

## State programmes 2016-2020: Paradigm-shift or business-as-usual?

Since the beginning of 2016, the 5-year programming cycle for social and economic development of the Republic of Belarus entered a new term. For this upcoming term, which covers the period until 2020, the development and implementation of state programmes is based on a fundamentally new legislative framework. It aims to overcome the past patterns of non-transparent and excessive state support to the economy. The new legislation requires transparent competitive procedures for the allocation of state support, introduces a clearly defined scope of cases and purposes for which state support can be made available, and provides for evaluating the effectiveness of the public expenditures.

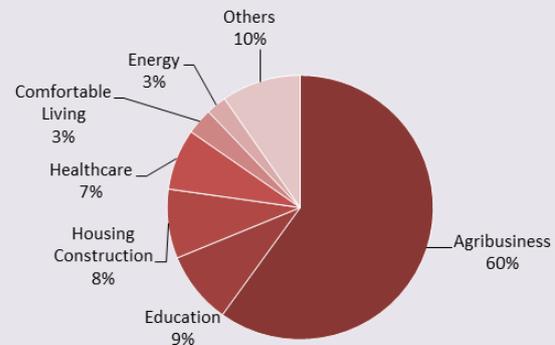
What sounds like a true paradigm-shift, in reality requires a lot more efforts to meaningfully implement the new legislation. The institutions and functions needed for a competitive award of state support need to be separated from each other. The government needs to define target indicators for state programmes in such a way that they allow for a contractual relation between the producer of services, goods, and works and the client, i.e., the respective ministry. Equal access to tenders for state-owned enterprises (SOE), as well as for private businesses requires a changed mind-set and new formats of communication to break up past patterns where SOE used to be the default producer of all sorts of goods and services.

### Scope of the state programmes

Economic and social development objectives for the period 2016-2020 have been outlined in 20 state programmes which are covering social sectors like education, healthcare, and culture, alongside areas of economic development like transport, energy, or the development of a digital society and economy, and others. The single biggest programme is the state programme to develop the agricultural sector, which accounts for almost two thirds of all programme costs.

The importance of the state programmes for the public finances of the country is illustrated by the fact that state programmes account for ca. 30% of total expenditures of central government and ca. 75% of expenditures of local government expenditures.

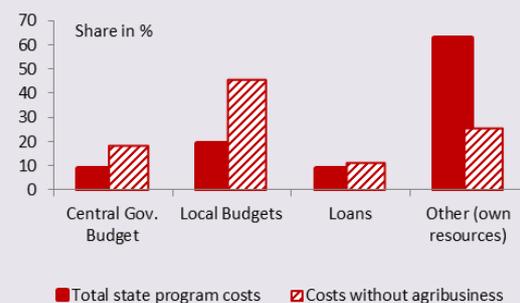
### Use of state programme funds



Source: own calculations, based on data of Ministry of Finance

State programmes are expected to be financed by a combination of budget funds, loan financing, and own contributions by the executing agencies. The share of budget financing of the programmes' total costs equals approximately 28% (central and local governments, for activities planned in 2016), loans are expected to finance about 9%, and own resources almost 63%. If the agri-business programme is excluded from the statistics, the share of budget financing of state programme's costs rises to ca. 64%, loans shall cover nearly 11%, and the remaining ca. 25% contributed by the implementing organisations.

### Sources of financing



Source: own calculations, based on data of Ministry of Finance

### Strengths and opportunities of the new approach

The new legislation replaces the regulations which have determined the modes of government's interaction with the real economy during the past 10 years. From now on, state support to the economy (including the large number of state-owned enterprises) will be provided exclusively in the scope of state programmes. The purposes for granting state support to the economy are clearly outlined by the new legislation. State support is limited to investments in innovation, to reduce costs of production and to improve

competitiveness. De-facto subsidies of energy costs, guaranteed purchases of products at fixed prices, tax exemptions and, as the most prominent example, directed and heavily subsidised lending shall no longer be permitted. Also, preferential treatment of SOE over private enterprises for the delivery of goods and services commissioned by the government is no longer required or permitted. Where public funds will be awarded to companies, this shall be done by way of public and transparent competitive procedures.

A new department in the Ministry of Economy has been set up for the coordination of the state programmes' implementation. It remains to be seen whether this department is powerful and competent enough to ensure that the new approach to state programmes is implemented into practice.

**Risks and weaknesses**

Whilst ambitious reforms have been introduced to the legislative framework, the true impact of these will have to be proven in their implementation. A range of challenges in this regard persists which will require not only technical work to overcome these, but also a new way of thinking and acting needs to lead the actions of government and business alike. The legislative framework itself is still work in progress. The first versions of the state programmes in many cases lack clarity in the way the target indicators for the implementation and evaluation and monitoring have been formulated. This is because of the fact that methodological guidelines, as well as practical experience, with this approach to policy design is lacking.

The same limitations apply to the implementation of the competitive procedures to award state support. Here, principles and tools used for public procurement can be used as examples. The Development Bank of Belarus has been nominated as the exclusive agent to implement the tender procedures, which is a good solution. The role of the line ministries needs now to be clearly confined to that of formulating policy objectives and controlling implementation. Identifying best possible solutions how to *deliver* the goods and services required by the state programmes needs to be complemented by involving independent experts and the business community. International experience shows that consultations with those stakeholders who are 'closer to the customer' delivers better solutions to identify innovative, cost-efficient and user-friendly solutions to deliver on policy objectives. The role of government must also be reduced when it comes to

the decision-making of how to actually produce the goods, services, and works – otherwise the preferential treatment of SOE will be difficult to overcome. The high share of financing by 'own contributions' in some state programmes (especially agriculture, housing construction, energy efficiency); or by credit financing, of which approximately one half of the planned credit financing is backed by the state, whereas the other half has to be raised at – unfavourable - commercial rates, makes some of the state programmes and their expected results appear risky or even unrealistic.

**Conclusion**

The new provisions of the legislative framework have the potential to change the economic model of Belarus; to support the private sector and to improve the efficiency of the state-run economy with the help of improved transparency and better rules-of-the-game. These are the objectives of those in the government who see the need for reform and who have authored and initiated the new legislation. On the other hand is a lack of skills and experience in implementing this new approach, and there is a great number of those who will need to break with old habits and patterns.

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Note: A more comprehensive analysis of the topic is provided by the Policy Paper PP/04/2016 "State Programmes in Belarus – Improving Design and Implementation" available at: [www.get-belarus.de](http://www.get-belarus.de)

**German Economic Team Belarus (GET Belarus)**

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