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## **State Programs in Belarus - Improving Design and Implementation**

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## State Programs in Belarus - improving design and implementation

### Executive Summary

This Policy Paper analyses the new approach to the development and implementation of State Programs in Belarus. State Programs are adopted for a five-year period, and the current 5-year cycle covering the period from 2016 to 2020 is based on a new legislative framework which shall improve the efficiency and effectiveness of the Programs. In 2016, State Programs account for ca. 30% of central government and ca. 75% of local government expenditures. State Programs provide for a significant share of government support to the real economy through budget subsidies for the purchase of equipment, or loans to support the introduction of innovative technologies. In the past, this state support has taken a range of other forms, including tax exemptions, discounted prices, or direct financial support. The newly adopted legislative framework for the design and implementation of State Programs requires this state support now to be allocated on a competitive basis. In light of the new approach to State Programs, this Policy Paper analyses the impact of the State Programs on public finances, the design of the individual Programs, and the methods for their implementation. The Policy Paper concludes that a number of questions still need to be answered, and past patterns of government's involvement in the economy need to be overturned in order to reach the objective of improved efficiency and effectiveness of public finance. To further improve design and implementation of State Programs, this Policy Paper recommends:

- To limit State Programs to a definition of objectives and indicators of individual activities - but not to prescribe means of delivery. With clearly described indicators of expected results, competitive procedures can be applied to select the most effective means of delivery.
- To improve the development of target indicators of State Programs. Each State Program needs to have Impact, Outcome and Output indicators, which need to be logically related, but individually and separately from each other formulated. The development of these indicators needs to be coordinated across Programs, and needs to involve public and expert consultations.
- To apply independent economic and financial analysis of projects to decide on the award of State Aid through the Development Bank.
- To apply principles of public procurement and corresponding legislation for the development of competitive procedures to allocate the State Aid.
- To rationally and strategically use the potential which the government has as a buyer in a public contracting relation (State Aid or public procurement). It is perfectly justified to use government contracts to promote certain non-financial objectives, like social and environmental objectives, or the stimulation of SME and innovative technologies if this is clearly and transparently communicated to ensure a level playing field for State-owned and private enterprises.
- To improve the governance of the implementation of State Programs and to ensure transparency, control and oversight.

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## Contents

1	Introduction .....	5
2	Scoping the problem.....	7
3	Design of the State Programs .....	10
3.1	Methods to implement State Programs – Public Procurement or State Aid? .....	10
3.2	Analysis of target indicators of State Programs.....	16
3.3	Recommendations .....	19
4	Recommendations for the implementation of the State Programs.....	21
4.1	Economic viability of measures to implement State Programs .....	22
4.2	Using the potential which government as buyer has to promote specific objectives.....	24
4.3	Transparency and accountability .....	26
4.4	Recommendations (summary).....	28
5	ANNEX.....	30

## 1 Introduction

The Government of Belarus has adopted the programme for economic and social development of the country for the period of the next 5 years, 2016 - 2020. The political priorities set forth in this program have to be met in a time of economic recession and tight fiscal constraints. These developments require a new approach to the government's support to the economy which must acknowledge that the effectiveness and efficiency of public spending is becoming more and more of crucial importance. The performance of the State-Owned Enterprises, which still account for ca 70% of Belarus' economy, needs to be substantially improved to avoid burdens on the budget to further increase.

The economic and social development objectives have been outlined in 20 State Programs. The detailed list of the 20 State Programs was adopted by the Resolution of the Council of Ministers #148 of 23 February 2016. Individual Programs are developed by the individual line ministries responsible for their later implementation. The methodology for developing the Programs and their subsequent implementation is guided by an evolving body of legal acts. The currently latest one in this regard is the Presidential Decree #106 of 23 March 2016, which entered into force on 1st May 2016.

Decree #106 is expected to provide for a fundamental change in the inter-action between government and state-owned enterprises. The document terminates the validity of Decree #182 of 28 March 2006 which had regulated the legal framework for providing State Aid to the economy for the past 10 years. From 1st May 2016 onwards, State Aid to the economy must be provided only if this is in line with the priorities covered by the State Programs. As a further requirement, State Aid must be granted only for investments which result in innovations and/or cost reductions. Provided these requirements are met, State Aid may be provided in the form of direct financing from central or local government budgets for investments in technology, equipment and spare parts; or as a loan which must be awarded as a result of a competitive procedure and distributed exclusively by the Development Bank of Belarus. The competitive procedure needs to be implemented in a fair and transparent manner and with equal access to the competition for all actors on the market (i.e., they must not be limited to SOE only). Decree #106 limits the power to grant exemptions from these principles exclusively to the President.

This new approach to providing State Aid is a remarkable step which offers chances to improve effectiveness and efficiency of public spending. The commitment to provide State Aid as a result of a transparent competitive procedure can be expected to result in higher efficiency of the funds used to support the economy. The fact that all State Aid is provided within the scope of no more than 20 State Programs shall make it easier to monitor, report, and analyse the utilisation of these funds which will improve transparency and accountability of State Aid. For this potential to be utilised to a best possible extent, a number of problems remain to be addressed.

Whilst mechanisms for awarding State Aid *in the form of direct financing from central or local government budgets* for investments in technology, equipment and spare parts have been introduced in the legal framework, no such rules and procedures have been introduced for the implementation of the competitive procedures to award the State Aid *in form of loans provided by the Development Bank of BY*. The legal framework limits the mandate to issue the loans to the Development Bank of Belarus but it falls short of detailing which institutional principles need to be applied to ensure that the economic viability and risks of the

applicants for State Aid be objectively evaluated, and that political influence be avoided from the decision-making process. Also, the provision for exemptions from the procedure needs to be defined more narrowly.

To improve the design and implementation of State Programs, this Policy Paper addresses these challenges:

- **Formulating** policy objectives and corresponding **indicators** for each of the State Programs;
- Establishing **rules and procedures for competitive and transparent tender procedures** to provide State Aid through the Development Bank of Belarus;
- Implementing State Programs in a way that provides for a **clear distinction between government as a buyer** of goods, services and works **and the real sector of the economy** - including SOE *and* private companies - **as producers** of such goods, services, or works.

The first chapter analyses the scope of what is at stake by comparing State Programs' volume of financing. This is followed by a chapter which discusses two different means of delivery of State Programs (or comparable government programs): SOE and government as a producer, vis-a-vis public procurement with government as the buyer. The subsequent chapter analyses target indicators of State Programs and discusses some ways for improving these. In the last chapter, some recommendations are put forward to help designing a competitive procedure to award State Aid.

The analysis and recommendations given in this Policy Paper can cover only some aspects of the complex landscape of government's interaction with the real sector of the economy. Other Policy Papers by GET Belarus on this topic are briefly summarised in Annex 1.

## 2 Scoping the problem

The financing of State Programs comprises a combination of budget financing, credit financing and financing by own resources of the implementing organisations. In 2016 the role of State Programs in public expenditure will increase compared to past years. The budget-financed expenditures of the 19 State Programs adopted by 01 July 2016 account for 30.74% of the central government budget, and 74.95% of the local budget. (Table 1) This results in State Programs making up for 59.5% of expenditures of the consolidated budget<sup>1</sup> for 2016.<sup>2</sup> In 2015, budget expenditures of state programs constituted only 18.4% of expenditures of the consolidated budget.

Amongst the State Programs for 2016-2020, budget financing plays an important role predominantly in the Programs of the social sector which include Healthcare, Education, Culture, et al. The major share of the financing of these Programs will be provided from local government budgets. Expenditures for education, healthcare, and culture which are included in the (consolidated) budget for 2016 are matching the budget-financed expenditures of the corresponding State Programs in full extent. In contrast to this, in 2015 the budget-financed share of the State Program on education equalled only 11% of the budget expenditures on education.

The financing of the Programs of the economic sector (including, e.g., agricultural and forestry business development and energy efficiency) is expected to be covered predominantly by loans and own resources of organizations involved in the programs. The total volume of loans to finance the adopted programs is BYR 54.3 trn (2016). At the same time, the Resolution of the Council of Ministers #103 “On Lending under State Programmes Activities in 2016” of 8 February 2016 sets a ceiling for financing state programmes through directed lending at BYR 28 trn. BYR 10 trillion of these BYR 28 trn will be financed with the funds of the Development Bank and BYR 18 trn with the funds of other banks.<sup>3</sup> The remaining difference of BYR 26.3 trn will have to be raised from commercial banks at market conditions. Whilst the setting of a ceiling for government-backed lending is a useful instrument to contain fiscal risks, it raises at the same time questions about the credibility of the State Programs (which run the risk to seriously under-perform if the additional financing cannot be raised on the market) – or about the credibility of the ceiling (which may need to be lifted).

The financing structure of the State Programs means that the effectiveness of the social programs is directly dependant to the efficiency of allocation of public expenditures, while results of the economic programs depend on the access to, and the availability of loans provided by the Development Bank and commercial banks.

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<sup>1</sup> Consolidated budget = central government and local budgets

<sup>2</sup> See [http://www.minfin.gov.by/upload/bp/bulletin/2016\\_1.pdf](http://www.minfin.gov.by/upload/bp/bulletin/2016_1.pdf) for planned expenditures 2016

<sup>3</sup> Resolution #103 lists Belarusbank, Belagroprombank, Belinvestbank, BPS-Sberbank, Belvneshekonombank and Priorbank for this function

**Table 1**

Total costs of State Programs in 2016

No. <sup>4</sup>	Name of State Program (shortened)	Total cost, BYR bn	Source of financing (BYR bn)				Share of individual State Program in total of State Program costs
			Central Govmnt. Budget	Local Budgets	Loans	other (own resources)	
1	Social	4,162.28	135.27	3,924.69	0	102.32	0.69%
2	SME	945.04	23.69	102.35	800.00	19.00	0.16%
3	Healthcare	44,733.73	9,575.65	32,580.48	0	2,577.60	7.46%
4	Education	53,020.49	7,804.93	40,928.22	171.92	4,115.42	8.84%
5	Culture	4,875.01	860.03	3,146.61	0	868.37	0.81%
6	Sports	4,022.83	1,685.82	2,335.21	0	1.80	0.67%
7	Comfortable Living	19,195.60	239.20	16,030.90	0	2,925.50	3.20%
8	Environment	552.09	353.17	158.74	0	40.18	0.09%
9	Chernobyl	4,597.61	4,449.82	147.79	0	0.00	0.77%
10	Tourism	24.47	20.81	0	0	0.14	0.00%
11	Roads	12,470.00	5,967.00	0	6,435.00	68.00	2.08%
12	Pharma	91.62	30.94	60.11	0	0.57	0.02%
13	Scientific Technologies	895.64	372.16	0	0	523.48	0.15%
14	<i>Innovations</i>		<i>(not yet adopted)</i>			0.00	0.00%
15	Digital Society	2,439.98	14.52	0	24.64	2,400.81	0.41%
16	Energy	14,874.60	166.30	0	5,098.40	9,609.90	2.48%
17	Housing Construction	50,815.30	9,661.20	4,068.54	5,629.10	31,456.46	8.47%
18	Transport	14,279.80	422.70	6,038.70	5,862.20	1,956.20	2.38%
19	Agribusiness	359,582.90	8,939.70	7,081.20	28,245.60	315,316.40	59.94%
20	Forests	8,348.51	2,216.21	8.82	2,081.40	4,042.08	1.39%
<b>TOTAL COSTS</b>		599,927.48	52,939.1	116,615.9	54,348.3	376,024.2	100%
<b>[A] % of Total State Program costs 2016</b>			8.82%	19.44%	9.06%	62.68%	
<b>% of Total Budget Expenditure 2016</b>			30.74%	74.95%			
<b>[B] % of Total State Program costs 2016 (without S.P. No 19 Agribusiness)</b>		240,344.58	18.31%	45.57%	10.86%	25.26%	

Source: own calculations, based on MoF data, [http://www.minfin.gov.by/upload/bp/bulletin/2016\\_1.pdf](http://www.minfin.gov.by/upload/bp/bulletin/2016_1.pdf)<sup>4</sup> Number of the State Program as in Resolution of the Council of Ministers #148 of 23 February 2016.

## Conclusions

The financing of the State Programs depends to a significant amount on the mobilisation of loans and own resources. The share of funding from central and local government budget does not exceed 28% of total costs of State Programs. Credit financing amounts to ca 9% - and as much as almost 63% is expected to be financed by “own resources”. (Table 1 – line [A]) (If the State Program on Agribusiness, which accounts for ca 60% of all State Program costs, is excluded from this analysis the lion’s share of financing rests with local budgets (45%). Own Resources cover 25%, central government budget 18%, and credit financing a little more than 10% of State Program costs, excluding Agriculture. (Table 1 – line [B]))

This highlights the importance of the “own resources” which implementing organisations are expected to contribute to the execution of State Programs. Experience from past years shows that these “own resources” also comprised budget tax expenditures. Budget tax expenditures are, essentially, tax obligations which the implementing organisations (i.e., SOE to a significant share) do not pay to the budget. This practice increases the fiscal burden in form of forgone taxes and represents another form of State Aid. More important, however, is the fact that this form of State Aid *is not subject to the competitive procedures* which have to be applied for the award of loans according to the new legislation.

The amount of credit financing in State Programs 2016 is BYR 54.3 trn. This is comparable to that of 2015 when this financing amounted to BYR 53.2 trn. In 2015, however, this equalled approximately one quarter of State Program financing and included government directed lending (GDL). By the end of 2015, GDL made up for 42% of total credit to the economy, which exceeds 18% of GDP. Despite a shortage of comprehensive, publicly accessible data, GDL is understood to finance projects of very limited commercial viability, preferably in agriculture and construction. With an average interest rate of 9% - below the inflation rate of 13.5% in 2015 and compared to the average commercial rate of ca. 34% - GDL leads to crowding out of private investments. Interest payments of GDL are subsidised from the state budget, with the subsidy covering from 50% to 100% of these payments. As a result of insufficient monitoring and accounting, public scrutiny and reporting on State Programs has been insufficient, and ex-post evaluation of their efficiency and effectiveness has been made difficult. These weaknesses shall be addressed by the new provisions to award GDL through competitive procedures.<sup>5</sup>

The importance of the program-based approach in social sector expenditures has substantially increased. As of 2016, all budget expenditures on education, public healthcare, culture, utilities are allocated in the framework of State Programs. This approach offers a potential for increased efficiency of public expenditure through the result orientation of the allocation of public money.

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<sup>5</sup> World Bank Belarus, Special Focus: Improving Credit Allocation, April 2016

### 3 Design of the State Programs

#### 3.1 Methods to implement State Programs – Public Procurement or State Aid?

The new legislation requires competitive procedures to be used for the allocation of State Aid. Whilst this is a remarkable development, we argue that competition cannot be the *result* of a government order but rather needs to *develop from* a changed approach to the execution of State Programs and other public spending. This changed approach to promote competition in the delivery on policy objectives as formulated in State Programs needs to build on:

- A strengthened role of the government as a *purchaser* of public services, rather than a *producer* of services; and
- Reduced distortions to competition which the provision of State Aid to some enterprises entails (preferential treatment). To this end, the volume of State Aid shall gradually be reduced, rather than its means of allocation merely be improved.

To support our argument we compare the role which State Aid plays in Belarus with that role in EU countries. The second parameter which we look at is public procurement as the preferred method for government to engage with the market. Here, we compare the situation in Belarus with that in OECD countries.

#### State Aid in the EU

The share of state aid in EU / OECD countries is rather low, and the definition of forms and instruments of State Aid compatible with EU legislation is strictly regulated. (Annex 2 for the European Commission's Definition of State Aid)

The volume of state aid in the EU amounts to 2.8% of GDP (EU-28 in 2014). Most of this aid was related to the anti-crisis measures (1.8% of the EU-28 GDP), which are still in place in some member states which were heavily affected by the crisis. For instance, crisis aid in Greece amounted to 35% of GDP. In Belgium, Cyprus, Slovenia, Ireland it exceeded 5% of GDP. (Fig. 1) Most of this aid came in the form of the state guarantees (83.8%). (Fig. 2)

This means that there is short list of countries that generates significant volume of state aid in the EU. If non-crisis state aid is considered, its **volume does not exceed 1% of GDP of EU-28**, and it does not differ greatly across the EU-28. This support is provided largely through grants and tax exemptions. (Fig. 2)

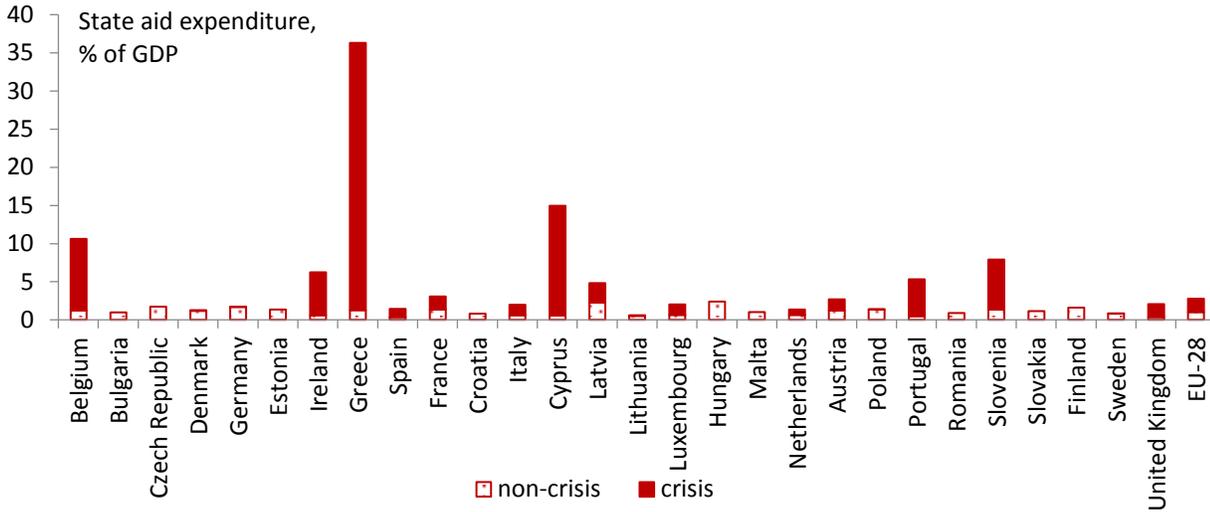
The provision of State Aid in the EU is monitored in much detail, and data is publicly available.<sup>6</sup> No information, however, is available to distinct public enterprises (SOE) as beneficiaries of State Aid from private enterprises.

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<sup>6</sup> The European Commission's online [register of state aid cases](http://ec.europa.eu/competition/state_aid/register/index.html) and the EU Official Journal contain details on all State Aid awards which were authorized by the Commission [http://ec.europa.eu/competition/state\\_aid/register/index.html](http://ec.europa.eu/competition/state_aid/register/index.html)  
The European Commission's [state aid scoreboard](http://ec.europa.eu/competition/state_aid/studies_reports/studies_reports.html) contains statistics on the overall amount and type of support given by each EU country [http://ec.europa.eu/competition/state\\_aid/studies\\_reports/studies\\_reports.html](http://ec.europa.eu/competition/state_aid/studies_reports/studies_reports.html)

**Figure 1**

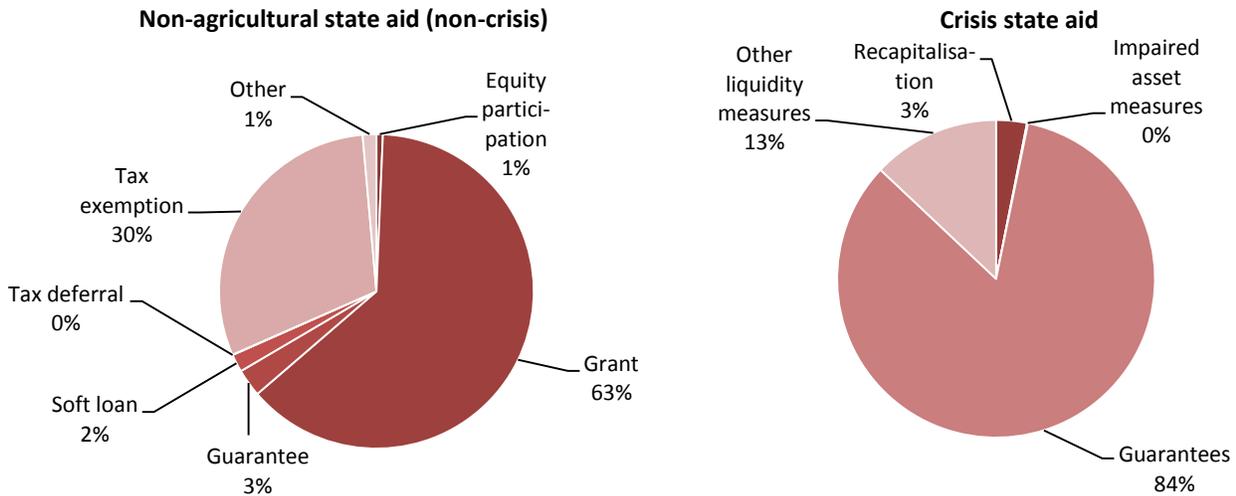
State Aid expenditure as % of GDP (2014), EU member states



Source: European Commission 2015 State Aid Scoreboard: [http://ec.europa.eu/competition/state\\_aid/scoreboard/index\\_en.html](http://ec.europa.eu/competition/state_aid/scoreboard/index_en.html)

**Figure 2**

State Aid in EU - Share of Aid Instruments used in % of total (2014)



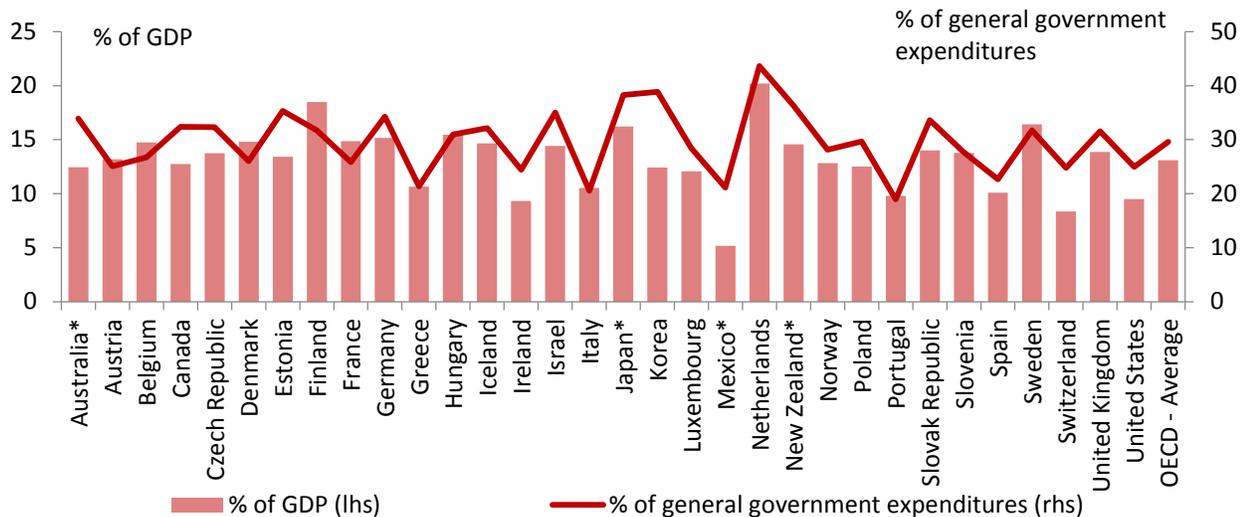
Source: European Commission 2015 State Aid Scoreboard: [http://ec.europa.eu/competition/state\\_aid/scoreboard/index\\_en.html](http://ec.europa.eu/competition/state_aid/scoreboard/index_en.html)

**Public Procurement (OECD countries)**

Contrary to State Aid, the share of Public Procurement in the EU / OECD countries is rather high and amounts to some 25% of general government expenditures or 13.1% of GDP (OECD average), with a maximum of 40% / 20%, respectively, in the Netherlands. (Fig. 3) (For a definition of the Share of Public Procurement of GDP, and general government expenditure, please refer to Annex 2)

**Figure 3**

Public Procurement as % of GDP (2014), OECD countries



Note. \* data for 2013. Data for Turkey is not available.

Source: OECD Government at a glance 2015: <http://stats.oecd.org/Index.aspx?QueryId=66887#>

### State Aid in Belarus

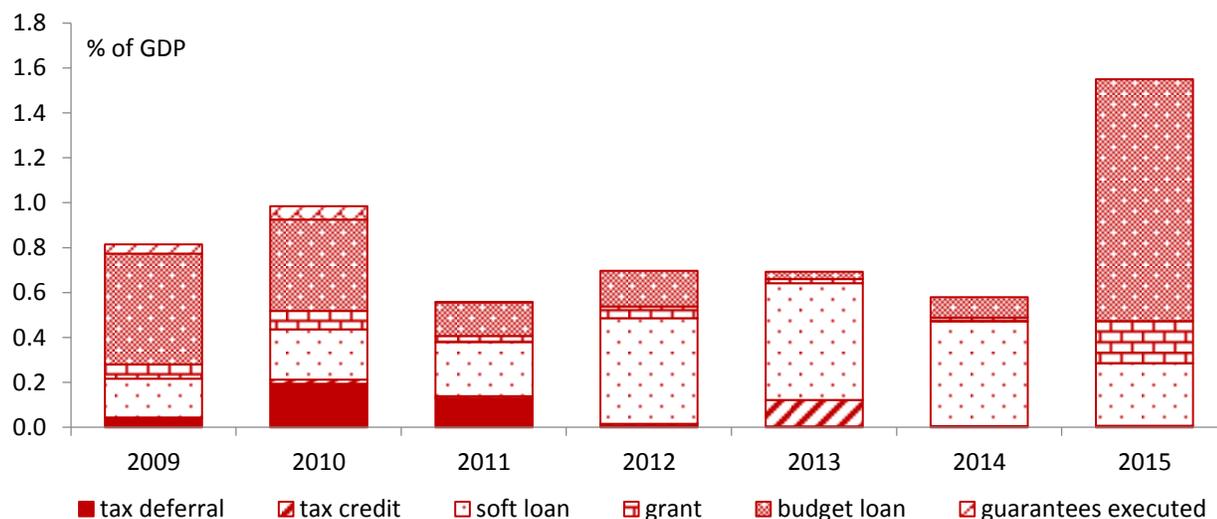
In Belarus, the real sector of the economy benefits from a wide range of state subsidies and directed lending which is provided to selected enterprises and, therefore, distorts competition. Statistics on the total volume of this support is not available. One needs to rely on proxy data to illustrate the scale and structure of the state aid in Belarus. The Ministry of Finance publishes data on state support provided by central government budget to legal entities.<sup>7</sup> It constituted 8.9% of total central government spending in 2015 or 1.6% of GDP. This share grew significantly compared to the previous years (3.7% of central government expenditures and 0.6% of GDP in 2014), which is attributed to the deepened economic crisis and related direct fiscal support to the real sector. In particular, budget loans provided to industrial producers have increased in 2015. (Fig. 4)

The volume of state support to legal entities by central government budget as reported by the Ministry of Finance does not comprise all state aid. In particular, this data does not include expenditures related to tax exemptions and the volume of provided state guarantees. Government issued bonds to increase bank capitalisation are recorded as domestic deficit financing and not included in the MoF data on state support by central government budget to legal entities.

<sup>7</sup> Information about the size of state support to legal entities („Сведения о размерах государственной поддержки, оказанной юридическим лицам“) [http://www.minfin.gov.by/ru/budget\\_execution/info\\_state\\_support/](http://www.minfin.gov.by/ru/budget_execution/info_state_support/)

**Figure 4**

Central Government-financed State Support to legal entities (2009 – 2015), in % of GDP



Note: 'Soft loan' denotes compensation of the interest rates on commercial loans.

Data on tax credit (another form of tax deferral) is provided for 2009 – 2013, and on guarantees executed for 2009–2011

Source: MoF, [http://www.minfin.gov.by/ru/budget\\_execution/info\\_state\\_support/](http://www.minfin.gov.by/ru/budget_execution/info_state_support/)

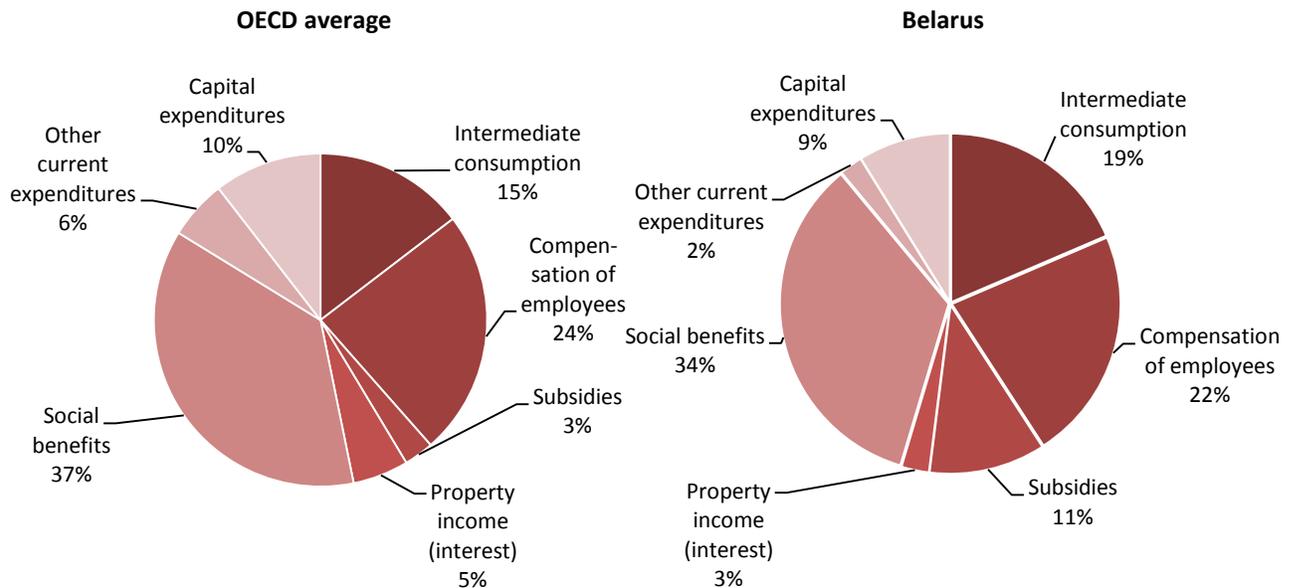
State Aid in Belarus is also different from OECD countries when the instruments for the provision of State Aid are analysed. In OECD countries grants play a dominant role. (Fig. 2) The combination of instruments applied in Belarus shows remarkable changes in every year. If there is a dominating instrument then is the compensation of interest rates on commercial loans ('soft loans' in Fig. 4)

The use of State Aid in Belarus can also be estimated with the help of data on general government expenditures by economic classification.<sup>8</sup> Here, Belarus shows a much higher share of subsidies compared to OECD countries. In 2014, subsidies accounted for 11.1% of general government expenditures in Belarus, while the OECD average rate was 2.9%. (Fig. 5)

<sup>8</sup> Economic classification of expense, according to the Government Finance Statistics (GFS) Manual by the IMF

**Figure 5**

Structure of general government expenditures (2014)



Source: Ministry of Finance, Government financial statistics <http://www.minfin.gov.by/ru/gfs/f80ad5490c7ea984.html>, OECD Government at glance, 2015

### Public Procurement in Belarus

Statistical data comparable to the OECD data on the size of public procurement is also not easily available in Belarus. They can be roughly estimated based on National Accounts data. The State Statistics Committee reports government intermediate consumption and gross fixed capital formation. Together, these amounted to 6.5% of GDP in 2014. For a comparison with OECD data, social transfers in kind via market producers needs to be added. No comparable data for Belarus is available; Belarusian statistics report only a total volume of social transfers in kind. The volume of these transfers in Belarus amounted to 9.8% of GDP in 2014. Contrary to OECD countries, it must be assumed that a large share of purchases by general government of goods and services which are then supplied to households (“in-kind social transfers”) are *not* obtained from market producers (as in EU / OECD countries), but instead are bought from public entities (e.g., healthcare facilities, public utilities providers, etc.) Based on this analysis we assume that the share of public procurement in Belarus is substantially below the share of public procurement in OECD economies.

**Figure 6**

Illustration of Public Procurement data availability in OECD and Belarus

Item		OECD	Belarus
Public Procurement (% GDP) <sup>9</sup>		12.1% (average) 44.4% (max. – NL) 16.3% (min. – GRE) 29.7% (RUS)	no comparable data available
OECD data on public procurement (% of GDP)	<b>INCLUDES:</b> Intermediate consumption and gross fixed capital formation Social transfers in kind <i>via market producers</i>	- -	6.5% GDP A fraction of the 9.8% GDP which represent <i>TOTAL</i> social transfers in kind

*Source: own presentation***Public Private Partnerships**

In addition to Public Procurement and State Aid, Public Private Partnerships are a third form of government contracting with the real economy. Since 01 January 2016, the Law “On Public Private Partnership in the Republic of Belarus” is in force. This law aims at facilitating the private sector development through formation of additional legal provisions focusing on protection of private investments, improvement of the role of the private sector in rendering public services, and mobilisation of additional extra budgetary resources to develop the infrastructure. A closer analysis of the potential and current practice in this area in Belarus exceeds the scope of this paper and may be subject of a separate research and analysis.

**Conclusion**

The methods applied to deliver public services and to achieve results of State Programs show substantial differences between Belarus and EU / OECD economies. The comparison of public procurement vs State Aid data of Belarus and EU / OECD economies shows that Belarus relies to a much larger share on a state-controlled and -supported sector of the economy to deliver on political objectives. **In the EU / OECD economies government acts more as a purchaser, rather than as a producer of services, goods and works which are then provided to the population as public services.**

The comparison of the share of public procurement versus State Aid in Belarus and EU / OECD countries shows that in Belarus there is significant potential to increase the number of government contracts awarded as a result of public procurement. It is assumed that public procurement will be done using competitive

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<sup>9</sup> See Annex 2 for a definition

procedures.<sup>10</sup> A higher number of competitive procedures can be expected to bring down unit costs of government-purchased services, goods, and works - provided the tender procedures are truly competitive and allow for several bidders from State-Owned and private sector to compete. In addition to an expected increase in efficiency of delivery, an increase in competitive procedures can be expected to result in more favourable conditions for the economy as a result of a larger market volume where government acts as an additional purchaser. The potential of increasing efficiency of public spending and stimulating the economy by reducing State Aid in favour of more public procurement in Belarus is offset by the considerable contribution which the SOE provide to social security.

The new legal framework for the State Programs offers the potential for improved efficiency of public expenditure as it

- Requires competitive award of State Aid,
- Does not discriminate private sector companies as recipients of State Aid,
- Aims to direct State Aid for appropriate purposes (innovations, increasing cost-efficiency, stimulating export)

In reality, however, the subsequent steps and legal documents contradict the initially worthwhile intentions. Specifically,

- The State Programs in many cases stipulate that SOE have to be entrusted with the implementation of the State Programs (for example, State Program on Digital Economy,...)
- Several State programs in their very design do not respond to the objectives to promote innovations, increasing cost-efficiency, stimulating export (for example, State Program on Agriculture)

### **3.2 Analysis of target indicators of State Programs**

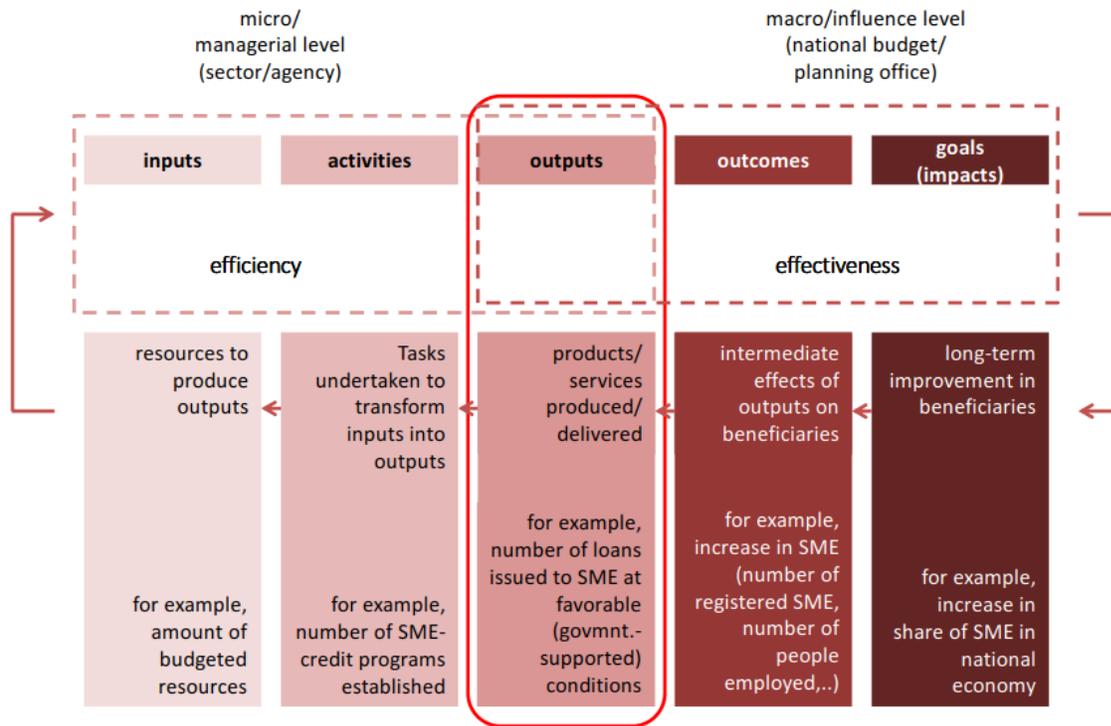
Our analysis of some of the State Programs (Table 1) shows that the target indicators which are developed for every Program are of very diverging quality. Whilst some of them provide useful guidance for the *implementation* of the State Programs, others are rather good for *assessing the broader objectives* of the State Program. In other words, some State Programs comprise 'output indicators', whilst other Programs comprise 'outcome' or even 'impact indicators'. **Output** indicators describe a parameter for which a direct correlation between activities and the immediate result of these activities results (= outputs) can be established. **Outcome** indicators denote a parameter which depends on a number of outputs (results of individual activities) and also on a number of external factors which can normally not be influenced by the intervention (State Program). **Impact** indicators are then used to describe the macro-dimension of a policy or development objective. For impact indicators to be achieved, a number of outcomes need to be matched by a number of assumptions concerning the external environment of the program intervention. Figure 7 illustrates the relations between Inputs - Activities - Outputs - Outcomes and Impact.

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<sup>10</sup> There is room for improvement. Recent reports by government officials (Minister of Interior, March 2016) suggest that 90% of public procurement in BY are carried out as single source procurements  
<http://www.belta.by/society/view/shunevich-okolo-90-goszakupok-provodjatsja-v-belarusi-na-nekonkurentnoj-osnove-183641-2016/>

**Figure 7**

Performance Indicators and the Results Chain



Source: adapted from *The World Bank Poverty Reduction and Economic Management (PREM) Notes "Defining and Using Performance Indicators and Targets in Government M&E Systems"* July 2011

The State Programs which we have analysed lack this coherence in the formulation of the target indicators. This shortcoming bears the risk that the results of the State Programs will be of uneven quality, and that the potential which the State Programs are expected to have for enhancing efficiency of public expenditure and for promoting innovation, remains under-utilised.

**Table 1**

Analysis of selected State Program's Target Indicators

No. and Name of the State Program (shortened)	Target Indicators (selected indicators)	Comment
2 / SME	1. Value added by SME as share of Value added, total [broken down by -Belarus, total; and -individual oblast]; measured in: per cent	These are <b>impact</b> indicators. The achievements of these indicators does not depend on individual activities (resulting in outputs), nor on a combination of activities (outputs) and a few external factors. To achieve indicators like a growing share of SME in the economy of a country / individual oblast, the economic climate of the country needs to develop in all its aspects, including the legal-administrative framework; overall economic situation, and also including education/training/information about opportunities for SME. Not all of these parameters can be addressed by a State Program - and only few of them are addressed by the specific State Program 2016 - 2020
	3. Number of registered SME per 1000 people employed; measured in: units	
	5. Share of revenue generated by SME in revenue, total; measured in: per cent	
	6. Number of SME support centres; and	
11 / Roads	7. Number of small business incubators, both measured in: units	These are <b>output</b> indicators which contribute to the impact indicators which are also part of this State Program (see above)
	1. Improvement of the condition of roads, measured in length of road network in need of repair (km)	These are <b>output</b> indicators, for which a direct correlation between activities (construction / repair works) and results (outputs) can be established
2. Improvement of the quality of roads, measured in length of road network which allows for higher velocity of driving (km)		
15 / Digital Economy	1. Share of households with access to the internet, measured in per cent	These are <b>output</b> indicators, for which a direct correlation between activities (provision of technical infrastructure) and results (outputs) can be established. Some additional factors (e.g., tariff for internet connections) also need to be taken into account, but these are not understood to be the major limiting factor.
	2. Number of internet-users, measured in individuals per 100 capita	
	4. Number of users of fixed-line and mobile internet-connections, measured in individuals per 100 capita	
15 / Digital Economy Sub-programme 3 "Digital transformation"	8. Share of schools covered by the project "electronic school", measured in per cent of total schools Responsible Government Agency: Ministry of Education	These are still <b>output</b> indicators, but the achievement of these indicators already requires coordination of several activities which require the involvement of several Government Agencies.
	9. Share of doctors in public healthcare organisations which can issue electronic (paperless) prescriptions, measured in: per cent of total doctors; Responsible Government Agency: Ministry of Public Health	
18 / Transport	Increase in goods, resp. passenger-transport, measured in per cent, compared to 2015	This is another <b>outcome</b> indicator. The achievement of this depends on demand at least as much as on investment in infrastructure.
19 / Agribusiness	1. Productivity of labour in agriculture	These are <b>outcome</b> indicators. Their achievement depends on a number of outputs (results of individual activities) and also on a number of external factors which can hardly be influenced by a State Program (e.g., export growth depends on
	2. Growth rate of export of agri- and food products, Both measured in: Per cent to previous year	

5. Growth rates of sale of high-productive seeds, and similar growth rates for different sectors of agriculture, each measured in per cent growth, relative to 2015	international markets)
8. Produce of fish harvested, measured in tons	This may be an output indicator, depending on the complexity and dependence on other factors of fish production. The critical issue with this indicator (and actually, with the entire State Program to support the Agri-Business) is that the indicators determine annual figures which repeat infinitely. The purpose of the State programs, however, is to support innovation, cost reduction, or to purchase equipment etc. All these measures are limited in their implementation period. Increasing amounts of agri-produce is not limited to a period of a few years 2016 - 2020.

Source: own compilation

The State Programs which have been analysed for this paper all contain target indicators which are broken down into annual (intermediate) targets. The target indicators are also developed individually for all budget organizations (involved Ministries, SOE). This detailed break-down helps the implementation of the Programs.

The State Programs do also contain detailed instructions how the *effectiveness of their implementation* will be assessed. This includes an evaluation of the cost-effectiveness of the implementation of the program which rewards results achieved with less than the funding planned. To make this assessment of effectiveness truly meaningful it needs to be accompanied with incentive mechanisms for the respective managers in charge. Budget organisations must be allowed to use the funds which have been saved to provide more services, or to provide for additional needs which were not initially granted financing. Cost-efficient implementation resulting in funds not utilised must not lead to those managers be punished for under-utilising their budgets.

### 3.3 Recommendations

In order to unleash the potential which a competitive approach to public service provision has, the government is advised to:

- Formulate **objectives and indicators of individual activities to implement State Programs in such a way that competitive procedures can be applied**. Reduce the role of government as a producer of services and increase the share of services, goods, and works delivered by the market.
- Refer to the **principles and corresponding legislation for Public Procurement for the development of competitive procedures** to allocate the State Aid. Public Procurement is used in Belarus and corresponding tender procedures are well known. This experience shall be used to develop and apply competitive procedures for the allocation of State Aid. From a procedural and regulatory viewpoint both forms are ‘public contracts’ and principles like equal treatment, transparency, non-discrimination apply universally. Government Resolution #347 of 29 April 2016 provides for these principles to be applied to the competitive award of budget subsidies for the purchase of equipment.

For some State Programs the Target Indicators have been developed in such a way that they can help managers to implement appropriate measures to achieve the expected outputs. Where the definition of these outputs is,

however, not leading to outcomes and impacts, the overall effectiveness of the State Program is at risk. For instance, the case of the State Program to support the digital economy the indicators are quite useful to take investment decisions; in cases like the SME program the indicators are not good to decide where to spend the allocated funds. In such cases, **additional indicators (defining outputs) which are expected to lead to the impact indicators are needed**. In other cases, the reason for unavailing indicators seems to be in the programs themselves. For example, the support for agri-business does not appear to be requiring a State Program - which, it shall be reminded, is aimed at fostering innovation, cost-reduction or export-promotion of the benefiting industries.

The incoherency of the target indicators leads to suggest that the process of **developing the State Programs requires an improved methodology and more capacities** amongst the responsible officials in the Ministries. The approach to this process needs to respect the logical framework which begins with strategic programming, followed by a breakdown of the policy objectives to individual State Programs which are then broken down into activities.

To additionally improve the quality of the Program, a **public / expert discussion of draft indicators before they are being adopted** as legal document is strongly recommended.

Finally - and contrary to the current practice where indicators are being defined for all five years of the State Program implementation - **indicators need to be developed on a rolling basis**, taking into account the results of the recent implementation period. To this end, objective and transparent data collection is paramount.

## 4 Recommendations for the implementation of the State Programs

A summary of the above analysis of the *design* of the State Programs shows:

Decree #106, and the 19 State Programs developed to apply the provisions of this Decree are expected to provide for a fundamental change in the interaction between government and the economy, and to make State Aid more efficient. It misses out on these expectations, for a number of reasons:

1. State Programs do not eliminate the preferential treatment which SOE receive with regard to access to State Aid. Despite the absence of preferential treatment provisions in the legislation the programs in many cases identify SOE as implementing agencies. This prevents private companies from access to government contracts to implement the State Programs.
2. There is not yet a provision for “competitive procedure” to award State Aid in the form of loans. Other than the provision of budget financing for the purchase of equipment and spare parts which is regulated by Resolution 347 the award of loans through the Development Bank is not supported by rules, procedures, and institutional set-up in practice
3. Control and oversight institutions are not adequately described. Requirements for transparency and accountability are not sufficiently developed. The new approach requires a ‘paradigm shift’ for the whole system of interaction state - economy. Introducing only a requirement for competition at the point of allocating public funds is a first step - but not more.

In this chapter we propose some measures and instruments to improve the *implementation* of the State Programs. We argue that State Programs shall serve as mechanisms to promote innovation and cost efficiency, and to foster overall economic development by encouraging a fair and transparent business climate for private and state-owned enterprises.

The recommendations for the implementation of the State Programs address the following aspects:

- Implementing a competitive procedure by assessing the economic viability of individual measures to implement State Programs (Chapter 4.1.);
- Improving the competitive procedure by using the potential which the state as the buyer has to promote specific objectives through public investments (Chapter 4.2.);
- Safeguarding effectiveness and efficiency through transparency, accountability, and control (Chapter 4.3.).

The recommendations are addressed to

- The Development Bank of Belarus which will implement the competitive procedure to award State Aid in form of loans, subsidies, guarantees,
- The line ministries and other agencies which will implement the competitive procedures to award budget funds for the purchase of equipment,
- The Commission to coordinate state programs, headed by the Ministry of Economy,
- Supervising government bodies (Cabinet of Ministers, Presidential Administration, Ministry of Economy and Ministry of Finance)

#### 4.1 Economic viability of measures to implement State Programs

In order to avoid misallocation of public investments, the competitive allocation of state support shall be made with an economic and financial analysis, independent of political influence, at its core.

##### Methodology for economic and financial analysis

In case of Programs *with tangible outcomes* cost-benefit analysis shall be applied. Tangible outcomes include products which can be valued in monetary terms, like industrial or power development projects, agricultural or tourist subsectors; or products whose benefits can be easily valued, like road infrastructure, or professional training. The methodology for this analysis has been developed by international financial organizations. At its core is a financial and an economic analysis of the project and a risk assessment. The key indicators within cost-benefit analysis are the Net Present Value (NPV) and the Internal Rate of Return (IRR).<sup>11</sup>

In the *financial analysis*, the financial net present value and rate of return are calculated based on expected financial flows of the organizations implementing the project and compared to the no-project situation. Comparison of the financial rate of return with the financial discount rate or a benchmark rate reveals the extent at which the project needs financial support and its financial sustainability. The European Commission stresses that this exercise is particularly useful in the context of State Aid as it allows for a selection of projects with the best value for money, thereby improving the efficiency of public expenditures.<sup>12</sup>

*Economic analysis* aims at analyzing flows that the project generates in the whole economy. Therefore, it is based on shadow prices in order to account for social costs and transfers, takes into account generated taxes, externalities and applies a social discount rate that reflects the opportunity cost of capital from a perspective for society as a whole. Projects with negative economic present value and economic rate of return below social discounting rate should not be supported.

Most projects which are supported with public funds will, however, produce *non-tangible outcomes*, i.e., products which cannot be accurately valued in monetary terms without complex research. Examples are: projects dealing with health, education, urban development (e.g., sewerage), social services, institutional reform or environmental conservation. In the case of state programs with non-tangible outcomes following methods of investment analysis are applicable:

- Cost-effectiveness analysis. In case outcome of the program can be quantified only in physical volume (e.g. infrastructure projects like road construction), its efficiency is analyzed through the expenditures

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<sup>11</sup> **Financial analysis** aims at assessing effects that a program has on separate entities involved in its realization. It implies comparison of financial costs and benefits that occur in the period of program implementation, estimation of internal rate of return, and application of other standard financial analysis. **Economic analysis** aims at estimating effect of the state program on the society, i.e. change in value added resulted from the program realization.

**Net Present Value** is the sum of discounted flows throughout the life span of the project: the sum of gross annual discounted benefits less the sum of annual discounted costs. **Internal Rate of Return** is a measure of the "return" on the capital invested, or the rate which reduces the net present value to zero.

<sup>12</sup> European Commission (2014). *Guide to Cost-Benefit Analysis of Investment Projects. Economic appraisal tool for Cohesion Policy 2014-2020*, Directorate-General for Regional and Urban policy.

per item. The choice of the project can be done through the cost comparison between the project alternatives (i.e. the least costly project is implemented) or with the benchmark and willingness to pay threshold.

- Cost-utilities analysis. It is similar to the cost-effectiveness analysis. It is applied to the projects with non-tangible outcomes (in particular, in healthcare projects, aimed at healthy life expectancy increase). Investment decisions are taken based on comparison of the marginal costs of reaching a similar increase in qualitative indicator within alternative projects or comparison of the marginal costs with the marginal utility, associated with the indicator increase.
- Impact assessment analysis. This type of analysis is utilized when projects address inequality issues or have significant redistribution effect at the level of economy or a sector. This analysis is done based on general or partially equilibrium models and aims at assessing changes in the financial stance of the target groups.

### **Independence of political influence**

For a truly objective assessment of measures proposed for State Program financing it is important **to separate the institutions** which are responsible for the design of the technical specifications for the assessment and the selection and evaluation of proposed measures from the government agency which bears overall responsibility for the implementation of the respective State Program. The legislation provides for this separation by mandating the Development Bank with the evaluation and award function. This needs to be credibly implemented in practice. There are at least two reasons to recommend the greatest possible separation of these functions: on the one hand, the source of financing (usually, a Ministry) and the 'default implementing agency' (until now, in many cases a SOE) will immediately face a conflict of interest in case a competitive procedure is applied to decide over the award of funds and contracts. In the majority of cases, SOE are overseen and coordinated by the respective Ministry. In such cases, a truly objective assessment of proposals by that SOE cannot be guaranteed if the Ministry has a vote in deciding over the award of the financing. On the other hand it must be assumed that the technical expertise to develop technical specifications is not available to a sufficient extent in the Ministries. To draft technical specifications for competitive procedures which aim at selecting cost-efficient solutions and to promote innovation, consultations with representatives of the business community are necessary. To guarantee an objective selection procedure, the specialists involved need to possess the technical skills and need to be free from conflict of interest. Such individuals need to be hired from independent audit firms, professional bodies and expert community (Chambers of Commerce, Civil Society, international organisations). In addition to a clear separation of selection and implementation, it will be important to introduce a credible and independent dispute resolution mechanism.

### **Challenges**

The availability of well-developed methodologies of public investment project analysis does not automatically guarantee efficiency of state development programs. For a competitive procedure to be applied, good-quality project proposals are needed. Here, problems can be expected. Prime Minister Kobyakov in a recent interview

acknowledged a shortage of commercially viable project proposals and ideas which could be proposed for financing by international lenders.<sup>13</sup> The same strict criteria shall now be applied to financing from domestic public funds in order to stimulate the development of truly good projects. The competitive approach to awarding State Aid must not be discredited by any pressures to utilize budget resources for the sake of merely implementing a budget plan.

The greatest challenge for a competitive approach, however, remains to be in the high importance which SOE (and the State Programs which used to support them) have for social policy goals. For instance, agriculture development programs may be partly designed to support rural area population, where employment opportunities are limited. It may also have some cultural aspect, if supported activities are viewed as those representing cultural heritage (e.g. flax production). State support to loss-making enterprises can be justified if social costs of their bankruptcy related to long-term unemployment increase are higher than public expenditures on their support. For a more detailed discussion of this aspect, please refer to Policy Paper PP/03/2014 “Improving the Management of State-Owned Enterprises in Belarus” which proposes a decision tree for support of financially non-viable SOE.

#### ***4.2 Using the potential which government as buyer has to promote specific objectives***

Decisions where to invest public money in many cases do not only depend on immediate economic and financial viability and effectiveness. Public funds can be invested with a view to promote domestic producers or SME, to stimulate the use of certain technologies (e.g., ‘green technologies’, new and innovative technologies), or to achieve additional (often: social) effects like the employment of certain social groups at the companies concluding contracts with the government.

The State Programs formulate the objective to promote innovation and cost-reduction. Increase in market-share of, and employment in SME is the objective of an individual State Program. The social importance of the SOE in Belarus is a well-known factor. These and other aspects justify the application of other, non-economic, criteria in addition to the financial and economic analysis when awarding funds from the State Programs.

#### **Arguments ‘pro’ a consideration of additional criteria**

The new EU Procurement Directives of 2014 clearly allow for common societal goals be considered and promoted in public procurement. These goals include environmental protection, social responsibility, innovation, combating climate change, employment, public health and other social and environmental considerations.

Box 1 illustrates some examples of how these “common societal goals” can be supported through the EU Procurement Directives. A more detailed case study of Ireland’s model of promoting innovation in public procurement (“buying innovation”) is given in Annex 3.

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<sup>13</sup> Kobayakov: international credits lines will be attracted to finance viable projects (April 2016): <http://m.belta.by/economics/view/kobjakov-inostrannye-kreditnye-linii-budut-privlekatsja-pod-okupaemye-proekty-190909-2016>

## Box 1 Examples for promotion of innovation, environmental and social standards, and SME in Public Procurement in the EU

**Innovation** partnerships: Where a contracting authority wishes to purchase goods or services, which are not currently available on the market, it may establish an **innovation partnership** with one or more partners. This allows for the research and development (R&D), piloting and subsequent purchase of a new product, service or work, by establishing a structured partnership. The procedure for establishing an innovation partnership is set out in Article 31 of Directive 2014/24/EU.

**Environmental, social, or other standards:** Where contracting authorities intend to purchase works, supplies or services with specific environmental, social or other characteristics they may require a **specific label** as means of proof that the works, services or supplies correspond to the required environmental, social or other characteristics (Art. 43 of Directive 2014/24/EU)

Promoting **SME:** Contracting authorities are encouraged to apply best practices as set out in the ‘European Code of Best Practices Facilitating Access by SMEs to Public Procurement Contracts’ of 2008. Contracting authorities should in particular be encouraged to **divide large contracts into lots**. Such division could be done on a quantitative basis, making the size of the individual contracts better correspond to the capacity of SMEs, or on a qualitative basis, in accordance with the different trades and specialisations involved, to adapt the content of the individual contracts more closely to the specialised sectors of SMEs or in accordance with different subsequent project phases.<sup>14</sup>

Source: [http://ec.europa.eu/environment/gpp/eu\\_public\\_directives\\_en.htm](http://ec.europa.eu/environment/gpp/eu_public_directives_en.htm)

### Arguments ‘contra’ a consideration of additional criteria

At the same time, it is important to limit market distortions as an effect of such additional preferences for public contracting. The social functions which the SOE deliver in Belarus must not be (ab)used to provide them with unlimited preferences over competitors from the private sector. It needs to be noticed that the above quoted EU practice to promote additional, societal goal applies to public procurement which assumes a more level playing field than the Belarusian economy where SOE dominate in many sectors over the private sector.

To establish a level playing field between SOE and private business the OECD suggests a wide range of parameters to be taken into account.<sup>15</sup> These parameters include, inter alia, non-discriminative treatment of SOE and private companies by regulatory and tax authorities; comparable prices for social obligations (e.g., pension liabilities) and utilities. In the case of State Programs in Belarus and the decision-making process where to allocate funds of the Programs, it is therefore of crucial importance that any social and other criteria be clearly and openly communicated and be formulated in such a way that private companies have a fair chance to meet these additional requirements.

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<sup>14</sup> Belarus’ legislation provides for comparable schemes (Art 31 of the Public Procurement Law)

<sup>15</sup> Competitive Neutrality - Maintaining a Level Playing Field between Public and Private Business, and Competitive Neutrality - National Practices, OECD, 2012

## **Using synergies which are resulting from overlapping objectives of State Programs**

Several State Programs formulate objectives which can actually be achieved by an intelligent implementation of other State Programs. Specifically, any efforts to reach the objective to support the SME sector in Belarus will benefit from a mandatory requirement to award a certain share of contracts for State Program implementation to SME - rather than by spending public funds on a stand-alone State Program to support SME which does not adequately respond to the needs of the SME sector. For more detail, refer to GET Belarus PP/02/2016 “Improving the integration of financial and nonfinancial SME support in Belarus”.

In order to identify and to use such synergies, the development of the Programs, as well as that of individual competitive procedures needs to be coordinated at an early stage by the Commission for State Programs.<sup>16</sup> The Commission is advised to create a sub-unit to remain operational for this purpose, and this must be made highly efficient to avoid another level of bureaucracy be involved.

### **4.3 Transparency and accountability**

The legal framework comprises some references to transparency of the competitive procedures, and to publication of the annual evaluation of the performance of the State Program’s implementation. These references do, however, not stipulate much detail.

In GET Belarus PP/01/2015 “The role of fiscal transparency in raising the efficiency of public expenditure” we have argued that transparency, accountability and control contribute to increased efficiency of public expenditure, and which measures can be taken to this end in Belarus. The same provisions apply to the specific case of the State Programs. Specifically, it will be of crucial importance to improve the coverage of off-budget activities and State Aid (in all forms) in the statistics and reports of public finance. Another recommendation made in PP/01/2015 which also applies to the State Programs is to strengthen the role of the State Control Committee (SCC) in audit and control of State Programs.

### **Improving the financial viability of the service provider by applying international standards for SOE financial reporting**

In addition to an assessment of the proposed measures according to economic, financial, and also other criteria a public tender can require bidders to comply with certain standards. Such eligibility requirements can be used to require SOE to apply reporting and audit standards which live up to best international practice. The Belarusian Public Procurement Legislation provides for eligibility criteria to include such requirements for public procurement tenders. It is recommended that this provision would also apply to the award of State Aid to SOE or private companies. Recent improvements to the legislation which require some companies and banks to apply International Financial Reporting Standards (IFRS) are acknowledged,<sup>17</sup> and shall be expanded to cover

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<sup>16</sup> Composition of the Commission for State Programs, Annex 1 to Executive Order of the Prime Minister #375 of 06 November 2015

<sup>17</sup> Law #57-Z of 12 July 2013 “On Accounting and Reporting” and Law #56-Z of 12 July 2013 “On Audit Activity” require open joint-stock companies, which are founders of unitary enterprises and/or main companies in relation to subsidiary companies, and insurance organisations; and banks, non-bank credit and financial organisations to prepare their reports based on the IFRS and subject those to external audit:

all enterprises implementing public contracts. Requirements to present independent audit reports are in line with OECD standards (see Box 2 below). Other possible eligibility criteria could limit the award of public contracts only to those companies which are financially viable. A direct effect of such eligibility criteria is a reduced risk for the public budget to have to bail out, subsidise or otherwise support the contractor company. An indirect effect of this is that all companies wishing to apply for such public contracts need to improve their financial position and their audit and control systems to modern standards.

### **Box 2 OECD Standards for financial reporting and audit for State-Owned Enterprises**

SOEs should report material financial and non-financial information on the enterprise in line with high quality internationally recognised standards of corporate disclosure, and including areas of significant concern for the state as an owner and the general public. This includes in particular SOE activities that are carried out in the public interest. With due regard to enterprise capacity and size, examples of such information include: ..... 7. Any financial assistance, including guarantees, received from the state and commitments made on behalf of the SOE, including contractual commitments and liabilities arising from public-private partnerships; 8. Any material transactions with the state and other related entities; ...

SOEs' annual financial statements should be subject to an independent external audit based on high-quality standards. Specific state control procedures do not substitute for an independent external audit.

The ownership entity should develop consistent reporting on SOEs and publish annually an aggregate report on SOEs. Good practice calls for the use of web-based communications to facilitate access by the general public.

*Source: OECD Guidelines on Corporate Governance of State-Owned Enterprises 2015 EDITION  
<http://www.oecd.org/daf/ca/OECD-Guidelines-Corporate-Governance-SOEs-2015.pdf>*

### **Improve quality of data published about the public contract**

Every State Program comprises a methodology for the evaluation of their effectiveness and efficiency. The calculation of these parameters requires the availability of data on output/outcome indicators and financing. Strengths and weaknesses of these indicators have been discussed in Chapter 4. Decree #106 stresses the principles of transparency of the competitive procedures and related information. These requirements, and the observed shortcomings in the availability of reliable and comprehensive data in the past lead to suggest that the quality of data, and the public access to information about the implementation of State Programs need to be substantially improved.

There are ample “best practices” available to inform Belarusian authorities about the type, and the format of data to be made publicly available.

#### ***Which data to publish***

Data shall be made available in aggregated form and ideally comparable to OECD / GFS standards to allow for better comparability. In addition to aggregated data which is more important for an ex-post analysis and to inform future policy making (e.g., design of State Programs in years to come) it is also recommended to make data available for every contract. Only this will allow to identify the individual cases of in-efficient use of public funding. The European Commission's online register of state aid cases contain details on all State Aid awards

which were authorised by the Commission. These can be searched by selecting from a range of search criteria such as Member State, case title, primary objective, economic sector, date of decision, type of decision, and aid instrument. The database is updated daily.<sup>18</sup>

### ***How to publish***

Data shall be made available in a format which allows for unrestricted, user-friendly access to data in electronic format. The “Five Stars of Linked Open Data approach” outlines key principles and a medium-term policy objective for creating public access to information. The “Five Stars” approach has been adopted by the Open Contracting Partnership, a global network promoting open data in public contracting worldwide. The Open Contracting Partnership is supported by the World Bank.

### **Box 3 Five Stars of Linked Open Data approach**

☆ **Upload basic open contracting information to the web:** Take information on contracting processes in whatever format it is currently available, and make sure it is available to citizens on the Web.

☆☆ **Provide machine-readable data about contracts:** Provide machine-readable datasets that contain key information recommended in the Open Contracting Data Standard. An example of publication at this level would involve providing a downloadable CSV file of contract information extracted from an existing database.

☆☆☆ **Provide structured data using open standards:** Providing structured data allows users to perform basic analysis (but still requires a large degree of manual work to search, analyse and compare data).

☆☆☆☆ **Use best practices for data on the web:** Provide feeds that detail recently changed information, and that allow users to search for specific kinds of tenders, awards or contracts (for example, by the classification of goods and services being procured).

☆☆☆☆☆ **Make links to other datasets:** This will allow users to follow the links to discover more about the context of the contracting processes they are exploring, and will allow big-data analysis linking in these different datasets. For example, following links to a company register to discover whether a company awarded a contract has been dissolved or following links to budget and spending information. An example of publication at this level would involve including organization URIs to point to company registers, budget URIs to point to budget lines, and spending URIs to point to spending information (i.e. using web links to identify things, with those web links returning data on the things identified).

Source: *Open Contracting Partnership* <http://standard.open-contracting.org>

## **4.4 Recommendations (summary)**

This is a summary of the recommendations for the implementation of the State Programs as developed in the previous chapters:

We recommend to implementing the competitive procedure by assessing the economic viability of individual measures to implement State Programs. This shall include:

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<sup>18</sup> European Commission Database State Aid Cases: [http://ec.europa.eu/competition/state\\_aid/register/index.html](http://ec.europa.eu/competition/state_aid/register/index.html)

- To apply cost-benefit analysis (for projects with tangible outcomes);
- To apply other forms (Cost-effectiveness analysis / Cost-utilities analysis / Impact assessment analysis) for project with non-tangible outcomes;
- To strictly separate the institutions which are responsible for the selection and evaluation of proposed measures from the government agency which bears overall responsibility for the implementation of the respective State Program;
- And to involve external specialists to develop selection criteria, and to evaluate proposals.

To improve the competitive procedure by using the potential which the state as the buyer has to promote specific objectives through public investments we conclude that:

- Whilst it is perfectly justified to promote domestic producers or SME, to stimulate the use of certain technologies (e.g., innovative technologies), or to promote social effects, including those delivered by SOE,
- a level playing field between SOE and private companies needs to be established. This can be achieved by way of clearly and openly communicating any social and other criteria and by formulating them in such a way that private companies have a fair chance to meet these additional requirements.
- Also, synergies from overlapping objectives of State Programs shall be explored and utilised.

With the aim to enhance effectiveness and efficiency of State Programs through transparency, accountability, and control we recommend:

- To require SOE to apply reporting and audit standards which live up to best international practice (IFRS);
- To award public contracts only to companies which are financially viable;
- To publish data about public contracts (state aid, public procurement) in aggregated form and for each individual case and to allow for public access to this data in electronic, user-friendly, machine readable format.

## 5 ANNEX

### 5.1 Annex 1: Other Policy Papers by GET Belarus on topics closely related to this Policy Paper

**Policy Paper PP/03/2014 “Improving the Management of State-Owned Enterprises in Belarus”** analyses the different forms of public sector support for SOE in Belarus and discusses the efficiency of this support. The Paper recommends changing the criteria for SOE support from a focus on export performance in favour of a broader, more differentiated approach for which the Paper proposes a corresponding decision tree. Such an approach begins with a clear separation of functions and their individual assessment. The Paper recognises that the state as a shareholder is not identical to a private one and needs to apply a more holistic view. Beyond pure profitability motives, all effects on society (positive as well as negative) have to be taken into account, including spill-overs (e.g. research and development, infrastructure) and other externalities. Where the overall assessment of an SOE’s activity delivers a positive result, it should be continued. Where marketable activities are concerned, privatization should be considered. Where the result is negative, restructuring and reforming the business has to be considered carefully. For activities that are likely to be a continuous drag on economic and social performance over the long run, an exit strategy should be devised. In such cases, an active industrial policy should work hand-in-hand with such an exit strategy, helping to attract private investments, foreign as well as domestic, in the regions affected, in order to cushion any temporary negative effects.

In **Policy Paper PP/01/2015 “The role of fiscal transparency in raising the efficiency of public expenditure”** we have argued that transparency and control contribute to increased efficiency of public expenditure, and have suggested measures that can be taken to this end in Belarus. The same provisions apply to the specific case of the State Programs. Specifically, it will be of crucial importance to improve the coverage of off-budget activities - which comprise the activities of SOE and budget funds disbursed through the Development Bank of Belarus - in the statistics and reports of public finance. Another recommendation made in PP/01/2015 which also applies to the State Programs is to strengthen the role of the State Control Committee (SCC) in audit and control of State Programs.

**Policy Paper PP/03/2015 “How to make it better – Evaluation and Monitoring of Promotional Activities”** discusses tools to help ministries, public authorities, agencies or the Development Bank to supervise and control and to systematically investigate, assess and develop promotional activities with respect to their objectives, achievement of objectives, effects and efficiency. The tools presented are internationally recognised, and extensive international best practice is available. They contribute to a fair and critical assessment of promotional activities for all stakeholders; with the general aim improve these activities in the future. In order to be effective, certain requirements need to be fulfilled for an evaluation procedure, which can be found in international best practice standards, e.g. by the German Society for Evaluation. These general principles are illustrated at the case of the SME-loan programme conducted by the Development Bank.

**Policy Paper PP/05/2015 “Public Procurements in Belarus: Entry Points for Improvements”** recommends a set of measures to improve public procurement. These recommendations comprise:

- To create an environment where a larger number of bidders participates in public procurement tenders (increased competition);
- To award the most economically advantageous tenderer (MEAT), instead of the one offering the lowest price;
- To promote participation of SME in public procurement (e.g. by breaking down tenders into lots, or awarding more than one contract for simple supply tenders);
- To replace numerous certificates and licenses by a bank guarantee to secure qualification and integrity of bidders and reducing administrative burdens;

- To introduce the principle of compensation for malperformance by introducing bank guarantees for period of contract implementation and insurances for certain services and works;
- To avoid 'tailored' tenders (confine tender specifications to general technical parameters);
- To improve transparency during the tender procedure;
- To simplify procurement rules, and sources for obtaining information;
- To improve complaint mechanisms for non-successful bidders;
- To reduce cases of cancelled tenders and limit post-contract negotiations to a minimum.

In **Policy Paper PP/06/2015 "Rationale, Structure and Operation of a Promotional Bank - Requirements to meet Best Practice and Excellence"** a number of issues relating to the structure, governance and operations of the Development Bank of Belarus are outlined. While no general model fits all, theory and experience point to some general best practice recommendations.

- The role of the state (i.e. the owner) should be limited to defining and supervising the Bank's overall objectives, strategy, activity areas and general operational guidelines.
- There shouldn't be any political interference in single or day-to-day decisions.
- The Bank's executive board must enjoy operational autonomy under a supervisory board that is at arm's length from the government.
- The supervisory board should be designed as a system of checks and balances, which includes the selection of its members.
- The Bank should preferably be established by a law with appropriate provisions that give a clear mandate. To comply with its mandate, a Promotional Bank runs promotional schemes with advantageous conditions. An autonomous promotional potential is a prerequisite to achieve at the same time promotion, operational autonomy and sustainability. Observance of prudential behaviour and customary sound banking rules is a necessary precondition to financial sustainability.
- Promotional Banks should be subject to prudential regulation and external supervision; furthermore, this is required to create a level playing field to commercial banks.
- The single most crucial restriction for Promotional Bank's operation is the compliance with the principle of subsidiarity (complementarity). This principle means a Promotional Bank shall only be active in areas where commercial banks provide either no, or only unsatisfactory financing. It shall complement the offers of the commercial finance sector, and not compete with commercial financing institutes, in particular not to crowd them out. This can be applied through different mechanisms (ranging from outright bans to requests for cooperation).

## 5.2 Annex 2: Definitions of State Aid and Public Procurement (EU / OECD)

### Definition of State Aid (EU)<sup>19</sup>

Article 107 of the Treaty on the Functioning of the European Union (Art. 107(1) TFEU) provides a general definition of state aid, which is composed of the four cumulative elements defined below:

(1) The measure must be granted by a Member State or through State resources. Under state aid rules, the State is not only the central administration but all levels of government (e.g. regions, municipalities, etc). Special attention should be paid to public undertakings, since their actions can in many cases be considered imputable to the State and State resources could be involved. The measure can take the form of a positive transfer of State resources (e.g. a loan or a grant), but also of a negative transfer, that is when the State foregoes revenue it would normally have received (e.g. through a tax exemption or a debt waiver).

(2) There must be a selective advantage (it must favour certain undertakings, the production of certain goods or the provision of certain services). The recipient of the measure must be an undertaking. Under state aid rules, this is a functional criterion: what matters is the economic nature of the activity and whether the beneficiary provides a good or service on the market, rather than its legal form or whether it is run for profit or not. Article 107 TFEU et seq. on state aid apply indifferently to both private and public undertakings. This results from Article 345 TFEU, which enshrines the principle of neutrality with regard to the system of property ownership, as well as from the case-law of the EU Courts, which have also recognised the principle of equality between public and private undertakings. A measure gives an advantage to the beneficiary undertaking when it provides a financial or commercial benefit that this undertaking would not have been able to secure on the market (typically because the State provided the benefit for free or against insufficient remuneration). Normal market behaviour is the benchmark used in assessing all kinds of economic transactions entered into by public authorities. In order to identify what constitutes normal market behaviour, the Commission applies the Market Economy Investor Principle test. The advantage must also be selective, i.e. it must favour certain undertakings, regions and/or economic activities in detriment of others. Note that a measure which is formally neutral (i.e. on paper it is open to all) can be de facto selective if in practice it applies only to certain undertakings.

(3) There must be a (potential for) distortion of competition. If a measure provided by the State reinforces (or would be capable of reinforcing) the competitive situation of the beneficiary undertaking compared to that of its competitors, then competition is considered to be distorted. According to the TFEU, which establishes that the measure must distort or threaten to distort competition, no actual distortion of competition is required.

(4) There must be an effect on trade between Member States. This criterion has also been broadly interpreted by the EU Courts. Indeed, it is sufficient that the beneficiary undertaking trades a good or service which could be traded between Member States. Within this meaning, a measure may also affect trade even if the recipient undertaking is not involved in intra-EU trade.

**In case a measure fulfils all four cumulative criteria, then it constitutes state aid, which is in principle prohibited by Article 107(1) TFEU.** However, Articles 107(2) and (3) TFEU lay down a number of conditions under which a state aid shall or may be considered compatible with the internal market and could thus be

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<sup>19</sup> Guidance Paper on state aid-compliant financing, restructuring and privatisation of State-owned enterprises, European Commission, 2012, [http://ec.europa.eu/competition/state\\_aid/studies\\_reports/swd\\_guidance\\_paper\\_en.pdf](http://ec.europa.eu/competition/state_aid/studies_reports/swd_guidance_paper_en.pdf)

authorised by the Commission (which has the exclusive competence to declare state aid compatible with the internal market). On the basis of these Articles the Commission has issued detailed instruments and guidance documents in order to clarify the criteria it applies when assessing the compatibility of state aid.

#### Forms / Instruments of State Aid (EU legislation)

- State Guarantees
- Public Land Sales
- Export Credit Insurance
- Fiscal aid - Direct Business Taxation

#### **Public Procurement share of GDP and of general government expenditure (OECD Government at a glance)<sup>20</sup>**

The size of general government procurement spending is estimated using data from the OECD National Accounts Statistics (database), based on the System of National Accounts (SNA).

General government procurement is defined as the sum of intermediate consumption (goods and services purchased by governments for their own use, such as accounting or information technology services), gross fixed capital formation (acquisition of capital excluding sales of fixed assets, such as building new roads) and social transfers in kind via market producers (purchases by general government of goods and services produced by market producers and supplied to households).

Government procurement includes the values of procurement for central, state and local governments.

Social security funds are normally excluded from the analysis, unless otherwise stated. Public corporations are also normally excluded in the estimation of procurement spending.

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<sup>20</sup> [http://www.oecd-ilibrary.org/governance/government-at-a-glance-2015\\_gov\\_glance-2015-en](http://www.oecd-ilibrary.org/governance/government-at-a-glance-2015_gov_glance-2015-en)

### 5.3 Annex 3: The case of Ireland: Promoting innovation in public procurement (“buying innovation”)

In July 2008, the Department of Enterprise, Trade and Development of Ireland established the Procurement Innovation Group. The Group comprised representatives of industry, academia, government departments and State agencies. The Group’s objectives were to:

- Raise awareness of the benefits of using public procurement to stimulate research and innovation;
- Identify obstacles or problems in the current procurement process which impede opportunities for innovation;
- Examine the potential of the Public Procurement Directives to ensure a level playing field for all innovative companies wishing to participate in public tendering.
- Create an environment in which the potential of innovation for public procurement can be realised; and
- Make recommendations on how objectives may be achieved.

One of the main results of the work of the Procurement Innovation Group was to look at best-case examples of procurement of innovation in Ireland. Based on practical examples of the procurement of innovative solutions, the Procurement Innovation Group **compiled a methodology (“10 Step Guide”) to help officials in public sector organisations to apply the procurement process in a way that enables the procurement of innovation.** The term innovation was seen in its broadest sense by the participants and encompassed innovation in both products and services. The types of procurements examined by the Focus Groups varied across the organisations from software solutions, to quality assurance services to building works.

**Key Findings** of the analysis of practical examples of innovation procurement in Ireland comprise:

- A key to successful procurement for innovation is the “intelligent customer” who is able to demand, source and identify potential new solutions, and can specify and manage contracts of this kind throughout their lifecycle.
- Need to professionalise the procurement function within the public sector and thereby raise the role and profile of the function.
- Each public sector organisation with a substantial procurement budget should embed the “Buying Innovation - 10 Step Guide” into its procurement procedures.
- Measures to improve the quality of procurement information reduce perceived disadvantages experienced by, in particular, small and micro enterprises. ***Sub-dividing contracts into lots and thereby further opening the way for SMEs to participate will broaden competition.***
- Subcontracting opportunities should be encouraged and made more visible.
- The eTenders website should include a highly visible section to advertise low value contracts.
- Contracting authorities should avoid disproportionate qualification and financial requirements in their tender documents.

## The tools applied in the ten stages of the procurement process:

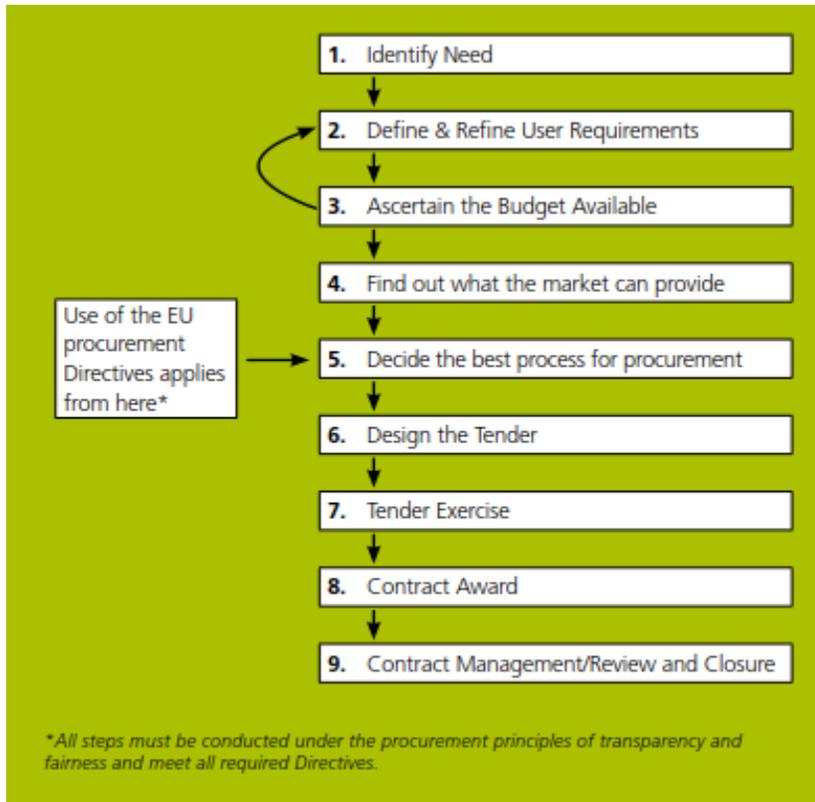


Figure 1. The Procurement Process (adapted Davis, 2008)

### **Stage 1 Identify the Need – act as an “intelligent customer”**

- Adopt a “Buying Innovation” Policy as part of your Corporate Procurement Plan.
- Identify in the tender or in the heading that an Innovative Solution is being sought. This facilitates reporting annually on the budget spent on buying innovation. This will also be tracked and measured by the eTenders website.
- Understand the market – Become a knowledgeable and demanding customer. Collect information routinely from the market on emerging innovations and technological solutions for your organisation’s needs. Be aware of trends in technology and identify areas where new and improved solutions exist.
- Be open to new ideas proposed by the market.
- Keep your procurement knowledge and skills up to date. Obtain appropriate training from a recognised/accredited training provider.

### **Stage 2 Define and Refine User Requirements – Involve key stakeholders throughout the process**

- Identify key internal stakeholders and users of the product or service.
- Secure their involvement and participation.
- Dialogue with current suppliers can help redefine user requirements.

### **Stage 3 Ascertain the Budget Available**

[No further details provided by Ireland case study]

### **Stage 4 Engage with the Market prior to Tendering**

Find out what the market can provide; Consult the market before tendering

- Communicate your long term plans to the market as early as possible – by publishing Prior Information Notices (PINs) on the eTenders website. If a formal tender process is the first indication that a supplier gets of a complex requirement, the timescale may be too short for innovative solutions to be developed.
- Include a “Doing business with us” section on your website.
- Provide an indication of your organisation’s future needs for the coming year if feasible. This is particularly important in the case of large and complex contracts, where SMEs might need time to find partners for joint bidding.
- Let the market propose creative solutions
- Ask suppliers to propose ideas and be open to alternatives.
- Ask for a solution, do not prescribe it.

#### ***Stage 5 Decide the best process for procurement***

- Involve SMEs. Where SMEs are not in a position to be a prime contractor, there are opportunities for them to be sub-contractors, particularly where they can provide specialist or innovative products or services. Allow for tender submissions where sub-contracting is proposed.
- Be open to consortia bids from SMEs as this is one way in which small businesses can tackle large procurements.
- Split tenders into lots where appropriate, to encourage SMEs and to stimulate innovation and competition. The purpose of this is not to lower the contract to below threshold levels, as the Directives will still apply where the total requirement exceeds the relevant threshold, but to subdivide the supply into lots and eliminate the risk of no supply.
- Encourage the use of sub-contractors and make subcontracting opportunities more visible.
- Use the eTenders website to advertise small contracts, where the anticipated response would not be disproportionate.
- Keep administrative requirements to a minimum, as SMEs normally do not have large and specialised administrative capacities.

#### ***Stage 6 Design the tender***

- Ensure the requirements (minimum levels of turnover, insurance cover, staffing levels, years of trading, financial standing of the company) are appropriate to the size and complexity of the contract. Do not over- or under-specify your requirements.
- Be sure that all of the elements included in your selection and award criteria are clearly explained and set out e.g. if “ability to meet timeframes” is a requirement, ensure that the timeframes are clear.
- Do not exclude young SMEs with highly qualified individuals. In the qualification criteria relating to the required experience of the tenderer, refer to the experience of the tenderer’s staff rather than of the company.
- Do not exclude young companies by requiring that they have previous experience of public contracts.
- Specify standards where they are necessary, rather than including a standard list as routine.
- Consider environmental performances, such as the use of raw materials, sustainable production methods (where relevant for the end product or service), energy efficiency, renewable energies, emissions, water usage efficiencies, waste, “recyclability”, dangerous chemicals etc.
- Reflect your needs, not your wants.
- Specific materials and environmental production methods may be specified, if relevant.
- Ensure that the specification is as output-based as possible – that is, it states the desired output/outcome but does not prescribe how a supplier should meet this.

#### ***Seek value for money, not just the lowest price***

- Adopt the Most Economically Advantageous Tender (MEAT) over lowest price criteria.
- Remember the MEAT criteria include Whole Life Cycle Costs.
- Decide which costs and quality criteria to include. Remember that disposal costs can be significant so should be considered.

#### ***Intellectual Property***

- Intellectual Property Rights should be examined on a case-by-case
- Establish a policy on how to handle intellectual property rights.

- Consider the possibility of co-ownership so that the Exchequer benefit from royalty payments for future use of the IP.

*Decide how to manage risks*

- Identify and plan for risks.
- Assess the risk impact.
- Designate the risk owner and use the Contract to manage risks.
- Shift the culture from Risk AVOIDANCE to Risk MANAGEMENT.

**Stage 7 Tender Exercise**

- Use your website. It is an ideal way of making information available at low cost particularly if you have a 'Doing Business with Us...' giving potential suppliers the information they need to bid effectively.
- Use electronic means to inform and be informed and enhance efficiency.
- Ensure the electronic means you use are well adapted to your needs.
- Encourage and accept electronic tenders. This will ease the administrative burden on firms, particularly small firms.

**Stage 8 Award**

- Include incentives in the contract for further innovative solutions.
- Publish Contract Award Notices – for all contracts large and small.

**Stage 9 Contract Management, Review and Evaluation**

- Allocate adequate resources to Manage the Contract.
- Establish evaluation and review procedures to improve knowledge of innovation in the procurement procedure.
- Monitor and learn from implementation.

**Stage 10 Evaluation, Lessons for the future**

- Build upon the "best practices" of other contracting authorities.
- Use networking as a way of obtaining and spreading information.
- Ask for feedback from your suppliers.
- Examine the questions that were asked, and clarifications sought. Use this to improve future RFTs.
- Provide constructive feedback to all tenderers.

**Source:** BUYING INNOVATION to SMART Procurement and SME Access to Public Contracts The 10 Step Guide; Department of Enterprise, Trade and Employment of the Republic of Ireland, <http://www.procurement.ie/sites/default/files/Buying-Innovation-10-Step-Guide.pdf>

Report of the Procurement Innovation Group:

<http://etenders.gov.ie/Media/Default/SiteContent/LegislationGuides/Report%20of%20the%20Procurement%20Innovation%20Group.pdf>

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