1. Project Data

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<td>Belarus</td>
<td>Finance, Competitiveness and Innovation</td>
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Prepared by Antonio M. Ollero
Reviewed by John R. Eriksson
ICR Review Coordinator Christopher David Nelson
Group IEGFP (Unit 3)

2. Project Objectives and Components

a. Objectives

The Belarus Privatization Project was a technical assistance operation with a recipient-executed (Belarus-executed) component and a Bank-executed component. According to the Trust Fund Proposal* (TFP) (page 4) and the Grant Agreement (page 3) between the Bank, acting as administrator of grant funds provided by the Republic of Austria, and the Republic of Belarus, the project development objective (PDO) of the recipient-executed part of the project was “to provide the Government of Belarus with necessary legal and institutional instruments and implementation capacities to successfully launch and roll out a privatization program that is both on par with international best practices and tailored to the particular industry/business.” The TFP did not
state a PDO for the Bank-executed component which involved technical assistance, supervision, and grant fund management. Like the ICR, this ICR Review will evaluate the recipient-executed part only, although it will also provide basic data about the Bank-executed part.

*A Project Appraisal Document was not required for this project because of its small size; only a Concept Note and a TFP were prepared.

b. Were the project objectives/key associated outcome targets revised during implementation?  
No

c. Will a split evaluation be undertaken?  
No

d. Components

The project had two components.

Provision of Legal Advice and Institutional Capacity Building (US$1.5 million at approval, US$1.8 million at restructuring) supported the: (a) provision of consultant services; (b) provision of staff training; (c) development of a privatization and foreign investment attraction strategy, including a communication component; (d) establishment of a legal framework for privatization; and (e) capacity building for the Ministry of Economy unit in charge of the privatization program (including the training of staff and financing of incremental operating costs).

Privatization Transactions Delivery (US$2.1 million at approval, US$2.8 million at restructuring) involved the: (a) provision of consultant services, including financial advisers, to facilitate the privatization program; (b) deployment of identified customized case-by-case privatizations; (c) launch of the tender process for these privatizations; and (d) advertisement of the privatizations in the appropriate media.

(The Bank-executed part had four components, according to the TFP (pages 5-6).

Advisory Services and Technical Assistance (US$659,737 at approval) supported the provision by the Bank of: advice on international best practices in privatization; advice on the implementation of the privatization program; and studies and analytical reports related to the conduct of due diligence.

Supervision of Recipient Activities (US$500,000 at approval) supported the supervision by the Bank of the implementation of case-by-case privatization.

Trust Fund Administration (US$25,000 at approval) supported the administration by the Bank of the technical assistance trust fund.

Trust Fund Program Management (US$115,263 at approval) supported the management by the Bank of the technical assistance trust fund.)
e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The cost of the project was estimated at US$3.6 million at approval, and US$4.6 million at restructuring. (The cost of the Bank-executed component was US$1.3 million at approval, and US$2.3 million at restructuring).

Financing: The project was financed with a grant of US$4.6 million from the Bank, acting as administrator of grant funds provided by Austria, to Belarus. The amount of US$4.2 million was disbursed by the closing date for recipient-executed activities. (The Bank-executed part of the operation was financed with a grant of US$2.3 million from Austria to the Bank. The amount of US$2.3 million was disbursed for Bank-executed activities).

Dates: The project was approved on March 19, 2010, became effective on December 22, 2010 and closed on August 15, 2019. The project was restructured thrice: (a) on November 24, 2014, with US$1.95 million disbursed, to add US$1 million to the grant to Belarus, and extend the original closing date from February 28, 2015 to August 16, 2016 for recipient-executed activities; (b) on July 27, 2016, with US$3.35 million disbursed, to authorize the use of the grant funds to support transactions that would result in a majority holding by a private investor and a minority stake by the government (the original agreement only allowed for a 100-percent privatization of a state-owned enterprise (SOE)), to allow the use of the grant funds for the remuneration of National Agency for Investment and Privatization (NAIP) staff, and to extend the closing date to August 15, 2018; and (c) on January 28, 2018, with US$4.2 million disbursed, to extend the closing date to August 15, 2019. (The Bank-executed part was revised with the three restructuring episodes: with the first, to add US$1 million to the grant to the Bank and extend the closing date from February 26, 2015 to February 20, 2017 for Bank-executed activities; the second, to extend the closing date to February 15, 2019; and the third, to extend the closing date to February 15, 2020).

3. Relevance of Objectives

Rationale

The project development objective was relevant to the development priorities of Belarus at the time of appraisal in 2010.

- Unlike most Central and Eastern Europe transition states, Belarus had continued to maintain an economy with a dominant state sector. The public sector accounted for 70 percent of GDP in 2008, with some 3,700 SOEs contributing 85 percent of industrial output, 60 percent of revenues from the sale of goods and services, and 50 percent of employment. Many SOEs were joint stock companies, with minority private shareholders, but the basic public sector-dominated governance regime remained --- considerable government support, soft budget constraints, and excessive administrative control. The central government controlled large and medium-sized SOEs, while local governments controlled the more numerous (75 percent of the total number) but smaller-sized SOEs.
- The global financial crisis of 2008-09 exposed the weaknesses of the country's economic model, steering the government to introduce structural reforms including SOE privatization. Earlier, the Program for Social and Economic Development (PSED) 2006-2010, approved in 2006, had
advocated for a pilot privatization plan. In the privatization program for 2008-10, the government offered 150 SOEs for sale but ultimately completed only a few transactions, principally sales of shares in some large SOEs, including Beltransgaz, a natural gas infrastructure and transportation company, BelCell, a mobile telecommunications operator, and BPS-Bank, a commercial bank. Several problems bogged down the implementation of the plan: (a) the legal framework for privatization was complicated and deficient; (b) the institutional framework for privatization was weak and fragmented, with the State Property Committee, the official privatization body, lacking full control over the choice of the privatization method and the terms for privatization; (c) SOEs eligible for privatization were unattractive; (d) the government relied on ad-hoc, non-transparent, direct sales methods to a limited pool of investors; (e) the valuation of assets was not market-based, with unreliable and inflated asset prices; and (f) the global financial crisis of 2008-09 had dampened interest in investment globally.

- To help address these difficulties, this technical assistance operation aimed to assist the government to establish a legal framework and to develop an institutional capacity for, at least, a pilot SOE privatization effort, as well as for foreign direct investment (FDI) promotion, that would be implemented following international best practices. According to the Concept Note (paragraphs 5-14), privatization was viewed as a key part of a larger and wider structural reform initiative that aimed to: gradually liberalize the economy; develop the private sector; attract foreign investment; increase market competition; encourage technology transfer; and improve corporate governance. The pilot would be conducted on a case-by-case approach, rather than mass privatization, because case-by-case privatization: (a) would likely result in sales to strategic investors, which was associated with greater restructuring; (b) required less financial sophistication; and (c) would allow for a parallel effort at institution building.

The project development objective remained relevant to the development priorities of Belarus at the time of closing in 2019.

- The Program for Social and Economic Development 2016-2020 reiterated the government's commitment to SOE privatization: administrative barriers to privatization would be removed; privatization of SOEs would be accelerated; the protection of investors' property rights would be strengthened; and the NAIP would also strengthen its capacity for FDI promotion.
- The National Infrastructure Development Plan 2016-2030 promoted the use of public-private partnerships (PPPs) for capital investment projects. PPPs would complement privatization and would be implemented using a legal and regulatory framework and the institutional arrangements similar to those adopted for privatization. The plan listed top 100 PPP projects targeted over the five-year period 2016-20.

The project development objective was aligned with the strategy of the Bank in Belarus at the time of appraisal in 2010. The Bank Group “Country Assistance Strategy for the Republic of Belarus for the Period FY08-FY11” committed lending, analytical, and advisory support to five pillars of the country development program: (a) increasing energy efficiency and self-sufficiency; (b) facing up to the global environmental challenge; (c) enhancing competitiveness, by imposing stricter market discipline and by encouraging new business growth; (d) improving the effectiveness of government; and (e) consolidating the gains from fighting HIV/AIDS and tuberculosis. The PDO was aligned with the third and fourth pillars.

The project development objective remained aligned with the strategy of the Bank in Belarus at the time of closing in 2019. The Bank Group “Country Partnership Framework for the Republic of Belarus for the
Period FY18-22" committed lending and non-lending support in three focus areas: (a) “creating opportunities for the private sector to grow and for more efficient public investment”; (b) “maintaining the country’s human capital edge”; and (c) “improving the contribution of infrastructure to climate change management, economic growth, and human development.” The PDO was aligned with the first pillar.

**Rating**
Substantial

### 4. Achievement of Objectives (Efficacy)

**OBJECTIVE 1**

**Objective**
To provide Belarus with necessary legal instruments to successfully launch and roll out a privatization program that is both on par with international best practices and tailored to the particular industry/business.

**Rationale**

**Theory of Change:** Creating a legal and regulatory framework for the privatization of SOEs would allow the government to introduce a case-by-case privatization pilot that was suitable to the industries and businesses being privatized and aligned with international best practices with privatization. Experience with, and lessons from, the pilot would enable the government to subsequently advance the SOE privatization effort in the medium- to long-term and address constraints to growth posed by the dominance of the SOE sector in the economy.

**Outputs:** The government delivered the single output target defined for this objective.

Belarus created a privatization procedure that was fully aligned with its new laws for attracting private investment in SOEs and recognized as on par with international best practice, meeting the target that its privatization procedure be "fully aligned with international best practice" and "accepted as part of the national regulatory framework."

The government established the legal and regulatory framework for the SOE privatization pilot with the passage of several core pieces of legislation and rule-making. The procedures for this pilot privatization --- preparation by financial advisers, market valuation to set the initial prices, advertising in the media, open tenders, bid evaluation, and negotiation --- followed from these new laws and regulations, namely:

- Presidential Decree No. 173, *On the Establishment of State Institution, National Agency of Investment and Privatization*, issued on May 25, 2010, created the NAIP. Amended on April 22, 2011, the decree made the NAIP an agency of the Ministry of Economy.
- Ministry of Economy Order No. 69, issued on June 13, 2011, approved the charter of NAIP, giving the agency the mandate to: attract foreign investment; accelerate the privatization process; and foster collaboration among state agencies, local bodies, and investors on investment promotion and
privatization. On SOE privatization, the NAIP would: (a) participate in drafting resolutions covering the privatization of shares owned by the state; (b) design methods and conditions for the privatization of state enterprises; (c) engage the services of specialists to perform privatization work; (d) establish a commission to conduct auctions and sales; and (e) receive complaints and disputes related to privatization contracts.


- With Government Resolution No. 1139, *On the Approval of the List of Privatization Objects for the National Agency of Investment and Privatization to Perform Functions of a Privatization Body*, issued on August 26, 2011 and amended by Resolution No. 901 on October 1, 2012, the Council of Ministers approved a list of 8 SOEs, grouped in three industries (food, construction, and mixed), that were selected by the Ministry of Economy for privatization under the pilot program managed by the NAIP.

- Presidential Decree No. 78, *Concerning the Measures to Enhance the Effectiveness of the Social and Economic Sector of the Republic of Belarus*, issued on February 23, 2016, authorized the valuation of companies at international market prices rather than domestic book prices. The decree also allowed valuation to be based on core assets only, rather than on all core and non-core assets as was the past practice. The method would allow SOEs to separate out their non-core assets or business lines from the enterprise and possibly pool these non-core elements into a separate investment option.

Apart from establishing the basic legal and regulatory framework that set out the procedure for SOE privatization under the pilot project, the government also introduced the following new laws and rules or strengthened existing laws and rules to: (a) protect investors rights, and (b) promote the use of PPPs, joint-ventures, and issuance and sales of additional shares in SOEs as additional modes of privatization and foreign investment.


- Ordinance No. 8 of the President, *On Amendments and Addenda to Ordinance of the President of the Republic of Belarus*, dated November 12, 2015, extended the benefits and preferences provided to investors.

- Presidential Decree No. 8, *On Establishing Visa-Free Entry and Exit of Foreign Citizens*, dated January 9, 2017, simplified the procedures for entry into and exit from the Belarus at state borders and the Minsk airport.

- Resolution No. 563 of the Council of Ministers, *On Measures to Implement Ordinance of the President of the Republic of Belarus No. 10 dated August 6, 2009*, dated July 19, 2016: defined the procedures for concluding, modifying, as well as terminating investment agreements between investors and the state; established procedures for the clearance of goods and service imports needed for construction and equipment pursuant to such investment agreements; defined property rights acquired in the country under such investment agreements; and defined rules for the compensation, the deferral of compensation, and fines and penalties related to compensation to the state under such investment agreements.

- Law of the Republic No. 345, *On Public-Private Partnerships*, dated December 30, 2015, defined the: terms and conditions for PPPs; the rights of the state partner, private partnership, and creditors of the
private partner; the procedures for conducting tenders; and the procedures for drawing PPP and other cooperation agreements.

- Ordinance No. 11/810-4074 of the Council of Ministers, issued on dated December 19, 2014, allowed foreign investors to acquire newly-issued shares of SOEs.

That the government established a privatization procedure that was on par with international best practice is confirmed by the fact that the NAIP was able to deploy the procedure for a pilot privatization project that drew the participation of international investors.

**Outcomes:** The Concept Note and the TFP did not define outcomes for this objective, but the ICR (pages 21-22) argues that the following outcomes could be attributed to the creation by the government of the legal and regulatory framework for the conduct of the pilot SOE privatization project.

- **Clarity with the Privatization Process.** The privatization procedure for the pilot project clarified the roles of agencies involved in the process: (a) the State Property Committee acts as the registrar's office for state shares in SOEs; (b) the NAIP is the state's privatization agent; (c) line ministries act as the SOE "owners"; (d) the Council of Ministers approves tender packages; and (e) the President approves every privatization transaction.
- **Market Valuation of Companies.** Following Council of Ministers Resolution No. 1929 and Presidential Decree No. 78, market valuation was used to set the initial price of SOEs offered for sale under the pilot project, departing from the historical practice in Belarus by which companies were valued by the book value of assets in their balance sheets. Thereafter, in 2018-19, after the completion of the pilot project, the sale of state shares in SOEs, under two sale packages, used market valuation methods, indicating that the practice had begun to gain root in Belarus.
- **Alternate Modes of Privatization.** The project helped the NAIP develop three other modes of SOE privatization and foreign investment: PPPs, joint ventures, and the issuance and sale of additional shares in SOEs. Rather than purchasing all existing shares, a strategic investor participates in an SOE statutory fund and purchases newly-issued shares, which, because they exceed the number of existing shares, makes the strategic investor the majority owner of the SOE. This method broadens the investor pool because it allows for varying degrees of majority-ownership by an investor, who may not have the resources to purchase a hundred percent of the shares of an SOE.

**Rating**

**Substantial**

**OBJECTIVE 2**

**Objective**

To provide Belarus with necessary institutional instruments (such as new institutions, agencies, and organizations to advance SOE privatization and FDI promotion, as opposed to new laws and regulations
covered by Objective 1), and implementation capacities to successfully launch and roll out a privatization program that is both on par with international best practices and tailored to the particular industry/business.

Rationale

Theory of Change: Developing the institutional and implementation capacities for the privatization of SOEs and promotion of FDI would allow the government to introduce a case-by-case privatization pilot that was suitable to the industries and businesses being privatized and aligned with international best practices with privatization. Experience with, and lessons from, the pilot would enable the government to subsequently advance the SOE privatization effort and private sector FDI promotion initiatives in the medium-to long-term and address constraints to growth posed by the dominance of the SOE sector in the economy.

Outputs: Belarus achieved all four output targets defined for this objective.

- Twelve SOEs were prepared for sale, exceeding the target of 8 SOEs. The Ministry of Economy selected, and the Council of Ministers approved, 8 SOEs for privatization on August 26, 2011: (1) Avtomagistral, which builds roads, airfields, and sports facilities and supplies asphalt and bitumen emulsion; (2) Baranovichi Reinforced Concrete Products Plant, a civil engineering company; (3) Belgazstroi, a non-residential building construction company; (4) Belsantekhmontazh-2, which installs sanitary engineering and ventilation works, manufactures pipes and gate valves, and produces pipeline fixtures and metal structures; (5) Building and Installation Group No. 8, a building services company; (6) Konfa, a producer of confectioneries, including gingerbread, cookies, zephyr, wafers, and dragées; (7) Medplast, a producer of disposable medical syringes; and (8) Minsk Margarine Factory (MMP), a producer of margarine, mayonnaise, and refined oil and fat products. The Council of Ministers added four SOEs to the privatization list in October 2017: (9) Krion, a manufacturer of air separation products, including oxygen, nitrogen, argon in liquid and gaseous state, and food, verification and technical gas mixtures; (10) Lakokraska, a manufacturer of paint and varnish; (11) Lenta, a manufacturer of textile haberdashery and curtain products as well as of medical dressing; and (12) 8 Marta, a manufacturer of knitted products.

- All 8 SOEs that were in the original privatization list and were offered for sale were valued at market prices, exceeding the target that one SOE be valued at market prices. For these 8 SOEs, the financial advisers prepared: a privatization strategy, an information memorandum, legal and financial due diligence, valuation, and tender documents. Up to 10 expressions of interest (EOIs) and an average two bids were received for each SOE. Winning bids were declared in three tenders: Konfa, for which the best bid was offered by Zlatogor (Belarus), a supplier of bakery and confectionery products; Medplast, for which the best bid was offered by Dispolmedicor (Hungary), a manufacturer and supplier of medical devices; and MMP, for which the best bid was offered by EFKO (Russia). Negotiations with the three winning bidders failed. According to the ICR (pages 17-18), the tenders failed because: (a) for Konfa --- the authorities took too long to submit the transaction for approval, causing the buyer to use its purchase funds for other business purposes; (b) for Medplast --- the investor demanded that the government, which was a key buyer of medical syringes, guarantee to procure Medplast products for four years and to provide Medplast with working capital, which the government denied; and (c) MMP --- the investor withdrew after discovering problems related with the SOE's ownership of a rail line to the factory; the investor's offer of a lower purchase price was rejected by the government.

- Three SOEs were re-tendered, exceeding the target for 2 SOEs to be re-tendered. The three SOEs re-tendered were most advanced in the privatization process: Baranovichi Reinforced Concrete Products Plant, Konfa, and MMP.
Three financial advisers were contracted to prepare the SOEs for sale, numerically less than the target of four financial advisers, but effectively meeting the target because two of the three advisers were contracted for a second round of SOE preparatory work. Three financial advisers won mandates to prepare the original 8 SOEs for privatization: Ernst & Young (EY), headquartered in the U.K., for the food industry SOEs; Klynveld Peat Marwick Goerdeler (KPMG), headquartered in the Netherlands, for the construction industry group; and Mattig Management Partners GmbH, based in Austria, for the mixed industry group. After the government added four SOEs to the privatization list in October 2017, two of these financial advisers won contracts for these additional SOE preparatory work: KPMG for the chemical industry SOEs, and Mattig Management Partners for the textile industry group. The financial advisers contacted from 70 to 230 potential investors for each SOE.

Outcomes: The Concept Note and the TFP did not define outcomes for this objective, but the ICR (pages 18-20) argues that the following outcomes could be attributed to the development by the government of the institutional instruments and implementation capacity for the conduct of the pilot SOE privatization project.

- **NAIP Institutional Capacity.** The NAIP built up its capacity to design and implement a case-by-case privatization as well as to promote FDI. Evidence of the progress made by the NAIP with institutional capacity building include: (a) in September 2016, the government transferred the Public-Private Partnership Department at the Economic Research Institute from the Ministry of Economy to the NAIP; (b) in 2019, the government disclosed a plan to broaden the mandate of the NAIP to include investment project implementation and regional development; (c) also in 2019, the government of Austria disclosed a plan to engage the NAIP on a new regional development project; and (d) some regional governments, including from the Grodno, Gomel and Mogilev oblasts, tapped the NAIP for advice on privatization (local governments control numerous medium- to small-sized SOEs).

- **Greenfield Investment.** As it implemented the pilot privatization project, NAIP has also developed expertise and gained experience with greenfield FDI promotion (a type of FDI where the investing entity builds the operation and maintains control, including quality control). NAIP: (a) negotiated investment projects with Gabi (Poland), a wood processing company that supplies IKEA (Sweden), a furniture retail company; Losan (Spain), a wood processing company; and Xinlian (China), a big data enterprise; (b) helped the Ministry of Agriculture and Food negotiate a "protocol of intent" with Drex Food Group (China) for a US$1 billion FDI in agriculture; and (c) helped prepare the sale of 25 percent of shares in state-owned BelarusBank (the sale was delayed to 2020).

- At the same time, in analyzing the failure to close three negotiations for which there were winning bids, the ICR (pages 17-18) generalizes the experience to cite three problems that remain roadblocks to carrying the SOE privatization agenda forward: (a) lack of political support; (b) general weaknesses in the country's investment climate; and (c) remaining deficiencies with the national legislation.
The objective to provide Belarus with the necessary legal instruments and the necessary institutional instruments and implementation capacities to successfully launch and roll out a privatization program that is both on par with international best practices and tailored to the particular industry/business was substantially achieved. The government passed laws and issued regulations to create the NAIP and establish a procedure for a customized case-by-case privatization pilot project, featuring the market valuation of SOEs, open tendering, and use of professional financial advisory services. The government prepared and tendered 12 SOEs for the pilot privatization, declared 3 winning bids, but failed to conclude negotiations on any. The project did not target the closing of a sale as a project output, but focused only on the development of the legal framework and the institutional capacity for launching and rolling out a privatization program; hence, the overall efficacy of this technical assistance project is assessed as substantial.

Overall Efficacy Rating
Substantial

5. Efficiency

The efficiency of the project is assessed as modest.

Economic Efficiency: A formal economic efficiency analysis of the project was not prepared at appraisal or at closing. The outcomes of the project consisted principally of an improved legal framework and an enhanced institutional capacity for conducting privatization of SOEs. According to the ICR (page 23), there were efficiency gains with how the project was implemented: (a) the development of a privatization strategy was combined with the development of an FDI strategy, under the same project; (b) in tenders for financial advisory services, the SOEs were pooled by industry group, allowing for some pooling of analytic effort and costs; (c) financial advisory firms were staffed by country-based talent, who turned out to be less costly than foreign-based staff; and (d) at US$150,000-200,000 per medium-sized SOE, the unit cost for SOE privatization preparation did not appear to be excessive.

Operational Efficiency: The project, originally planned as a roughly 4-year operation, took more than twice as long to complete, running 8 years and 7 months. A total 91 percent of the grant extended to Belarus was disbursed.

Efficiency Rating
Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

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<th>Rate Available?</th>
<th>Point value (%)</th>
<th>*Coverage/Scope (%)</th>
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6. Outcome

The project development objective was substantially relevant to the development priorities of Belarus and to the country partnership strategy of the Bank Group in Belarus. The degree of achievement of the objective to provide Belarus with necessary legal instruments to successfully launch and roll out a privatization program that is both on par with international best practices and tailored to the particular industry/business was substantial. The degree of achievement of the objective to provide Belarus with necessary institutional instruments and implementation capacities to successfully launch and roll out a privatization program that is both on par with international best practices and tailored to the particular industry/business was substantial. The efficiency of the project was modest. There was no formal economic efficiency analysis of the project. There were delays with the implementation of the project, requiring three extensions of the closing date. The grant (for the recipient-executed activities) was not fully disbursed.

a. Outcome Rating
   Moderately Satisfactory

7. Risk to Development Outcome

The risk to the sustainability of the project development outcome is assessed as significant.

Political Risk: According to the ICR (page 32), the political will to expand SOE privatization beyond the pilot project appears to be weak and limited. Privatization is reportedly unpopular across many government agencies, reflecting political economy hurdles. The government's priorities have also shifted in recent years from SOE privatization to a focus on FDI, particularly in greenfield ventures.

Macroeconomic Risk. According to the IMF Staff Report on the Belarus 2018 Article IV Consultation, the medium-term outlook is "subdued, absent vigorous structural reforms, weighed down by unfavorable demographics and weak productivity." Medium-term growth could be lower than 2 percent and the fiscal and current account deficits could be higher than projected (0.9 percent and 2.3 percent of GDP, respectively, over 2020-23) if Belarus receives less than full compensation from Russia for losses arising from the latter's new energy taxation system. These macroeconomic forecasts imply that foreign investor interest in Belarus, either for privatization or FDI, will likely be subdued as well, should the downside risk materialize.

Institutional Capacity Risk: The NAIP may lose its technical and institutional capacity to undertake SOE privatization over time, should the government's interest in privatization progressively wane. Separately, the NAIP faces challenges retaining its staff, considering their salaries are lower than the salaries of comparable
staff in the private sector, according to the ICR (page 32).

8. Assessment of Bank Performance

a. Quality-at-Entry

The quality at entry is assessed as moderately satisfactory.

The Bank drew on its experience in supporting privatization in Eastern Europe in preparing this project. According to the ICR (page 30), the Bank tapped the expertise of experienced international consultants who had played key roles in the design and implementation of national privatization programs in their countries to help prepare the project.

The project design was clear and straightforward --- the government would pass laws and regulations to enable and govern SOE privatization; the government would create a national privatization agency; the new agency would select and the government would approve SOEs for privatization; financial advisers would prepare SOE privatization plans and documents and solicit investor interest in each privatization; and, the agency would conduct tenders, evaluate bids, and negotiate with the best bid offerors.

The Concept Note (paragraphs 37-41) identified major risks and offered reasonable mitigation measures: (a) limited investor interest in Belarus (high risk, high impact) – the government should select SOEs with good financial performance, and in industries attractive to investors; (b) the risk of resistance or lack of cooperation by other government agencies (medium risk, high impact) – the government needs to clearly delineate roles and responsibilities of all agencies in the privatization process; (c) political and social backlash to the privatization (medium risk, high impact) – the government should appoint an agency head with political skills to steer the process; (d) institutional capacity risk (medium risk, medium impact) – advisers will work closely with the agency, agency staff will be trained, and “learning-by-doing” will help upgrade capacity; and (e) privatization will not progress beyond the pilot (high risk, high impact) – success of the pilot will build confidence in the new agency and in the privatization program.

There were moderate deficiencies at entry.

The results framework in the Concept Note was not robust and well-articulated. The results framework had to be modified during implementation.

The Bank over-estimated the level of political commitment and support for the privatization project. It under-estimated the degree of institutional fragmentation among agencies in SOE privatization.

Quality-at-Entry Rating
Moderately Satisfactory
b. Quality of supervision

The quality of supervision is assessed as satisfactory.

According to the ICR (page 31), the Bank supervised the implementation of the project intensively by: (a) fielding regular supervision missions; (b) maintaining constant communication with the government; (c) providing advisory services; and (c) delivering training.

The Bank responded to changing conditions and to the changing priorities of the government to restructure the project. The Bank: (a) secured additional grant funding of US$2 million for the project from Austria; (b) agreed to the recommendation to use the project funds to supplement salaries of the NAIP staff to reduce staff turnover; (c) developed a proposal submitted by the government to shift the focus of the project from SOE privatization to FDI promotion – the proposal was not supported by Austria, and hence dropped; and (d) extended the project closing date thrice --- the first, after US$2 million was added to the grant, the second, after various degrees of privatization were allowed, and the third, to complete the disbursement of the grant (see Section 2.E).

The Bank prepared regular supervision reports: (a) six Grant Reporting and Monitoring Reports (GRMs) were prepared from 2010 to 2014; (b) eight Implementation Status and Results Reports (ISRs) were prepared from 2015 to 2019 (at this time reporting for small recipient-executed trust fund grants was migrated to the Operations Portal).

The Bank conducted a comprehensive review of the project status during the first restructuring in 2014. The served as the mid-term review, which was not required for this project.

Quality of Supervision Rating
Satisfactory

Overall Bank Performance Rating
Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

A formal results framework, including output and outcome indicators, was not required for this small operation, although the TFP (pages 4-5) listed "planned outputs" for each project component, including the Bank-executed part, and "outcome indicators", some with quantitative targets.

An indicative results framework was prepared, instead, at the start of the project. According to the ICR (pages 28-29), this results framework was revised several times during project implementation in deliberations about project restructuring, although the restructuring papers did not cite decisions about the modification of the results framework. The final results framework, including the output indicators and targets, are cited in the ICR (page 55).
The final version of the results framework listed one output indicator for the objective "to provide Belarus with necessary legal instruments to successfully launch and roll out a privatization program" and four output indicators for the objective "to provide Belarus with necessary institutional instruments and implementation capacities to successfully launch and roll out a privatization program."

The Grant Agreement (page 5) required the government to monitor and evaluate the progress of the project and to prepare project reports following Section 2.06 of the *Standard Conditions for Grants Made by the World Bank Out of Various Funds* (July 31, 2010), which should be submitted to the Bank within a month after the end of each semester. According to the ICR (page 29), it was understood that the NAIP would fulfill the M&E function for the government.

b. M&E Implementation

NAIP's M&E reporting focused on progress toward its internal Action Plan objectives. These reports were short-term focused, process-oriented, and "generally de-linked from the project PDO", according to the ICR (page 29).

The NAIP, however, provided data that enabled the Bank to produce 6 GRMs and 8 ISRs over the life of the project. The Bank reports tracked progress with the project results indicators. Using the NAIP data, the Bank rated: (a) progress toward achievement of the development objective (DO) as satisfactory, starting in June 29, 2018, from moderately satisfactory previously; (b) overall implementation progress (IP) as satisfactory, starting in June 29, 2018, from moderately satisfactory previously, and (c) overall risk, project management, procurement, financial management, and M&E, as all moderate.

c. M&E Utilization

According to the ICR (page 29), the principal uses of M&E data were: (a) to inform deliberations and decisions to restructure the project, thrice over life of the project, and (b) to help the NAIP prioritize targets for its internal Action Plan.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

Environmental Effects: No environmental review was required for this technical assistance project. There were no safeguards ratings.
b. Fiduciary Compliance

Procurement: The TFP (page 7) mandated the application of Bank procurement policy under OP 11.0, *Procurement*, and OP 11.1 for recipient-executed activities and AMS 15.01, *Selection and Use of Operational Consultants for the Bank Group*, for Bank-executed activities. According to the ICR (page 24), the procurement of financial advisory services, information technology systems, and customer relationship management software was completed efficiently. The rating for procurement was satisfactory at project closing.

Financial Management: The TFP (page 7) mandated the application of Bank financial management policy under OP 10.02, *Financial Management*, and other Bank due diligence processes. According to the ICR (page 20), the NAIP performed the project disbursement and financial management functions satisfactorily. There was a brief period of learning and capacity building at the start of the project and there were staff changes but transitions were always smooth. Quarterly project financial management reports (FMRs) were submitted on time and of acceptable quality, with few exceptions. The rating for financial management was satisfactory at project closing, and there were no pending financial management issues with the project.

Audit: Annual audits of project financial statements were carried out on time and based on agreed terms-of-references by private auditors. The auditors issued clean (unmodified) audit opinions and noted no significant internal control issues. The final audit was submitted and accepted by the Bank.

c. Unintended impacts (Positive or Negative)  
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d. Other  
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### 11. Ratings

<table>
<thead>
<tr>
<th>Ratings</th>
<th>ICR</th>
<th>IEG</th>
<th>Reason for Disagreements/Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outcome</td>
<td>Moderately Satisfactory</td>
<td>Moderately Satisfactory</td>
<td></td>
</tr>
<tr>
<td>Bank Performance</td>
<td>Moderately Satisfactory</td>
<td>Moderately Satisfactory</td>
<td></td>
</tr>
<tr>
<td>Quality of M&amp;E</td>
<td>Substantial</td>
<td>Modest</td>
<td>M&amp;E reporting focused on progress toward NAIP’s internal Action Plan objectives rather than on this TA project. These reports were short-term focused, process-oriented, and &quot;generally de-linked from the project PDO&quot;, according to the ICR (page 29).</td>
</tr>
<tr>
<td>Quality of ICR</td>
<td>---</td>
<td>Substantial</td>
<td></td>
</tr>
</tbody>
</table>
12. Lessons

Three lessons are drawn from the ICR (page 32), with some adaptation.

**SOEs need to be prepared for privatization, including through corporate restructuring as necessary and with improvements to corporate governance.** In this project, many SOEs in Belarus, as elsewhere in Central and Eastern Europe, carry non-core assets that make them unattractive to the market. They also suffer from poor productivity and debt overhang. In these cases, pre-privatization corporate restructuring would be necessary. Often, funding and other support for restructuring are not available, but should be. Moreover, SOEs in Belarus are also saddled with corporate governance issues, including over-staffing. Improvements to corporate governance prior to privatization would also be necessary.

**Co-financing by the government of privatization activities might help strengthen government commitment to a privatization project.** In this project, a modest government financing contribution could have raised the project's profile, strengthened adherence to decision timelines, and facilitated the implementation of the project. The government contribution could have also been used to pay: the NAIP staff salaries, professional services for SOE corporate restructuring prior to privatization, or success fees to financial advisers (commissions paid to an advisor, typically an investment bank, for successfully completing a transaction).

**Technical assistance for SOE privatization can be combined with assistance for FDI promotion.** In this project, the NAIP was created as both an SOE privatization and FDI promotion agency. In general, there are synergies between SOE privatization and FDI promotion, where SOEs are offered for sale to foreign investors. Skills and experience with SOE valuation, tender document preparation, and contract negotiation are also valuable to preparing and offering joint ventures and PPPs, among other modes of FDI, to foreign investors.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provides a reliable record of the project, considering that the components, "planned outputs", outcomes, financing, and implementation schedule changed from the Concept Note (in August 2010) to the Trust Fund Proposal (October 2010) and through the first (November 2014), second (July 2016), and third restructuring (January 2018). The GRMs and ISRs were also tracked progress against changing targets, hence it is helpful that the ICR was able to convey the final version of the project targets.

The discussion of the project outcome is candid. All five results targets were met (ICR, pages 16 and 20). No SOE sale was concluded, but a successful sale was never a project target under this pilot privatization. Still, the expectation that one SOE would be successfully privatized remained high, considering the following: the
project completion date was extended thrice to an eight-year-plus project duration; the grant financing was increased by US$2 million; some 70-230 investors were invited for each SOE sale; remedial measures were introduced, including by re-tendering three offers; and three negotiations came close to being concluded. According to the ICR (page 17), the "expectation of success was widely shared among all parties (except for the donor)".

In this regard, the ICR's analysis (pages 17-18) of why the privatization tenders failed is enlightening: (a) lack of political support; (b) general weakness in the country's investment climate; and (c) remaining deficiencies with the national legislation (see Section 4, Objective 2). This should help inform the government, the SOEs, the domestic private sector, foreign investors, the donor, and the Bank of the challenges to SOE privatization in Belarus, and possibly elsewhere in the region.

a. Quality of ICR Rating
   Substantial