DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

STRATEGY FOR BELARUS

As approved by the Board of Directors on 12 March 2013

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EXECUTIVE SUMMARY

Since 1996 the Bank's activities in the Republic of Belarus have been limited by the country's uneven progress in democratic and market-oriented transition. Previous Country Strategies have highlighted concerns about the Belarusian authorities' commitment to and application of the principles of multiparty democracy, pluralism and market economics, as contained in Article 1 of the Agreement Establishing the Bank. As a result of the difficult operational environment, the Bank's engagement with Belarus has been constrained.

The Bank remains seriously concerned about the uneven progress Belarus made toward the application of principles of multiparty democracy and pluralism during the previous Strategy period. The Belarusian state continues to play a dominant role in the country's political and economic life. Political power is highly concentrated in the presidency. International observers from the OSCE and Council of Europe have judged successive elections as deeply flawed. The authorities' commitment to political pluralism, media freedom, the independence of civil society and the legitimacy of political opposition is uncertain. The use of wage restrictions, price controls and directed lending continue to characterise the state's centralised management of the Belarusian economy.

In this context, the calibrated strategic approach to Belarus adopted in December 2009 and recalibrated in 2011 and 2012 to focus the Bank's operations more intently on the private sector has been an effective and flexible tool for responding to the changing political and economic environment in Belarus. Under the calibrated approach, the Bank was able to respond nimbly and in a differentiated manner to political developments after the flawed 2010 presidential elections, while opening up new areas of activity and policy dialogue to promote private sector development and entrepreneurial activity.

The current political, economic and structural reform environment in Belarus warrants the continued application of a calibrated strategic approach, incorporating both political and economic benchmarks to gauge the country's progress or regress against its key Article 1 commitments and adjusting the Bank's operational response accordingly. In keeping with the calibrated strategic approach, the Bank's overall engagement in Belarus will continue to be modulated to reflect the country's progress against annually updated political and economic benchmarks.

In light of recent political and economic developments, while continuing its policy of constructive engagement to promote reform, the Bank will further calibrate its engagement in Belarus to limit its involvement with state-owned enterprises in the areas of trade finance, energy efficiency credit lines and private equity funds. During the Strategy period, the Bank will monitor the following benchmarks:

In the political sphere:

- Progress toward meaningful political accountability, including the strengthening of checks and balances in the political system, removal of impediments to NGO and opposition parties' active engagement in political life and even-handed application of the rule of law.

- Progress in increasing media freedom and freedom of expression.
- Progress in enforcing the human and civil rights protections guaranteed in the Constitution, including freedom from arbitrary arrest and detention, and the release and rehabilitation of those recognised by the EU and other members of the international community as political prisoners.

In the economic sphere:

- Creating adequate space for private sector development and competition including protection of property rights.
- Strengthening market-supporting institutions and the legal and regulatory framework for private sector firms to enter and compete in the market.
- Significant reduction in arbitrary and distortionary state intervention in the economy, including through directed lending by state-owned banks, wage restrictions and price controls.

Reform Challenges

The global financial crisis of 2009 and the severe balance of payment crisis of 2011 demonstrated the limits of Belarus' economic model. Belarus' key transition challenges, largely unchanged since the last Strategy period, include reducing the state's role in the economy to stimulate competition as well as greater efficiency and productivity growth, commercialising the financial sector to direct savings to more efficient investments and to increase the private sector's access to finance, increasing energy efficiency and reducing the country's heavy dependence on inexpensive imported energy, and improving environmental and financial sustainability of the country's municipal infrastructure.

Having stabilised the economy, the authorities must now resume efforts to implement the much-needed structural reform programme, in particular to promote private sector development and lay the foundations for long-term sustainable growth. The Bank has identified the following as the main challenges to be addressed during the next Strategy period:

- **Reducing the state's role in the economy.** The economy continues to be dominated by the state, which produces three quarters of GDP and employs most of the labour force. State interference in the economy – for instance, through subsidies, price controls and directed lending – results in economic distortions and suboptimal resource allocation and hampers competition and flow of labour and capital to new sectors. Commercialisation and privatisation of large state enterprises would help modernise the country's industrial base, increase efficiency and make available some of the labour force to work in the nascent private sector. However, recent events and official statements signalling that earlier privatisations can be challenged bring into question the authorities' commitment to transparent privatisation. Although obstacles for entry and operation of private sector firms have declined, they should be further reduced.

- **Commercialising the financial sector.** The three large state-owned banks still account for almost 70 per cent of the banking system's assets, and directed lending was widely practiced before it was scaled back after the 2011 crisis. The recently created state development bank is expected to take over most non-commercial directed loans from state banks' balance sheets. This should make directed lending operations more transparent and enable state banks to focus on commercial operations so that in time they can be privatised.

- **Increasing the energy efficiency of the economy.** Belarus is one of the least energy independent economies in the region. The country has limited indigenous sources of energy and imports most fuels, primarily from Russia. Energy pricing remains inadequate to encourage efficient use and non-price barriers to increasing energy efficiency persist. Incentives for improving energy efficiency need to be strengthened through appropriate policies, including market pricing of energy and establishment of a clear framework for renewable energy.

- **Improving sustainability of municipal infrastructure.** Municipal infrastructure requires commercialisation, based on economically justified user charges and cost recovery principles, to address the shortcomings of the current centralised tax-payer financed model and ensure its medium and long-term sustainability. A number of facilities are near-obsolete and present an environmental hazard, locally and for the Baltic region more generally. At the same time, cost recovery in municipal infrastructure has declined further during last year's crisis. Application of economically justified tariffs and improvements in efficiency of service provision, including energy efficiency, across all segments of the municipal infrastructure could help to achieve a substantial and sustained reduction of their environmental impact, increase in cost recovery ratios combined with improved service quality.

Strategic Priorities

In response to these broad reform challenges, during the next Strategy period the Bank will continue to focus on **promoting private sector development** across all sectors of the economy, both directly and indirectly. The Bank's priorities in this area will include supporting the transparent privatisation of state-owned entities and assets; assisting partner banks to deepen financial intermediation in underserved segments and geographic areas and improve access to finance by MSMEs; and continuing to engage the authorities through policy dialogue to implement structural reforms that support private sector development and improve the country's investment climate.

To support **commercialisation of the financial sector**, the Bank will offer operations to private and foreign-owned banks, and consider supporting non-bank financial institutions to further broaden access to finance by private sector players. The Bank will increase the proportion of trade finance activity to private end-borrowers by reducing trade finance to state-owned enterprises.

To **ensure the economy becomes more energy efficient** over time, the Bank will offer new instruments to Belarusian companies, via partner banks, and technical cooperation support to the participating institutions in order to develop necessary human resource capacity and skills.

Building on its experience in the municipal waste water sector, the Bank may consider **extending its existing Environmental Infrastructure Facility to other**

municipalities and/or engage in other municipal sectors that benefit the environment and have tangible and direct benefits for the local population such as solid waste management. Policy dialogue on structural reforms will continue to be an inherent part of the Bank's activities in the municipal sector.

The Bank's activities in addressing these challenges will continue to be guided by its mandate and its adherence to the principles of Article 1, and the Bank will continue to calibrate its engagement with the Belarusian state and public sector based on progress or regress in political and economic reforms, including in the annual Country Strategy Updates. In addition, the Bank will continue to apply sector-specific criteria in relation to its engagement with public entities and will ensure that no investment operations will provide a direct financial benefit to the country's central government authorities.

1. THE BANK'S PORTFOLIO

1.1. Overview of Bank activities to date

As of 31 December 2012 the Bank has signed 51 projects in Belarus for a net cumulative business volume of €1.05 billion and a total project value of €1.5 billion. The current portfolio amounts to €390 million of which 78 per cent has been disbursed.

In line with the Bank’s calibrated Strategy to support private sector development in Belarus, the Bank’s current portfolio is predominantly invested in the private sector. The industry, commerce and agribusiness (ICA) sector – which now represents 48 per cent of the current portfolio – has overtaken the financial sector as the dominant sector in the Bank’s portfolio. The Bank’s portfolio currently includes 19 ICA projects for a total of €235 million, including five projects in Belarus’ forestry sector.

The financial sector represents 45 per cent of the Bank’s current portfolio. The Bank works with eight partner banks and is a shareholder in two of those. The Bank has provided its partner banks with SME, MSME and mortgage financing as well as access to its Trade Facilitation Programme (TFP). The remainder of the Bank’s portfolio (5 per cent) is invested in three municipal projects with a strong environmental focus and one natural resources project (2 per cent).

The ETC Initiative has enabled the Bank to step up its operations in Belarus significantly. In the period from 2010 to 2012, the Bank financed 28 projects for a total of €439 million.

Table 1: Cumulative Business Volume and Portfolio in Belarus as of 31 December 2012

Sector	Net Cumulative Business Volume			Portfolio				
Amount in EUR million	Number of projects	EBRD signed	*EBRD % of Total*	Number of projects	Portfolio	*% of Portfolio*	Operating Assets	*% of Operating Assets*
Energy	**2**	**38**	**4%**	**1**	**8**	**2%**	**0**	**0%**
Natural Resources	1	8	1%	1	8	2%	0	0%
Power and Energy	1	30	3%	0	0	0%	0	0%
Financial Institutions	**23**	**717**	**68%**	**13**	**176**	**45%**	**78**	**36%**
Bank Equity	2	9	1%	1	3	1%	3	2%
Bank Lending	6	648	62%	3	148	38%	51	24%
Insurance, Fin Services	0	0	0%	0	0	0%	0	0%
Small Business	15	60	6%	9	25	6%	24	11%
ICA	**22**	**235**	**22%**	**19**	**188**	**48%**	**136**	**64%**
Agribusiness	6	31	3%	5	21	5%	11	5%
Equity Funds	2	10	1%	2	10	3%	2	1%
Telecom, Informatics, Media	3	34	3%	2	5	1%	4	2%
Manufacturing & Services	10	151	14%	9	144	37%	115	54%
Property & Tourism	1	9	1%	1	9	2%	5	2%
Infrastructure	**4**	**60**	**6%**	**3**	**18**	**5%**	**0**	**0%**
MEI	3	18	2%	3	18	5%	0	0%
Transport	1	41	4%	0	0	0%	0	0%
TOTAL	**51**	**1,049**	**100%**	**36**	**390**	**100%**	**214**	**100%**

Table 2: Portfolio Development in Belarus, 2009-2012

Amount in EUR million	2009	2010	2011	2012
Net Cumulative Business Volume	262	551	839	1,049
Number of operations	27	33	42	51
Current Portfolio Stock	107	148	291	390
Number of Operations	19	23	30	36
Operating Assets	80	104	90	214
% Undrawn	22%	15%	43%	22%
Annual Business Volume	52	60	194	185
Number of Operations	6	7	9	12
Gross Disbursements	27	26	18	145
Annual Cancellations	0	0	0	2.3
Active Pipeline Stock	60	200	78	147
Private Sector Share (% Portfolio)	100%	100%	100%	95%
Non Sovereign (% Portfolio)	98%	99%	100%	95%

1.2. Implementation of the previous Country Strategy

In December 2009 the Bank adopted a 'calibrated' Country Strategy for Belarus, based on three key pillars: political reform benchmarks, economic and structural reform benchmarks, and sector-specific reform criteria to assess progress and provide incentives for further reforms. The calibrated strategic approach opened up new areas for potential engagement in Belarus, such as working with state-owned banks committed to privatisation, pre-privatisation support for both corporates and banks, and investments in the municipal, transport and power sectors. The calibrated approach also gave the Bank the flexibility to respond to changes in the political and structural reform environment in Belarus: to increase the Bank's engagement in Belarus if political and/or economic reforms were adopted, and to restrict the Bank's engagement if the political and/or economic environment worsened. The political and economic reform benchmarks in the 2009 Country Strategy were as follows:

Political benchmarks

1. Further progress toward meaningful political accountability, including the strengthening of checks and balances in the political system, removal of impediments to NGO and opposition parties' active engagement in political life and even-handed application of the rule of law.
2. Further progress in increasing media freedom and freedom of expression.
3. Further progress in enforcing the human and civil rights protections guaranteed in the Constitution, including freedom from arbitrary arrest and detention.

Economic benchmarks

1. Creating adequate space for private sector development and competition.
2. Strengthening of market-supporting institutions and the legal and regulatory framework for private sector firms to enter and compete in the market.
3. Significant reduction in arbitrary and distortionary state intervention in the economy, including through directed lending in state-owned banks, wage restrictions, price controls and production targets.

During the previous Strategy period, Belarus has failed to make progress against the three political benchmarks. Political accountability has been weakened, the impediments to civil society and opposition parties' engagement in political life have increased in both number and severity, and the rule of law has been applied in a discriminatory manner. Media freedom and freedom of expression have come under renewed pressure since December 2010. Violations of Belarusian citizens' human and civil rights continue.

Performance against the economic benchmarks has been mixed. The Belarusian authorities took some steps to stimulate private sector development. Enterprise registration requirements and procedures were eased, access to land was simplified and an agency for investment and privatisation was established. Directed lending was reduced during the crisis as the central bank stopped providing low interest rate loans to state banks for on-lending to priority sectors. A development bank was established and has taken some of the accumulated directed loans from state banks' balance sheets. However, during 2011 access to foreign exchange was rationed by the central bank, consumer goods exports were administratively regulated and the list of 'socially important' goods subject to price and margin controls was expanded. Various directed lending programmes supported by the government remain in place.

In response to these developments, particularly the flawed 2010 presidential election and ensuing pressure on opposition political activists and civil society organisations, the Bank imposed new limits on its engagement with the Belarusian state and public sector while enhancing its support to the private sector. In 2011 the Bank discontinued consideration of large-scale public infrastructure projects, direct participation in privatisation through purchase of shares owned by the state and imposed tighter conditions for any engagement with state-owned entities. In 2012, the Bank discontinued consideration of credit lines with state-owned banks and pre-privatisation support. The Bank's priority during this period has been to engage more actively with the private sector, to engage in projects that benefit the Belarusian people and to assist in areas where there has been demonstrated reform commitment.

This effort at narrowing and deepening the Bank's engagement resulted in significant new business in the approved sectors. During the previous Strategy period 28 new projects were signed for a total of €439 million (including TFP). The Bank's portfolio tripled to €390 million while operating assets more than doubled to €214 million. The Bank's operations remained focused overwhelmingly on private sector operations.[1]

In the **corporate sector** the Bank aimed to support private enterprise in all sectors. During the previous Strategy period the Bank invested approximately €181 million in 18 projects. The forestry sector offers a good example of the Bank's joined-up approach to investments in Belarus. Building on its experience with the privately owned wood processor Pinskdrev, the Bank engaged in policy dialogue with the Belarusian authorities responsible for forest management and the wood-processing industry. This included a Belarus Forest Sector Study, financed by the Austrian Government, which analysed the sector, provided policy recommendations and identified investment opportunities. In parallel, the Bank supported three foreign

[1] This private sector focus includes the extension of trade finance credit lines to private banks, of which a minority can be and has been onlent to commercially operating state-owned enterprises. See below for more details.

strategic investors in the forestry sector. The Bank provided two long-term corporate loans of €50 million and €40 million to Kronospan to finance the construction of a particleboard plant and an MDF and laminate flooring plant in Grodno. The Bank extended a €26 million long-term corporate loan to VMG Industry to finance the development of a greenfield integrated wood processing complex, including a particleboard plant, a furniture plant and a layer-glued product plant in Mogilev. Finally, the Bank lent €5 million to Mebelain, part of SBA Furniture Group, to build a greenfield furniture factory also in Mogilev. This approach will set new benchmarks and introduce modern technology in one of Belarus' main export industries.

Despite these positive examples, sourcing good deals in a country with an underdeveloped private sector and a volatile macro-economic environment remains challenging. The remaining 14 corporate projects consist of four projects in the manufacturing and services sector, four agribusiness deals, two ICT projects, two equity funds, one property transaction and one natural resources project. Seven of these 14 projects were part of larger regional projects. The remaining seven purely Belarusian projects were financed through ETC instruments for a total of €36 million. Two of these projects, although signed, failed to disburse and were subsequently cancelled. The average corporate project size (excluding the large projects in the forestry sector with foreign sponsors) was €4.3 million. To assist with project preparation and implementation the Bank committed approximately €630,000 in technical cooperation funds.

The Bank also supports the development of SMEs through its SBS advisory programmes. EGP currently works with 6 companies active in light industry and ICT. In November 2011, with the financial support of the European Union, the Bank launched its BAS programme in Belarus. BAS has so far pre-qualified over 40 local consultants and signed 9 grant agreements with MSMEs, half of which are located in the regions. For a more detailed overview of the Bank's SBS programme please refer to Annex 5.

In the **financial sector**, the Bank strived to (1) strengthen financial intermediation to ensure efficient financing of MSMEs (2) expand its TFP programme to facilitate trade and (3) launch its Belarus sustainable energy financing facility (BELSEFF). The 2011 balance of payment crisis in Belarus eroded the capital base of local banks and significantly constrained the Bank's operations in the financial sector. The Bank works with nine partner banks (three locally owned, three owned by foreign private investors and three owned by Russian state owned banks). During the Strategy period, the Bank signed two equity investments for €2.3 million and six MSME credit lines for €46.7 million and one energy efficiency credit line for €3 million.

One important feature of the Bank's portfolio in Belarus is the increased business in trade facilitation. The Bank expanded its TFP programme to five more partner banks, bringing the total number of participating banks to nine. The Bank supported 949 TFP transactions for a cumulative trade volume of €312 million. Trade facilitation has strengthened our partner institutions, allowing them to find new customers. End-users, mainly in the private sector, have been able to import new technologies and make their businesses more competitive. TFP is an important channel through which the Bank has been able to deliver transition impact even in a difficult business environment.

The launch of BELSEFF was postponed to November 2012 due to the financial crisis. The Bank hired a consortium led by KPMG to provide support to participating banks and eligible clients in the preparation and evaluation of sustainable energy projects. The Bank also provided technical assistance in excess of €1.3 million to its partner banks to support institution building, downscaling and trade finance.

To strengthen the competitive position of the Bank's partner banks and break the traditional linkage between state-owned banks and their state-owned clients, partner banks are allowed to provide TFP facilities and on-lend proceeds under BelSEFF to commercially operating SOEs. Over the past Strategy period 31 per cent of TFP volume was generated by commercially operating SOEs. On-lending to commercially operating SOEs under BELSEFF is capped at 40 per cent of the framework. For each transaction with an SOE, the partner bank submits a detailed questionnaire to assess to what extent the SOE operates commercially. The questionnaire covers among others the independence of the SOE's management, its profitability and state interference in price setting. Based on the questionnaire, the Bank reviews and approves (at its discretion) each transaction. Partner banks are also required to ensure that potential clients are not subject to international sanctions.

In accordance with the 2009 calibrated Strategy (as subsequently recalibrated in 2011 and 2012), the Bank's engagement in the **energy and infrastructure sectors** has been limited to support for the Belarus Environmental Infrastructure Facility Phase One which was signed in December 2012. This project consists of an €18.25 million sovereign loan to finance the rehabilitation of the wastewater treatment facility in Vitebsk and the installation of biogas power production facilities in Slonim and Baranovichi. The Nordic Investment Bank is financing similar projects in Brest and Grodno. In the context of this project, the government has agreed to reach full cost recovery and eliminate cross-subsidies by 2017 with covenanted annual milestones.

The 2009 calibrated Strategy also envisaged support for Belarus' privatisation programme. While the Bank was ready to support the privatisation of two state-owned banks and two state-owned enterprises, the Belarusian authorities made limited progress on these privatisations. As a result, the 2012 Country Strategy Update excluded pre-privatisation financing from the Bank's operational priorities in Belarus.

1.3. Transition impact of the Bank's portfolio

Since December 2009 Belarus has benefitted from over 30 country-specific and regional projects. Nine of them were transition-rated specifically for Belarus.[2] Of these operations 89 per cent were rated ex ante as having "good" or "excellent" transition impact potential. This exceeds the institution-wide target of 80 per cent of "good" or better. Four of the nine projects were assessed as having "excellent" transition impact potential.

Two greenfield wood-processing plant construction projects in Mogilev and Grodno can potentially demonstrate successful large scale foreign direct investments in the

[2] This does not include regional projects or projects signed under frameworks which are assessed and monitored on a regional / framework level.

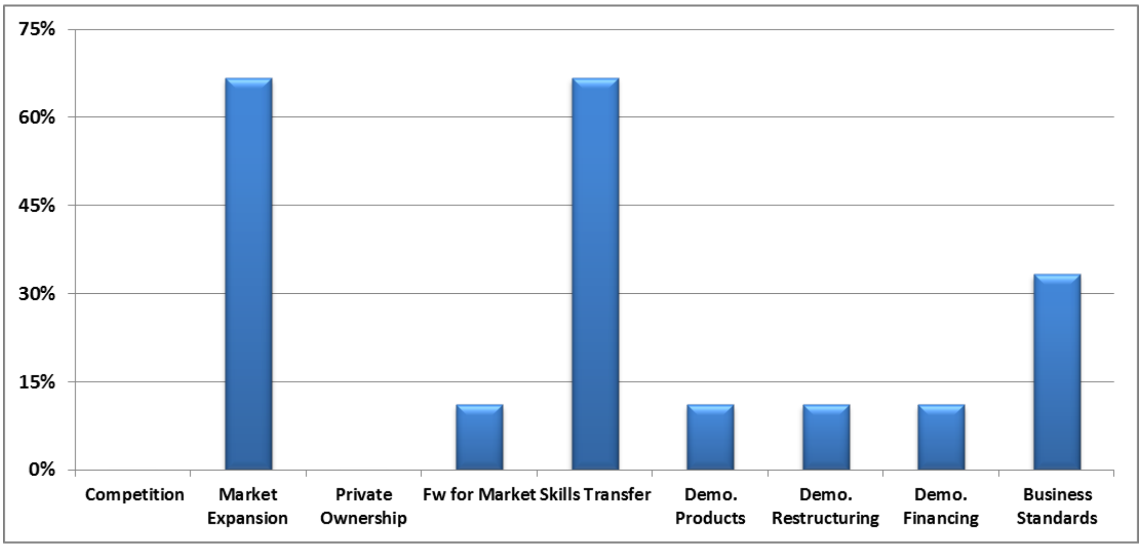
still largely state-dominated economy. They are also expected to have a positive effect on upstream and downstream companies in the sector.

A project with a privately-owned commercial bank under the Belarus Sustainable Energy Financing Facility (BelSEFF) was assessed as having “excellent” transition impact potential. This project will have positive demonstration effects for commercial financing of energy efficiency improvements for privately-owned SMEs, and will also demonstrate the benefits of energy conservation and rational energy utilisation, improving the competitiveness of the SME sector.

A project under the Bank’s Trade Facilitation Programme (TFP) with a privately owned Belarusian bank was also rated “excellent” due to the expected increase in private sector trade activities and the institutional capacity building resulting from an expansive technical assistance programme to improve the partner bank’s trade finance skills. Another TFP project was assessed to have “satisfactory” transition impact potential. While this project is also expected to facilitate inter-regional and international trade, its transition impact potential was limited due to the foreign state ownership of the partner bank’s parent and significant use of the cash disbursement facility.

The transition objectives of these nine projects reflect the Bank’s calibrated strategic approach. Six operations were extended to financial intermediaries to support the transition objectives of MSME development (four projects, including one that specifically targets energy efficiency financing) and trade liberalisation and access to trade finance (two projects). Two transactions in the forestry sector aim to support market expansion and skills transfer. Please refer to Figure 1 for an overview to the Bank’s transition objectives.

Figure 1. Targeted Transition Objectives in Belarus (share of projects), Dec 2009 – 2012



The Bank’s portfolio in Belarus is performing well in terms of achieving its envisaged transition impact objectives. All 15 operations in the Bank’s active portfolio are – as of end-2012 – on track to achieving their transition potential.[3] This includes five active operations that are currently ranked from 1 to 3, which indicates that they have mostly achieved their desired transition impact. These are projects that were signed four to seven years ago and, as such, are nearing completion. The remaining ten operations rank from 4 to 6 which shows they are on their way to achieving their transition objectives. As a result of this successful performance so far, Belarus' active portfolio ranked at 3.80 at end-2012, exceeding the Bank-wide average of 4.05 and the 2012 institutional scorecard target.

Four transition-rated operations in Belarus, all in the financial sector, were completed (i.e., fully repaid) during the previous Strategy period, all of which have ultimately delivered their envisaged transition impact. Two of these completed operations, targeting increased intermediation and skills transfer in MSME finance, have achieved an "excellent" transition impact, while the remaining two achieved "good" transition impact.

2. OPERATIONAL ENVIRONMENT

2.1. Political context

The political trend since the presidential election of December 2010, which was considered flawed by international observers from the OSCE and Council of Europe, has been a source of significant concern in the international community. The detention and harassment of opposition political activists, independent media and civil society groups has continued and in some cases intensified. Restrictive new laws were introduced in October 2011 further undermining the protection of Belarusian citizens' human and civil rights, including through the strengthening of the powers of the secret police (the KGB). The trial and conviction leading to the execution in March 2012 of two Belarusian citizens accused of perpetrating the April 2011 Minsk metro bombings were criticised by domestic and international observers as deeply flawed. The Belarusian authorities have not released and rehabilitated all of those recognised by the EU and other members of the international community as political prisoners.

The September 2012 parliamentary elections were judged by the International Election Observation Mission (IEOM) coordinated by the OSCE to have been neither free nor fair. Despite some improvement to the electoral code, the IEOM concluded that the authorities had failed to uphold many OSCE commitments including the right of citizens to stand as candidate and to express themselves freely.

In response to the continued practice of detention and harassment of opposition political activists, independent media and civil society groups, the EU and US strengthened their sanctions against the Belarusian political leadership in February and March 2012. The EU added a further 32 individuals to its targeted visa ban regime, bringing the total number to 243. In parallel, the EU imposed a freeze on the assets of 29 entities controlled by persons subject to these restrictive measures. Following the September 2012 parliamentary election, the EU extended its sanction

[3] i.e. All active operations more than 6 months since signing and which were monitored for their transition impact at least once

regime for another year, until October 2013, although it did not expand the scope of the sanctions.

Please refer to Annex 1 for a detailed description of the current political environment.

2.2. Macroeconomic context

In 2011, Belarus underwent macroeconomic adjustment following a policy-induced balance-of-payments crisis. After generating very large external imbalances during and after the presidential election campaign in late-2010 and introducing various administrative measures in the spring-summer 2011 to delay adjustment, the authorities allowed the Belarusian rubel to depreciate. After peaking at 108.9 per cent year-on-year in January 2012, inflation decelerated to 38.8 per cent in September. As real wages declined, households switched from imported to domestically produced products and exports increased. However, following the post-crisis recovery, the economy has been unable to maintain momentum. Domestic investment and construction had to be curtailed as the government cut back on the direct investment programmes. Industrial production also slowed recently, likely due to falling external demand. Since June 2011, Belarus has benefitted from a stand-by facility US$3 billion from the EurAsEC Anti-Crisis Fund, managed by the Eurasian Development Bank.

Stabilisation gains may be reversed by the renewed pressure to increase wages and lending. The government is targeting a high rate of GDP growth, which may require relaxation of the firm directed lending limits adopted during the 2011 crisis and once again engaging the authorities in providing soft loans to state companies. The national bank has been reducing policy interest rates steadily, but has kept them above the annualised rate of monthly inflation. In June 2012, President Lukashenka ordered large increases in public sector wages to bring the average monthly wage to an equivalent of US$500 by end-2012 from around US$360 in May 2012. The risk is high that these policies may lead to another bout of macroeconomic instability down the road.

Longer term prospects depend to a large extent on the authorities' willingness to pursue structural reforms. In the short run, the economy will continue to benefit from the improved terms of trade as energy prices paid to Russia remain significantly below international levels. However, as most of the economy is state owned, and enterprises' operations are not based on commercial principles, it is unlikely that the existing economic model would be able to generate productivity increases consistent with the authorities' real income targets. The government's ability to stimulate domestic consumption and investment is constrained by the rising public debt level and limited external reserves. Some of the gains from Belarus' participation in the Eurasian Union (including cheaper energy and trade access to a relatively protected market) are expected to decline over time as the common external tariff is reduced in line with Russia's WTO commitments and energy prices are raised toward international levels. Therefore, growth prospects continue to hinge on implementation of policies that would rebalance the economy towards new, commercially operating, activities and reforms needed to stimulate labour migration to the new sectors. Macroeconomic risks also stem from the economy's low energy efficiency and dependence on energy imports and uncertainty about the quality of assets in the state-dominated banking system, expected to be mitigated in part by the newly established development bank.

See Annex 7 for a table with selected economic indicators.

2.3. Structural reform context

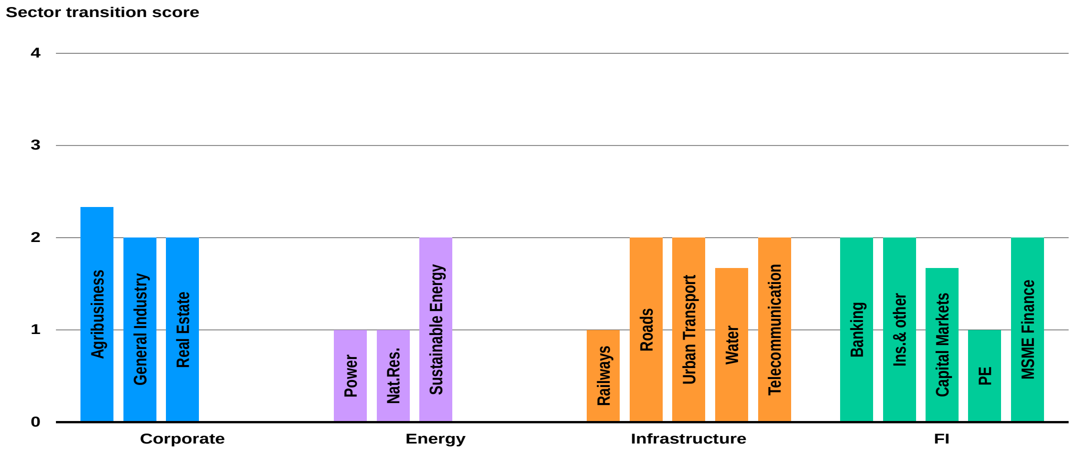
Over the last Strategy period, the authorities have announced a number of structural reform initiatives in the area of banking, large-scale privatisation, and price liberalisation. An ambitious structural reform agenda was included in Presidential Directive No. 4, approved in late 2010. However, the implementation of reforms was hampered during and after the balance-of-payment crisis. The reform setbacks include re-introduction of price controls, tolerance of multiple exchange rates during spring-summer of 2011 and temporary limits on exports of some goods.

The privatisation process also suffered from reversals and delays. In January 2011, the authorities took over management control of Pinskdrev, a furniture manufacturer, after an industrial accident led to a number of casualties. In March 2011, the government approved plans for the privatisation of 245 state-owned enterprises and corporatisation of 134 companies. However, in September 2012 the authorities decided to scrap the list of enterprises slated for privatisation. Instead, it was decided that future privatisations would take place on an *ad hoc* basis. The agency for privatisation and investment, in operation since June 2011, is yet to sell any of its eight pilot enterprises. In October 2012, the credibility of the privatisation process was dealt another blow by the *de facto* nationalisation of Kommunarka and Spartak, two confectionary companies privatised in the early 1990s. The authorities described the privatisation of the companies as flawed and took steps to regain control over them by increasing the state share to 57 per cent and 60 per cent, respectively. Regardless of the underlying merits of the original privatisation, this unfortunate decision will further undermine investor confidence.

Commercialisation of the financial sector is progressing slowly. The large state banks continue to dominate the banking system. In 2010, the authorities completed a privatisation in the financial sector with the direct sale of a 93 per cent sale in Belpromstroibank to Sberbank, Russia’s majority state-owned bank with a market share in Belarus of approximately 7 per cent. In July 2011, the national bank ceased offering directed lending credit lines to banks. The development bank, established in June 2011 to improve the targeting of directed lending and increase its transparency, is yet to become fully operational. In January 2012, the government announced a strategy to encourage FDI, which envisions inter alia the sale of the remaining stakes in VTB Belarus, controlling stakes in Belinvestbank and Paritetbank and minority stakes in Belarusbank and Belagroprombank.

For a detailed assessment of the remaining sector transition challenges see Annex 2.

Figure 1. EBRD Transition Indicators for Belarus



2.4. Business environment

Belarus has taken steps to improve the business environment in recent years. The government implemented numerous legislative acts to implement Presidential Directive No. 4, approved in December 2010, which envisages significant reforms intended to further liberalise private sector activities, strengthen protection of property rights, modernise the financial sector, accelerate privatisation and attract foreign direct investment. In January 2011 the number of economic activities subject to licensing requirements was further reduced by one-third. This measure was expected to eliminate the need in effect at that time to renew 60 per cent of licenses. In the same month the number of required tax and other reports to be filed by companies was significantly decreased. Access to land for certain business purposes was streamlined and may now be granted without the need for an auction. Legislative reforms are expected to increase access to credit by small and medium enterprises. In mid-2011 the president signed several decrees to stimulate entrepreneurial activity in the regions. As a result of these measures, Belarus moved up 22 places in the World Bank's Doing Business 2012 rankings, to 69th out of 183 countries, and another 2 places to 58th out of 185 countries according to the Doing Business 2013 index.[4]

However, firms continue to experience a number of significant problems, including excessive and arbitrary regulation and a complicated tax system. Price controls and wage restrictions are common. Almost 43 per cent of the respondents in the 2008/09 Business Environment and Enterprise Performance Survey (BEEPS) identified taxation and the need to obtain various business licenses and permits as the main obstacles to doing business. In order to address these problems the tax system was further streamlined in 2010, leading to a lower overall tax burden. The Decree on Inspections, which came into force in January 2010 and applies to a broad range of authorities with controlling and licensing powers, substantially limits the scope for arbitrary inspection of all business, and newly registered firms in particular.

The currency crisis of 2011 resulted in an increase in regulations contrary to pre-crisis liberalisation plans. Before the crisis broke out in the spring of 2011, the government

[4] Due to implementation of new methodology, Belarus would have ranked 60th in Doing Business 2012 rating.

had prepared a draft decree on further price liberalisation. However, as pressure on prices increased after the May devaluation, the government reintroduced and expanded price controls, many of which still remain in effect, and goods subject to controls now cover around 40 per cent of the consumer basket. Restrictions on exports of consumer goods by individuals, introduced as a response to the balance of payments crisis, were eliminated in February 2012. Although fuel prices were brought closer to their level within the Eurasian customs union, restrictions on fuel exports remain in place.

Although the Belarusian authorities have adopted a number of anti-corruption laws and programmes over recent years, Transparency International's Corruption Perceptions Index indicates that corruption remains a serious problem in Belarus. The country's position deteriorated recently, slipping sixteen positions to rank 143rd. The score decreased by one notch to 2.4 out of a possible 10, with the score of 1 assigned to countries perceived to have the highest corruption level. The 2010 EBRD-World Bank Life in Transition Survey also found that the level of perceived corruption had worsened between 2006 and 2010, with irregular payments most frequently occurring in the public health system and in interactions with the traffic police.

2.5. Social context

Belarus' population, estimated at about 9.5 million people, has been declining in recent years (although the rate of decline has slowed), as the mortality rate exceeded the birth rate while net migration remained relatively low. At the same time, life expectancy at birth has been increasing slightly since the mid-2000s and reached 64.7 years for men and 76.7 years for women in 2011. Rural areas account for 24.2 per cent of the total population, down from 27.3 per cent in 2007, highlighting the urbanisation trend. In the UN Human Development Index Belarus is ranked 65th, a few positions below the GDP per capita ranking.

The official unemployment rate is low at 0.6 per cent at the end of 2011. This is partly because the state acts as employer of last resort and partly because most unemployed have little incentive to register to receive the symbolic unemployment benefits to which they are entitled. Belarus ranks high according to the Gender Development Indicator (16th out of 86 countries), as women tend to be economically active and account for 51.1 per cent of the total employment in the economy, including 45 per cent of employment in industrial enterprises. At the same time, the OECD noted that women were particularly vulnerable to discrimination in recruitment and dismissal and were paid on average 20 per cent less than men.

The Gini coefficient, a common measure of income inequality, increased slightly in Belarus from 0.26 in 2006 to 0.27 in 2009 but remains remarkably low by international standards (for comparison, the corresponding value in Sweden is 0.24 and Russia is 0.42). The average pension exceeded the official poverty threshold in 2006 for the first time in many years, and increased further in 2012 to US$185 a month. The Bank's Life in Transition Survey, conducted in late-2010, found that about half of respondents were satisfied with life, ranking Belarus above average among transition countries in this respect. It also found that the 2008-9 crisis has not had a significant impact on livelihoods of many Belarusians, with only about one-quarter of respondents report that their households have been affected by the crisis (well below the average for the transition region as a whole). However, no comparable study exists for the country's home-grown 2011 crisis.

Poverty alleviation has always been high on the policy agenda in Belarus. Extreme poverty (defined as income below the minimum consumption level estimated at approximately US$2 per day) declined from 9.4 per cent in 2000 to 0.7 per cent in 2011. The percentage of the population with income below the country-specific poverty threshold of approximately US$5 a day (the minimum consumption budget) declined from 41.9 per cent in 2000 to 7.3 per cent in 2011.

The state has largely maintained control over medical services, safeguarding the constitutional rights of citizens to free medical assistance. The infant mortality rate, at 6.2 deaths per 1,000 births, is relatively low by international standards.

2.6. Legal context

In recent years, Belarus has adopted several legal acts and strategies to improve its legal framework to boost business activity. Nevertheless, significant reforms are still required in a number of key areas.

The government's programme for 2010-2012 to support small and medium-sized businesses in the country included the adoption of laws to facilitate financial, property and informational assistance for SMEs, through the creation of business promotion centres, small business incubators, financial support for businessmen, mutual credit extension and other similar measures. The efficacy of the support programme remains to be assessed.

In the area of secured transactions, Belarus has made progress towards adopting modern principles of mortgage lending. However, significant improvements of the existing pledge legislation (in particular, creation of a unified collateral registry for movable assets) are still needed to satisfy the requirements of modern financial transactions and facilitate access to finance for businesses.

Corporate governance reforms remain overdue. The existing system falls short of relevant international standards. State-owned enterprises (fully or significantly controlled by the government) dominate the economic landscape. Strengthening corporate governance of state companies should be a priority, particularly in light of the government's plans for eventual privatisation.

Although quite extensive, the existing insolvency legislation requires further reforms to facilitate reorganisations and reduce protectionism towards state-owned assets and interests in an insolvency scenario.

Belarus has set high policy objectives in promoting energy efficiency and developing renewable energy sector. In accordance with the Strategy for Development of Energy Potential of Belarus, a number of key programmes and laws were passed to facilitate energy efficiency improvements across all sectors of the economy. To move onto the implementation stage, the regulatory framework needs to be further developed (through, *inter alia*, the adoption of secondary legislation).

Belarus has shown progress in formulating its policy for developing new forms of cooperation between the government and businesses. A draft law "On Public-Private Partnerships" was developed to set out the principles, mechanisms and areas of partnerships and regulate activities of business unions and associations in this field. Although substantial legislative and regulatory work remains to be done to create an enabling environment, the Government appears willing to attract private capital in the area of public infrastructure and services.

2.7. Energy efficiency and climate change context

Belarus is one of the least energy independent economies in the region. The country has limited indigenous sources of energy and imports most fuels, primarily from Russia. Energy pricing remains inadequate to encourage efficient use and non-price barriers to increasing energy efficiency persist. Incentives for improving energy efficiency need to be strengthened through appropriate policies, including market pricing of energy and the establishment of a clear framework for renewable energy.

The sector is still vertically integrated, with no private sector participation. There is no independent regulator. Tariffs for households are below cost recovery and are partly compensated by higher tariffs paid by the real sector. At the same time, the authorities announced that cross-subsidies in the energy sector will be eliminated by 2015, and household gas and electricity tariffs will be increased to the cost recovery levels. The initial challenges include unbundling, creation of a framework for competition and private participation in generation, and establishing a tariff structure that ensures full long-term cost recovery and therefore supports investments, as well as providing incentives for more efficient use of energy. Belarus is currently planning a five year reform of its power sector by developing a wholesale market and unbundling Belenergo as set out in the government strategy adopted in August 2010.

Despite significant progress over the recent years, the Belarusian economy remains very energy intensive. While the energy intensity of output declined significantly from 1995 to 2009, the energy intensity of the Belarusian economy is still almost double the average for OECD countries, and only 15-20 per cent less than the average for former Soviet Union countries.[5]

The carbon intensity of the economy is also high. In absolute terms, the country's emissions of CO_2 are at 60 per cent of OECD average, while in terms of kgCO_2 per thousand of 2000 US$ PPP, Belarus' emissions in 2009 are almost double that of OECD countries (0.65 vs. 0.40). The National Energy Saving Programme for 2011-2015, approved by the government in December 2010, has a target of reducing the energy intensity of GDP within 5 years by 29-32 per cent, continuing the trend established by the previous programme for the period 2006-2010, as a result of which the energy intensity of GDP has declined almost by 30 per cent. This was possible through high government interventions (both regulatory and financial) in highly centralised and state owned companies in the energy sector and industry. The new National Energy Saving Programme will not receive similar levels of government

[5] Energy intensity of output declined from 0.72 tonnes of oil equivalent (toe) per thousand US dollars in purchasing power parity (PPP) in 1995 to 0.49 in 2000 and 0.29 in 2009.

financial interventions due to budgetary constraints. Additional financial resources will be therefore needed.

The regulatory and institutional environment for energy conservation and energy efficiency still remains weak. A law on energy conservation exists and an energy efficiency agency was established, but results in terms of energy savings still require further improvements. Energy tariffs remain very low and do not include environmental costs. Therefore price signals do not provide incentives to use energy efficiently and to invest in renewable energy sources (RES). RES-supportive legislation and institutional capacity remain underdeveloped and only a small proportion of energy comes from renewable resources.

3. STRATEGIC ORIENTATIONS

3.1. Calibrated strategic approach

The current political, economic and structural reform environment in Belarus as described above warrants the continued application of a calibrated strategic approach, incorporating both political and economic benchmarks to gauge the country's progress or regress against its key Article 1 commitments and adjusting the Bank's operational response accordingly. The Bank will monitor the following benchmarks:

In the political sphere:

- Progress toward meaningful political accountability, including the strengthening of checks and balances in the political system, removal of impediments to NGO and opposition parties' active engagement in political life and even-handed application of the rule of law.
- Progress in increasing media freedom and freedom of expression.
- Progress in enforcing the human and civil rights protections guaranteed in the Constitution, including freedom from arbitrary arrest and detention, and the release and rehabilitation of those recognised by the EU and other members of the international community as political prisoners.

In the economic sphere:

- Creating adequate space for private sector development and competition including protection of property rights.
- Strengthening market-supporting institutions and the legal and regulatory framework for private sector firms to enter and compete in the market.
- Significant reduction in arbitrary and distortionary state intervention in the economy, including through directed lending by state-owned banks, wage restrictions, and price controls.

3.2. Transition challenges

The global financial crisis of 2009 and the severe balance of payment crisis of 2011 underscored the limits of Belarus' economic model. Having stabilised the economy, the authorities need to resume structural reforms outlined among others in Presidential

Directive No. 4 and in particular promote private sector development to lay the foundations for long-term sustainable growth. The Bank has identified the following as the main challenges to be addressed during the next Strategy period:

- **Reducing the state's role in the economy.** The economy continues to be dominated by the state, which produces three quarters of GDP and employs most of the labour force. State interference in the economy – for instance, through subsidies, price controls, and directed lending – results in economic distortions and suboptimal resource allocation and hampers competition and flow of labour and capital to new sectors. Commercialisation and privatisation of large state enterprises would help modernise the country's industrial base, increase efficiency and make available some of the labour force to work in the nascent private sector. However, recent events and official statements signalling that earlier privatisations can be challenged bring into questions the authorities' commitment to transparent privatisation. Although obstacles for entry and operation of private sector firms have recently declined, they should be further reduced.
- **Commercialising the financial sector.** The three large state-owned banks still account for 70 per cent of the banking system's assets, and directed lending is still widely practiced. The recently created state development bank is expected to take over most non-commercial directed loans from state banks. This should make directed lending operations more transparent and enable state banks to focus on commercial operations so that in time they can be privatised.
- **Increasing the energy efficiency of the economy.** Belarus is one of the least energy independent economies in the region. The country has limited indigenous sources of energy and imports most fuels, primarily from Russia. Energy pricing remains inadequate to encourage efficient use and non-price barriers to increasing energy efficiency persist. Incentives for improving energy efficiency need to be strengthened through appropriate policies, including market pricing of energy and establishment of a clear framework for renewable energy.
- **Improving sustainability of municipal infrastructure.** Municipal infrastructure requires commercialisation, based on economically justified user charges and cost recovery principles, to address the shortcomings of the current centralised tax-payer financed model and ensure its medium and long-term sustainability. A number of facilities are near-obsolete and present an environmental hazard, locally and for the Baltic region more generally. At the same time, cost recovery in municipal infrastructure has declined further during last year's crisis. Application of economically justified tariffs and improvements in efficiency of service provision, including energy efficiency, across all segments of the municipal infrastructure could help to achieve a substantial and sustained reduction of their environmental impact, increase in cost recovery ratios combined with improved service quality.

3.3. Bank's priorities for the Strategy period

Taking into account the recent political and economic developments described in this Strategy (see Sections 1.2, 2.1, 2.3 and Annex 1), while continuing its policy of constructive engagement to promote reform, the Bank will further calibrate its engagement in Belarus to limit its involvement with state-owned enterprises in the areas of trade finance, energy efficiency credit lines and private equity funds.

The Bank will focus its strategic approach in the next Strategy period on those areas where it can most benefit private sector business and the Belarusian people. The Bank will continue to focus on **promoting private sector development** across all sectors of the economy, both directly and indirectly, with a particular emphasis on manufacturing and agribusiness. The Bank's priorities in this area will include supporting the transparent privatisation of state-owned entities and assets, provided the Belarusian central state does not benefit directly from the Bank's investments; assisting partner banks to deepen financial intermediation in underserved segments and geographic areas and improve access to finance by MSMEs; and continuing to engage the authorities through policy dialogue to implement structural reforms that support private sector development and improve the country's investment climate.

To promote **commercialisation of the financial sector**, the Bank will support the operations and growth of private and foreign-owned banks and consider supporting non-bank financial institutions to further broaden access to finance by private sector players. The Bank will increase the proportion of trade finance activity to private end borrowers with the aim of moving toward 100 per cent private sector exposure.

To **ensure the economy becomes more energy efficient** over time, the Bank will offer new instruments to Belarusian companies, via partner banks, and technical cooperation support to the participating institutions in order to develop necessary human resource capacity and skills. The Bank will cap the onlending of energy efficiency credit lines to state-owned enterprises at 30 per cent of the total facility.

Building on its experience in the municipal waste water sector, the Bank may consider **extending its existing Environmental Infrastructure Facility to other municipalities and/or engage in other municipal sectors** that benefit the environment and have tangible and direct benefits for the local population, such as solid waste management, and have strong transition impact. Policy dialogue on structural reforms will continue to be an inherent part of the Bank's activities in the municipal sector.

The ETC initiative and the grant financing provided by various donors played a crucial role in the implementation of the Bank's previous Strategy. This role is likely to continue in the next Strategy period.

The Bank will continue to calibrate its engagement with the Belarusian state and public sector based on progress or regress in political and economic reforms. In the current circumstances, the Bank will ensure that no support, either financial or technical, will be extended to the Belarusian central authorities or central state. This entails the exclusion from consideration of any large-scale public infrastructure lending, including in the areas of transport and power infrastructure, as well as direct or indirect participation in privatisation of state assets through purchase of shares owned by the state or state entities.

3.4. Sectoral challenges and Bank operational response

3.4.1. Reducing the state's role in the economy by supporting private sector expansion

Sectoral challenges

- **Improve the business environment to support private sector development.** In early 2011, the authorities outlined an ambitious reform programme that aims to support private sector development by liberalising the economy, improving the business climate and strengthening competition. However, momentum was lost as the authorities focused on supporting state owned enterprises after the 2011 crisis. Re-introduction of price controls and export restrictions used during the crisis affected the private sector disproportionately.
- **Accelerate the pace of privatisation and FDI.** Although some large SOEs have been sold, mainly to Russian state-owned buyers, the state continues to dominate all sectors of the economy and still produces around 70 per cent of output. To attract interest from a broader range of strategic investors, Belarus needs to pursue a transparent and competitive privatisation programme governed by a clear legal and regulatory framework that provides for well-defined sales procedures.
- **Create conditions for SME development.** MSME growth in Belarus is constrained by regulatory obstacles and lack of access to managerial best practice. The MSME support infrastructure faces large transition challenges. The quality of available advisory services in the regions is perceived as relatively low and local consultants lack experience and international market insights and standards.
- **Improve standards needed to diversify exports and export markets.** The non-energy exports continue to be concentrated in agricultural produce and low value-added machinery, most of them sold to CIS countries. Adopting EU standards and pursuing WTO accession would enable the Belarusian enterprise sector to advance along the value chain, increase its export potential, tap new markets and make the economy less vulnerable to external shocks.

Bank's operational response

To support private sector development, the Bank will continue to provide debt and equity financing across all sectors to companies that are not majority-owned by the Belarusian state. Given Belarus' potential in manufacturing and agro-processing, the Bank will place a special emphasis on these sectors. The Bank will continue to support local and foreign investors to sustain long-term investment programmes to move up the value chain. The Bank will also provide long-term financing to the wholesale and retail sectors.

The Bank will use ETC products, such as Medium Sized Co-financing Facility (MCFF), Direct Lending Facility (DLF) and Direct Investment Facility (DIF), to support the development of medium-sized enterprises in all sectors. The emergence of local entrepreneurs is critical for the development of a vibrant private sector. Notwithstanding the typically higher risk profile, the Bank will focus on supporting successful local entrepreneurs to expand their business. The Bank will also act as a catalyst to attract much needed FDI and know-how either by investing alongside foreign strategic investors or by assisting the development of local companies, which in due course may attract foreign investment.

The Bank will act as an anchor investor in private equity funds that can provide much needed capital and management expertise to SMEs as well as participate in the country's privatisation programme if and when it resumes in a transparent manner.

To enhance the competitiveness of the MSME sector, the Bank's Small Business Support Team (SBS) will support SMEs to improve local management skills, enhance business planning and achieve international certification, combining advice and mentoring at the enterprise level with the development of a sustainable infrastructure of MSME support at the market level. The Bank will enhance its activities to support MSMEs in key sectors through Business Advisory Services (BAS) and the Enterprise Growth Programme (EGP). Planned operations will strengthen enterprise performance and sophistication in areas such as strategic planning, product development, quality standards, financial management, as well as developing existing and expanding to new export markets. SBS will also facilitate access to finance through the implementation of a targeted Accounting Improvement Programme. The Bank through SBS will continue to contribute to the development of a viable and conducive environment for small and medium sized businesses by facilitating public/private dialogue and supporting local institutional development. Key priority sectors include agribusiness, textiles, industrial manufacturing (primarily export oriented), construction, retail and wholesale distribution and ICT. SBS will also actively promote rural development, energy efficiency and female entrepreneurship.

Criteria for engaging with SOEs

The Bank will remain ready to support the privatisation of SOEs and other state-owned assets provided the authorities (1) have implemented a transparent privatisation process resulting in the SOE or asset being majority owned and controlled by private investors; (2) participating companies refrain from any distribution of dividends until privatisation objectives agreed with the Bank have been met; (3) pending completion of the remaining privatisation process, participating companies adhere to good corporate governance and financial transparency; and (4) the authorities demonstrate their firm commitment to protecting private property rights.

If the above criteria are met, the Bank may offer equity and debt in parallel with majority privatisation and provide technical assistance to facilitate the restructuring of SOEs or state-owned assets and promote private sector involvement. The Bank will not finance directly the purchase of existing shares of SOEs or of other state-owned assets. The same restrictions will apply to private equity funds in which the Bank is invested. Neither the Bank nor private equity funds in which the Bank is invested will participate in pre-privatisation support.

3.4.2. Commercialising the financial sector

Sectoral challenges

- **Improve corporate governance and reduce state ownership in the banking sector**. The combined market share of state-owned banks is around 65 per cent of total banking assets and a significant share of their balance sheets involves directed loans. This undermines market-based lending and hampers efficient financial intermediation. To increase efficiency, the authorities should in the short term improve corporate governance at state-owned banks by creating independent boards, reducing political interference in decision-making and enhancing accountability of management. In the medium term the state should aim to privatise state-owned banks by attracting strategic investors.
- **Reduce government directed lending**. Directed lending (mainly to the agricultural sector and housing construction) and credits to SOEs (which are perceived as having an implicit government guarantee) deprive the private sector of financing for more productive investments. The authorities should discontinue directed lending and move existing loans to the newly established development bank, to enable state-owned banks to engage in market-based lending and allow credit to flow to the most productive segments of the economy.
- **Support the emergence of a strong non-bank financial sector**. To date financial intermediation is conducted predominantly through the state dominated banking sector. The non-bank financial sector, which could be an important source of alternative financing, is still in its infancy. Belarus should promote the development of capital markets and non-depository financial institutions by creating an appropriate legal and regulatory framework.

Bank's operational response

To enhance commercialisation of the financial sector, the Bank will continue to engage its partner banks actively through the provision of additional SME, MSE, and mortgage financing and participation in the Bank's MCFF and TFP programmes. The Bank will seek to extend its co-operation to new partner banks. The Bank may consider further equity investments in private banks to support consolidation and attract FDI. The Bank will continue to assist its partner banks to improve their risk management and corporate governance. Where appropriate, the Bank will provide technical assistance to meet these priorities.

To support private sector development more broadly, the Bank will continue to support the development of microfinance including through the extension of its MSE programmes to private and foreign state-owned commercial banks as well as to non-bank financial institutions. The Bank's microfinance programmes may include a regional component to ensure appropriate availability of microfinance outside Minsk.

To improve energy efficiency in the economy, the Bank will roll out its Belarus Sustainable Energy Financing Facility (BelSEFF) to enable participating private and foreign state-owned banks to finance eligible energy efficiency improvements.

The Bank will also explore opportunities to assist the expansion of the non-bank financial sector through investments and technical assistance.

Criteria for engaging with state-owned banks and SOEs

Although previous attempts have been unsuccessful, the Bank remains prepared to support the transparent privatisation of state-owned banks provided the conditions outlined in Section 3.4.1 are met.

In recognition of the fact that SOEs tend to waste more energy than *de novo* private enterprises, up to 40 per cent of the BelSEFF proceeds have been made available to be on-lent to commercially run SOEs. However, given the lack of progress against the political and economic benchmarks as noted in section 1.2 above, the Bank will impose a 30 per cent cap on the share of energy efficiency credit lines that can be onlent to state-owned enterprises.

To strengthen the competitive position of foreign and privately-owned partner banks and break the traditional linkage between state-owned banks and their state-owned clients, partner banks will be allowed to provide TFP facilities to commercially operating SOEs. However, given the lack of progress against the political and economic benchmarks as noted in section 1.2 above, TFP to state-owned enterprises will be capped at 25 per cent of total TFP exposure in the first year of the Strategy. Barring any significant positive developments on the political and economic benchmarks that would enable the Bank to retain its exposure in this area, the Bank will introduce progressively lower caps on state-owned enterprise exposure each year, with a view to phasing it out completely. TFP and energy efficiency credit lines are not available to Belarusian state-owned banks thus giving partners banks a competitive edge to attract SOEs.

3.4.3. Increasing energy efficiency and promoting sustainable municipal infrastructure

Sectoral challenges

- **Improve energy efficiency**. Despite improvements over the past decade, Belarus' industrialised economy remains highly energy intensive and inefficient. To alleviate these concerns the authorities have articulated a number of medium-term programmes that aim to increase energy efficiency as well as promote local energy production including from renewable sources.
- **Commercialise and modernise municipal services**. The central government continues to play a dominant role in municipal utilities. Individual utilities, although organised at municipal level, report directly to the central government, a distorted structure that leads to many inefficiencies. Tariffs are set at the highest level of government and do not reflect actual costs, forcing municipal utilities to rely on cross subsidies and financial support from the state to cover operating expenses, let alone to finance investments. To ensure the sustainable development of the municipal sector, the authorities need de-politicise tariff setting to allow for cost reflective tariffs for all user groups, eliminate cross-subsidies and improve transparency and accountability of utilities. The authorities could also endeavour to gradually increase private sector participation, which is currently confined to urban transport.

- **Ensure transport sector sustainability and enhance logistics**. Located on three Pan-European corridors and equipped with an adequate road and railway network, Belarus serves as an important transit corridor between the EU and Russia. To maintain and leverage its geographic advantage, Belarus should ensure sector sustainability and enhance the development of logistics services. The former should include addressing the backlog of road maintenance work, extending tolling to major highways, modernising Belarusian Railways to ensure its sustainable development and assessing the possibility of introducing public service contracts.

Bank's operational response

Opportunities for private sector involvement in energy and infrastructure sectors are likely to remain limited over the next Strategy period. The Bank will endeavour to provide debt and equity financing to suitable strategic investors in these sectors. In the context of its investment projects, the Bank will offer energy efficiency audits to its corporate clients. The Bank will also endeavour to support privately owned energy service companies (ESCOs), freight forwarders as well as logistic service providers. The Bank may also back public-private partnerships which comply with the Bank's concession policy.

The Bank will seek to support private sector participation in urban transport and solid waste management including through ETC instruments. Building on its experience in the municipal waste water sector, the Bank may extend its existing Environmental Infrastructure Facility to other municipalities and/or engage in other municipal sectors that benefit the local population and/or the environment, such as solid waste management. Projects in the municipal sector are likely to require substantial support from the local and national authorities to introduce necessary sector reforms. The Bank will endeavour to instil commercial discipline and improve operational efficiency, financial transparency and corporate governance at its state-owned counterparties through capacity building and the introduction of commercially-based information systems and procedures.

Criteria for engaging with the state sectors

The Bank's engagement with the Belarusian state in the context of the municipal infrastructure sector will be limited to projects that benefit the environment and have direct and tangible benefits for the local population, such as solid waste management. For all public sector projects, the Bank will ensure that its financing is directly disbursed to contractors who will have been selected pursuant to an international tender in accordance with EBRD Procurement Rules. The Bank will not disburse any funds directly to the state.

3.5. Policy dialogue

The Bank will underpin its operational objectives by an ongoing policy dialogue in close consultation with other IFIs, foreign investors and the local business community. In particular:

- The Bank will continue to draw on its investment and EGP/BAS experience to raise specific issues to improve the overall investment climate. The Bank will support well defined business enabling initiatives of other IFIs and the government.
- As the largest investor in the financial sector, the Bank will work with the authorities to strengthen the banking sector supervision framework, commercialisation of the state-owned banks, and the emergence of the non-bank financial sector.
- The Bank will continue to promote regulatory reform (including tariff methodology) in the municipal sector.
- The Bank will encourage private sector participation (including through public private partnerships) in the energy and infrastructure sectors and explore every opportunity to foster energy efficiency measures in the public sector as well as in the private corporate sector.

Policy dialogue can only succeed with the active participation and full support of the authorities. Where this is the case, the Bank will provide technical cooperation to assist with legal and regulatory reform in the context of specific projects, in order to meet well-defined project objectives. The Bank will ensure that contractors will have been selected pursuant to an international tender in accordance with EBRD Procurement Policy and Rules and that the central state does not receive direct financial benefit from the technical assistance.

3.6. Environmental and social implications of the Bank's proposed activities

The Bank will work with clients to assess the project's environmental and social (E&S) risks and opportunities, including stronger focus during the due diligence phase on climate change resilience and adaptation and gender considerations, as well as greenhouse gas emission assessments for carbon intensive sectors. Additionally, large greenfield projects or high risk operations, that are eligible under Appendix 1: Category A projects of EBRD's Environmental and Social Policy (ESP), will require an international environmental and social impact assessment (ESIA) and respective engagement of the affected public and other stakeholders. Corrective E&S Action Plans will continue being prepared for projects, as appropriate, to address key risks and mitigation measures. For high risk sector projects, an extensive monitoring plan will normally be agreed as part of the project commitments in the legal documentation with the Bank.

New projects are subject to due diligence under the 2008 ESP. For direct investments, these require projects to be structured to meet EU and national environmental requirements. The commitment to EU requirements can sometimes be challenging, in particular, for projects in the municipal infrastructure, transport and power sectors, where borrowing or technical capacity of the client may be limited. In the event that projects cannot be structured to meet EU environmental requirements, this will be made clear in the Bank's information for the Board of Directors, with appropriate justification for any derogation, and in the public Project Summary Document. Also, where appropriate, the Bank will work with its clients so that any complementary action to projects that do not meet environmental criteria will bring them towards fully meeting EU standards in the future.

In priority sectors, as referenced in section 3.4, the Bank's response from an E&S perspective is outlined further.

- In the **industry, agribusiness and commerce** sector, the Bank will continue addressing E&S issues associated with its project activities through rigorous due diligence process and development of E&S Action Plans. Depending on production capacities and sectors, the clients from different industries are benchmarked against Best Available Techniques reference standards under EU Integrated Pollution Prevention and Control Directive, that depending on the sector indicates specific air, waste and waste water emission levels, their abatement measures, and resources consumption. Also best international practice will apply, e.g. wood-processing companies will be encouraged to adopt sustainable wood procurement procedures that are in line with internationally recognised sustainable forest management standards as well as to give preference to certified wood (FSC or PEFC). In agribusiness the focus is mainly on food processing and retailing that are required to apply best practices in food hygiene, safety of products and increasing potential for supply chain sustainability (e.g. HACCP system to reduce physical, allergenic, chemical, and biological hazards in food production). In projects involving construction and property development such issues as planning permits, traffic impacts, public consultation, resettlement and economic displacement, grievance mechanism and construction worker issues will be addressed through the E&S due diligence process.
- In the **financial sector**, the Bank will continue to provide E&S risk management training, guidance and capacity building for its new and existing financial clients in the implementation of the Bank's environmental and social requirements. Financial intermediaries (FIs) in Belarus receive training from the Bank's FI consultants to support developing their E&S policies, procedures and action plans to enable them to implement the Bank's requirements for FIs. Energy efficiency projects financed via credit facilities with local banks, focusing on small energy efficiency and renewable energy projects, present significant opportunities to reduce greenhouse gas emissions. The growing number of these projects will require more emphasis on developing robust E&S risk management procedures and guidelines.
- In the **energy and infrastructure sector**, the Bank will continue addressing E&S issues associated with activities under its projects through rigorous due diligence process and development of E&S Action Plans. Health and safety is an important consideration for Bank projects both because of risks to worker safety during construction, and public safety once operational. The Bank's involvement in **municipal environmental infrastructure** investments will promote better quality and efficiency, including energy efficiency, of essential municipal services, better health of the population and reduction of pollution of groundwater and open watercourses. It will also improve the resilience of the infrastructure to climate change and introduce gender balanced approaches. Along with the infrastructure improvements, the Bank will support institutional strengthening of the utility companies to further improve their operational and environmental sustainability. For new projects involving concessions and acquisitions of water and wastewater companies, the Bank requires the use of specific Environmental and Social Guidelines, mirroring its own due diligence procedures. The Bank will also continue working with NDEP to support critical investments in the Northern

Dimension area, of which Belarus is part, and contribute to achieving HELCOM commitments to deliver significant environmental benefits.

With regard to gender, the Bank shall work with its clients in Belarus in a number of sectors and areas. In the industry, commerce and agribusiness sector, clients will be encouraged to promote equal opportunities in the work place and provided with support where necessary. The Bank is currently working with one of its agribusiness clients in Belarus to promote equal opportunities in the work place. It is hoped this will produce a demonstration effect for other companies. In line with the new MEI Policy, projects are to be designed and implemented so as to ensure that services are responsive to the needs of both men and women. The Bank will work with its clients to identify where there are gender pay gaps and to minimise these by ensuring the principle of equal pay for equal work is implemented.

See Annex 8 for a more detailed description of gender issues in Belarus.

4. ACCESS TO CAPITAL

4.1. Private sources of finance

The banking system has grown in size with an asset-to-GDP ratio of around 95 per cent and credit to the private sector as percentage of GDP grew to 53 per cent GDP from 40 per cent at end-2008. Access to credit remains highly uneven across enterprises and sectors, with priority sectors such as agriculture and large industrial exporters enjoying easier access at preferential terms and often subsidised rates. In the 2008 Business Environment and Enterprise Performance Survey (BEEPS) around 10 per cent of firms named access to finance as a major obstacle for development, in the third place after taxes and level of human capital.

The banking sector continues to be dominated by Belarusian state-owned banks. Until recently, a material part of lending both in the state and private banks was carried out under the state lending programmes. The five largest banks account for almost 80 per cent of total assets in Belarus' banking system, which is indicative of high level of concentration within the sector. Priorbank, the largest privately owned bank, ranks sixths by assets. Importantly, in recent years a significant part of lending to the corporate sector, including by privately-owned banks, took place under various state programmes.

4.2. Cooperation with other IFIs and multilateral donors

The World Bank Group, IMF, NIB and Eurasian Development Bank either have on-going or potential lending programmes in Belarus. Subject to European Council and European Parliament agreement EIB could become active in Belarus.

Donor coordination on the ground is mostly ad hoc and informal. The Bank regularly liaises with the World Bank, IFC and IMF on a variety of issues including macroeconomic developments, investment climate and structural reforms. In addition the Bank works closely with NIB in the context of its municipal Belarus Environmental Infrastructure Facility Phase One (BDS12-039). The Bank welcomes closer cooperation with IFIs and other donors particularly in terms of policy dialogue on investment climate and structural reforms.

IMF

Belarus joined the IMF in 1992. Its latest arrangement with the IMF – a 15-month Stand-By Arrangement of US$3.52 billion – expired on 30 March 2010. The programme was designed to support the country's efforts to adjust to external shocks. In particularly, the programme focused on the implementation of a new exchange rate regime, economic liberalisation and fiscal tightening measures to slow investment and consumption.

The authorities requested a new programme in May 2011. However, this requires the unequivocal commitment of the authorities to deep structural reforms, which to date still remains ambiguous. Pending a new programme, the IMF has decided not to replace its last Resident Representative who returned to Washington at the end of her three-year term in April 2012.

World Bank Group

Belarus joined the World Bank Group in November 1992. Since then the **World Bank** has committed US$865 million for 12 projects and mobilised US$22.8 million in grant financing for 30 national programmes. The World Bank is currently preparing a new Country Assistance Strategy, the previous one having expired in 2011.

The World Bank has currently five active investments projects for an aggregate amount of US$ 457.5 million. The World Bank aims to improve infrastructure services for the local population in Chernobyl-affected areas. It provides financing to improve energy efficiency and increase capacity in six heat and power generation plants. Its Water Supply and Sanitation Project aims to connect 1.7 million people in 20 districts across the country to clean and reliable water services. The World Bank is also financing the reconstruction from a two to four-lane motorway between Minsk and Bobrujsk on the Trans-European Transport Corridor IX. Finally its Integrated Solid Waste Management Project supports the construction of a 120,000 ton/year waste separation plant and improved waste collection in Grodno. The World Bank also provides analytical and technical assistance covering economic and fiscal policies, structural reforms including privatisation, renewable energy and forestry.

As of June 2012 **IFC** has invested US$340 million in 36 projects in the financial, general manufacturing, agribusiness, and services sectors. IFC has also implemented a wide range of advisory services activities. IFC focuses its efforts on improving the investment climate and increasing the competitiveness of Belarusian food processing companies by improving their food safety practices. These activities are financed by the United States Agency for International Development (USAID), the Swedish International Development Cooperation Agency (SIDA), and the Austrian Ministry of Finance.

MIGA's only transaction in Belarus consists of a US$28.5 million guarantee to Raiffeisen Zentralbank Österreich AG (RZB) of Austria, covering its shareholder loan of up to US$30 million to its subsidiary Priorbank against the risks of transfer restriction and expropriation. The ratification in April 2012 of two agreements with MIGA relating to investor protection and the use of local currency should enable MIGA to expand the scope of its commitments in Belarus.

Nordic Investment Bank

Belarus became one of nine focus countries (non-member) of the Nordic Investment Bank (NIB) in 2010. NIB's lending operations in Belarus focus on environmental projects.

The Bank and NIB are closely cooperating in the context of the Belarus Environmental Infrastructure Facility Phase One (BDS12-039). EBRD provided €18.25 million to finance the rehabilitation of the wastewater treatment facility in Vitebsk and the installation of biogas power production facilities in Slonim and Baranovichi. NIB and the World Bank have approved loans of €21 million and €5.2 million, respectively, for similar projects in Brest and Grodno. In addition the project includes capital expenditure grants of €9.3 million from SIDA, €6 million from the Northern Dimension Environmental Partnership and €0.4 million from the EU. Sweden and Finland will provide technical co-operation grants for an aggregate amount of €5.5 million.

Eurasian Development Bank and EurAsEc Anti-Crisis Fund

Belarus joined the Eurasian Development Bank (EDB) in June 2010. As of June 2012 EDB invested approximately US$360 million (11 per cent of its current investment portfolio) in Belarus making the country its third largest exposure after Russia and Kazakhstan.

EDB also manages the EurAsEC Anti-Crisis Fund (ACF). In June 2011 ACF approved a ten year US$3 billion loan to Belarus to support the balance of payments and to increase foreign exchange reserves. To date US$1.68 billion has been disbursed. Three more tranches of US$440 each remain to be disbursed in late 2012 and 2013 subject to meeting the ACF conditionality. The policy package requires Belarus to tighten monetary policy to restrain credit growth, tighten fiscal policy to bring the deficit under 1.5 per cent of GDP, implement a market-based exchange rate regime, cap government lending programmes to 1 per cent of GDP by 2013 and generate US$7.5 billion in privatisation proceeds by end 2013.

4.3. Cooperation with the European Union

The European Community recognised the independence of the Republic of Belarus in December 1991. Through participation in the TACIS programme and other instruments, Belarus received a considerable amount of technical and financial assistance. Negotiations on a Partnership and Cooperation Agreement (PCA) were completed in 1995. However, the PCA was never ratified due to the deteriorating political situation in Belarus. At present, the EU is committed to a policy of critical engagement with Belarus. EU-Belarus relations are governed by successive conclusions of the Foreign Affairs Council. On 31 January 2011, in the aftermath of the 2010 presidential elections, the Foreign Affairs Council imposed restrictive measures against Belarus, which were expanded in February and March 2012, including an embargo on Belarus on arms and on materials that might be used for internal repression, a travel ban for high ranking officials and the freezing of the assets of certain companies linked to the regime. In the framework of the annual review, EU sanctions were renewed for another year in October 2012.

Belarus is included in the European Neighbourhood Policy although no action plan is currently foreseen for the country. Belarus joined the Eastern Partnership initiative in May 2009 together with Armenia, Azerbaijan, Georgia, Moldova and Ukraine. Pending improvement of the situation in Belarus, it participates in the multilateral track of the Eastern Partnership only. The EU nevertheless maintains technical dialogue and cooperation with Belarus in a number of areas of mutual concern. In summer 2011 the EU upgraded its Delegation in Belarus and an EU ambassador was accredited to Belarus in September 2011. The EU has made clear that the broader development of bilateral relations between the EU and Belarus is conditional on progress by the authorities towards the principles of human rights, the rule of law and democracy.

To make it clear that the EU's policies are not directed against Belarus as such, not against its population, the EU has in parallel strengthened its engagement with civil society, the political opposition and the public at large. Several donor meetings were hosted by the EU in Brussels, with a focus on political developments and human rights issues. In March 2012 the EU launched the European Dialogue on Modernisation with Belarusian civil society, aimed at improving the process of sectoral reform in Belarus. The first seminar in the Dialogue, on "Privatisation and private entrepreneurship in Belarus," was held in Warsaw in April 2012.

ANNEX 1 – POLITICAL ASSESSMENT

Since 1996 the Bank's activities in the Republic of Belarus have been limited by the country's uneven progress in democratic and market-oriented transition. Previous Country Strategies have highlighted concerns about the Belarusian authorities' commitment to and application of the principles of multiparty democracy and pluralism, as enshrined in Article 1 of the Agreement Establishing the Bank. As a result of the difficult operational environment, the Bank's engagement with Belarus has been constrained.

The Bank remains seriously concerned about the uneven progress Belarus made toward the application of principles of multiparty democracy and pluralism during the previous Strategy period. The Belarusian state continues to play a dominant role in the country's political life. Political power is highly concentrated in the presidency. International observers from the OSCE and Council of Europe have judged successive elections as deeply flawed. The authorities' commitment to political pluralism, media freedom, the independence of civil society and the legitimacy of political opposition is uncertain.

The trend since the flawed presidential election of December 2010 has been largely negative. The persecution of opposition political activists, independent media and civil society groups has intensified. Restrictive new laws have been introduced further undermining the protection of Belarusian citizens' human and civil rights. The powers of the secret police have been further strengthened. Jail sentences have been meted out to vocal regime critics in biased trials on questionable charges.

Representative and Accountable Government

Free, fair and competitive elections

The principle of universal suffrage is enshrined in the Constitution of the Republic of Belarus and largely upheld in practice, and elections are held on a regular basis. However, international observers from the OSCE and Council of Europe have judged recent elections in Belarus to have been not free, fair or competitive, in part because the Belarusian political system in practice restricts citizens' ability to register as candidates and stand for elected office, to access impartial information about candidates and political parties, and therefore to take part in meaningful democratic elections.

The process of candidate registration has serious weaknesses: opposition candidates and political parties face significantly more obstacles in registering their candidacies than do pro-regime candidates. Opposition candidates who do manage to register their campaigns are often disqualified on spurious or minor technical grounds.[6] The

[6] The IEOM Preliminary Report on the September 2012 parliamentary elections concluded that "The candidate registration process was…marred by an overly technical application of stringent legal provisions that resulted in the exclusion of one in four nominees, contrary to paragraphs 7.5 and 24 of the 1990 OSCE Copenhagen Document. Twenty-seven candidates that appealed to the CEC were denied registration because more than 15 per cent of the signatures checked for verification were deemed invalid, many on the grounds of minor technical inaccuracies. According to many interlocutors, the criteria, selection, and process of signature verification lacked transparency." The

playing field is thus tilted against opposition candidates, particularly with regard to access to media, which is largely state-controlled.

Belarus' Election Code was amended in 2010 and 2011 in response to recommendations from the OSCE to allow for greater opportunity for candidates to be nominated by political parties, to provide a wider representation of opposition candidates on election commissions, and to strengthen measures to register and redress complaints. However, according to the Joint Opinion of the European Commission Democracy through Law Commission (the Venice Commission) and the OSCE's Office of Democratic Institutions and Human Rights, the amendments "are unlikely to resolve the underlying concern that the legislative framework for elections in Belarus continues to fall short of providing a basis for genuinely democratic elections."

Despite amendments to the Electoral Code to provide for wider representation of opposition political parties and candidates, the International Election Observation Mission (IEOM) from the OSCE's Office of Democratic Institutions and Human Rights (ODIHR) and the OSCE Parliamentary Assembly for the September 2012 parliamentary election found that only 3.5 per cent of District Election Commissions members and 0.1 per cent of Precinct Election Commission members were nominated by parties considered to be in opposition, although it should be noted that opposition political parties generally have relatively small memberships. The Central Election Commission is widely seen to be closely connected to the presidential administration and its members have been included on the EU visa ban list since the December 2010 presidential election.

As a result, voting procedures in Belarus are not considered free from government control and votes are not counted in a transparent manner.[7] Independent observers from registered international election observation missions are generally permitted to monitor and report on election conduct, but domestic election monitors report that they face obstacles.

Separation of powers and effective checks and balances

Belarus is a strong presidential republic. The separation of powers among the executive, legislative and judicial branches of political power are enshrined in the Belarusian Constitution in principle but are not always upheld in practice. Political power is highly concentrated in the executive branch, specifically in the presidency.

Preliminary Report also found that "Fifteen candidates that appealed to the CEC were denied registration on the basis of discrepancies found in their income and/or asset declarations. Although the law provides that registration can only be refused for substantial errors, the OSCE/ODIHR EOM observed cases of denial of candidate registration on the grounds of minor inaccuracies. One candidate was denied registration by the CEC on the basis of his characters."

[7] The Preliminary Report on the conduct of the September 2012 Parliamentary elections by the OSCE-led International Election Observation Mission concluded: "While international observers assessed early voting and election day voting procedures positively, the process deteriorated considerably during the count. Observers were not given a meaningful opportunity to observe the count and evaluated the process negatively in a significant number of polling stations observed. The continued lack of properly delineated counting procedures meant that an honest count, as required by paragraph 7.4 of the 1990 OSCE Copenhagen Document, could not be guaranteed."

Since constitutional amendments in 1996, the legislative branch has enjoyed limited political authority and rarely challenges presidential decrees or laws emanating from the presidential administration. The legislature has very limited powers to hold the government to account or to initiate bills that have not been approved in advance by the President.

The president has very wide powers with regard to the appointment and dismissal of judges and prosecutors. The Constitutional Court has the formal right to interpret the constitutionality of laws and legislative acts. However, the members of the Constitutional Court as well as the Supreme Court, the highest appellate court in Belarus, are *de facto* appointed and dismissed by the (half of the members of the Supreme Court are directly appointed by the president and the other half by the parliament, which is under presidential control). As a result, the courts are widely seen to be extensions of presidential power.

Effective power to govern of elected officials

As enshrined in the Belarusian Constitution, Belarus is a strong presidential republic. The key political decision-maker in Belarus is the president, who is elected in a direct national election, although according to international observers from the OSCE and Council of Europe, all recent elections of President Lukashenka have been characterised by significant democratic distortions. Other important decision-makers – in the armed forces, police and secret police, and presidential administration – are accountable solely to the president, not parliament. Members of parliament have limited power to govern.

Civil Society, Media and Participation

Scale and independence of civil society

Belarusian civil society is generally weak and fragmented, in part as a result of years of active persecution by the Belarusian authorities. This is particularly true of civil society organisations (CSOs) with politically sensitive objectives, such as promoting media freedom or defending human rights. While more apolitical CSOs such as housing associations are allowed to function, some environmental, social, religious and other independent civil society entities have also come under pressure from the authorities. Many politically active CSOs that are permitted to function in Belarus are largely funded by external donors and face pressure from the authorities. A number of these CSOs have therefore chosen to register their activities abroad, primarily in neighbouring Lithuania and Poland. The leadership of some of Belarus' highest profile CSOs are also based abroad; some are prohibited from entering Belarus, or fear that doing so will result in their arrest. As a result, the linkages between many campaigning CSOs and Belarusian society are weak. However, there are some positive examples of civil society cooperation, such as the Belarusian National Platform of the Eastern Partnership Civil Society Forum.

Independent pluralistic media that operates without censorship

The independent media in Belarus that are critical of the ruling regime have faced significant obstacles for many years. Particularly since the presidential election of

December 2010, independent media outlets and journalists have come under sustained pressure from the Belarusian authorities. The offices of some independent newspapers and online information providers have been raided by the police and KGB, who confiscated computers and other equipment vital to their ability to function. Financial pressures on the independent media have also increased, with advertisers reportedly pressured by the authorities to blacklist certain independent newspapers. Some independent newspapers face significant obstacles accessing the state-owned distribution network operated by the Belarusian Post Office. On the internet, 'denial-of-service' attacks against independent and opposition media have continued and increased in frequency. As a result of these measures, some independent journalists have fled the country and sought political asylum abroad, primarily in Poland and Lithuania.

A number of journalists were arrested in the aftermath of the protests against the conduct and results of the December 2010 presidential election. Although many were subsequently released, Irina Khalip, a Belarussian national who works as the Minsk bureau chief for the independent Russian newspaper *Novaya Gazeta* and the wife of one of the opposition presidential candidates in the 2010 presidential election, remains under house arrest and faces a deferred trial scheduled for early 2013. Furthermore, the journalist Andrzej Poczobut, who works for the Polish newspaper *Gazeta Wyborcza*, is currently facing charges for his critical reporting on the authorities in Belarus.

Multiple channels of civic and political participation

Informal civic groups, registered civil society organisations and opposition political movements have very limited access points to participate in the political decision-making process. Government decision-making usually takes place behind closed doors with limited public consultation or public access to information.

The Constitution of the Republic of Belarus guarantees citizens "the right to receive, store and disseminate complete, reliable and timely information on the activities of state bodies and public associations, on political, economic, cultural and international life, and on the state of the environment." However, the nature of "complete, reliable and timely" access is subject to the interpretation of law enforcement bodies and the courts. Moreover, Belarus has no Freedom of Information Law, as has become the norm in established democracies (albeit with national variation). These factors limit the ability of Belarusian citizens to review and comment on government policies and thus weakens civic participation in political and policy processes.

Freedom to form political parties and existence of organised opposition

The Belarusian Constitution and laws related to the functioning of political parties provide the legislative basis for the formation of independent political parties. However, the principles of these laws are not upheld in practice. Regulatory obstacles and complex technical registration requirements have been used extensively by the Belarusian authorities to prevent the registration of opposition and independent political parties. Over the past several years a number of registered opposition parties have been denied registration on technical grounds, such as legally questionable claims that signatures on founding documents have been falsified. As the IEOM

Preliminary Report on the September 2012 parliamentary elections notes, "Despite several applications, no new political parties have been registered by the Ministry of Justice since 2000, challenging paragraph 7.6 of the 1990 OSCE Copenhagen Document."

Opposition political parties report that they face significant obstacles to the recruitment of members and severe restrictions on their campaigns for public office. While the rights of opposition parties to campaign freely, serve in elected offices and oppose government initiatives are enshrined in Belarusian laws, these are not always observed in practice.

Rule of Law and Access to Justice

Supremacy of the law

The right to a fair trial and freedom from arbitrary arrest and detention are enshrined in the Belarusian Constitution and criminal code. However, these rights are not systematically upheld in practice. International observers have reported a number of flawed trials of opposition activists, particularly those arrested during and in the aftermath of the 19 December 2010 protests. Similarly, following the April 2011 Minsk metro bombing, two Belarusian citizens, Vladislav Kovalyov and Dmitry Konovalov, were arrested and charged with the attack. Their subsequent trial and conviction, leading to their execution, were widely criticised by domestic and international observers as deeply flawed.[8]

Limitations on the circumstances in which elected authorities can rule by decree or suspend constitutional rights and guarantees are generally weak. Presidential decrees have the force of law and there are few legal or constitutional limitations on the scope of presidential decrees.

Independence of the judiciary

The Belarusian judiciary is not independent from influence from the executive branch of political power. Judges at senior levels of the judiciary as well as senior members of the prosecutor's office are *de facto* appointed and removed by the president. Constitutional provisions insulating the judiciary from the other branches of government are not respected in practice, and international observers allege extensive political interference in judicial proceedings.

[8] The International Federation for Human Rights summarised the deficiencies in the trial process as follows: "Conflicting testimonies in the course of the trial cast doubt on the defendants' involvement in organizing the blasts. Dzmitry Kanavalau recanted his earlier testimony in which he had admitted his connection to the various blasts, arguing that he had confessed to those crimes under psychological pressure and torture. Moreover, observers reported serious procedural violations during the preliminary investigation and the judicial examination of the case, sufficient to constitute a blatant infringement on the defendants' rights to a transparent and impartial trial. Neither the motive nor the exact circumstances of the crime were ever established in Court. In addition, the elements of proof on which both men were condemned have now been destroyed by the court."

Government and citizens equally subject to the law

Equality before the law is guaranteed in principle but not routinely maintained in practice. Some powerful unelected figures are able to place themselves above the law or receive preferential treatment by the authorities based on their connections with the presidential regime.

Despite these deficiencies, public servants are generally held accountable, including facing prosecution and criminal sentencing, when they are found to have violated the law. There is only very limited public disclosure requirements and no independent audits of the financial assets of powerful political figures.

Effective policies to prevent corruption

According to a number of reputable surveys, administrative or petty corruption is a moderate but not severe problem in Belarus. The 2010 Life in Transition Survey (LiTS), for example, found that 15 per cent of respondents had paid bribes to access basic social services in the preceding year. Such mechanisms as codes of conduct for public officials, whistle-blower protections and conflict of interest regulations are not well developed in Belarus. The police and prosecutor's office investigate and prosecute cases of alleged corruption, although there are few if any cases of this reaching the higher levels of government or the presidential administration.

Civil and Political Rights

Effective guarantees of fundamental rights and freedoms

The fundamental freedoms of speech, information, movement, association and assembly are enshrined in the Belarusian Constitution but are severely restricted in practice. New laws adopted in October 2011 tightened restrictions on opposition groups and expanded secret police powers. Under the new measures, simply calling for an anti-government protest is now punishable with a prison sentence of three years. The police have been given formal powers to clamp down on those taking part in protests even in the absence of any political demands, and gatherings for "active inaction" have been prohibited. The legislation also lifts restrictions on the KGB's use of weapons and gives KGB officers the authority to enter residences and offices without a warrant. According to amendments adopted in 2011, political and civil society groups are now banned under the criminal code from receiving foreign assistance and from keeping money in foreign banks without declaring it and paying tax on it. Violation of these injunctions can result in a two-year prison sentence.

Political inclusiveness for women, ethnic and other minorities

In many key respects, Belarusian women enjoy equal or greater access to public goods such as healthcare, education, employment and finance as Belarusian men. Women were also well represented in the outgoing parliament, accounting for 26 per cent of MPs.

Some minority groups in Belarus – first and foremost, the Polish minority in western Belarus – complain of discrimination by the Belarusian state. Poland has called on the Belarusian authorities to provide greater provision of Polish language education.

Freedom from harassment, intimidation and torture

Belarusian citizens and civic and political groups are not fully free to engage in legal political activity. The Belarusian authorities' harassment of opposition political activists and independent civil society organisations intensified in the wake of the flawed December 2010 presidential election and the election-night protests. While most individuals arrested in the aftermath of those protests have now been released, the EU considers that ten 'political prisoners' remain imprisoned. Arrests of Belarusian citizens accused of a variety of anti-state activities have continued unabated.

Belarusian human rights defenders are particularly prone to persecution by the legal authorities. In November 2011 Ales Bialiatski, the respected head of the Viasna Human Rights Centre, was tried and convicted on charges of tax evasion and sentenced to four and a half years in prison. Bialiatski's trial was condemned by domestic and international observers as a clear violation of Belarusian and international legal standards. Opposition political activists and independent civil society leaders report that they face the constant threat of harassment and intimidation by the Belarusian authorities.

The Constitution of Belarus prohibits torture or cruel, inhuman or degrading treatment or punishment and the Republic of Belarus is a signatory to the UN Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment. However, several of those arrested in the aftermath of the December 2010 protests have alleged that they were tortured by police in pre-trial detention and by prison guards once sentenced. The allegations, which have been denied by the Belarusian authorities, include both psychological and physical torture, particularly the intentional exposure of political prisoners to violent and/or mentally ill fellow inmates, in what the political prisoners allege are attempts to force them to sign admissions of criminal guilt and formal requests for presidential pardons. The fourth periodic review of the UN Committee against Torture expressed its deep concern about "the numerous and consistent allegations of widespread torture and ill-treatment of detainees in the State party." The Committee concluded that "According to the reliable information presented to the Committee, many persons deprived of their liberty are tortured, ill-treated and threatened by law enforcement officials, especially at the moment of apprehension and during pretrial detention."

ANNEX 2 – ASSESSMENT OF TRANSITION CHALLENGES

The table and the supporting text below provide an overall assessment of transition challenges by sector, based on Transition Report 2012. There are two separate scores for each sector, rating market structures and market-supporting institutions.

Belarus: Sector transition indicators

Sectors	Market structure	Market-supporting institutions
Corporate sectors		
Agribusiness	Large	Medium
General industry	Large	Large
Real estate	Large	Large
Energy		
Natural resources	Large	Large
Sustainable energy	Large	Medium
Electric power	Large	Large
Infrastructure		
Telecoms	Medium	Large
Water and wastewater	Large	Large
Urban transport	Large	Large
Roads	Large	Large
Railways	Large	Large
Financial sectors		
Banking	Large	Large
Insurance and financial services	Large	Large
MSME finance	Large	Large
Private equity	Large	Large
Capital markets	Large	Large

Source: Transition Report 2012.

Agribusiness
Market structure: Large
Market institutions: Medium

Domestic prices of agricultural inputs and commodities remain largely state controlled, which creates distortions in the market. With increasing economic pressure in recent years, government intervention, including price controls, has increased. This is reflected in the downgrade of the market structure score from “medium” to “large”. State- or municipally-owned companies still own most of the primary, processing and input supply agribusinesses and restructuring is at a very early stage. While some of the SME registration procedures have been simplified the overall business environment poses a constraint to private enterprise development and FDI along the whole food value-chain. Processors do not apply international quality and hygiene standards and overall productivity levels in the sector are low. First legislative steps to incentivise international quality standards such as HACCP have only started in late 2010. While access to credit is better than in many other countries of the region, there is a high dependence on subsidised and directed credit through government controlled banks, particularly in the dairy sector. Modern retail and distribution chains are still at an early stage of development.

Real estate
Market structure: Large
Market institutions: Large

The property market is under-developed and the lack of transparent institutional foreign investors hinders its development. Many market segments and products are non-existent, while the existing stock, for instance in the office or logistics sectors, mainly consists of low-quality, Soviet-era buildings. There is widespread state intervention in the sector, and weak rule of law allows for insecure property rights. On the positive side, Belarus made further progress with regard to property registration through administrative simplifications, which reduced the time needed to register property to 10 days according to the World Bank 2012 Doing Business report. Gaps in terms of the development of modern secondary legislation supporting the sustainability of real estate (energy efficiency, impact on environment) are still large. Public awareness of the sustainability issues is also low.

Natural resources
Market structure: Large
Market institutions: Large

Considerable challenges remain with the creation of a competitive domestic market and supporting institutions, as the main state-owned companies (Belenergo, Beltopgas, Belgeologya, Belneftekhim) lack transparency, accountability and commercial focus. Beltransgas, the Gazprom-owned transit company which monopolizes transmission and supply of gas, has gained the right to establish the price of gas which is imported at a discount from Russia. According to reports, the State consider further privatisations of its oil and gas infrastructure and has started to transform a number of units into commercial companies. Although some progress has been made in improving cash collections while keeping tariffs at cost recovery levels, there remain energy debts accumulated at the time of non-payment and economic inefficiencies in the pricing structure due to misbalanced tariffs between customer groups. For petroleum products, the state not only regulates the wholesale price but also the retail price. Several industrial consumers benefit from preferential electricity and gas tariffs granted by Ministry of Economy resolutions. The regulatory role is vested with the Ministry of Economy, which lacks the autonomy to properly perform the regulatory functions. The lack of restructuring in the sector, price distortions and weak institutions warrant a *large* ATC overall gap, not reduced by the on-going fire-sales privatization process.

Sustainable energy
Market structure: Large
Market institutions: Medium

The energy efficiency sector is at an early stage of development. The Belarusian economy remains very energy intensive, notwithstanding significant improvements of recent years. A law on energy conservation exists and an energy efficiency agency was established, but concrete results in terms of energy savings are yet to appear. In

2006, a third National Programme of energy saving for the 2006 – 2010 period was adopted and it is being implemented. Energy tariffs remain very low and do not include environmental costs. Therefore price signals do not provide incentives to use energy efficiently and to invest in RES projects. RES supportive legislation and institutional capacity remain underdeveloped and only a small proportion of energy comes from renewable resources. However, Belarus has developed draft legislation that seeks to improve the infrastructure available for renewable generators and their grid connection. Belarus has ratified the Kyoto protocol and has the status of Annex 1 party, although this has to be ratified by all parties of the Kyoto Protocol (KP) before the country can host joint implementation (JI) projects and trade assigned amount units (AAUs). Some capacity in GHG management has been developed but no projects can be hosted until other countries ratify amendments to the KP. Remaining challenges include tariff increases to provide incentives for energy efficiency and RES, the development of renewable regulatory frameworks and project capacity, and progress further with CC policy implementation.

Power
Market structure: Large
Market institutions: Large

The sector is still vertically integrated, with no private sector participation. There is no independent regulator. Tariffs for households are below cost recovery and are partly compensated by higher tariffs paid by the real sector. The authorities have announced that cross-subsidies in the energy sector will be eliminated by 2015 and household gas and electricity tariffs will be increased to cost recovery levels. The initial challenges include unbundling, creation of a framework for competition and private participation in generation, and establishing a tariff structure that ensures full long-term cost recovery and therefore supports investments, as well as providing incentives for more efficient use of energy. Belarus is currently planning a five year reform of its power sector by developing a wholesale market and unbundling Belenergo as set out in the government strategy adopted in August 2010.

Telecommunications
Market structure: Medium
Market institutions: Large

The Ministry of Communications and Informatization is the telecommunications regulator as well as policy-maker and key shareholder. The regulatory environment is generally far from best practices (e.g. in terms of developing competitive safeguards or tariff rebalancing). The government has taken steps to develop an independent regulator and improve the regulatory environment, however it remains to be seen what will be the final structure and whether true independence will be established.

In the fixed line segment, the state controlled fixed-line incumbent Beltelecom retains its monopoly over the provision of basic voice services (national and international long distance) and the fixed network infrastructure. In the fixed-line internet market there is some limited competition from the cable-TV and a few alternative operators but Beltelecom still dominates with about 60 per cent market share and has a monopoly over international connections. ISPs are able to provide internet access through Wi-Fi technology from January 2009. In the mobile segment, there are four operators, BeST, BelCel, MTS and MDC. Two of the operators have been privatised to foreign investors, but the largest company, MTS Belarus, remains majority state-owned. Interconnection between the mobile operators is controlled by Beltelecom. Both fixed and mobile broadband internet penetration is high compared with other countries in the EEC region, although still below Western European markets.

Water and wastewater
Market structure: Large
Market institutions: Large

The municipal utilities sector remains highly centralised. Utility systems are supply driven and characterised by high levels although declining per capita consumption and substantial but declining network losses. There is little focus on financial performance and most utilities are loss-making. Nevertheless the metering programme has been almost completed, and collection rates are relatively high. Investments are financed exclusively from grants from the state or state entities. Tariff policies are socially driven – there is a unified tariff for water and wastewater for all household users in the country irrespective of the utility costs and this tariff covers only about a third of operating costs. A national cap on cost recovery ratios is in place (50 per cent for water for residential users) and cross-subsidies are very large and widespread. Regulation of the sector rests formally with the Ministry of Housing and Utilities but key decisions are made at the highest echelons of government. There are no formalised contracts between utilities and municipalities.

Urban transport
Market structure: Large
Market institutions: Large

Although urban transport services are decentralised, the involvement of the central government remains important. Municipal operators are legally separated but not fully corporatised. Private operators are active in urban and intercity transport, mainly with minibuses. Private operators need to break even from fare revenues, whereas municipal companies benefit from various forms of support (but are also subject to stricter tariff regulation). The municipal urban transport companies are not run at full cost recovery. Tariff policies are heavily influenced by the state and are not cost reflective. In November 2011 the authorities of the City of Minsk authorities abolished the price control over the fixed-route mini-bus operators, allowing them to set prices at their own discretion, but with certain profitability margin restrictions. There are no formal contractual arrangements between municipal operators and municipalities, whereas private companies operate on the basis of simple licenses.

Roads
Market structure: Large
Market institutions: Large

There has been good progress in sector unbundling. Road construction and maintenance are provided by state owned firms (although there is limited private sector participation in few areas). Some road functions, including motorway management and selected road maintenance, were divested and incorporated into joint stock companies. Road user charges, including tax on fuel sales, ecological tax, tax on car purchases, and toll fees, were introduced. However, actual budget allocation appears well below needs.

Railways
Market structure: Large
Market institutions: Large

The railway sector is unreformed, as operating and policy-setting functions are not separated and core railway businesses (infrastructure, passenger, freight, etc.) are operated by the same entity. The Belarusian Railway operates as a vertically integrated, state-owned monopoly. Before 1996, the railway was managed as a department of the Ministry of Transport and Communication.

Banking
Market structure: Large
Market institutions: Large

The banking system has grown in size with an asset-to-GDP ratio of around 95 per cent and credit to the private sector as percentage of GDP grew to 53 per cent GDP. Foreign ownership in the banking sector increased to 24 per cent in 2011, as a result of Russian banks' expansion into Belarus. The five largest banks account for around 80 per cent of total assets in Belarus' banking system, which is indicative of high level of concentration within the sector. The sector is dominated by Belarusian and Russian state-owned banks. Priorbank is the only privately-owned bank amongst the top five players. A number of smaller banks are privately-owned alongside Priorbank, their impact on the sector, however, remains moderate. The elimination of the golden share rule in 2007 has opened the way for privatisations and several privatisations are currently being considered. Private sector's share increased somewhat to 35 per cent in 2011 (up from 30 per cent in 2010). Importantly, a significant part of lending to the corporate sector, including by privately-owned banks, takes place under various state programmes. The regulatory system technical capacity has strengthened, but remains subject to political influence, and further improvements in regulation and independence of supervision are needed, including through coordination with foreign authorities. The sophistication and quality of banking activities, such as the range of products available, remains underdeveloped. The sector was affected by the crisis, although, since the non-performing loans in the sector have not yet fully crystallised, the level of non-performing loans in the sector is low. Furthermore, the low NPL ratio is driven inter alia by the ongoing government support to corporates. There are significant amount of FX swaps and deposit exchanges between commercial banks and the national bank in place. Though corporate governance is at reasonable levels amongst private banks, this is not the case for Belarussian state-run banks which constitute a significant proportion of the market.

Insurance and other financial services
Market structure: Large
Market institutions: Large

Insurance legislation and regulation are in place, although their development is at an early stage. The insurance sector has seen some improvements in terms of penetration, with insurance premia as percentage of GDP increasing from 0.81 per cent to 1.03 per cent. The sector remains small, however, with the majority (95 per cent) still in the non-life segment. Belarus' insurance sector is highly concentrated, with the top three insurance companies controlling close to 70 per cent of the market. It further remains dominated by state-owned insurance companies (only 14 per cent of the insurance market is covered by private companies). Moreover, some of the services (e.g., compulsory insurance) can only be provided by state-owned companies. The government is looking to strengthen the insurance sector by attracting strategic investors into Belarus (at the moment share of foreign investors stands at below 3 per cent), for example, by making it more attractive to foreign investors. The life and non-life insurance product availability is very low and the skills in the sector are very limited. The state pension system remains largely unreformed and little Pillar II legislation is in place. The leasing sector has been growing actively in recent years, however leasing portfolio as a percentage of GDP has decreased again somewhat from 3.0 per cent down to 2.5 per cent. The legislative framework for leasing has started to improve.

Micro, small and medium-sized enterprises
Market structure: Large
Market institutions: Large

Statistics on the MSME sector in Belarus confirm that the sector is highly underdeveloped. Even though 97 per cent of companies are of micro, small and medium size (up to 250 employees[9]) the sector only contributes to 20 per cent of GDP and 28 per cent of employment. The contribution of MSMEs in Belarus is lower than in other countries in the region reflecting in part the low level of participation of the private sector in the economy. Despite some improvements, MSMEs in Belarus struggle to comply with onerous administrative requirements and suffer from a lack of access to finance. Credit to private sector accounted for about 42 per cent in 2011. Banks and one microfinance institution are the main sources of external financing for MSMEs. Bank lending has been affected by the recent currency crisis. While an MSME support programme has been adopted, government financial support of MSMEs remains very limited. Improvements in the legal base for micro lending raised the awareness of MSMEs regarding funding opportunities, and subsequently led to increased demand for MSME loans. More than a third of firms perceive access to finance as a major or severe obstacle to doing business according to the BEEPs survey 2009. Moreover, MSMEs are especially exposed to costly and time consuming requirements due to the multitude of administrative procedures and regulations. The legal framework has improved in recent years in particular with respect to property registration. A cadastre system is in place but the process of registration of movable assets is not fully developed. Public credit information services though accessible remain costly for the public and the rights of secured creditors should be strengthened.

[9] Law of the Republic of Belarus of 1 July 2010 No. 148-3I On State Support for Small and Medium Entrepreneurship: Micro enterprises are considered legal entities with up to 15 employees, small enterprises between 16 and 100 employees, medium-sized enterprises between 101 and 250 employees, and large enterprises with more than 250 employees. The definition does not include individual entrepreneurs.

Private equity
Market structure: Large
Market institutions: Large

A private equity sector is yet to develop and to date the country has not attracted any significant interest of international private equity funds. There are no country dedicated fund managers, and for Belarus less than five regional fund managers have been identified to include it in their portfolio scope. Active capital and capital available for investment are estimated to amount to 0.4 and 0.2 percent of GDP, respectively. The majority of capital is committed to buyouts, followed by small and venture capital strategies, while mezzanine, growth and infrastructure capital funds are non-existent. Local institutional investor and private individual participation is very low. A weak institutional framework, challenging business environment, limited investment opportunities and poor exit prospects limit growth of the sector. Conformity with the OECD Core Principles of Corporate Governance is very poor, in particular with respect to the responsibilities of Boards.

Capital markets
Market structure: Large
Market institutions: Large

Securities market legislation is rudimentary, its quality is very poor and in need of significant improvements. The public equity market is underdeveloped and illiquid. The government bond market shows reasonable level of development in the primary market and highly illiquid secondary market. Substantial challenges remain in the development of the money market. Both equity and bond markets require further improvements to the market infrastructure and market regulation.

ANNEX 3 – LEGAL TRANSITION

Overall analysis

This annexe presents the findings of the legal assessments conducted by the Bank's Legal Transition Team in a number of selected areas relevant to the Bank's investment strategy for Belarus in the new period. Given the calibrated approach put in place, the focus is on legislation supporting private sector development (corporate governance, secured transactions, insolvency), energy efficiency measures, as well as public-private partnerships for municipal infrastructure.

Corporate governance reforms are overdue in Belarus. Little has been done to promote competition or strengthen corporate governance. An inefficient system of taking pledges over movables is a recurrent stumbling block for SME access to finance. Moreover, Belarus' existing insolvency law framework is highly oriented to protection of state entities. Despite allowing for restructuring or liquidation, the Insolvency Legislation is in need of modernisation.

While issues of Energy Efficiency and Renewable Energy Sources are receiving attention by the government of Belarus, there appears to be a lack of the momentum needed to solidify national policy into a concrete and effective legal framework.

Although substantial legislative and regulatory work remains to be done to enable an effective environment for private sector involvement in public utilities works and services, the Government indicated its intent to attract private sector investment into some municipal services as well as renewable energy projects.

Private sector supporting legislation

Corporate governance

The corporate governance framework is essentially regulated by the Law on Companies, which entered into force on 1 August 2006, as amended. The Law on Companies sets out the basic framework for the formation and operation of companies in Belarus. It covers joint stock companies, limited liability companies, non-limited liability companies and other types of commercial entities.

A voluntary Corporate Governance Code was enacted on 18 August 2007 by the Ministry of Finance, which is the financial services regulator. The Code includes recommendations tackling the general shareholders' meeting; supervisory board; company's secretary; material corporate transactions; disclosure of company's information; control over economic and financial activities; shareholders' dividends, and corporate conflicts. There is no information on the level of implementation of the codes' recommendations by companies.

The latest EBRD assessments on corporate governance highlighted a framework in "very low compliance" with the relevant international standards (the OECD Principles of Corporate Governance), showing a framework in urgent need of reform in all areas under consideration.

State owned enterprises (SOEs) represent the bulk of economy the government exercises considerable control over them. Strengthening the corporate governance of SOEs is a priority. In particular, the government's rights as an owner should be clearly delineated and the government and SOEs should have an arms-length relationship. The government should not delay the implementation of its plan to move to international accounting standards and should develop a time-bound programme for SOEs' transitioning to IFRS. Companies, including SOEs, should be required to publish their annual audited accounts.

Secured transactions

Belarus has made progress towards adopting modern principles of mortgage lending. However, significant improvements of system of taking pledge over movable assets are needed in order to create a system that would satisfy the needs of modern financial transactions.

Taking security is generally governed by the provisions of the Civil Code (Article 315 – 338). It sets general principles of taking mortgage and regulates pledge over movable property.

In 2008, the Law on Mortgages was adopted, which provides a systematic regulation of mortgages (especially of residential real estate) and legal basis for long-term mortgage lending.

Almost conversely to the state of the development of the system of taking mortgages is the state of the system of taking security over movable property. Security over movable property is subject to the 1993 Pledge Law, which is meant to apply as far as it does not contradict the Civil Code provisions. Because both sets of provisions have not been harmonised, it creates considerable uncertainty for the market. The Civil Code generally allows taking non-possessory security over movables but there is no general registration system of such security in place. The borrower, if a legal entity, is required to keep a record of all pledges on its books. However, even this limited rule does not seem to be respected in practice. These limitations leave potential creditors without certainty of their priority rights when considering movable property as collateral. Furthermore, the system does not allow businesses to grant a security right in a single category of movable assets (without requiring a specific description of collateral), security right cannot extend to future or after-acquired assets and a general description of debts and obligations is not permitted in collateral agreements. Hence the system is not able to sufficiently support neither simple nor sophisticated financing transactions (relying on taking security over a fluctuating pool of assets or securing a changing amount of debt - credit line).

The most significant recent amendments in the field of secured transactions were introduced by the Decree of the President of the Republic of Belarus 'On Certain Issues of Pledge' No. 3 of 1 March 2010. The Decree liberalised pledge enforcement procedures. In particular, the non-judicial enforcement of pledges and mortgages has been made possible upon fulfilment of certain conditions (notarisation of security agreement, etc.). This change should help in solving problems of debtor obstructions that were reported as the problem in the past.

As part of IFC Belarus Regulatory Simplification and Investment Generation Project (August 2010 – January 2013) IFC is advising the Belarus government on reforms on secured transactions and debt resolution consisting of: amending the legal framework for secured transactions; creating a modern and unified collateral registry of movable assets to improve access to finance for businesses; improving insolvency legislation; and designing a regulatory system for insolvency practitioners.

Limitations on taking security over movable assets and non-existent registration system can negatively influence the access to credit in Belarus. This is particularly true for SMEs which usually have limited resources to offer as collateral. Introducing a modern system of taking and registering of non-possessory pledges would help the Bank in its support to the SME sector.

Insolvency

Presidential Decree No 508 of November 12, 2003 (as amended on April 6, 2009) on Certain Issues of Economic Insolvency (Bankruptcy) regulates insolvency and restructuring procedures in Belarus (the "Insolvency Legislation"). The Insolvency Legislation covers all legal and physical persons carrying on economic activities on the territory of the Republic of Belarus.

In addition, Regulations on Liquidation (Termination of Activities) of Economic Entities, approved in 2009 and amended in 2011, provide the framework for liquidation of businesses. Special insolvency rules apply to individual entrepreneurs, debtors already in the process of liquidation, state and strategic enterprises, banks, insurance companies, and other financial institutions, as well as farming households. There is no regime of consumer bankruptcy.

The Insolvency Sector Assessment (the "Assessment") completed in late 2009 concluded that Belarus insolvency law framework remained weak as regards reorganisation. For example, it did not contain an independent analysis of a proposed plan of reorganisation, nor provide for adequate material information to be provided to creditors in connection with the proposed plan. The Insolvency Legislation did not restrict voting by connected parties nor provide for the ability of majority creditor approval of the plan to bind dissenting creditors. The Assessment highlighted the lack of provisions with respect to new financing of ongoing business needs in insolvency. There appear to have been no reforms aimed at strengthening reorganisation or recognising the priority status of new financing under the Insolvency Legislation since the date of the Assessment.

In general, insolvency legislation tends to be focused on public interests. Many exceptions exist in insolvency regulations in respect of natural monopolies (primarily state companies) and companies operating in defence or other strategically important areas. A supplier of goods, services, or works to the state may not be liquidated in insolvency proceedings and is only eligible for restructuring. Although the law contains an insolvency procedure for state enterprises, attempts are usually made to avoid liquidation of such companies.

The National Investment Agency of Belarus was appointed as temporary (anti-crisis) administrator in October 2009. The agency is responsible for evaluating the financial situation and solvency of indebted companies, as well as the possible consequences of selling an insolvent company. It is not clear how effective the agency has been in its role and when it might be disbanded.

Experts from both the IFC and the World Bank assisted the Belarus government with the development of a draft law on insolvency. It is reported that the Council of the Republic of the National Assembly approved a draft law "On economic insolvency (bankruptcy)" on 22 June 2012, which would provide a comprehensive reform of the Insolvency Legislation. The bill aims to streamline the current system of training of insolvency office holders and to regulate their activities. The bill also introduces stricter conditions for the commencement of bankruptcy proceedings and extends the term of the moratorium on insolvency to avoid unnecessary legal action. According to proponents of the bill, the reforms will ensure the economic security of the state and enable vital industries, which have become insolvent, to continue to operate on a going concern basis.

Belarus should consider balancing the interests of the private sector and the public sector in any insolvency law reform projects, to reduce the high level of protection afforded to public sector companies. Subject to the outcome of the new draft law, it should also consider ways in which reorganisation provisions may be strengthened.

Energy efficiency and renewable energy

The sector is governed by the Law of 15.07.1998 № 190- Z, “On energy conservation” (as amended)[10], and the Law of 27.12.2010 № 204-Z, “On renewable sources of energy”[11]

Belarus has limited domestic primary energy resources. Therefore, in order to meet national energy needs and ensure security of supply focus points in the country’s energy policy should be improvement of fuel and energy mix and upgrading of old and construction of new energy facilities including developing energy efficient technologies and renewable energy.

Energy efficiency

The basic principles for energy efficiency (EE) policy in Belarus are set out in the Law “On Energy Conservation”. Policy guidelines for the near term, on the other hand, are set out in more detail in the National Energy Conservation Programme for 2011-2015[12] (“the Programme”). The Programme is based on the Strategy for Development of the Energy Potential of Belarus[13] (“the Strategy”). The Strategy sets a target of 50 per cent energy intensity reduction in the GDP by 2015, and 60 per cent by 2020, as compared to 2005.

The Programme calls for energy efficiency improvements across all sectors through the introduction of modern energy efficient technologies and technical processes. The

[10] Закон Республики Беларусь15 июля 1998 г. № 190-З «Об энергосбережении»
[11] Закон Республики Беларусь 27 декабря 2010 г. № 240-З «О возобновляемых источниках энергии»
[12] Approved by the *Resolution of the Council of Ministers of 24.12.2010 № 1882*.
[13] Approved by the *Resolution of the Council of Ministers of 9.08.2010 № 1180*.

institution responsible for overseeing implementation of the Programme is the Department of Energy Efficiency, a division of the State Committee for Standardisation. The Programme envisages modernisation and introducing of energy saving targets in all sectors. Considering the lack of funding in the sector and deficient regulatory and institutional framework, reaching these targets is unlikely. Until now promotion of energy efficiency has been basically carried out through grants and soft loans to energy inefficient companies which intend to implement energy saving projects. The Programme envisages that $8.6 billion will be spent on implementation of the energy efficiency measures over the next 5 years.

Renewable energy sources

Traditionally, renewable energy sources (RES) was not considered an independent regulatory area in Belarus but rather a sub-issue of broader topics such as energy conservation, energy security, and environmental protection. This has led to a very fragmentary legal and policy framework concerning RES. However, this trend is now changing, as at the end of 2010, Belarus adopted a Law “On Renewable Energy Sources”. While the law has already come into force, it lays out only broad principles, and requires implementation through secondary legislation in order to have effect. This secondary legislation, however, is still in development, and many aspects are as of yet unregulated.

A concentrated effort must be made to develop and adopt the secondary legislation needed to give effect to the Law “On Renewable Energy Sources”. Such action is crucial to energy security in Belarus, as the vast majority of its domestic energy resources are renewable or non-conventional by nature. Further reforms in the energy sources are needed, in particular modernisation of the sector, increasing sector transparency, promoting liberalisation and tariff reform. Belarus has set high policy objectives in promoting energy efficiency and saving as well as developing the renewable energy sector, which demands that a supporting legal, regulatory and institutional framework is put in place.

Public-private partnerships

An increase in private sector participation in municipal services will require a modern legislation on concessions and public-private partnerships. Belarus now has some elements of a governmental policy for promoting Public Private Partnership and improving its legal environment. Belarus does not have a specific concession Law, but the Investment Code dated 2002 as amended in 2006 does contain detailed provisions regulating concessions (Articles 49 to 76). In 2008 these were complimented with the Decree of the President listing assets/objects that may be subject to concession

The presidential decree lists assets mostly in the area of mineral deposits that was offered for concession. Roads and roadside service are expected to be included at a later stage too. The other sectors under discussion include culture with the possibility for concessions of historic architecture monuments, e.g. old castles.

The Investment Code needs serious improvement concerning regulation of the project agreement: it is silent on certain major elements in this respect (in particular termination/compensation provisions). In addition, it contains very few elements regarding government support and securities. Moreover, the scope of application (possible sectors, relation with the Public Procurement Law) and the provisions on the selection procedure need to be improved (by introduction of the pre-qualification procedure; while the existence of a preferential right of the incumbent concessionaire to extend can be questionable). We do note certain positive elements (e.g. a reference to "equal rights and obligations" of all participants, publicity of concession award, registration, review procedures, etc.). International arbitration is possible for foreign investors. However, despite certain favourable elements, the Investment Code does not constitute a sufficient legal basis for the development of PPP in Belarus.

The Ministry of Economy has drafted a PPP Law that has been discussed and evaluated by state authorities, scholars and practitioners, international commentators. Pursuant to the draft Law, the Ministry of Finance will be the state authority in charge of PPP. In addition to that, the law provides the establishment of the Foreign Investments Advisory Council and the Investments and Privatisation Agency, as the specialist agencies to handle PPP. The draft Law still specifies the list of objects where PPP projects can be developed, and lists possible forms of PPP.

ANNEX 4 – SMALL BUSINESS SUPPORT

The Small Business Support Team supports economic transition by achieving enterprise change in potentially viable micro, small and medium enterprises (MSMEs) and contributing to the development of a sustainable infrastructure of local business advisory services. This is achieved through two complementary programmes, the Enterprise Growth Programme (EGP), formerly the TurnAround Management Programme, and Business Advisory Services (BAS).

Previous SBS experience in Belarus

To date €1.54 million of donor funding have been committed by **EGP in Belarus** since inception in 1998. The largest donors of EGP projects have been the European Union (EU), Sweden, Japan, Italy, and other bilateral donors. EGP has carried out 33 projects, 6 of which are still in progress. These projects were implemented across various industry sectors, with the top three being ICT, industrial machinery and electrical equipment. To date, 24 projects have been evaluated upon completion with 25 per cent rated as "highly successful", and 50 per cent as "successful". On average, 50 per cent of assisted enterprises reported increases in turnover, 42 per cent reported increases in employment, 60 per cent of assisted enterprises reported productivity growth after the EGP project.

BAS Belarus was launched in 2011 with a total of €0.8 million of donor funding from the EBRD Shareholders Special Fund and the EU. To date, BAS has undertaken a total of 9 projects with local SMEs engaging 9 local consultants. Half of the beneficiary companies are located in rural areas and the majority of assisted enterprises have less than 50 employees. The industry spread is wide covering agribusiness, wood processing, chemical industries and IT sectors. BAS Belarus has already pre-qualified over 40 local consultants representing a broad range of advisory expertise with strong emphasis on IT consultancy. In addition, BAS has also undertaken a number of market development activities (MDAs) to foster demand for advisory services.

MSME and Consulting sector in Belarus

The MSME sector and business environment

Statistics on the MSME sector in Belarus confirm that the sector is highly underdeveloped. Even though 97 per cent of companies are of micro, small and medium size (up to 250 employees[14]) the sector only contributes to 20 per cent of GDP and 28 per cent of employment. The contribution of MSMEs in Belarus is lower than in other countries in the region reflecting in part the low level of participation of the private sector in the economy. Despite some improvements, MSMEs in Belarus struggle to comply with onerous administrative requirements and suffer from a lack of access to finance.

[14] Law of the Republic of Belarus of 1 July 2010 No. 148-3I On State Support for Small and Medium Entrepreneurship: Micro enterprises are considered legal entities with up to 15 employees, small enterprises between 16 and 100 employees, medium-sized enterprises between 101 and 250 employees, and large enterprises with more than 250 employees. The definition does not include individual entrepreneurs.

Since early-2011 the president has signed several decrees to stimulate entrepreneurial activity in Belarus. As a result of these measures, Belarus has moved up 33 places in the World Bank's 2012 and 2013 Doing Business rankings, from 91st in 2011 to 58th out of 183 countries in 2013. Yet price controls and wage restrictions are common. Almost 43 per cent of the respondents in the 2008/09 Business Environment and Enterprise Performance Survey (BEEPS) identified taxation and the need to obtain various business licenses and permits as the main obstacles to doing business. Also, the currency crisis resulted in an increase in regulations contrary to pre-crisis liberalisation plans. Restrictions on exports of consumer goods by individuals, introduced as a response to the balance of payments crisis, were eliminated in February 2012.

More than a third of firms perceive access to finance as a major or severe obstacle to doing business according to the BEEPs survey 2009. In 2011, credit to the private sector accounted for about 42 per cent. Banks and one microfinance institution are the main sources of external financing for MSMEs. However, bank lending has been affected by the recent currency crisis. Improvements in the legal base for micro lending raised MSMEs' awareness of available funding opportunities, and subsequently led to increased demand for MSME loans.

The consultancy market

The Belarusian consultancy sector faces large transition challenges with regard to MSMEs. Scarce financial resources, unawareness about potential benefits from consultancy, lack of confidence in the consultancy project outcome make the demand among private MSME for advisory services relatively low. Large state-owned enterprises ready to pay higher consultancy fees remain the primary users of consultancy services reflecting the existence of a number of fairly sizable local consulting companies (employing 20 to 30 consultants) which also implement consultancy projects in neighbouring Russia, Ukraine and Lithuania.

Limited MSME demand for advisory services is present in the capital, but is still focused on basic advisory services. Discrepancies in the supply of consultancy services and their quality between the capital and regions also remain significant. The majority of consultants are specialised in the area of management information systems, market analysis and development planning, whereas expertise is limited with regard to the introduction of complex quality management systems as well as energy efficiency. The local consultancy market thus remains highly fragmented and relatively weak and needs support to professionalize and consolidate the sector.

Infrastructure of SME support

The Ministry of Economy includes the Department on Entrepreneurship which is responsible for the state policy in the area of entrepreneurship support. The development of the sector is further assisted by the Council of Entrepreneurship of Belarus which acts as a forum for the small business community to communicate with government to improve the business environment. The Council's activity has resulted in some reforms including easing of the tax burden on SMEs. However, unlike large state-supported enterprises, which have privileged access to resources, most MSMEs are self-reliant.

In recent years, Belarus has adopted several legal reforms to boost business activity. The most prominent include the law "On support of small and medium-sized business" in July 2010 and presidential decree "On some measures of state support for small business" in May 2009. Also, the president signed Directive No.4 in December 2010 which outlines reforms and measures to be undertaken by local authorities to support the development of entrepreneurship and stimulate business activity in the country. However, implementation of these reforms was affected by the policy induced balance-of-payment crisis which led to the reversal of the reforms.

Continuation of SBS in Belarus

SBS will continue to support SMEs through direct enterprise assistance in order to contribute to the development of a competitive and sustainable private sector in Belarus. SBS will focus on activities in priority sectors such as agribusiness, textiles, industrial manufacturing (primarily export oriented), construction, retail and wholesale distribution and ICT.

SBS will facilitate client access to finance through the Bank and its partner financial institutions. Cross-cutting issues such as rural development, gender equality and environmental improvement will also be addressed.

EGP plans to further support the transfer of management skills. EGP will work with enterprises which have a potential for import substitution and to become major suppliers for the domestic market. In addition, it will focus on export-oriented companies helping them to internationalise their products and enhance their exposure to international best practices. EGP will focus on specific types of advice such as strategic planning, product development and improving product specification and quality standards, financial management, increasing output efficiency as well as developing existing and expanding to new export markets.

BAS plans to further enable MSMEs to access advisory services by facilitating projects with local consultants. It is expected that the signing of a Memorandum of Understanding between the Bank and the Government of Belarus will simplify the procedures for BAS assistance registration with Belarusian authorities by beneficiaries and hence will ease access to advisory services for Belarusian MSMEs. A flexible grant scheme will be applied through annual updates of the Grant Guideline Matrix to prioritise interventions, ensure additionality and avoid duplication of efforts with international donors and governmental organisations. Higher grants will be allocated for smaller enterprises, for enterprises located outside of major cities and for projects involving services where market demand is less mature, including environmental management and advanced quality standards.

At the market level, SBS will promote international best practices in priority sectors through dissemination of successful showcases and trainings. In doing so, it will also create a platform for dialogue amongst SMEs, consulting firms and private business development organisations. SBS will promote the use of business advisory services to stimulate demand and enhance the professionalism of the local consultancy sector in the regions. SBS will seek to develop a sustainable MSME support infrastructure through the support and development of local consultants.

In addition, BAS Belarus will implement the ETCI Accounting Improvement Programme with the objective of raising enterprise financial management and reporting practices and standards to support clients’ access to finance through the Bank and its partner banks, as well as other financial institutions.

ANNEX 5 – TECHNICAL COOPERATION

TC COMMITMENTS BY DONOR THROUGH EBRD, 2009-2011

Donor	TC Commitments (€)
Austria	783,850
Central European Initiative	258,790
Czech Republic	2,916,710
Early Transition Countries Fund	29,473
EBRD Shareholder Special Fund	1,805,636
EU	1,789,739
Finland	805,000
Norway	185,000
Sweden	2,520,000
Taipei China	60,000
United States of America	783,688
Grand Total	**11,937,886**

TC COMMITMENTS BY SECTOR THROUGH EBRD, 2009-2011

Sector/Team		TC Commitments (€)
SME Development*	Enterprise Support	389,473
	EGP/BAS	646,567
E2C2	E2C2	1,533,317
Environment	Environment	243,850
Financial Institutions	FI	2,909,779
	SBF	2,289,900
Infrastructure	MEI	3,865,000
Other	Other	60,000
Grand Total		**11,937,886**

Note: Commitment values based on year end or period end data for each year.

* This sector category encompasses direct assistance to SMEs and indirect assistance through policy dialogue between the Bank, the authorities and commercial/business associations (e.g. Investment Councils)

ANNEX 6 – SELECTED ECONOMIC INDICATORS

	2006	2007	2008	2009	2010	2011	2012 *Estimate*	2013 *Projection*
Output and expenditure				*(Percentage change in real terms)*				
GDP	10.0	8.6	10.2	0.2	7.7	5.3	1.5	1.5
Private consumption	12.8	13.5	16.4	0.0	9.3	3.5	4.0	na
Public consumption	-0.2	-0.5	0.3	-0.1	3.1	1.0	4.0	na
Gross fixed capital formation	31.6	16.4	23.8	5.0	17.5	11.1	-1.7	na
Exports of goods and services	8.1	5.4	2.8	-8.7	7.7	28.4	8.3	na
Imports of goods and services	21.6	7.3	16.5	-9.1	12.2	16.4	4.1	na
Industrial gross output	11.2	8.6	11.3	-3.1	11.7	9.1	na	na
Labour Market[1]				*(Percentage change)*				
Gross average monthly earnings in economy (annual average)	25.6	19.2	25.1	13.1	24.0	56.1	96.9	na
Real LCU wage growth	21.7	9.9	8.9	0.1	15.1	2.1	23.9	na
				(In per cent of labour force)				
Unemployment rate (end-year)	1.1	1.0	0.8	0.9	0.7	0.6	0.6	na
Prices				*(Percentage change)*				
Consumer prices (annual average)	7.1	9.4	14.8	13.0	7.8	52.9	58.9	15.5
Consumer prices (end-year)	7.7	12.1	13.3	10.1	10.0	107.8	21.7	13.4
Fiscal Indicators				*(In per cent of GDP)*				
General government balance	1.4	2.3	3.4	-0.4	-1.8	3.3	0.0	na
General government revenues	49.1	49.5	50.6	45.7	41.6	42.0	40.7	na
General government expenditure	47.7	47.2	47.2	46.1	43.4	38.7	40.7	na
General government debt	13.4	18.3	21.7	34.9	42.0	49.8	38.3	na
Monetary and financial sectors				*(Percentage change)*				
Broad money (M2, end-year)	44.5	29.2	22.5	1.0	27.4	64.1	na	na
Credit to the private sector (end-year)	40.8	53.1	54.2	45.1	43.5	63.1	na	na
				(in per cent of total loans)				
Non-performing loans ratio	2.8	1.9	1.7	4.2	3.6	4.2	na	na
Interest and exchange rates				*(In per cent per annum, end-year)*				
Local currency deposit rate	9.3	9.4	15.6	17.8	9.0	32.0	na	na
Foreign currency deposit rate	6.1	4.7	6.3	6.0	4.9	5.3	na	na
Local currency lending rate	12.5	12.3	16.7	16.2	11.4	28.2	na	na
Foreign currency lending rate	10.9	10.8	13.7	12.5	8.4	9.5	na	na
Money market rate / Discount rate/ Policy rate	10.0	10.0	12.0	13.5	10.5	62.3	na	na
				(Rubles per US dollar)				
Exchange rate (end-year)	2,140	2,150	2,200	2,859	3,000	8,350	8,570.0	na
Exchange rate (annual average)	2,144.6	2,146.0	2,136.7	2,789.0	2,979.6	4,974.6	8,262.5	na
External sector								
				(in per cent of GDP)				
Current account	-3.9	-6.7	-8.2	-12.6	-15.0	-10.5	-6.0	na
Trade balance	-6.1	-8.9	-10.3	-14.1	-16.4	-6.7	0.9	na
Merchandise exports	51.1	51.5	52.0	41.9	44.5	74.1	na	na
Merchandise imports	-57.7	-60.9	-62.7	-56.3	-61.3	-81.2	na	na
Foreign direct investment	1.0	4.0	3.6	3.8	2.5	7.2	3.5	na
Gross reserves, excluding gold (end-year)	3.7	9.2	5.0	11.5	9.2	12.4	8.0	na
External debt stock	18.5	27.6	25.0	45.6	52.1	62.5	60.0	na
Public external debt	1.6	5.8	6.6	17.9	21.6	25.2	na	na
Private external debt	16.9	21.8	18.3	27.0	29.9	36.5	na	na
				(In months of imports of goods and services)				
Gross reserves, excluding gold (end-year)	0.5	1.2	1.2	1.8	1.2	1.9	na	na
Memorandum items				*(Denominations as indicated)*				
Population (end-year, million)	9.580	9.542	9.514	9.500	9.481	9.465	9.465	na
GDP (in billions of Rubles)	79,267	97,165	129,791	137,442	164,476	274,282	490,306	na
GDP per capita (in US dollars)	3,858.4	4,744.7	6,385.8	5,179.9	5,824.3	5,875.0	5,674.0	na
Share of industry in GDP (in per cent)	32.2	31.6	28.1	27.2	26.8	31.7	na	na
Share of agriculture in GDP (in per cent)	9.3	8.8	8.4	8.1	7.5	8.6	na	na
FDI (In million of US dollars)	351	1,790	2,150	1,782	1,352	3,928	2,000.0	na
External debt - reserves (in US$ million)	5,461.2	8,314.3	12,093.0	16,407.8	23,372.0	26,107.2	na	na
External debt/exports of goods and services (in per cent)	30.8	45.2	40.9	88.7	95.0	72.9	na	na
Broad money (M2, end-year in per cent of GDP)	14.4	15.1	14.8	14.1	15.1	15.7	na	na

[1] Figures do not include emigrant workers abroad.

ANNEX 7 – GENDER EQUALITY

Gender Inequality and Human Development

According to the UNDP 2011 Human Development Index (HDI), Belarus is among the countries with high human development. It is ranked 65th out of 187 countries, which is around the regional average for Eastern Europe and Central Asia. The HDI is comprised of three dimensions: health, education and decent standard of living.

Labour force participation and gender pay gap

Men are falling behind women when employment rates of men and women are compared, which, although insignificant, is not a common trend for the EBRD region or across the world. According to the National Statistical Committee of the Republic of Belarus, in 2011 48.6 per cent of men were employed compared to 50.7 per cent of women. According to the United Nations Economic Commission for Europe (UNECE), in 2008 in Belarus women earned 26.1 per cent less than men, when monthly earnings of women and men were taken into account.

Indicator	Female	Male	Year
Total Employment rates	50.7%	48.6%	2011
Gender Pay Gap	26.1%		2008

Source: UNECE 2008; 2010; National Statistical Committee of the Republic of Belarus 2011

According to UNECE, in 2010-11 women's share of enrolment in tertiary education in Belarus was higher compared to that of men (57.2 per cent for women and 42. 8 per cent for men). However, of note is that 76.1 per cent of the graduates in the education sector were female whereas only 28.2 per cent of students were specialising in subjects such as engineering, manufacturing and construction were female. Gender differences in the field of study often determine labour market outcomes. For example, according to the 2007 UNECE data (this are the latest available figures), much higher proportion of men compared to women were involved in industry and energy sectors, while women dominated other areas such as education, humanities and arts.

According to the 2012 Women's Economic Opportunity Index of the Economist Intelligence Unit that ranks 128 countries on their ability to support economic advancement of women, Belarus is ranked 62nd globally and 22nd in the EBRD region. The country performs well on issues relating to citizenship rights, property ownership rights, CEDAW ratification, women's literacy rates and adolescent fertility rates. Belarus rates less well in other areas, such as labour policy and practice and particularly the latter, which shows that while gender-sensitive legislation may exist, its implementation remains weak.

Entrepreneurship, access to finance

There is no gender difference reported in access to formal financial services in Belarus. According to the World Bank's Global Financial Inclusion database, (surveying approximately 1, 000 people using randomly selected, nationally representative samples) in 2011 59.24 per cent of men and 58.7 per cent of women had an account at a formal financial institution.

Indicator	Belarus	ECA*	Year
Percentage of firms with female participation in ownership	52.9%	36.6%	2008
Percentage of firms with a female top manager	24.8%	18.8%	2008
Proportion of full-time workers that are female	49.3%	38.5%	2008

Source: Enterprise Surveys 2008
*Eastern Europe and Central Asia

The Business Environment and Enterprise Performance Survey (BEEPS) Surveys shows that in 2008 Belarus performed better compared to the Eastern Europe and Central Asia average in terms of female ownership and women in top management. 52.9 per cent of the 273 firms surveyed in Belarus had female participation in ownership compared to 36.6 per cent which is the regional average. In terms of women in top management, 24.8 per cent of firms reported having a woman top manager compared to 18.8per cent of firms in the region.

The BEEPS also showed that 53.5 per cent of firms from the same survey sample that applied for a loan and had women among owner, 9.1 per cent of these firms were rejected. 42.4 per cent of firms who applied for loan had no women among owners and 9.8 per cent of these firms were rejected.