of the government and the NBRB, a joint IMF/World Bank FSAP team visited Belarus in September and November 2004 to assess the status of the banking system, including deposit insurance, securities markets, insurance industry, payment system and transparency in conducting monetary policy. Regulations, oversight and governance arrangements have been reviewed also.

The Bank provides assistance to Belarus in prevention of money laundering and combating financing of terrorism through training of personnel, facilitating regional cooperation and exchange of experience.

In the context of the *CIS Payments and Securities Settlement Initiative (CISPI)*, the World Bank team in spring 2006 conducted a review of the payment and securities settlement systems of the Republic of Belarus. The CISPI is a cooperative effort lead by the World Bank. Its objective is to describe and assess the payments systems of the countries of the CIS with a view to identifying possible improvement measures in their safety, efficiency and integrity. Respective report is to be issued in 2006.

Statistical capacity-building. World Bank in cooperation with IMF provides technical assistance in the area of statistics to the Ministry of Statistics and Analysis, National Bank and the Ministry of Finance. Trust Fund for Statistical Capacity Building (TFSCB) grant (USD 108,000) was approved in September 2005. The main objective of the grant is to assist the GOB in the design of the National Strategy for the Development of Statistics (NSDS), which will provide Belarus with the strategy for strengthening statistical capacity across the entire national statistical system. It will also provide a framework for mobilizing, harnessing and leveraging resources (both national and international) and a basis for effective and results-oriented strategic management of the national statistical system.

Other activities have included a dialogue with the authorities on Pension Policy in late 2003. The aim of the review is to analyze the current pension system and discuss the options for a reform. There is a PHRD Climate Change pilot project (supported by the Japanese Climate Change Initiatives Grant), approved in 2003. The aim of this pilot project, which is associated with the ongoing Social Infrastructure Retrofitting Project, is to demonstrate the opportunities for greenhouse gas emission abatement through energy efficiency and greater utilisation of renewable energy sources. A Global Environment Fund grant to support "Enabling Activities related to the Implementation of the Stockholm Convention on Persistent Organic Pollutants" also recently received approval.

Civil Society. One of the key objectives of the last Belarus CAS is to help the development of civil society through information dissemination, dialogue with the government and involvement of the civil society organisations (CSOs) in Bank supported activities. The Bank maintains the on-going dialogue with CSOs on the CAS priorities. The Bank implements a number of civil society capacity building programmes, such as the annual Small Grants Programme and Development Marketplace, aimed at empowering small communities development, encouraging

the inter-sector partnership, establishing basic mechanisms for cooperation of CSOs with local authorities to be improved over time and used as best practices.

The IFC activities in Belarus. The IFC has been actively involved in advisory work in Belarus since 1993. The work began with the advisory services on privatization of small businesses. Currently IFC focuses its efforts on small and medium enterprise development and improvement of the business environment.

In December 2004 IFC has launched a Business Enabling Environment Project funded jointly with the Swedish International Development Cooperation Agency (SIDA). This two-year technical assistance effort will aim at reducing the regulatory burden on SME and improving SME access to information and business support services.

In addition to the advisory services the International Finance Corporation is also pursuing investment activities in Belarus. IFC has invested a total of USD 71 million in four projects in the financial and manufacturing sectors, including credit lines extended to *Priorbank* and *Belgazprombank* for on-lending to private enterprises and providing loan and equity for the refurbishment, modernization and expansion of *Dednovo* brewery. Despite the difficult investment environment in Belarus, IFC continues to seek opportunities for investment projects with the participation of the strategic investors.

United Nations Development Programme (UNDP)

UNDP's cooperation with the government is regulated by the Country Programme Document (CPD) which was developed in 2005 and covers the period of 2006-2010. The CPD was already approved by the UNDP Executive Board and is expected soon to be approved by the government. The CDP is focusing on five priority areas: economic growth and increase in living standards; effective and accountable governance; environmental sustainability; rehabilitation and sustainable development of Chernobyl affected areas; and cross border cooperation that includes prevention and treatment of HIV/AIDs, border management and drug trafficking issues. UNDP plans to implement its projects through partnership both with governmental and non-governmental partners.

It is expected that overall around USD 30 million will be mobilized to implement priorities identified in the CDP. Most of these resources are expected to come from the EC, the Global Fund to Fight AIDS, Tuberculosis and Malaria, the Global Environmental Facility and other multilateral or bilateral donors.

EU-TACIS

Relations between the European Union and Belarus are currently regulated by a Country Strategy Paper and a National Indicative Programme for the period 2005-2006, which set out the EU policy approach and related budget.

In the period 2004-2005 EUR 10 million were allocated for the TACIS National Programme and EUR 6 for TACIS Cross-border cooperation programmes in: i) support to the strengthening of good governance and sustainable development; ii) education and training; iii) support to Chernobyl-affected areas. EU programmes in Belarus remained limited in size and content because of restrictions, imposed by the government, on certain foreign assistance and the taxing of certain grants (considered as income).

Belarus has been part of the European Neighbourhood Policy (ENP) since the policy's inception in 2004. The rationale for the policy has been to provide both a strategic orientation and a financial instrument to achieve set goals in order to avoid the emergence of new dividing lines between the enlarged EU and its new neighbours through the promotion of programmes to increase stability, security and overall well-being of the population. Financial assistance for the implementation of the ENP is offered through the European Neighbourhood and Partnership

Instrument (ENPI), which replaces the MEDA and TACIS programmes from 2007 onwards. As of yet there is not bilateral Action Plan between the EU and Belarus.

For the next Strategy period, the EU will remain engaged in Belarus through a twin track approach involving support for civil society, rule of law and democratisation, and support for the needs of the population. The ENPI instrument will focus on i) support for social and economic development, including possible assistance in the areas of help for the most vulnerable parts of Belarusian society, particularly in Chernobyl-affected areas, public health, and SME development, and; ii) Support for strengthening democracy, good governance and respect for human rights, including at the level of regions and local communities, including people-to-people contacts, and capacity building for NGOs and professional associations as well as local and regional authorities. In addition, cross-border cooperation programmes (CBC) will continue under the ENPI. The estimated yearly allocation for Belarus under ENPI is EUR5 million for programmes in the two areas described above, and EUR 2-3 million for CBC programmes. These amounts could be revised if substantial developments were to take place in Belarus and/or in the context of the European Neighbourhood Policy.

USAID

The USAID program in Belarus strives to build NGO capacities in providing social services to vulnerable groups of population in the sphere of combating HIV/AIDS; pursuing anti-trafficking activities; support to orphans and vulnerable children, and promote economic policy dialogue and modern economic and accounting education. USAID assistance programs in economic reform sector focus on strengthening the SME sector and economic/business education and public dialogue on reform.

The USAID-sponsored Belarus Economic Education Project provides unbiased economic information through economic education and accounting training. As a catalyst for dialogue among government officials, business, academia and civil society on regional economic development, integration and economic reform regional roundtables and national conferences were conducted. The project also works to bring financial reporting in compliance with international standards by launching CAP/CIPA world-class, Russian language professional accountancy certification program. USAID also sees opportunities to support development of private sector development and entrepreneurship in Belarus through improving access to credit by micro and small business.

The Agribusiness Volunteer Program in Belarus focus area is increasing incomes of farmers by improving the performance of privatized collective farms throughout Belarus. The project provides technical assistance to host organizations by conducting volunteer assignments. As a result of this assistance, host organizations improve production and increase sales leading to increase in farmers' incomes.

ANNEX 7: ASSESMENT OF TRANSITION CHALLENGES

| BELARUS | Structure | Institutions | Conduct | Comments |
|--------------------------|------------------|---------------------|----------------|---|
| Agribusiness | <i>Large</i> | <i>Large</i> | <i>Large</i> | Agricultural markets are still under government control. Land reform and farm restructuring are still at a very early stage – most agricultural land remains in state ownership. State-owned companies or municipalities still control most of the agro-processing and input supply enterprises. The existing financial system subsidises the agricultural sector. |
| Banking | <i>Large</i> | <i>Large</i> | <i>Large</i> | The authorities seek to direct credit to favoured state-owned enterprises and recommend interest rate caps on such lending. Despite the strengthening of prudential supervision over recent years, recent IMF assessments have signalled serious concerns regarding credit quality in the financial system, and the vulnerability of the sector to shocks and structural weaknesses. |
| Energy Efficiency | <i>Large</i> | <i>Large</i> | <i>Large</i> | The energy efficiency sector is at a very early stage of development and neither the incentives nor the institutions which foster efficiency are in place. The line ministry regulates the energy sector. |
| General Industry | <i>Large</i> | <i>Large</i> | <i>Large</i> | The transition to market has hardly started. State companies dominate the market. State owned banks are engaged in directed lending to unreformed enterprises. The small private sector suffers from excessive regulation, arbitrary state interference and complex legislative and regulatory framework. |
| MEI | <i>Large</i> | <i>Large</i> | <i>Large</i> | Municipal services mostly operate under soft budget constraints. Regulatory reform has been very slow and cross-subsidisation of services is a common practice. Municipalities do not have access to long term finance and the private sector has only been active in urban transport. |
| MSMEs | <i>Large</i> | <i>Large</i> | <i>Large</i> | Starting a business is costly: it takes 16 different procedures, an average of 79 days and over 25 per cent of GNI to register a company. No credit registry or private credit bureau exists. Bankruptcy legislation is in place. The cost of registering collateral is relatively high. There is very little lending from commercial banks to the enterprise sector, outside the dedicated credit lines run by EBRD. |
| Natural Resources | <i>Medium</i> | <i>Medium</i> | <i>Medium</i> | Although the sector is limited in Belarus there remain considerable challenges in refining, including restructuring, commercialisation and privatisation. Governance and transparency of sector is relatively weak. |
| NBFIs | <i>Large</i> | <i>Large</i> | <i>Large</i> | Securities markets legislation and regulation are below IOSCO standards in most aspects. Securities markets regulator lack operational independence and do not have sufficient powers to enforce rules. Insurance legislation and regulation are in place. However, the insurance market is dominated by state-owned insurance companies that have monopoly over compulsory insurance. The size of capital markets and the insurance sector remains very small. |
| Power | <i>Large</i> | <i>Large</i> | <i>Large</i> | The sector is still vertically integrated, with no private sector participation. There is no independent regulator and large state interference for all regulatory functions. Tariffs are low and unbalanced. |

| | | | | |
|-----------------------------|--------------|--------------|--------------|---|
| Private Equity Funds | <i>Large</i> | <i>Large</i> | <i>Large</i> | Private equity activity remains almost absent. Reporting standards and creditor right protection remains poor, and the development of locally operating private equity funds would require progress in the reform of the financial sector and decreased political interference in local enterprises. |
| Property + Tourism | <i>Large</i> | <i>Large</i> | <i>Large</i> | Tradability of land limited de jure. Widespread state intervention in the sector. Many market segments and products are non-existent. |
| Telecoms | <i>Large</i> | <i>Large</i> | <i>Large</i> | There is no independent regulator and the Ministry acts as the owner, policy maker and regulator for the sector. While there is some limited competition in data and Internet service provision, the continuing fixed-line monopoly of state-owned dominant operator currently prevents competition in the provision of fixed services. |
| Transport | <i>Large</i> | <i>Large</i> | <i>Large</i> | In railways, operating and policy setting functions are not separated and core railway businesses (infrastructure, passenger, freight, etc.) are operated by the same entity. In roads, a road fund was set up in 1991. Some construction and maintenance are carried out by external entities (mostly state-owned). |

ANNEX 8: TECHNICAL COOPERATION PROJECTS

| Commitment Name | Fund Short Code | Euro Committed | Euro Disbursed | Fund Approved Date | Commit. Stage Name | Sector | Team Name | Business Group | Linked to Inv. |
|--|-----------------|----------------|----------------|--------------------|--------------------|--------------------------------|--|------------------------|----------------|
| Minsk wholesale market - feasibility study | AUS | 197,683 | 197,683 | 10/12/92 | Closed | Agriculture, Forestry, Fishing | BG/Op. Teams/Agribusiness | Specialised Industries | Y |
| Minsk wholesale market project - procurement services | AUS | 26,955 | 26,955 | 14/12/93 | Closed | Agriculture, Forestry, Fishing | BG/Op. Teams/Agribusiness | Specialised Industries | Y |
| Minsk wholesale market project - market technical support | AUS | 435,312 | 435,312 | 14/12/93 | Closed | Agriculture, Forestry, Fishing | BG/Op. Teams/Agribusiness | Specialised Industries | Y |
| Minsk Wholesale Market - technical support extension | AUS | 75,425 | 75,425 | 01/07/98 | Closed | Manufacturing | BG/Op. Teams/Agribusiness | Specialised Industries | Y |
| SME Credit Line: Project Implementation Support | BLR | 344,504 | 344,504 | 13/01/97 | Closed | Finance, Business | BG/Op. Teams/Central Europe Front Office | Central Europe | Y |
| SME Credit Line: Project Implementation Support | BLR | 86,330 | 71,360 | 25/11/99 | Disbursing | Finance, Business | RO/Minsk (Belarus) | SEEC | Y |
| National Agency for Aid Management (NAAM) | CANPS2 | 140,151 | 140,151 | 18/02/94 | Closed | Community/Social Services | BG/Op. Teams/Central Europe Front Office | Central Europe | N |
| Milavitsa Strategic Industry Advisor | CEI | 25,000 | 0 | 09/02/05 | Committed | Finance, Business | RO/Minsk (Belarus) | SEEC | Y |
| SME sector development - auditing, sector work and institutional development | DEN | 174,180 | 174,180 | 10/12/93 | Closed | Finance, Business | BG/Op. Teams/Financial InstitutionsA | Financial Institutions | N |
| Trade financing guarantee | DEN | 45,000 | 45,000 | 11/07/94 | Closed | Finance, Business | BG/Op. Teams/Financial InstitutionsA | Financial Institutions | Y |
| Project preparation unit | ECT | 526,450 | 526,450 | 20/11/92 | Closed | Community/Social Services | BG/Op. Teams/Central Europe Front Office | Central Europe | N |
| Telecommunications Strategic Development - business/financing plan and tariff study, restructuring study | ECT | 322,233 | 322,233 | 20/11/93 | Closed | Telecommunications | BG/Op. Teams/Telecommunications, Informatics and Media | Specialised Industries | Y |
| Brest-Minsk-Russian border highway improvement project | ECT | 117,484 | 117,484 | 20/11/93 | Closed | Transport, Storage | BG/Op. Teams/Transport | Infrastructure | Y |
| Road transport restructuring project | ECT | 3,774 | 3,774 | 20/11/93 | Closed | Transport, Storage | BG/Op. Teams/Transport | Infrastructure | Y |
| Project Preparation Unit (extension of Phase I) | ECT | 183,233 | 183,233 | 04/08/94 | Closed | Commerce, Tourism | BG/Op. Teams/Central Europe Front Office | Central Europe | Y |

| | | | | | | | | | |
|---|------|-----------|-----------|----------|------------|--------------------------------|---|------------------------|---|
| Energy conservation | ECT | 101,946 | 101,946 | 07/09/94 | Closed | Energy | BG/Op. Teams/Energy Efficiency and Climate Change | Non-Banking | Y |
| SME line of credit - Project Management Unit | ECT | 374,200 | 374,200 | 27/10/94 | Closed | Finance, Business | BG/Op. Teams/Financial InstitutionsA | Financial Institutions | Y |
| SME line of credit - Technical Commitment for participating banks | ECT | 997,200 | 997,200 | 27/10/94 | Closed | Finance, Business | BG/Op. Teams/Financial InstitutionsA | Financial Institutions | Y |
| Brest-Minsk Highway / Institutional Development Programme Belavtostrada | ECT | 1,694,398 | 1,694,398 | 06/12/94 | Closed | Construction | BG/Op. Teams/Transport | Infrastructure | Y |
| Wood processing sector assistance | ECT | 327,733 | 327,733 | 21/12/94 | Closed | Agriculture, Forestry, Fishing | BG/Op. Teams/Central Europe Front Office | Central Europe | Y |
| SME line of credit - project implementation support - extension | ECT | 550,000 | 550,000 | 08/10/96 | Closed | Finance, Business | BG/Op. Teams/Financial InstitutionsA | Financial Institutions | Y |
| Belarus: Microfinance Bank of Belarus (MFBB) - Business Plan | EIPF | 100,000 | 0 | 26/05/06 | Committed | Finance, Business | BG/Op. Teams/Group for Small Business | Deputy Vice President | Y |
| Belarus: SME/MSE Finance Framework - Regional Expansion 2006-2007 | EIPF | 400,000 | 16,741 | 15/06/06 | Disbursing | Finance, Business | BG/Op. Teams/Group for Small Business | Deputy Vice President | Y |
| Forest industries pre-feasibility study | FIN | 183,069 | 183,069 | 23/06/93 | Closed | Agriculture, Forestry, Fishing | BG/Op. Teams/Central Europe Front Office | Central Europe | Y |
| SME line of credit - investment projects preparation assistance | FIN | 48,299 | 48,299 | 25/10/94 | Closed | Finance, Business | BG/Op. Teams/Central Europe Front Office | Central Europe | Y |
| TurnAround Management Programme - JSC Shoe Company Lutch | FIN | 37,473 | 37,473 | 01/10/97 | Closed | Manufacturing | PE/ESE/TurnAround Management Group | SEEC | N |
| Edible oil production and processing - feasibility study | FRB | 23,891 | 23,891 | 08/03/93 | Closed | Manufacturing | BG/Op. Teams/Agribusiness | Specialised Industries | Y |
| Forest industries pre-feasibility study | GER | 146,101 | 146,101 | 06/07/93 | Closed | Agriculture, Forestry, Fishing | BG/Op. Teams/Central Europe Front Office | Central Europe | Y |
| Sugar production and processing feasibility study | GER | 68,187 | 68,187 | 19/01/94 | Closed | Agriculture, Forestry, Fishing | BG/Op. Teams/Central Europe Front Office | Central Europe | Y |
| TurnAround Management Programme - Mozyr Oil Refinery Programme | GER | 33,149 | 33,149 | 01/10/96 | Closed | Manufacturing | PE/ESE/TurnAround Management Group | SEEC | N |
| Sugar production and processing - pre-feasibility study | HOL | 44,697 | 44,697 | 10/02/93 | Closed | Agriculture, Forestry, Fishing | BG/Op. Teams/Central Europe Front Office | Central Europe | Y |
| Edible oilseed production and processing - feasibility study | HOL | 13,132 | 13,132 | 10/02/93 | Closed | Manufacturing | BG/Op. Teams/Agribusiness | Specialised Industries | Y |
| Minsk wholesale market project - legal advice | HOL | 15,716 | 15,716 | 01/02/94 | Closed | Agriculture, Forestry, Fishing | BG/Op. Teams/Agribusiness | Specialised Industries | Y |
| TurnAround Management Programme - Belvar Electronics Group | HOL | 39,831 | 39,831 | 18/11/96 | Closed | Manufacturing | PE/ESE/TurnAround Management Group | SEEC | N |

| | | | | | | | | | |
|---|------|---------|---------|----------|------------|--------------------------------|--|------------------------|---|
| Lenta Technical Due Diligence | HOL | 24,382 | 24,382 | 14/10/03 | Closed | Finance, Business | BG/Op. Teams/SEECCA Headquarters | SEEC | Y |
| Power plant modernisation - tender preparation advisory services | IRL | 61,428 | 61,428 | 05/01/94 | Closed | Energy | BG/Op. Teams/Power and Energy | Energy | Y |
| Belarus SME/MSE Finance Framework - Regional Expansion to July 2006 | IRL | 90,000 | 81,308 | 22/02/06 | Disbursing | Finance, Business | BG/Op. Teams/Group for Small Business | Deputy Vice President | Y |
| Establishment of a new financial institution - feasibility study | ITA | 19,742 | 19,742 | 03/03/93 | Closed | Finance, Business | BG/Op. Teams/Financial InstitutionsA | Financial Institutions | N |
| Edible oil production and processing - feasibility study | JAP | 71,161 | 71,161 | 01/02/93 | Closed | Manufacturing | BG/Op. Teams/Agribusiness | Specialised Industries | Y |
| Pilot privatisation programme | JAP | 891,225 | 891,225 | 01/08/93 | Closed | Community/Social Services | BG/Op. Teams/Early Stage Equity | Financial Institutions | N |
| Power plant modernisation - commercial accounting and Management Information Systems | JAP | 335,973 | 335,973 | 01/12/93 | Closed | Energy | BG/Op. Teams/Power and Energy | Energy | Y |
| Power plant modernisation - study of electricity tariffs | JAP | 137,117 | 137,117 | 01/12/93 | Closed | Energy | BG/Op. Teams/Power and Energy | Energy | Y |
| Wood processing sector - legal assistance | JAP | 62,018 | 62,018 | 01/01/95 | Closed | Agriculture, Forestry, Fishing | BG/Op. Teams/Central Europe Front Office | Central Europe | Y |
| TurnAround Management Programme - Lada-Omc | JAP | 46,058 | 46,058 | 06/10/97 | Closed | Community/Social Services | PE/ESE/TurnAround Management Group | SEEC | N |
| TurnAround Management Programme - Gomel's foundry "Tsentrolit" | JAP | 49,255 | 49,255 | 14/10/97 | Closed | Community/Social Services | PE/ESE/TurnAround Management Group | SEEC | N |
| TurnAround Management Programme - Olivariya Brewery | JAP | 47,052 | 47,052 | 08/12/97 | Closed | Community/Social Services | PE/ESE/TurnAround Management Group | SEEC | N |
| TurnAround Management Programme - Belvar II | JAP | 23,751 | 23,751 | 09/01/98 | Closed | Manufacturing | PE/ESE/TurnAround Management Group | SEEC | N |
| TurnAround Management Programme - component | JAP | 49,297 | 49,297 | 17/02/98 | Closed | Manufacturing | PE/ESE/TurnAround Management Group | SEEC | N |
| Telecommunications strategic development - institutional development | NORG | 57,585 | 57,585 | 01/11/93 | Closed | Telecommunications | BG/Op. Teams/Telecommunications, Informatics and Media | Specialised Industries | Y |
| TurnAround Management Programme - Luban Brick Factory | NORG | 34,362 | 34,362 | 01/09/97 | Closed | Manufacturing | PE/ESE/TurnAround Management Group | SEEC | N |
| Brest-Minsk-Russian Border Highway improvement project - advisory services to Belavtostrada for toll operation and design | POR | 36,264 | 36,264 | 06/05/94 | Closed | Transport, Storage | BG/Op. Teams/Transport | Infrastructure | Y |

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|--|-----|---------|---------|----------|------------|---------------------------|--|------------------------|---|
| Telecommunications strategic development - development plan and feasibility study on international links | SWE | 216,670 | 216,670 | 21/12/92 | Closed | Telecommunications | BG/Op. Teams/Telecommunications, Informatics and Media | Specialised Industries | Y |
| TurnAround Management Programme - Minsk bearing plant | SWE | 13,123 | 13,123 | 08/01/97 | Closed | Community/Social Services | PE/ESE/TurnAround Management Group | SEEC | N |
| TurnAround Management Programme - Belselstroy | SWE | 18,117 | 18,117 | 06/10/97 | Closed | Community/Social Services | PE/ESE/TurnAround Management Group | SEEC | N |
| TurnAround Management Programme - Krovlya | SWE | 46,502 | 46,502 | 13/05/98 | Closed | Community/Social Services | PE/ESE/TurnAround Management Group | SEEC | N |
| TurnAround Management Programme - Belparket | SWE | 32,119 | 32,119 | 05/10/98 | Closed | Community/Social Services | PE/ESE/TurnAround Management Group | SEEC | N |
| TurnAround Management Programme - JSC Vesopribor | SWE | 67,467 | 67,467 | 05/10/98 | Closed | Manufacturing | PE/ESE/TurnAround Management Group | SEEC | N |
| TurnAround Management Programme - JSC Vesopribor | SWE | 10,892 | 10,892 | 26/10/98 | Closed | Manufacturing | PE/ESE/TurnAround Management Group | SEEC | N |
| Turnaround Management Programme (TAM) - Beltechnologia & M | SWE | 69,344 | 69,344 | 28/06/00 | Closed | Manufacturing | PE/ESE/TurnAround Management Group | SEEC | N |
| Energy sector emergency assistance - investment study | SWI | 139,691 | 139,691 | 15/06/92 | Closed | Energy | BG/Op. Teams/Power and Energy | Energy | Y |
| SME line of credit - technical assistance to participating banks (project extension) | TAI | 92,714 | 92,714 | 12/07/96 | Closed | Finance, Business | BG/Op. Teams/Financial InstitutionsA | Financial Institutions | Y |
| SME Line of Credit - Ext'n Project Implementation Support | TAI | 248,900 | 248,900 | 15/07/99 | Closed | Finance, Business | BG/Op. Teams/SEECCA Headquarters | SEEC | Y |
| Pilot Micro Lending Programme in Belarus | TAI | 159,028 | 159,028 | 29/06/00 | Closed | Finance, Business | BG/Op. Teams/Financial InstitutionsA | Financial Institutions | Y |
| Pilot Micro Lending Programme in Belarus | TAI | 16,248 | 16,248 | 21/02/02 | Closed | Finance, Business | BG/Op. Teams/Group for Small Business | Deputy Vice President | Y |
| Project Implementation Support, Belarus SME Line of Credit | TAI | 28,582 | 28,582 | 09/08/02 | Closed | Finance, Business | RO/Minsk (Belarus) | SEEC | Y |
| Belarus Microlending Programme | TAI | 84,620 | 80,062 | 27/08/02 | Disbursing | Finance, Business | BG/Op. Teams/Group for Small Business | Deputy Vice President | Y |
| Project Implementation Support, Belarus SME Line of Credit | TAI | 67,058 | 67,058 | 26/05/04 | Closed | Finance, Business | BG/Op. Teams/Group for Small Business | Deputy Vice President | Y |
| Minsk Wholesale Market TC Extension | TCS | 23,506 | 23,506 | 23/07/98 | Closed | Manufacturing | BG/Op. Teams/Agribusiness | Specialised Industries | Y |
| SME LINE OF CREDIT: PROJECT IMPLEMENTATION SUPPORT | TCS | 76,027 | 76,027 | 14/09/98 | Closed | Finance, Business | BG/Op. Teams/SEECCA Headquarters | SEEC | Y |
| Project Implementation Support, Belarus SME Line of Credit | TCS | 3,355 | 3,355 | 22/02/05 | Closed | Finance, Business | RO/Minsk (Belarus) | SEEC | Y |

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|--|-----|---------|---------|----------|--------|---------------------------|--|------------------------|---|
| Belarus Microlending Programme | TCS | 8,650 | 8,650 | 24/02/05 | Closed | Finance, Business | BG/Op. Teams/Group for Small Business | Deputy Vice President | Y |
| Development of trade finance capabilities | UKB | 44,941 | 44,941 | 06/09/95 | Closed | Finance, Business | BG/Op. Teams/Financial InstitutionsA | Financial Institutions | Y |
| Financial accounting assistance | UKB | 231,299 | 231,299 | 01/04/96 | Closed | Energy | BG/Op. Teams/Power and Energy | Energy | Y |
| TurnAround Management Programme - Amkodor-Pinsk bus assembly | UKB | 68,174 | 68,174 | 21/06/96 | Closed | Manufacturing | PE/ESE/TurnAround Management Group | SEEC | N |
| TurnAround Management Programme - Mozyr Refinery | UKB | 14,400 | 14,400 | 01/01/97 | Closed | Manufacturing | PE/ESE/TurnAround Management Group | SEEC | N |
| TurnAround Management Programme - Belvar Electronics | UKB | 10,057 | 10,057 | 01/02/97 | Closed | Manufacturing | PE/ESE/TurnAround Management Group | SEEC | N |
| TurnAround Management Programme - Minsk bearing plant | UKB | 10,385 | 10,385 | 01/02/97 | Closed | Manufacturing | PE/ESE/TurnAround Management Group | SEEC | N |
| TurnAround Management Programme - Brest Carpets | UKB | 57,924 | 57,924 | 28/07/97 | Closed | Manufacturing | PE/ESE/TurnAround Management Group | SEEC | N |
| TurnAround Management Programme - Luban Brick Factory | UKB | 9,217 | 9,217 | 01/09/97 | Closed | Community/Social Services | PE/ESE/TurnAround Management Group | SEEC | N |
| TurnAround Management Programme - JSC Shoe Company Lutch | UKB | 9,782 | 9,782 | 02/10/97 | Closed | Manufacturing | PE/ESE/TurnAround Management Group | SEEC | N |
| TurnAround Management Programme - Belselstroy | UKB | 10,360 | 10,360 | 06/10/97 | Closed | Community/Social Services | PE/ESE/TurnAround Management Group | SEEC | N |
| Telecommunications Regulatory Development | UKB | 142,140 | 142,140 | 26/08/98 | Closed | Telecommunications | GC/General Counsel/Legal Transition | Non-Banking | Y |
| Minsk wholesale market - TC extension | UKB | 90,519 | 90,519 | 06/04/98 | Closed | Manufacturing | BG/Op. Teams/Agribusiness | Specialised Industries | Y |
| TurnAround Management Programme - Krovlya | UKB | 12,997 | 12,997 | 19/05/98 | Closed | Community/Social Services | PE/ESE/TurnAround Management Group | SEEC | N |
| TurnAround Management Programme - Belparket | UKB | 13,001 | 13,001 | 10/08/98 | Closed | Community/Social Services | PE/ESE/TurnAround Management Group | SEEC | N |
| SME LINE OF CREDIT: PROJECT IMPLEMENTATION SUPPORT | UKB | 73,486 | 73,486 | 14/09/98 | Closed | Finance, Business | BG/Op. Teams/Central Europe Front Office | Central Europe | Y |
| TurnAround Management Programme - OAO Keramin | UKB | 57,259 | 57,259 | 23/10/98 | Closed | Manufacturing | PE/ESE/TurnAround Management Group | SEEC | N |
| Brewery Sector Analysis in Belarus | UKD | 18,456 | 18,456 | 14/02/00 | Closed | Manufacturing | BG/Op. Teams/Agribusiness | Specialised Industries | N |
| Turnaround Management Programme (TAM) - Beltechnologija & M | UKD | 15,188 | 15,188 | 30/05/00 | Closed | Manufacturing | PE/ESE/TurnAround Management Group | SEEC | N |

| | | | | | | | | | |
|--|-------|-------------------|-------------------|----------|--------|-------------------|---------------------------------------|------------------------|---|
| Milavitsa Environmental Due Diligence | UKD | 10,678 | 10,678 | 20/11/00 | Closed | Finance, Business | BG/Op. Teams/SEECCA Headquarters | SEEC | Y |
| Milavitsa Legal Due Diligence | UKD | 8,850 | 8,850 | 20/11/00 | Closed | Manufacturing | BG/Op. Teams/SEECCA Headquarters | SEEC | Y |
| Belarus SME/MSE Finance Framework - 2005 Regional Expansion | UKD | 11,425 | 11,425 | 23/11/05 | Closed | Finance, Business | BG/Op. Teams/Group for Small Business | Deputy Vice President | Y |
| Belarus SME/MSE Finance Framework - 2005 regional expansion | US05 | 14,536 | 14,536 | 26/05/05 | Closed | Finance, Business | BG/Op. Teams/Group for Small Business | Deputy Vice President | Y |
| Belarus SME/MSE Finance Framework - 2005 Regional Expansion | US05 | 106,484 | 106,484 | 26/05/05 | Closed | Finance, Business | BG/Op. Teams/Group for Small Business | Deputy Vice President | Y |
| Edible oilseed production and processing - feasibility study | USOLD | 30,508 | 30,508 | 03/03/93 | Closed | Manufacturing | BG/Op. Teams/Agribusiness | Specialised Industries | Y |
| Country Total Euro Amount: | | 12,434,087 | 11,897,608 | | | | | | |
| Report Total Euro Amount: | | 12,434,087 | 11,897,608 | | | | | | |
| No of Commitments: | | 95 | | | | | | | |