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This action is funded by the European Union

ANNEX II

to Commission Implementing Decision on the Annual Action Programme 2017 in favour of the Republic of Belarus to be financed from the general budget of the European Union

Action Document for "Support to Business and Economic Development in Belarus"

INFORMATION FOR POTENTIAL GRANT APPLICANTS

WORK PROGRAMME FOR GRANTS

This document constitutes the work programme for grants in the sense of Article 128(1) of the Financial Regulation (Regulation (EU, Euratom) No 966/2012) in the following sections concerning calls for proposals:

5.3.3 Grants: Calls for proposals for Twinning projects (direct management)

and in the following section concerning grants awarded directly without a call for proposals:

5.3.1 Grant: direct award to the International Finance Corporation (direct management)

5.3.2 Grant: direct award to the World Bank (direct management)

5.3.4 Grant: direct award to the International Monetary Fund (direct management)

1. Title/basic act/ CRIS number	Support to Business and Economic Development in Belarus CRIS number: 2017/40509 financed under the European Neighbourhood Instrument
2. Zone benefiting from the action/location	Belarus The action shall be carried out at the following location: whole country
3. Programming document	Multi-Annual Indicative Programme 2014-2017 ¹
4. Sector of concentration/ thematic area	Market opportunities

¹ Pending the approval of the Single Support Framework 2017-2020.

5. Amounts concerned	Total estimated cost: EUR 14 500 000 Total amount of EU budget contribution EUR 14 500 000			
6. Aid modality(ies) and implementation modality(ies)	Project Modality Direct management: <ul style="list-style-type: none"> • grants – calls for proposals • grants – direct award Grant: direct award to the International Finance Corporation (direct management); Grant: direct award to the World Bank (direct management); PA Grant Agreement with the International Monetary Fund (IMF), under the Framework Administrative Agreement (FAA) between the EU and the IMF.			
7. DAC code(s)	32130 – Small and medium-sized enterprises (SME) development 25010 – Business support services and institutions 15110 – Public sector policy and administrative management			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	X	<input type="checkbox"/>
	Aid to environment	X	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	X	<input type="checkbox"/>
	Trade Development	<input type="checkbox"/>	<input type="checkbox"/>	X
	Reproductive, Maternal, New born and child health	X	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	X	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	X	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	X	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	X	<input type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods and Challenges (GPGC) thematic flagship	Flagship 3. SWITCH TO GREEN – Supporting private sector-led inclusive green growth Flagship 7. Trade integration for green and inclusive growth			
10. SDGs	Main SDG Goal 8 - Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.			

SUMMARY

This action covers a EUR 14.5 million support programme to the economy of Belarus and the private sector development. The action is in line with the EU response to increase support to the Belarusian population at large, and follows the EU policy of critical engagement towards Belarus as well as the priorities of the Multi-Annual Indicative Programme 2014-2017², in particular enhancing economic development and market opportunities.

Belarus is gradually exhausting its state-oriented growth model. Development of private sector, private initiative and small and medium enterprises (SME) is seen as key contributor to further growth and increase of the economy's competitiveness and productivity. Progress in inclusive economic development and modernisation can be ensured through diversification as well as an enhanced role of private economic actors.

The action comprehensively addresses various aspects of the SME and private sector environment aiming at decreasing the administrative burden on business, improving business climate, business services, competition and trade policy. The action also contributes to increasing the efficiency of the public sector through promoting the reform and restructuring of state-owned enterprises.

The envisaged assistance programme strictly follows the conditions and procedures set out by the restrictive measures concerning Belarus.

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

The Belarusian authorities have maintained macroeconomic and financial stability amidst a challenging environment during 2015-16, relying on tight budgetary and monetary policies. Macroeconomic and financial conditions remain fragile, however, with weakened balance sheets, elevated vulnerabilities, and eroded policy buffers. Tight macroeconomic policies remain critical to supporting stability, with the pace of easing contingent on the pace of structural reforms. Real GDP contracted in 2016 by 2.6%. While the authorities expect a rebound in economic activity to 1.7% growth in 2017, other forecasters are less optimistic – the WB sees 0.9% GDP contraction in 2017. Overall, Belarus' economy remains vulnerable in view of an elevated public and external sector debt, high dollarization, low reserve buffers, and other structural impediments.

Whilst the private sector contribution to GDP remains below 30% (compared to between 60% and 75% in other EaP countries), Belarus has recently shown considerable commitment to strengthen and support the private sector, in particular SMEs. Development of SMEs and private initiative has become the new economic policy priority for Belarus, which resonates well with the various reform recommendations produced in- and outside the country. The increased attention to these topics underlines the difficulties faced by the State Owned Enterprises (SOEs) anticipating the need to foster self-employment and development of the private business able to absorb excessive workforce from overstuffed SOEs that will need to be restructured at some point.

² Pending the approval of the Single Support Framework 2017-2020.

Marking a clear political commitment by adopting a new 5-year SME support programme in March 2016, the government is now actively turning to various IFIs and development partners, including the EU, to seek advice on the technicalities of facilitating SME and private sector development. This task is still challenging for a country where the private business was historically and still is tightly regulated and held liable for any economic downturns. The obvious solution to foster SME and private sector development lies in further regulatory, tax, price etc. simplification and liberalisation, while the government is still inclined to promote private initiative by directive measures.

The programme will also aim to support relevant recommendations of the Belarus National Business Platform, a key programme document yearly updated by local business associations outlining main proposals to policy-makers on how to further improve business climate.

The authorities have been active users of technical assistance provided by the IMF and other international partners and remain keen on receiving further assistance to strengthen their structural policies. An important prerequisite for an efficient and sustainable reform of the SOE sector is to establish an appropriate framework and expertise to manage SOEs on a commercial and professional basis.

1.1.1 Public Policy Assessment and EU Policy Framework

Since 2010 the government has increasingly acknowledged the importance of developing the private sector, and in particular SME, as an engine of sustainable growth and competitiveness. Some liberalisation measures have been adopted during last years, however progress has been uneven, with only limited changes made to the institutional framework, due to mostly cautious attitude of the authorities to any significant structural reform in the context of a challenging internal and external macroeconomic environment.

The government has taken steps to improve the investment and business climate, such as reforming basic business regulations. A National SME support programme for 2016-2020 was adopted by the government in March 2016. The programme strengthens the national policy framework, affirming strategic role of the SME in the economic growth, providing additional, though moderate financing support for SME, promoting business enabling environment, regulatory simplification, public private dialogue, strengthening business support infrastructure.

While the government is also committed to develop a first SME strategy 2030 and action plan by end 2017, overall policy support to SME is also embedded in the draft National Strategy for Sustainable Development of the Republic of Belarus until 2030 (NSSD), the country's main development strategy. This document includes a chapter on SME and sets a target to increase their contribution to GDP to 47% by 2030.

This action is in line with the Multi-Annual Indicative Programme 2014-2017³ and reflects the priorities agreed in the Riga Summit: 1. Economic development and market opportunities; and 2. Strengthening institutions and good governance.

Lastly, mid-2017 the political priority to "emancipate" private initiative and further improve business environment was declared by President Lukashenko, intending to adopt serious business simplification measures in 2017. This is seen as an excellent opportunity to timely deliver the needed assistance to shape the new governmental business enabling agenda according to best international experience and the EU acquis.

³ Pending the approval of the Single Support Framework 2017-2020.

1.1.2 Stakeholder analysis

The Department of Entrepreneurship within the Ministry of Economy (MoE) of the Republic of Belarus is in charge of the design, overall co-ordination and implementation of SME support measures under the three-year programmes. The Ministry will be the key partner and beneficiary of the programme, leading and promoting the private sector and SME support as one of the key development priorities inside the government.

Business support organisations will also play a key role in shaping the new approaches to the SME and private sector. While the quality of the public private dialogue still needs to be improved, a clear consolidation of positions of the Ministry of economy and the BSOs over the need to decrease the administrative burden, further promote and free the private initiative has been achieved recently. One of the good examples to be further pursued is the de facto endorsement by the Department of entrepreneurship of the National business platform, a set of key recommendations developed by the Belarusian BSOs to improve business climate.

The National Agency for Investments and Privatisation (NAIP), Development Bank of Belarus (DBB), Ministry of Communication and Informatization (MoCI), State Committee for Science and Technology (SCST) and other government entities that are primary recipients of financing and TA are direct beneficiaries.

Beneficiaries also include micro, small, and medium enterprises (MSMEs) that would obtain financing and business development services supported by the project. Indirect beneficiaries are private firms, broadly defined, that would benefit from improvements in business climate and more efficient provision of public services. Belarusian citizens would be the ultimate indirect beneficiaries of a more competitive economy, through job creation, sustainable growth, and more competitive markets for goods and services.

1.1.3 Priority areas for support/problem analysis

The government of Belarus is facing the challenge of implementing deep structural reforms. Economic decline, combined with falling competitiveness and export demand, lack of budget resources and growing debts call for structural changes. The necessity of such changes is confirmed by such various external Belarusian donors as the IMF, World Bank Group (WBG), EBRD and the Eurasian Development Bank.

Progress in inclusive economic development and modernisation can be ensured through diversification as well as an enhanced role of private economic actors. Enterprise development and better business environment need to be aligned with support to modernise the State Owned Enterprises (SOEs) and their management systems. The National Strategy for Sustainable Development aims, inter alia, at a strategic modernisation of the Belarusian economy based on the development of the private sector, more efficient indicative planning of the economy, reinforcing innovation and green economy policies, and safety nets to support the most vulnerable. Implementation documents⁴ postulate active liberalisation of the private

⁴ Operational Programme of Social-Economic Development of the Republic of Belarus 2016-2020 develops the strategic directions of the NSSD. The National Programme for SME Support 2016-2020 further details policies and instruments for enhanced SME development. The National Action Plan on Green Economy until 2020 shall identify priority sectors and specific activities aiming at implementing a circular economic model in Belarus.

initiative, stimulating entrepreneurship and SMEs, macro-economic stabilisation, strengthening of the financial sector, streamlined investments and increased governance.

This Programme will also provide the support to the relevant state bodies and state and semi-state enterprises in implementing structural reforms to support economy and private development. The support will include policy advice, ad-hoc expertise, trainings and possibly exchange visits to these organisations and its staff in order to support reforms and painful changes, to enhance capacity building and to increase the proficiency of the staff and competitiveness of enterprises/industries/chosen sectors.

Furthermore, over the past few years the Belarus the authorities embarked on a number of important structural reforms, but economic performance remains subdued and vulnerabilities are high, most importantly related to the state-owned enterprise (SOE) sector. Deterioration of the financial performance of the largely unreformed and inefficient state-owned enterprise sector and a related weakening of the financial system are contributing to rising vulnerabilities and limiting growth prospects. Sizable directed lending and debt-creating state support to SOEs has distorted the allocation of resources and exacerbates fiscal and macroeconomic risks. To achieve their goals of higher sustainable growth and economic diversification, the authorities will need to accelerate the pace of SOE reform. Key areas include better identification and management of fiscal risks, stronger SOE oversight and governance, and reducing the government’s real sector footprint.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Risk of economic instability and deteriorating business climate, lack of political willingness to carry out reforms.	M	Active promotion of SME related reform agenda through policy dialogue, involvement of relevant stakeholders to ensure local ownership, alignment with national strategies and harmonisation with other actors’ efforts.
Lack of management response/commitment of beneficiary enterprises.	M	Extensive communication outreach and business services development activities.
Competition of integration processes where Belarus is involved, which may be driven by political considerations rather than by tangible economic advantages for the country.	M	Involvement of the concerned line ministries in programme implementation and monitoring, streamlining TWINNING impact and advantages.
Assumptions		
<ul style="list-style-type: none"> • Government committed to private sector and SME development, at least moderate structural reforms; • Overall relatively stable macroeconomic environment; • Willingness of the Ministry of Economy of Belarus and other stakeholders to cooperate closely with the implementing organisations in the delivery of objectives; 		

- Enterprises are fully committed to take part to project activities, including participation in sharing part of the projects cost.

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

Ownership remains the key challenge in implementing EU development projects in Belarus. The scope of the programme is oriented towards preparing and implementing numerous reforms to empower the private sector, decrease the state interference in the economy and strengthen the capacity of the government to act as regulator, rather than as owner and planner.

Considering the agility of the private sector, it is important to continue setting the emphasis on innovation and smart specialisation approaches in regional development of Belarus, particularly through learning from the experience of the Baltic States.

Specific focus during the implementation of the action should be kept on thorough training needs analysis and/or baseline studies at the start of the project activities, in order to establish baseline indicators, monitor and ensure effective use of programme resources, and measure the degree of achievement of the programme outcomes.

Finally, fostering the involvement of the BSOs in the public-private dialogue should be the key emphasis of the action. The role of the BSOs being rather limited until recently, now starts to be reinforced including through targeted EU interventions (East-Invest and Public-Private Dialogue component). Support to creation and functioning of the sector business associations could be reinforced. Current generalist business associations remain unable to attract stable support of the companies, having no specialised services or interests. Sector business association are expected to mobilise economic operators by professionally focusing on specific sector issues and contributing to resolution of specific sector challenges in structured discussions with the economic authorities in professional manner and with the necessary technical expertise.

3.2 Complementarity, synergy and donor coordination

The proposed acting builds on the results and is deeply synergetic with the ongoing EU AAP 2011 and 2013 programme "Support to regional and local development in Belarus" (RELOAD programme) and currently starting EU AAP 2016 "Strengthening Private Initiative Growth in Belarus (SPRING)".

The following actions, which are highly complementary to the present intervention, will be closely monitored and managed by the Delegation of the European Union to Belarus to promote synergies:

- *EU4Business, EU4Digital initiatives, EaP SME flagship*, providing support to SMEs to tackle common challenges hampering their growth: limited access to finance, difficulty to conquer new markets, lack of business skills and a difficult business climate.
- *"Supporting firm competitiveness and business environment reforms in the Eastern Partnership: an EU4Business initiative"* is a highly complementary and synergetic action implemented by the OECD which entails a multi-country project to support

firm competitiveness and business environment development in Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. In Belarus the action will focus on assist the government in finalising the SME Strategy and Action Plan, as well as on supporting high-growth SMEs with export and innovation potential.

- *Mayors for economic growth*, providing capacity building and grants to local authorities/cities based on their formal commitments to pilot the participatory economic development, planning/budgeting, good governance, accountability and transparency reforms.
- *Green Economy in Belarus*, promoting green growth concepts and environmentally sustainable production and consumption patterns through support of local green initiatives, pilot projects and an information campaign at regional and local levels.
- *EAST INVEST II*, promoting trade and investment through SME networking and consolidation of business associations.
- *The EBRD Women in Business (WiB) Programme*, promoting and supporting women entrepreneurship and more broadly women's participation in business by facilitating access to finance and advice for women-led SME.

Furthermore, WB, IFC, IMF are strongly involved in providing technical assistance on structural and market reforms to the Government of Belarus. Donor coordination is ensured through permanent working cooperation on the level of country offices as well and through dedicated coordination sessions locally and on headquarters level. The WB/IFC is mainly involved in providing assistance in the area of private sector development, privatisation, financial sector reform and public finance.

3.3 Cross-cutting issues

Fundamental human rights and gender equality issues will be mainstreamed across the outputs of the programme. Women and youth entrepreneurship, already targeted by previous EU interventions, will remain a clear focus of the current programme. The implementing organisations will ensure that women and men have the same opportunities to access the programme's finance and activities that are delivered in a non-discriminatory manner by applying a gender perspective.

A Human Rights Based Approach to Development will be applied in the process of the formulation of specific activities.

Social economy and social entrepreneurship promoting economic inclusion, as a continuation of the efforts of the AAP 2016 programme, will also be a distinct focus of the current intervention.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

The **overall objective** is to strengthen conditions for private sector-led growth by improving the business environment, upgrading innovation capacity of SMEs, strengthening institutional capacity to promote private investment, and improving MSME access to finance and fostering structural reforms.

The **specific objectives** are to:

- Reduce administrative (time and cost) burden to businesses to comply with regulatory requirements and administrative procedures needed to conduct regular business and investment activities (such as, for instance, procedures to obtain construction permits and utility connections);
- Streamline procedures related to export and import transactions and develop an effective market surveillance system based on the EU and international standards;
- Improve the quality of dialogue with the private sector aimed at addressing core bottlenecks in the regulatory environment, finding mutually acceptable solutions, and joint monitoring over implementation of the agreed decisions;
- Strengthen Belarus' policy framework to steer the economy towards a more private-sector led sustainable economic model through greater efficiency and ultimately smaller size of the public sector.

The **expected results** are: (1) Belarus adopting a more sustainable economic model, increase the efficiency of the economy and removal of excessive regulation of the economy, strengthened macro-economic stability, improved access to finance for SMEs; (2) Improved environment for SMEs, increase of the private sector contribution to GDP, employment and export; (3) Detailed SOE restructuring roadmap and strategy developed, adopted and implemented leading to increased transparency, performance and accountability of the public sector.

This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of SDG Goal 8 - Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. This does not imply a commitment by the country benefiting from this programme.

4.2 Main activities

Component 1: Improving business environment and investment promotion

Component 1 will include a broad set of key indicative activities as described below. Based on the commitment and ownership of the national authorities, including the pace of the implementation of the National SME support programme which provides the policy framework for the proposed action, some of the elements may be prioritised and reinforced.

Main activities:

1.1 Reduction of administrative burden to businesses (e-registry, regulatory simplification, Regulatory Impact Assessment, licensing). Reduction of administrative burden to businesses by: (a) improving transparency and efficiency of regulations by supporting the upgrading of the e-Registry of Administrative Procedures from a pilot to a fully operational stage, with transactional capabilities, feedback loops, and effective mechanism for systematic assessment and streamlining/reduction of the existing administrative procedures and requirements; (b) strengthening regulatory quality at entry by building capacity of public and private sector to undertake Regulatory Impact Assessment (RIA) prior to adopting new regulations; (c) reducing market entry barriers (un-even playing field) in terms of permits and licensing requirements, excessive inspections, and other regulatory/enforcement practices in two selected pilot sectors.

1.2 Support to SMEs to access key business services (SME Development / guarantee fund, Business Development Services/Business Services Operators).

A specialized state SME Support Agency (hereinafter – the Agency) will be an organization promoting the development of businesses in Belarus. It is assumed that the establishment and activities of the Agency will be financed from the budget and other resources to be established by the legislation. The Agency will become the executive body for the implementation of SME support programmes and will be authorized to conduct business activities related to the development of entrepreneurship. The Agency will provide support for sectoral ministries and executive committees in carrying out their activities in support of SMEs, and monitor the overall development of the SME sector. The main purpose of activities of the Agency would be to promote the development and growth of small and medium-sized businesses, integrating state support for entrepreneurship, and improving the efficiency of financial and non-financial instruments to support private entrepreneurs. The World Bank Group will support the Agency in developing a strategy and programme to maximize the impact on SMEs and to promote ‘crowding in’ of private sector business development services. Necessary coordination will be ensured with the complementary OECD-implemented "Supporting firm competitiveness and business environment reforms in the Eastern Partnership: an EU4Business initiative"

- *Supporting access to financial management skills and services to improve SME performance.* This activity will include a diagnostic of SME access to financial management skills and services and targeted capacity building of business support organizations (BSOs) to improve SME access to relevant skills and services. The diagnostic will be based on strong stakeholder dialogue, assessment and feedback and aim to identify gaps in the access to services that Belarussian SMEs encounter in undertaking important financial management activities and making important business decisions. Targeted training would then be provided to those BSOs, in particular private ones, that reach significant groups of SMEs to support them and address their key needs for growth. This sub-component will follow up the lessons learnt of the East-Invest I and II programme, in particular the need to foster establishing competent sectoral associations that are under-developed in Belarus.

1.3 Investment Promotion: Strengthening Institutional Arrangements for FDI Support and Capacity Building for PPPs. This sub-component will lend support to the implementation of a clear FDI attraction strategy with targets based on competitive sectors for FDI promotion. It will strengthen the operational capacities of the NAIP in investor outreach targeting, facilitation, and aftercare. In addition, it will strengthen NAIP’s management and internal systems (for example, by implementing an electronic system to track outreach and development of relations with potential investors and also follow-up with existing investors).

1.4 Trade Promotion (certification, National Quality Infrastructure, promotion of export diversification, final design of the National Paperless Trade System (NPTS)).

- *Supporting compliance of Belarusian goods with standards in exports markets* by means of improving the quality of information and access to the nationally accredited bodies and laboratories providing testing and certification services required for international trade; *Reduction of cost of trade and promotion of export diversification* by streamlining certifications required by the Belarusian regulators and the Chamber of Commerce, export licenses and permits; and by increasing inter-agency collaboration and transparency related to trade requirements.
- *National paperless trade system (NPTS) preparation.* The aim of the NPTS will be to modernize the transfer international and domestic trade operations documents into paperless form, thereby improving the functioning of trade support systems. NPTS should include 4 systems: (i) *Paperless Trade Service Portal* is the web-based single window for processing trade business of trading companies, government agencies, banks, insurance

companies, logistics companies etc., whose systems are mutually linked to one another to support users; (ii) *Technical Infrastructure System* is composed of Data Exchange System, which supports exchange of e-documents among users and system-to-system interface between government agencies; (iii) *e-Document Repository* allows e-Document distribution online preventing submission of the attached documents offline; and (iv) *e-Payment Gateway* is made for exchange of e-documents with Online Banking system of banks. Implementation of NPTS continues to be one of the top digital economy priority projects for Belarus, and the Government (supported by the World Bank) is currently developing an NPTS implementation road map expected to be adopted by end 2017. The system is planned to become fully operational by 2020, as foreseen in the National programme of export development 2016-2020. The proposed activity will support the development of the final NPTS design. Along with the Government funding, a public-private partnership (PPP) model will be considered for the NPTS implementation.

1.5 Capacity Building for PPPs (PPP regulations development, staffing and training, one PPP transaction preparation). This subcomponent will facilitate capacity building in the Ministry of Economy's designated central PPP Unit in areas such as identification of promising PPP projects, preparation of pre-feasibility and feasibility studies, procurement, contract negotiation, and contract management. A programme of PPP training workshops for government officials and private sector stakeholders is also envisioned. The activity would cover the following items: (a) website modernization for the PPP Unit, facilitating more effective dissemination to the private sector of PPP opportunities and guidance on PPP processes and procedures; (b) PPP workshops, training and study visits for the NAIP (PPP Unit), line ministries, local authorities, and the private sector; and (c) additional assistance with secondary PPP legislation. This activity will possibly promote direct preparation of pilot PPP projects, including those identified in the Belarus National Infrastructure Plan or developed by the National PPP Interministerial Board.

1.6 Secured Transactions (collateral registry, International Financial Reporting Standards (IFRS), credit bureaus). This activity would include *support to secured transactions/collateral registry reform* in order to strengthen the legal and institutional frameworks for secured transactions, hence facilitating increased access to finance for underserved segments, such as MSMEs. The objectives of the activity include: (i) support to the establishment of a comprehensive legal framework for secured transactions, in line with international best practices (at least one legislative act enacted by project completion); (ii) upgrading the capacity of the registry to expand their remit to include various types of security interests (expanded registry launched operations under the new scope by project completion); (iii) building capacity of financial institutions to promote the use of movable assets based lending products; and (iv) building greater awareness, both among policymakers as well as the financial sector on the importance and benefits of movables based finance and the utilization of the Collateral Registry in Belarus.

1.7 Competition Policy (antimonopoly regulations, sectoral assessments). Generation of new investment in specific markets through elimination of legal restrictions on private participation, and/or elimination of entry restrictions to allow for more competition and lower prices, by means of: (a) upgrading Belarus competition policy based on the assessment of the current framework (competitive neutrality gap analysis including policy, legal and institutional issues) against international best practices and the EU competition acquis, and drafting policy amendments; (b) assessment of competitiveness barriers in specific sectors,

and drafting regulatory recommendations to remove restrictions and promote investment; and (c) introduction of ex-ante and ex-post assessment of policies' impact on competition.

Component 2: Policy advice and good governance

Component 2 is aimed at capacity building for chosen organisations via provision of specialised expertise, transfer of skills and ad-hoc expertise based on the European experience in chosen priorities/areas/participants via the Twinning Instrument.

Main activities:

2.1 Provision of specialised ad-hoc expertise and policy advice.

2.2 Support to the Belarusian economic authorities (Ministry of Economy and State Committees under MoE (State Property Committee, NAIP), Ministry of Antimonopoly Regulation and Trade (MART), etc.) in the sphere of good governance, rule of law, human rights, gender equality, justice and in adopting selected parts of EU acquis.

Component 3: Support to structural reforms in the in the fiscal and SOE sector

The proposed capacity development programme (CDP) under Component 3 aims to address vulnerabilities and fiscal risks related to the SOE sector. The programme will be implemented through a partnership between the EU and the IMF with the goal of accelerating reforms in the fiscal and SOE sector. This partnership will leverage the comparative advantages of both institutions and will be complementary to the EU-WBG partnership.

The proposed CDP will build on the extensive assistance already being provided. IMF headquarter (HQ) missions will offer high-level strategic guidance and review progress over time. Their work will be complemented by short-term experts (STX) in specialist areas, as well as long-term resident advisors—backstopped by HQ staff—who will provide direct hands-on support and respond quickly if issues arise. Finally, the IMF's Belarus team, in discussion with the EU staff, will play a key role in refining CDP needs and following up on the implementation of recommendations.

Main activities:

3.1 Fiscal Risk Management (PFM) through HQ-led missions and a series of STX visits.

The authorities established a special risk unit at the Ministry of Finance and are building a comprehensive database to facilitate its fiscal risk management tasks. The Ministry of Finance is planning to start quarterly internal reports on SOE financial performance and major fiscal risks and an annual fiscal risk statement. In addition, the authorities are planning to conduct a diagnostic study of the largest at risk SOEs and strengthen safeguards to limit fiscal risks and increase transparency. The fiscal risk unit needs capacity development in identifying and managing fiscal risks as well as fiscal risk reporting to prepare for these tasks.

3.2. SOE management and restructuring (PFM and LEG). The authorities have taken some initial steps to address deficiencies and vulnerabilities in the SOE sector, and adopted a comprehensive SOE reform strategy. However, comprehensive and in-depth changes are needed to address structural weaknesses of SOEs.

3.2.1 Corporate/SOE restructuring (PFM) through a peripatetic advisor. With assistance from the advisor the authorities need to develop a detailed road map for SOE restructuring, including identification and classification of SOEs, legal framework, operational guidelines, insolvency, asset recovery, social impact assessment and measures to mitigate it, and the role of local authorities.

3.2.2 Legal drafting and operationalizing the corporate insolvency framework (LEG) through HQ-led mission and follow-up HQ-based desk reviews. A strong and independent framework for SOE resolution, closely coordinated with the NPL resolution framework, is a prerequisite for efficient SOE restructuring. The framework needs to address insufficiencies – including high fiscal costs and lack of SOE restructuring and liquidation powers – in the existing resolution mechanisms. The authorities need assistance in drafting and operationalizing such a corporate insolvency framework.

3.2.3 Conference / seminar on SOE reform. This would showcase policy-oriented analytical work by IFI/international partners. It would provide a focal point for bringing work by different parties together (including the experiences and practices of other countries), and aim to move the SOE reform question further into the center of the policy debate in Belarus.

3.3. Revenue forecasting (FAD) through a long-term advisor and short term visit of MoF staff to HQ. In order to improve the quality of the budgeting process the authorities have requested assistance in revenue forecasting. IMF will provide a workshop in course of 2017 to discuss the basics of forecasting and further capacity building can be best addressed by a long-term advisor helping the authorities in developing models based on country specific data availability and characteristics. To better utilize expertise at the IMF, the Ministry of Finance would send staff to HQ to collaborate on model development using Belarussian data.

4.3 Intervention logic

The intervention logic foresees reinforcing the market reform impulse of the government through coordinated and overarching flexible support of measures both directly benefitting the SME and private sector as well as building competence of the key economic institutions and authorities through policy advice and Twinning.

The key aim is to asserting the mainly regulatory role of the state in the economy, restructuring the inefficient state-owned enterprises, promoting transparent and competitive privatisation in non-strategic sectors. The aim is to ensure by all means the unleashing private initiative and entrepreneurship potential, exhaustive liberalisation of the SME and private sector enabling environment, ensuring equal treatment, fair competition and legal remedy for all property types. The activities are also expected to raise competitiveness and productivity of the economy by fostering commercially viable innovation, smart specialisation and clustering.

Furthermore, the EU, the World Bank Group and the IMF are ready to support Belarus in strengthening its policy framework to steer the economy towards a more private-sector led sustainable economic model through greater efficiency and ultimately smaller size of the public sector. The IMF has been active in providing technical assistance in the areas of SOEs, tax policy and financial sector and there is continued and active dialogue at a high level with the authorities about policy reforms. The EU has been supporting Belarus through bilateral allocations funded under the European Neighbourhood Partnership Instrument in several sectors. The EC and WBG have agreed on a three year Structural Reform Technical Assistance Support Programme for Belarus consisting of five components: (i) fiscal

policy/public finance management; (ii) financial system stability/development; (iii) performance and accountability of enterprises, especially in the SOE sector; (iv) protection of vulnerable households; and (v) market institutions and competition policy.

Horizontally to all planned measures, the action will adopt an approach intended to maximise the capacity building effect and ensure sustainability of results. In particular:

- Any development of new strategic document and legislation/amendments will be carried out respecting all national procedures, especially those related to (fiscal/ regulatory) impact assessments, public consultations, inter-ministerial coordination; fast-track adoption procedures will be avoided. Prior to legislative drafting support, assistance will facilitate early stage stakeholder involvement and will provide analytical prerequisites (concept support, option analysis). Actual development of policy and legislative outputs will be mainly done by the beneficiaries and even if particular textual drafting is partly done by experts, this work should be paired with capacity building of the beneficiary (introduction of international examples, detailed explanation of proposed texts etc.);
- Any IT development will respect the national standards for interoperability. Relevant consultations with the coordinating state authority(ies) for ICT shall be undertaken before launching of any tenders;
- Training measures involving a large number of representatives of different public administration institutions should preferably be organised in close cooperation with the relevant training institutions for the public sector;
- Any manual/guidelines will be mainly developed by the beneficiary institutions and will be simple enough to be regularly reviewed and updated by the beneficiaries without further external support. Any guidelines or procedures developed under this action will not contradict any legal provision of the country.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation modalities for an action under project modality⁵

5.3.1 Grant: direct award to the International Finance Corporation (direct management)

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

A direct grant may be awarded for the implementation of actions in line with objectives and results defined under Component 1 in section 4.2 (indicative activities 1.1, 1.4, 1.6, 1.7).

(b) Justification of a direct grant

Under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals to the International Finance Corporation (IFC).

Under the responsibility of the Commission's authorising officer responsible, the recourse to an award of a grant without a call for proposals is justified because this action has specific characteristics requiring a specific type of beneficiary for its technical competence and specialisation in line with Article 190(1)(f) RAP. The IFC is the largest global development institution focused exclusively on the private sector development. IFC has direct mandate and extensive thematic expertise to support private sector and SME development through the financial sector and advisory services, customized advice on better production and management practices, to help local companies improve their corporate governance, environmental and social practices. Furthermore, IFC is currently engaged in highly complementary activities within the Belarus Regulatory Simplification and Investment Generation Project. IFC also provides advice and support to the government in implementing policy reforms in the following key areas, related to the current programme: advice on the national SME agency and strategy, business regulatory simplification, streamlining industry-specific policies and practices to increase competitiveness and attract investments.

(c) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(d) Maximum rate of co-financing, in line with Article 192 of Regulation (EU, Euratom) No 966/2012,

The maximum possible rate of co-financing for this grant is 100%. (if full funding is essential for the action to be carried out).

(e) Indicative trimester to conclude the grant agreement:

First trimester of 2018.

⁵ All beneficiaries of grants and entities provided with indirect management are required to fully comply with the provisions and procedures set out by the EU restrictive measures concerning Belarus.

5.3.2 *Grant: direct award to the World Bank (direct management)*

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

A direct grant may be awarded for the implementation of actions in line with objectives and results defined under Component 1 in section 4.2 (indicative activities 1.2, 1.3, 1.5).

(b) Justification of a direct grant

Under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals to the World Bank.

Under the responsibility of the Commission's authorising officer responsible, the recourse to an award of a grant without a call for proposals is justified because this action has specific characteristics requiring a specific type of beneficiary for its technical competence and specialisation in line with Article 190(1)(f) RAP. The World Bank is a leading international organisation in Belarus with a broad experience and trustable mandate. The World Bank group's Country Strategy for Belarus for 2014 – 2017 commits to helping reforms in key areas needed for the country to regain competitiveness, maintain macroeconomic stability and sustain growth. Such strategic goals, commitments and engagements with country priorities perfectly well match the objectives of this Programme. As practice shows, implementation of Action is smooth and efficient when Belarusian authorities work with donor organisations which have their own office in the country, understand the country specifics, and which they consider as "reliable" both from professional and organisational points of view.

(c) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(d) Maximum rate of co-financing in line with Article 192 of Regulation (EU, Euratom) No 966/2012,

The maximum possible rate of co-financing for this grant is 100% (if full funding is essential for the action to be carried out).

(e) Indicative trimester to conclude the grant agreement:

First trimester of 2018.

5.3.3 *Grants: up to 3 calls for proposals for twinning projects (direct management)*

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

The Twinning modality via a call for proposals will be used for one or two actions in line with objectives and results defined in section 4.1.

(b) Eligibility conditions

In line with Article 4(10)(b) of Regulation (EU) No 236/2014, participation in Twinning calls for proposals is limited to public administrations of the EU member States, being understood as central or regional authorities of a Member State as well as their bodies and administrative structures and private law bodies entrusted with a public service mission under their control provided they act for the account and under the responsibility of that Member State.

(c) Essential selection and award criteria

The essential selection criterion is the operational capacity of the applicant.

The essential award criteria are the technical expertise of the applicant and the relevance, methodology and sustainability of the proposed action.

(d) Maximum rate of co-financing,

The rate of co-financing for Twinning grant contracts is 100%⁶

(e) Indicative timing to launch the call(s)

First trimester of 2018.

(f) Use of lump sums/flat rates/unit costs

Twinning contracts include a system of unit costs and flat rate financing, defined in the Twinning Manual, for the reimbursement of the public sector expertise provided by the selected Member States administrations. The use of this system of unit costs and flat rate financing, which exceeds the amount of EUR 60 000 per beneficiary of a Twinning contract, is subject to the adoption of a separate, horizontal Commission decision.

5.3.4 Grant: direct award to the International Monetary Fund (direct management)

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

A direct grant may be awarded for the implementation of actions in line with objectives and results defined under Component 3 in section 4.2.

(b) Justification of a direct grant

Under the responsibility of the Commission's authorising officer responsible, the recourse to an award of a grant without a call for proposals is justified because this action has specific characteristics requiring a specific type of beneficiary for its technical competence and specialisation in line with Article 190(1)(f) RAP. The IMF has a direct financial and economic surveillance mandate and monitors the economic and financial policies of its 189 member countries. Since Belarus joined the IMF in 1992, the Fund has been one of the key providers of technical assistance for Belarus in a number of areas, such as state spending, treasury, tax and custom services, banking supervision, monetary policy and the organization of the central bank, as well as statistics. The current negotiations over a potential new programme place the IMF in the heart of the structural reform process in Belarus, with its unique competence and leverage to highlight possible risks to stability and advise on needed policy adjustments.

⁶ As provided for in the Twinning Manual

(c) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(d) Maximum rate of co-financing, in line with Article 192 of Regulation (EU, Euratom) No 966/2012,

The maximum possible rate of co-financing for this grant is 100% (if full funding is essential for the action to be carried out).

(e) Indicative trimester to conclude the grant agreement:

First trimester of 2018.

5.3.5 Procurement (direct management)

Subject	Type	Indicative number of contracts	Indicative trimester of launch of the procedure
5.8 – Evaluation	Services	2	1 st quarter 2020 1 st quarter 2022
5.9 – Audit	Services	1	2 nd quarter 2022

5.4 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply subject to the following provisions.

The Commission’s authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.5 Indicative budget

	EU contribution (amount in EUR)	Indicative third party contribution (amount in EUR)
Component 1 – Improving business environment and		

SME and FDI support		
5.3.1 Grant: Direct award to the International Finance Corporation (direct management)	4 000 000	N.A.
5.3.2 Grant: Direct award to the World Bank (direct management)	4 800 000	N.A.
Component 2 – Policy Advice and good governance		
5.3.3 Twinning (direct management)	3 900 000	N.A.
Component 3 – Support to structural reforms in the in the fiscal and SOE sector		
5.3.4 Grant: Direct award to the International Monetary Fund (direct management)	1 700 000	N.A.
5.8 Evaluation, 5.9 Audit (procurement)	100 000	N.A.
Totals	14 500 000	N.A.

5.6 Organisational set-up and responsibilities

A Steering Committee shall be set up to oversee and validate the overall direction and policy of the project (or other responsibilities to be specified). The project Steering Committee shall meet at least twice a year. The project Steering Committee shall be made up of a representative of the Beneficiary country, of the entrusted entities (IFC, WB Group and the IMF) and of the Delegation of the European Union to Belarus.

5.7 Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) or the list of result indicators (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.8 Evaluation

Having regard to the importance of the action, a mid-term and final evaluation(s) may be carried out for this action or its components via independent consultants contracted by the Commission.

The Commission shall inform the implementing partner at least 1 month in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, two contracts for evaluation services shall be concluded under a framework contract in Q1 2020 and Q1 2022.

5.9 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Indicatively, one contract for audit services shall be concluded under a framework contract in Q2 2022.

5.10 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

Necessary coordination shall also be ensured with the relevant thematic communications activities and tools available under the SME Flagship Secretariat.

Furthermore, the action shall use common branding regarding all EU support to SME in the Eastern Partnership, in particular, the name EU for Business (EU4Business) shall be used for all relevant SME activities under both components both in English and in Belarusian and/or Russian.

APPENDIX - INDICATIVE LOGFRAME MATRIX

The activities, the expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action, no amendment being required to the financing decision. When it is not possible to determine the outputs of an action at formulation stage, intermediary outcomes should be presented and the outputs defined during inception of the overall programme and its components. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for including the activities as well as new columns for intermediary targets (milestones) for the output and outcome indicators whenever it is relevant for monitoring and reporting purposes. Note also that indicators should be disaggregated by sex whenever relevant.

	Results chain	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification	Assumptions
Overall objective: Impact	To strengthen conditions for private sector-led growth by improving the business environment, upgrading innovation capacity of SMEs, strengthening institutional capacity to promote private investment, and improving MSME access to finance and fostering structural reforms.	Share of private sector in GDP, Share of SME in GDP, Share of SMEs in employment, SME loans as % of total loans, WB Doing Business ranking	30% (2015) 25% (2015) 30% (2016) 29% (2015) 37 (2017)	40% (2020) 35% (2020) TBD TBD 30 (2020)	Official statistics (Belstat), IFIs statistics	Structural reforms initiated and consistently implemented
Specific objective(s): Outcome(s)	1. To reduce administrative (time and cost) burden to businesses to comply with regulatory requirements and administrative procedures needed to conduct regular business and investment activities (such as, for instance, procedures to obtain construction permits and utility connections); 2. To streamline procedures related to export and import transactions and develop an effective market surveillance system based on the EU and international standards;	WB Doing Business ranking – Getting credit WB Doing Business ranking – Resolving insolvency Implementation of the WB Roadmap for structural reforms measures Adoption of the Law on indicative planning Introduction of mandatory effective prior consultation and regulatory	101 (2017) 99 (2017) Punctual measures (2017) Law under discussion (2017)	50 (2020) 50 (2020) Roadmap implemented (2020) New Law adopted (2018)	WB Doing business report, WB and IMF country assessments, Government accountability reports, Reports of the National bank, data of the National Investment and Privatisation Agency	Government committed to and actively promoting SMEs and facilitating conditions of their growth Gradual removal of administrative and legal restrictions on SME development

	<p>3. To improve the quality of dialogue with the private sector aimed at addressing core bottlenecks in the regulatory environment, finding mutually acceptable solutions, and joint monitoring over implementation of the agreed decisions.</p> <p>4. To strengthen Belarus' policy framework to steer the economy towards a more private-sector led sustainable economic model through greater efficiency and ultimately smaller size of the public sector.</p>	<p>impact assessment systems for new business legislation.</p> <p>Number of SoEs excluded from the supervision of the line ministries</p> <p>Number of privatised SoEs</p> <p>Creation of an independent agency for state property management</p>	<p>Mandatory RIA system under discussions (2017)</p> <p>Isolated cases of SoEs (2017)</p> <p>Isolated cases of SoEs (2017)</p> <p>In preparation (2017)</p>	<p>Mandatory RIA in force for all regulations (2018)</p> <p>Majority of SoEs (2020)</p> <p>Majority of non-strategic SoEs (2020)</p> <p>Fully operational (2018)</p>		<p>Government commitment to a level playing field to promote SME entry and development and to smooth exit</p> <p>Development of a financial sector to lower costs and increase SME access to financial intermediation</p> <p>Overall stable macroeconomic environment</p>
Outputs	<p>(I) A more sustainable economic model is adopted; the efficiency of the economy is increased; excessive regulation of the economy is removed; access to finance for SMEs is improved;</p> <p>(II) Strengthened macro-economic stability; Effective public-private dialogue and partnership on economic and social policies;</p> <p>(III) Improved environment for SMEs, Increase of the private sector contribution to GDP, employment and export.</p>	<p>Private sector contribution to GDP, employment and export</p> <p>Number of SMEs created and operating</p> <p>Creation of a dedicated SME agency, SME strategy, including effective institutional arrangements, public-private dialogue structures and M&E systems</p> <p>Adoption of market-oriented approach to the development of business support infrastructure</p> <p>Improved the legislative and regulatory framework, strengthening creditors' rights, improving access to the credit information registry and adopting legislation on a registry for securities over movable assets.</p>	TBD	TBD	<p>Government accountability reports, Reports of the National bank, IFI / IMF regular reports, ad-hoc studies and policy benchmarks by local and international think-tanks.</p>	