Report Number: ICRR0022881

1. Project Data

Project ID	Project Name	
P146997	PFM Modernization Project	
Country	**Practice Area(Lead)**	
Belarus	Governance	

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IBRD-86060	30-Sep-2019	8,954,733.47
Bank Approval Date	**Closing Date (Actual)**	
28-Mar-2016	30-Jul-2021	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	10,000,000.00	0.00
Revised Commitment	10,000,000.00	0.00
Actual	8,954,733.47	0.00

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2. Project Objectives and Components

a. Objectives

According to the Loan Agreement (Schedule 1, p. 6), and the Project Appraisal Document (PAD, p. 9), the Project Development Objective (PDO) was “to improve policy alignment of the budget, consolidate cash balances, improve budget transparency and lay the foundations for an integrated financial management information system.”

This PDO can be unpacked as follows:

Objective 1: To improve policy alignment of the budget;

Objective 2: To consolidate cash balances;

Objective 3: To improve budget transparency; and

Objective 4: To lay the foundations for an integrated financial management information system (IFMIS).

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 three interconnected components. Following a restructuring in 2019, changes were made to some subcomponents and their corresponding costs and timelines. The original project was comprised of four pillars/policy areas: policy-based budgeting (pillar 1); cash management (pillar 2); budget transparency (pillar 3) and preconditions for development of an IFMIS (pillar 4). Each pillar had a dedicated objective and a key outcome indicator (KOI). Pillars 1 and 4 also had a set of intermediate results indicators (IRIs). Pillar 1 rested on three IRIs: improved capacity for macroeconomic forecasting for medium-term budgeting (IRI1); tax expenditures assessment (IRI2); and a program budgeting methodology (IRI3). Pillar 2 and Pillar 3 did not have any IRIs and were related with TA consultancies and the purchase of ICT equipment. Pillar 4 was linked to four IRIs: budget and financial reporting (IRI4); debt management (IRI5); PSA reform (IRI6); and revised business processes (IRI7). Following the level 2 restructuring of the project after the mid-term review, IRI1, IRI2 and IRI5 were dropped as they were being implemented by another Bank department and the IMF (footnote 1). Two new IRIs were added to the restructured project: IRI8 related with the Automated System for Financial Settlements (ASFS) and IRI9 related with the storage capacity of the ASFS. While the PDO and total financing allocated to the project did not change after restructuring, the funding between pillars was reallocated.

The overall project cost was unchanged. The four pillars described above map into the following three project components:

Component 1 – Budget management regulations and procedures (original cost: US$4.92 million; cost after restructuring: US$3.06 million; actual at project closing: US$2.96 million).

The original design of this component had three sub-components, but some were changed during restructuring:

1. **Budget preparation**. The government's Public Financial Management (PFM) Reform Strategy planned to introduce a medium-term budget framework and link state programs and budgeting processes through the introduction of program budgeting. This sub-component would support this process and include technical assistance (TA) for (i) macroeconomic forecasting, (ii) revenue forecasting, (iii) tax expenditure analysis, and (iv) medium-term budgeting and program budgeting including monitoring and evaluation (M&E) of program implementation. During restructuring, the

macroeconomic forecasting and tax expenditure analysis tasks were cancelled as they were being implemented under other Bank and IMF activities (footnote 1).

2. **Debt management system**. The government's Public Debt Management Strategy for 2015-2020 emphasized maintaining sustainable levels of public debt and sound debt management practices. This subcomponent would support implementation of the medium-term debt management strategy in line with the medium-term macro and budget framework, and include strengthening the analytical capacity of the Ministry of Finance (MoF) for effective borrowing policies; improvement in debt management practices including risk analysis, cash flow forecasting, and debt reporting; and introduction to the management of contingent liabilities for the central government's external and domestic loan guarantees and local borrowing. During restructuring, the debt management system-related activities were dropped as they were being implemented under Bank activity (footnote 1).
3. **Budget execution and reporting**. This sub-component would enhance the government's ability to efficiently use resources for service delivery through: (a) strengthening of treasury controls over budget spending and improvements in cash management by expansion of the coverage of the Treasury Single Account (TSA), strengthening management of commitments, integrating procurement procedures into the budget execution process, and developing cash forecasting capacity; (b) supporting the initial stage of implementation of public sector accounting reform through definition of institutional responsibilities; development of a conceptual framework; development of an initial set of priority accounting standards in line with an approved action plan; and redesign of the public sector chart of accounts and its integration with the budget classification; (c) development of a conceptual framework for modernizing the public sector internal financial control system and creation of the basis for an internal audit function within the public sector to refocus financial control activities on prevention of irregularities and improvements in the efficiency and effectiveness of public spending; and (d) enhancement of budget transparency by improving the format and content of budget information, and development of user-friendly versions of budget documents and explanatory material on the budget process, including an annual citizens' budget. The procurement of data extraction and business analysis software would be used for preparing budget execution data in a reader-friendly format affecting the achievement of the PDO (footnote 2)[1]

Component 2 – PFM Information Technology (IT) solutions (original cost: US$3.45 million; cost after restructuring: US$5.73 million; actual at project closing: US$5.0 million).

This component would provide a basis for future IFMIS implementation by: (a) developing new or revising existing business processes based on reform initiatives in the areas of PFM reform; (b) preparing tender documentation; (c) supporting preparation for IFMIS procurement including market analysis of existing off-the-shelf solutions, comparative analysis of available hardware, and preparation of draft specifications; and (d) supporting the design and improvements to debt management IT solutions, business process management software, and upgrading of the existing Automated System for Financial Settlements (ASFS) infrastructure, including user support software, to ensure functionality of the existing system before the new IFMIS was procured and implemented. During restructuring, two new activities related to IT purchases and data migration were added and led to an increase in the overall cost of this component. However, during project implementation, one of the activities related with the design of the IFMIS was dropped, resulting in an undisbursed balance for Component 2.

Component 3 – Change management (original cost: US$1.60 million; cost after restructuring: US$1.18 million; actual at project closing: US$0.96 million).

The change management component would support the implementation of regulatory and procedural reforms through capacity building and project management activities. It would support the operation of the project implementation office, which would implement project procurement, financial management activities, and audits; help the MoF to coordinate project activities; and interact with local and international entities involved in the project. The component would also support additional training needs not covered under Component 1 activities, publication of training materials, training of trainers, capacity building, and procurement of equipment for the MoF Training Center.

[1] The three key IRIs (1, 2, and 5) covering macroeconomic forecasting, revenue forecasting, tax expenditure assessment and debt management were originally intended to play an integral role in improving the policy alignment of the budget and its execution. They were dropped during restructuring as they were being implemented by the IMF and Bank under other projects. They were neither replaced with other sub-components that could support/ensure that PFM efficiency was not compromised without them, nor was the PDO modified to reflect a more modest objective that was consistent without them.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project cost: The original project cost was US$10 million (Loan Agreement, p. 1; PAD p. 2). At project closing on July 30, 2021, the amount disbursed was US$8.95 million. Approximately 10 percent of the loan proceeds remained undisbursed, partly due to savings from tasks done in-house and cancellation of the IFMIS design consultancy.

Financing: This investment project was originally intended as the first of a two-part $100 million operation (ICR, p. 2), but the government did not proceed with the second part. The first part was 100% funded by a World Bank loan of US$10 million to the Government of Belarus.

Borrower Contribution: None planned or made.

Dates: The project was approved on March 28, 2016 and became effective on July 27, 2016. The original closing date was September 30, 2019. The actual closing date was July 30, 2021.

The project underwent one Level 2 restructuring on July 19, 2019, following the Mid-Term Review (MTR) in July 2018. There were no changes to the PDO, Key Outcome Indicators (KOIs), or the KOI target values. The main changes were related with (i) the dropping of three IRIs related with component 1 as they were being implemented under another Bank or IMF activity (footnote 1), and (ii) addition of two IRIs as they were deemed essential for the achievement of the IFMIS system covered by component 2.

Revised components:

- The following Component 1 activities were dropped as they were financed directly by other sources:[1]: macro and fiscal forecasting, tax expenditure assessment, debt management, and budget execution. This resulted in a reduction in the original cost of Component 1 from US$4.92 million to US$3.06 million, and a reduction in the original cost of Component 3 from US$1.60 million to US$1.18 million.

Under Component 2, two new activities were added: hardware and software purchases to help ensure the reliability and sustainability of the ASFS and to support data migration and thereby enhance ASFS capabilities. These changes increased the cost of Component 2 from US$3.45 million (original) to US$5.73 million.

- The original overall project cost was not affected by the restructuring.

Following the restructuring, the project's results framework (PRF) changed as follows: (i) three intermediate results indicators (IRIs) linked to the dropped activities were eliminated (i.e., IRIs 1, 2 and 5); and (ii) two new IRIs were added to reflect the addition of new activities and procurement of additional IT equipment under Component 2 (i.e. IRIs 8 and 9). The end-date for the targets was accordingly adjusted for all indicators in line with the revised closing date.

Closing date: The project's closing date was extended by 22 months to account for delays under Component 2 due to the cancellation of two large tenders totaling over US$3 million, as well as the additional time required to complete the public sector accounting reform.

[1] Macro and fiscal forecasting (IRI1) was supported with TA from the International Monetary Fund; tax expenditure assessment (IRI2) was done in-house by the MoF after a failed procurement process; budget execution improvements were implemented in-house by the MoF; debt management (IRI5) was supported by World Bank TA under a European Union Trust Fund (Structural Reform Technical Assistance Support Program in Belarus, P164043).

3. Relevance of Objectives

Rationale

The PDO was fully aligned with the Bank-supported strategy for Belarus at appraisal and closure. By contributing to the achievement of more transparent management of public resources, the project would directly support Pillar 1 of the 2014 - 2017 Country Partnership Strategy (CPS) for Belarus that aimed at improving the competitiveness of Belarus' economy. The PDO remains relevant for the current Country Partnership Framework (CPF) FY18-22, which aims to create opportunities for private sector growth through more transparent PFM: "….as a necessary step toward monitoring and increasing the productivity of public spending, including public investments, social programs, and financial transfers to state-own enterprises" (CPF FY18-22, Objective 1C).

The project's PDO remains a priority for the government in several ways. The 2035 National Strategy for the Sustainable Development of Belarus envisions a PFM system with fully automated monitoring of state programs in all sectors and an open and transparent budget process. PFM reform is a priority for the 2021-2025 Program of Socio-Economic Development of the government, and the State Program "Public Financial Management and Regulation of Financial Market for 2020-2025" continues to focus on the project's PDO. At least three of the project's target indicators are included in the State Program.[1]

[1] The following three target indicators are included in the State Program: (i) the share of expenditures of state bodies of the republican level outside the single treasury account to represent 5 percent or less; (ii) the share of programs in budget expenditures to represent 65 percent or more; and (iii) specific targets for the number of districts publishing Citizens' Budgets.

Rating
High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective
Improve policy alignment of the budget

Rationale
Prior to the project, the budget process was delinked from the policy priorities and capital costs of the medium-term investment programs.

The causal chain for this objective was that the MoF's application/adoption of the medium-term program budgeting methodology in the PFM system would lead to the inclusion of the annual capital and recurrent costs of priority multi-year investment programs in annual budgets, thus improving the policy alignment of the budget. Through support for internal controls and audits, revenue forecasting, and medium-term planning and program budgeting (outputs), the project would directly enable the MoF to apply the medium-term program budgeting methodology in the PFM system (outcome). However, most of the outputs related with revenue forecasting, tax expenditure assessment and macro-fiscal forecasting that were an integral part of the original project were either dropped or paired down following the MTR. It would have been difficult to achieve KOI1 if it were not so narrowly defined after the restructuring.

Inputs and Outputs

Through consultancies and training (inputs), the project supported the modernization of Belarus's Internal Financial Control and Audit functions (output) which were piloted in the Minsk region in 2020. The results of this pilot informed the draft law on "state companies and companies with state ownership."

Similar support facilitated the revenue forecasting component (output) of the PFM system, although the support was only partial as the selected consultant firm was terminated (due to bankruptcy). The MoF and the IT Center used its partial outputs to improve MoF's revenue forecasting process, including factor analysis of the main budget revenues. The first stage of automating the revenue forecasting process was completed by project closing in 2021. Automation of revenue forecasting was fully completed by December 2021.

Its completion is expected to improve the accuracy of forecasting and streamline and facilitate the recording and reporting of non-tax revenues.

Project support led the MoF in 2016 to revise the requirements for the state's preparation for the multi-year, program-based fiscal planning and budgeting PFM reforms. Specifically, this included i) the development of a fixed list of programs for implementation in the next five-year planning cycle; ii) strengthening the cost information requirements for state programs; iii) limiting total budget expenditures at their estimated cost; iv) using the second- and third-year estimates as a baseline in the next budget planning cycle; and v) requiring public disclosure of the program performance reports. These changes represented a significant step towards the multi-year, policy focus in fiscal planning and budgeting.

Ministries and government agencies now abide by the newly introduced fiscal constraints, public accountability, and transparency requirements.

The program-level, multi-annual budgeting methodology (President's Edict No. 289, July 25, 2016) was revised to: i) ensure the full coverage of the state programs' expenditures at the central and local levels of government; ii) provide flexibility for program administrators to reallocate funds between program activities; iii) make explicit the social and economic development impacts including reference to the Sustainable Development Goals; and iv) require program performance evaluation to be conducted on an annual and cumulative basis. As final government approval is still pending, this intermediate results indicator (IRI) is considered as only partially achieved.

The revised methodology is already being implemented in 36 programs under the CY2021-25 budget cycle. As discussed under Relevance, the Public Finance Management and Financial Market Regulation established that the share of program expenditures in the total volume of consolidated budget expenditures in 2021-2025 had to be at least 65 percent.

Outcomes

Key outcome indicator (KO1): Increasing the percentage of the consolidated budget expenditures covered by state programs.

Baseline 2014: 16 percent. Target 2020: 50 percent. Actual: 69 percent - Achieved.

The rise in the share of budgetary expenditures being covered by the state programs contributed to an improvement in the policy alignment of the budget. While in principle, KOI1 was achieved, it is notable that the achievement of objective 1 is considered "substantial" when most of the original sub-components that were considered integral in the original project were dropped at MTR. In particular, the revenue forecasting sub-component was only partially implemented following a failed procurement contract. The tax expenditure assessment and macro-forecasting sub-components were dropped, and IRI3 was only partially achieved as per the ICR.

Rating

Substantial

OBJECTIVE 2

Objective

Consolidate cash balances

Rationale

While most central government accounts were managed under the TSA, roughly 11 percent of the central budget in 2014 comprised of own-source revenues, utility cross-subsidies, and other small extra-budgetary funds remained outside the formal budget process, undermining transparency, control, and efficiency in the use of public resources. In the Ministry of Labor, almost 35 percent of the total resources were outside the formal budget process.

The causal chain for this objective was that by consolidating extra-budgetary cash accounts under a TSA, the MoF would increase their transparency and efficiency, and subject them to the same degree of ex-ante control as the on-budget resources of the PFM system. The project would support the acquisition and modernization of IT infrastructure needed for the consolidation of the extra-budgetary cash accounts in the existing treasury system.

Inputs and outputs

Through consultancies, training, and IT equipment (inputs), the project supported budget execution and modernization of the IT infrastructure for the existing treasury system (outputs). About 977 extra-budgetary cash accounts were consolidated under the TSA, resulting in gains in transparency and efficiency in line with that of on-budget resources.

Outcomes

KOI 2: Decrease the share of extra-budgetary spending managed outside the TSA by consolidating cash balances under the TSA. Achieved.

Baseline 2014: 11 percent. Target: 7 percent; Actual in 2020: 5.92 percent.

Rating

Substantial

OBJECTIVE 3

Objective

Improve budget transparency

Rationale

Belarus' Constitution guarantees citizens the right to receive, store, and distribute timely information about the central budget. In 2010, Presidential Edict 60 was instituted requiring public entities to disclose information about their operations on their official websites. While the MoF's website provided public access to the budget and its implementation, for most readers, it was difficult to understand and provided few details. The causal chain for this objective envisioned that the MoF's online publication of the approved central budget disaggregated appropriately and enhanced with indicators for the state's programs would respond to the need for a Citizens' Budget and improve budget transparency. Although the fiscal data portal was not necessary for making available the Citizen's Budget, the MoF setup a dedicated portal (IT resource) to make available all information related to the Citizen's Budget in one place. The project would support the online posting of the Citizens' Budget.

Inputs and outputs

The project supported the IT equipment (inputs) needed for the modernization of the IT infrastructure and the implementation of the Fiscal Transparency Portal to provide public access to data on budget execution (outputs). In January 2018, the portal began providing online access to interactive fiscal data on budget execution in English and Russian. Access was also available on smartphones/tablets. The budgetary data available online was disaggregated at the level of the approved budget and included information on financial and results indicators of state programs. While the issue of data quality is as integral as the issue of making the data available online to the public, and is not addressed explicitly in the ICR, subsequent information from the Region notes that the quality of the available data was already satisfactory and making it easily accessible online was the key issue that the project helped to address.

Outcomes

KOI 3: Increase transparency in budget execution by publishing the Citizens' Budget on the MoF's website. Achieved.

Baseline: At appraisal in 2016, a Citizens' Budget was not available. Target: Detailed Citizens' Budget on central government operations is published online annually. Actual: From 2018 onward, a detailed Citizens' Budget and interactive fiscal data was made available on the MoF's website. Achieved.

In addition to the Citizens' Budget, the MoF also started publishing quarterly bulletins on the execution of the consolidated, central, and local budgets. The upgrading of the Fiscal Transparency Portal (https://minfin.gov.by/en/budgetary_policy/) enabled users to download historical data on program-level expenditures. Tools for citizens' questions and feedback were also introduced. This has increased budget transparency at the program level. Subsequent information provided by the Region based on government data states that the portal had nearly 10,000 total views, including their Russian and English versions, in 2020 and almost 6,000 views from January 1 to July 30, 2021 (project closing date). According to Ministry of Finance, the most accessed documents have been "Budget Execution Bulletins" and "Budget for Citizens."

In accordance with the requirements introduced by the MoF, regional ("oblast") subnational governments also began publishing their own Citizens' Budgets in 2018. Several districts ("rayons") are also publishing their Citizens' Budgets, with full coverage anticipated by CY23.

Rating

Substantial

OBJECTIVE 4

Objective
Lay the foundations for an integrated financial management information system (IFMIS).

Rationale
While the highest levels of the MoF were interested in the adoption of the IFMIS system, Belarus's PFM system required many changes (new IT solutions and technical skills training to adapt the existing public sector accounting (PSA) standards and methodology) before it could be transitioned to the IFMIS. - To allow adequate time for the transition, the IFMIS was envisaged to be implemented in two stages. Given that PFM reforms are complex and lengthy, the first operation focused on reforms that are prerequisites for successful FMIS design and implementation. These included regulatory reforms and business process reengineering that would help stabilize system requirements prior to procurement and implementation. The project also allowed the authorities to undertake market consultations prior to procurement and provided support for the preparation of tender documentation. This was to be achieved through TA consultancies and purchase of ICT equipment.

Inputs and outputs

The project's support for TA consultancies and IT equipment (inputs) focused on PSA and supported: (i) the development of new NPSASs that were compliant with the IPSAS; (ii) the development of a high-level strategy and design for the implementation of the new IFMIS (e.g., business processes revised; clear roadmap for IFMIS modernization); and (iii) the modernization of the MoF's IT infrastructure (e.g., enhanced resilience and storage capacity of the ASFS). These three outputs were intended to facilitate several intermediate outcomes, but not all of them were achieved. The following two IRIs were achieved:

IRI 4 – Integration of budget and financial reporting based on international standards: Achieved. IRI 4 involved the development of the new NPSAS, including a Unified Chart of Accounts, and its pilot implementation was approved in 2019.

IRI 6 – PSA reform under implementation: Achieved. A conceptual framework for PSA reform was implemented when 5 PSA standards were developed in compliance with IPSAS, compared to a target of 3 - 4 standards.

The following three IRIs related to the IFMIS were not fully achieved at project closing. In addition to the late addition of IRI 8 and IRI 9, delays were caused by: (i) cancellation of two large tenders totaling over US$3 million; and (ii) additional time required to complete the PSA reform. The design of the IFMIS mainly included development of bidding documents based on functional requirements of approved revised business processes and a Unified Chart of Accounts. Other activities, including procurement of hardware, software, and licenses as well as consultancies for the various dimensions of PFM reform were supposed to ensure functionality of the existing system before the new FMIS was procured and implemented.

Although with some delays, the bidding for the design of the IFMIS, including the selection of the consultant firm, was satisfactorily completed in September 2020. However, for reasons beyond the government's control, the firm subsequently declined to sign the contract.[1] The government decided not to proceed with the next-ranked consultant since the time required for new contract negotiations would reduce the implementation period to only six months. Instead, it decided to proceed by adopting a gradual, modular approach and continuing to build upon the PFM activities supported under the project with mainly in-house resources and individual consultants.

IRI 7 – Revised business processes approved. IRI 7 was only Partially Achieved as the review of the PFM business processes was still ongoing when the project closed. While the review of two sub-systems (i.e., annual budget execution and revenue management) was complete/nearing completion, the review of the remaining processes (i.e., budgeting, annual budget preparation and management) was anticipated in 2022.

IRI 8 - Reliability and fault tolerance of the ASFS. Although the ICR considers IRI 8 to be achieved, tasks related to IRI 8 (completion of the installation and configuration of the new equipment) were ongoing at the time of project closing in July 2021. Given that the expected date of completion was CY21, this ICRR considers IRI 8 Partially Achieved.

IRI 9 - ASFS centralized storage capacity expansion. IRI 9 was only Partially Achieved as the ASFS centralized storage capacity was being expanded with the implementation of a high-speed and reliable data storage system when the project closed. The capability to operate the ASFS in emergency mode using automatic backups was anticipated by November 2021 at the central level and by June 2022 at the subnational level.

[1] The formal explanation offered by the consultant was that some of its key international technical experts were no longer available.

Outcomes

KOI 4: Bidding documents for an IFMIS are prepared based on approved revised business processes and Unified Chart of Accounts.

Baseline: None. Target: Bidding documents for an IFMIS are prepared. Actual: Partially Achieved.

The preparation of bidding documents for the new IFMIS was not relevant given the government's decision to proceed with its development in-house. Since the GoB decided to proceed without a commercial grade -off-the-shelf IFMIS whose ICT requirements are well-known and opt for an in-house system whose ICT requirements may be different, there is no evidence to support that the ICT infrastructure investments or any training or other activities implemented during the project will be necessarily relevant for the in-house system. The latter may have a different set of ICT requirements.

While KOI 4 was technically not achieved, progress was made towards the definition/design of the new system, with most specifications that were to be included in the bidding documents being either fully complete or nearing completion, including:

- The Unified Chart of Accounts was developed and approved.
- Enhanced MoF's systems and IT infrastructure could adequately support a new IFMIS.
- IFMIS Modernization Roadmap was prepared and regularly updated.
- The review of business processes was still ongoing; thus, the partial achievement of KOI 4.

Rating

Modest

OVERALL EFFICACY

Rationale

The project's overall efficacy is Substantial and reflects its Substantial achievements under PDOs 1, 2 and 3, and Modest achievement under PDO 4. The project's support facilitated modernization of Belarus's PFM system related with objectives 1 - 3. The improvement in the alignment of the budget with policy through the adoption of the multi-year, program-based fiscal planning and budgeting PFM reforms strengthened the quality of PFM. Consolidating the extra-budgetary cash balances under the TSA contributed to the efficiency and accountability of the PFM system. The publication of the Citizen's Budget helped to bring long overdue transparency to Belarus's public financial system. The government's decision to proceed with the activities related to the adoption of the IFMIS without project support raises the question whether the ICT infrastructure investments that are well-known and designed for a commercial off-the-shelf IFMIS will be relevant for the government's in-house model whose ICT requirements are unknown. The crux of the ICT investments already made was not whether new ICT infrastructure was needed but whether the specific ICT infrastructure investments already undertaken would be compatible with any in-house system that the government would adopt in the future.

Overall Efficacy Rating

Substantial

5. Efficiency

The project's benefits are mostly intangible and cannot be quantified and compared with the project's costs in the conventional sense because the core of the project focused on modernization of the PFM system and substantial upgrading and installation of new IT infrastructure to improve the efficiency of the existing PFM system. The economic benefits in the form of fiscal savings were expected to be substantial and accrue in the medium to longer term but have already declined significantly due to Belarus's support for the Russian invasion of Ukraine and the attendant sanctions on its economy.

Although difficult to quantify, the implementation of medium-term budgeting and its increased focus on results at the program level have potential to enhance the efficiency of the state programs included under the multi-year, program-based budgeting system related with PDO1. However, without the benefit of the efficiency gains that accrue with the dropped sub-components (related with revenue and macro-fiscal forecasting, and tax expenditure assessments) of PDO1, it is unclear whether the multi-year, program-based budgeting system will add significant value to Belarus's PFM system. Improved data quality following the Unified Chart of Accounts and PSA reform may bring some efficiency gains to the government.

The recurrent implementation delays which led to a 22-month extension to the original closing date of the project are likely to have affected the efficiency of the project significantly. A large part of the delay is attributable to the IFMIS component which twice faced contractual difficulties with consulting firms. Finally, the GoB decided to develop a new in-house system with its own resources instead of spending millions of US dollars to procure a commercial system fitted to its needs.

In addition to the opportunity costs associated with those years of wasted time, a substantial amount of the project costs were spent on IT upgrades and equipment to prepare for a new IFMIS. It is unclear whether those investments in ICT infrastructure will be compatible with whatever in-house system the GoB will ultimately adopt.

By publishing the Citizens' Budget on the MoF's website, the MoF increased the transparency of budget execution, but the project did not include an indicator/sub-component that also focused on the quality of the data being posted.

The ICR could have provided a comparison of how this project's management costs as a share of the total project cost compare with similar projects in other countries in the ECA region.

One tangible outcome of the project was quantified for the project's ICR. The consolidation of 977 extra-budgetary cash accounts under the TSA resulted in significant savings in banking fees and borrowing costs. The economic analysis in the ICR found that when these benefits are compared with the overall project costs, they yield a Net Present Value (NPV) of US$25.1 million, larger than the NPV anticipated at appraisal ($21.8 million) as the actual consolidation of cash accounts was higher than originally anticipated. According to these estimates, the economic efficiency of the project was well above average.

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:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐ Not Applicable
ICR Estimate		0	0 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The overall relevance of the project's PDO is High, its efficacy is Substantial, but its efficiency is Modest. The outcome rating is Moderately Satisfactory. There was a significant delay in project completion due to the inclusion of the IFMIS component on which a significant amount of money was spent but ultimately the GoB backtracked and decided to implement its own in-house system. It is unclear whether the investments in the IFMIS infrastructure are compatible and will be used for the government in-house system when it is implemented. While there was some value addition from the multi-year program budgeting component, the dropping of several key components that are known to be integral to the efficiency of similar reforms cast doubt on its value addition to Belarus's PFM system. The reform to publish the Citizen's budget to enhance budget transparency was a welcome step. The overall PDO remains relevant for both the CPS and the government's development agenda.

a. Outcome Rating

Moderately Satisfactory

7. Risk to Development Outcome

As the MoF's organizational and management structures were actively involved, and the project was fully implemented, the transition after the project's closing was expected to be smooth. The PFM reforms that led to the achievement of PDO 1- 3 have the support of the government and the public, especially because of the availability of the Citizens' Budget. Several aspects of the PFM reforms (revenue forecasting) and some of the IFMIS-related preparations were implemented in-house and enjoy government support. The state program on PFM and government intention to proceed with the reforms in-house and with domestic financing is firm. The plans for the modernization of the new IFMIS supported by a commercial system collapsed following two failed procurement contracts and GoB's decision to implement an in-house system.

There is a risk that the ICT-related infrastructure for the IFMIS system may not be compatible with the specific ICT infrastructure requirements of the government's in-house system.

There is a high risk that due to the ongoing 2020 political turmoil and the current global sanctions against Belarus, the decline in budgetary revenues will delay/derail the government's ongoing work on all components of the project, especially IFMIS implementation in the long term. By supporting the war in Ukraine, GoB has exacerbated this challenge by alienating its former development partners who could have extended financial support to tide over a fiscal crunch. As an example, the World Bank temporarily closed its office in Belarus. By alienating its development partners, Belarus has also closed its doors to technical assistance that it could use to offset the limited availability of technical skills needed to sustain the ongoing and planned PFM reforms. The resource and technical skills shortages together can affect the development outcome of the project. The sanctions are also likely to deter foreign technical skills in Belarus in the near term and jeopardize the development of the IFMIS in the future.

There are also other risks. As political tensions remain unresolved since the August 2020 presidential elections, the government has a cautious position towards any policy reforms and requests for new financing. If this condition endures in the medium to longer term, it can disrupt the fiscal transparency-related PFM reforms that were implemented as a part of the project.

There are some positive announcements that signal the government's ongoing commitment to this project's PDO. The 2021-2025 Program of Socio-Economic Development continues to identify PFM reform as a priority and mimics the project's PDO, KOIs and even some targets. They include: (i) expanding the use of program budgeting in various sectors of the economy while maintaining the coverage of budget expenditures by state programs at the level of at least 65 percent; (ii) developing a mechanism for automating the formulation and monitoring of the budget execution of state programs; and (iii) continuing to consolidate off-budget funds into the TSA to expand the resources available to the government in real-time.

The State Program "PFM and the Regulation of the Financial Market for 2020-2025" focuses on the project's PDO, including the development of the IFMIS. It includes at least three of the project's target indicators: (i) the share of expenditures of central level state bodies outside the TSA to represent five percent or less; (ii) the share of state programs in budget expenditures to represent 65 percent or more; and (iii) specific targets for the number of districts publishing Citizens' Budgets. The Program's objectives strongly resonate with all four of the project's PDOs.

8. Assessment of Bank Performance

a. Quality-at-Entry

PDO1 and PDO4 suggest that the project's quality at entry could have been better. It was conceived when the government of Belarus was grappling with a difficult fiscal situation and sought the Bank's assistance in improving the efficiency of its PFM systems. The Bank team responded with multipronged support through diagnostic analysis, technical assistance, and a PFM lending operation. Diagnostic support included (i) two specific assessments and learning from (ii) lessons learned from similar projects in the ECA region, and (iii) lessons learned from 25 years of Bank experience with IFMIS implementation.

During project preparation, the Bank team leveraged the 2014 Public Expenditure and Financial Accountability (PEFA) Assessment which provided a sound diagnosis of the main weaknesses in Belarus's PFM system. The PEFA noted that the government's focus on annual budgeting without a medium term macro-fiscal perspective constrained strategic planning, fiscal adjustment, and spending agencies' ability to align their medium-term policy objectives with their resource envelope. Despite these inputs, key sub-components covering macro and fiscal forecasting, tax expenditure assessment, and debt management aspects of the PDO1 were dropped after project restructuring. Further, there was (i) no addition of new components to either replace the functions performed by these sub-components; (ii) regular tracking and reporting of their implementation under parallel activities to ensure that the efficiency of the PFM system was being enhanced by them; or (iii) an appropriate modification of PDO1 to reflect a more modest objective that could be achieved with the remaining sub-component. The Bank team explicitly assumed that the policy-alignment of the budget objective (PDO1) could be achieved without the achievement of IRI1, IRI2 and IRI5. The ICR does not provide any rationale for why these sub-components were included in the original project design or why their exclusion would not compromise the achievement of the original objective. The ICR only explains why the implementation of two of these three sub-components by the Bank and IMF led to their being dropped.

In designing PDO4, the project team built on the experience of PFM operations supported by the Bank in ECA countries (e.g., Albania, Russia, Georgia, Ukraine, Moldova, Kyrgyzstan, and Tajikistan), and well-documented lessons from different IFMISs across the globe during 25 years of Bank experience. Despite the rich knowledge-base to inform the project team, PDO4 – "to lay the foundation for an integrated financial management information system (IFMIS)" is loosely defined and lacks clarity. Laying the foundation for the IFMIS has a wide scope ranging from simply purchasing ICT equipment, to a combination of equipment purchase and TA to more substantive activities related with the ASFS or preparing bidding documents for the purchase of the IFMIS (KOI4).

The following lessons learned were reflected in the project's design:

- PFM reforms are complex, lengthy, and high-risk undertakings that require adequate preparation and sequencing for success. As the first of a two-project plan, it focused on reforms that were feasible within the project's timeframe and are prerequisites for the design of a successful IFMIS system and its implementation.
- Political commitment and system-user ownership are critical for the success of PFM reforms and IFMIS implementation. During project preparation, the Bank team devoted considerable effort in ensuring broad stakeholder consultation encompassing central agencies, line agencies, and oversight institutions before developing a shared national vision for PFM reform.
- IFMIS implementation is often hampered by lack of clarity regarding system requirements, and shortcomings in procurement and contract arrangements. To avoid these risks, the project should allow regulatory reforms and business process reengineering to be completed before completing the design of the IFMIS. This also helps to stabilize system requirements prior to procurement and implementation. The project should also allow the government to undertake market consultations prior to procurement and provide support for the preparation of tender documentation. This project's design included the recommended preparations for the preparation of the bid documents for the IFMIS.

- As legacy systems must operate until the replacement systems are fully functional, they need to be upgraded to meet business needs, and the project should provide ongoing support to them. Where legacy systems have been developed in-house or in close collaboration with local suppliers, there may be resistance to the acquisition of replacement systems.[1] The project will ensure that the pros and cons of alternative solutions are reviewed and debated before proceeding with the acquisition of any replacement system.

Fragmentation of cash balances in multiple bank accounts outside of treasury hindered monitoring of the government's cash position in real time. The existing PFM system was not conducive to efficient resource allocation, and the financial information available was inadequate for high-level decision making. These findings became the core of this project.

The Bank provided ongoing technical assistance financed from the ECA PFM Trust Fund (PFM TA grant) to support the government in developing the PFM reform program and preparing for the implementation of this project.

1] "Financial Management Information Systems: 25 Years of World Bank Experience on What Works and What Doesn't," World Bank, 2011.

Quality-at-Entry Rating
Moderately Satisfactory

b. Quality of supervision

The Bank Task Team conducted 11 implementation support visits and provided strong support during implementation as evident from well-documented ISRs, Aide Memoires, and field notes. These were supplemented by videoconferences to provide just-in-time advice, including by facilitating discussions between the client and the consultants on draft deliverables. The MTR took place as scheduled and prompted the project's restructuring to adjust its scope. A few activities were dropped as they had other sources of funding, a few were added, and there was a corresponding reallocation of funds to ensure that all were adequately funded.

The composition of the Bank team and its proficiency in Russian were conducive to establishing direct liaison with technical staff implementing the project. This fostered communication and feedback in response to the multiple formal and informal requests from the counterparts. Such technical interactions also improved the understanding of implementation challenges, discussions of potential solutions, and agreements on courses of action. The Borrower noted how much the harmonious working relationship between the Bank and government teams and the strong technical support contributed to the success of the project.

Project supervision also benefited from the experience of seasoned PFM reform experts with an extensive background in both PFM policy and operations, and the development of IFMISs in several countries. The local presence of a task team member with strong technical expertise in Belarus' PFM system and the organizational structure of the MoF was valuable in facilitating interactions between the Bank and the government and contributing to first-hand knowledge of project implementation.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

Although the project's design did not explicitly include a Theory of Change (ToC),[1] M&E design provided a clear pathway from inputs (consultancies and IT infrastructure and equipment, and training) to the planned interventions/outputs. PDO3 and PDO4 had a dedicated KOI. PDO1 had four clearly defined and appropriate IRIs in the original design of the project. After restructuring, only one of the original IRIs and original KOI1 were considered sufficient to measure the achievement of the original PDO. This raises questions about the design of the IRIs and KOI1. Were the three original IRIs superfluous or was the sole KOI so narrowly designed that it could be achieved independently of the other project components that were originally considered critical for the success of PDO1.

Linking KOI4 solely to the target of preparing the bidding documents for the IFMIS sidestepped measuring and monitoring progress toward the related outcome and PDO4. Unpacking KOI4 could have better tracked the government's technical and institutional capacity to proceed with an in-house design of the IFMIS. For example, the integration of the budget and financial reporting with the Unified Chart of Accounts made the NPSAS compliant with the IPSAS. This was a significant achievement and was approved in 2019 when the pilot was implemented. The modernization of the MoF's IT infrastructure was also largely achieved, but the review of business processes was incomplete when the project closed. Reflecting these non-trivial achievements/challenges would have offered valuable insights, and signaled Belarus' stage of readiness for a future IFMIS.

[1] The Theory of Change framework was not an institutional requirement at the time of project preparation in 2016 when the project was prepared. It became mandatory for PADs in May 2018.

b. M&E Implementation

The project's implementation was based on the model for the PFM TA Grant that was used for the project's preparation and facilitated an efficient M&E system. There was regular monitoring and bi-annual reporting of progress toward the achievement of outputs and target outcomes. The clarity and design of the indicators facilitated their monitoring.

The MoF and IT Center were responsible for monitoring the target outputs and outcomes and preparing the mid-year and annual performance reports focusing on results-based accountability and accomplishments against performance expectations. The IT Center was responsible for collecting inputs from different department of the MoF and their consolidation.

c. M&E Utilization

The M&E findings of this project shaped the restructuring of Component 2 after the MTR. Two new intermediate results indicators (IRI 8 and IRI 9) related to the modernization of the government's PFM reforms and IFMIS design were added, and one IRI (5) was dropped.

The launch of the Fiscal Transparency Portal showcasing the detailed Citizens' Budget (KOI 3, a target indicator) was widely disseminated and motivated similar transparency-enhancing initiatives at the state level. The fiscal data portal went live in January 2018, providing the public with access to interactive fiscal data on budget execution. The MoF also publishes quarterly bulletins on the execution of the consolidated budget, and central and state budgets. Following the central government's example, that oblast-level subnational governments publish their versions of citizens' budgets starting in 2018. Citizens' budgets are also published by several rayon-level governments, with the goal of full coverage by CY23.

The widespread publicizing of the M&E framework of the project, especially related with budget transparency, had positive spillover effects for other programs. For example, the State Program "PFM and the Regulation of the Financial Market for 2020-2025" adopted at least three of the project's transparency-related target indicators. The Program has borrowed the following elements from the project's M&E framework: monitoring indicators of state programs and their outcomes; and harmonizing accounting and reporting rules of public sector organizations in line with international standards.

M&E Quality Rating
Substantial

10. Other Issues

a. Safeguards
No environmental or social safeguards policies were triggered by the project.

b. Fiduciary Compliance
Throughout the entire five-year implementation process, the project's Financial Management rating was Satisfactory as it complied with all fiduciary requirements without any issues. The IT Center's automated accounting system was customized to meet the project's needs. Interim financial reports and annual project audit reports were submitted on a timely basis and were found to be of acceptable standards. The staffing arrangement, internal controls, accounting, reporting, audit, and disbursement arrangements were acceptable.

c. Unintended impacts (Positive or Negative)
Positive: The upgrading of the IT infrastructure of the MoF and its Training and IT Centers enabled critical staff to work remotely during the COVID-19 pandemic, contributing to business continuity during the ongoing health emergency.

d. Other
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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Moderately Satisfactory	Low achievement on a critical PDO and Modest Efficiency
Bank Performance	Satisfactory	Moderately Satisfactory	Low achievement on Quality at Entry
Quality of M&E	Substantial	Substantial	
Quality of ICR	---	Substantial	

12. Lessons

The ICR (p. 19-21) presents a series of lessons and recommendations emerging from the project's experience. IEG summarizes the most persuasive lessons below:

Documenting actual behavioral changes originated by an operation in areas such as budget transparency and accountability can enhance learning, especially in highly centralized countries. In the case of the Belarus Public Financial Management Modernization Project (P146997), regular documentation and reporting of progress in improving budget transparency through online reporting of the citizens' budget resonated strongly within a highly centralized government as well as with the public. The project's achievement in launching a Fiscal Transparency Portal and publishing online monthly the citizens' budget generated momentum at all tiers of government. The central government continued enhancing budget transparency with the innovation of an interactive fiscal database for the public as well as enabling users to download historical data on program-level expenditures. The regional ("oblast") subnational governments and several districts ("rayon") followed the example by publishing their own citizens' budgets. Full coverage is expected by 2023. There were similar learning spillovers from the project's achievements related to TSA consolidation and state program budgeting.

IFMIS implementation is often hampered by lack of clarity regarding system requirements, frequent change orders, and shortcomings in procurement and contract arrangements. To ameliorate these risks and following the lesson from IFMIS implementation on how successful operations require adequate preparation before the approval of the project (realistic functional and technical requirements, cost/time estimates, and procurement/disbursement plans), the Belarus Public Financial Management Modernization Project (P146997) focused only on the inputs (i.e., regulatory reforms and business process reengineering) that were required for the design of the IFMIS during the project time-frame, relegating the implementation of the IFMIS to a follow-on project.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provides a detailed overview of the project, and is well written, and generally aligned with the project development objective. The report follows the guidelines and is focused on results with one exception: it is sparse on the evidence (data) that was required to substantiate/adjust the ICRR ratings as well as the discussion of M&E utilization. The quality of evidence and analysis is generally aligned to the messages outlined in the ICR. While the ICR pays adequate attention to the discussion of the project's results framework so that the reader can deduce the theory of change underlying it, it also presents the ToC framework constructed from the PAD for the original and restructured projects. Both ToCs are skillfully crafted and presented with clarity. The ICR offers creative suggestions/insights from the project on how to improve outcomes, especially with respect to the development of the IFMIS.

a. Quality of ICR Rating

Substantial