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Belarus

Public Expenditure and Financial Accountability (PEFA)

Public Financial Management Assessment

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CURRENCY AND EQUIVALENT UNITS

(as of May 12, 2009)

Currency Unit = Belarusian Ruble (BYR)

BYR = 0.000361 US\$

US\$ = 2,771 BYR

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS

ABL	Annual Budget Law
Bn	Billion
BY	Belarus
BYR	Belarusian Ruble
COFOG	Classification of the Functions of Government
DB	Doing Business
EBFs	Extra-budgetary funds
ECA	Europe and Central Asia Region, World Bank
ECSPE	Europe and Central Asia Region, Poverty /Economic Management Department, World Bank
ECSPS	Europe and Central Asia, Operations and Policy Services, World Bank
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GoB	Government of Belarus
IFS	International Financial Statistics
IMF	International Monetary Fund
KRU	Control and Revision Unit
MoE	Ministry of Economy
MoF	Ministry of Finance
MoT	Ministry of Taxes
NBRB	National Bank of the Republic of Belarus
o/w	Of Which
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PFMPR	Public Financial Management Performance Report
PSED	Program of Social and Economic Development
ROSC	Reports on the Observance of Standards and Codes
SCA	State Customs Administration
SCC	State Control Committee
SDU	Service Delivery Unit
SPF	Social Protection Fund
STA	Single Treasury Account
VAT	Value Added Tax
WB	World Bank
WDI	World Development Indicators
WG	Working Group

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SUMMARY ASSESSMENT

A. INTEGRATED ASSESSMENT OF PFM PERFORMANCE

1. The Public Expenditure and Financial Accountability Performance Assessment Results are summarized in Table 1 below.

Table 1 PEFA Assessment Results

	Indicator	Score
	A. PFM-OUT-TURNS: Credibility of the budget	
PI-1	Aggregate expenditure out-turn compared to original approved budget	C
PI-2	Composition of expenditure out-turn compared to original approved budget	A
PI-3	Aggregate revenue out-turn compared to original approved budget	A
PI-4	Stock and monitoring of expenditure payment arrears	A
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency	
PI-5	Classification of the budget	A
PI-6	Comprehensiveness of information included in budget documentation	A
PI-7	Extent of unreported government operations	C+
PI-8	Transparency of inter-governmental fiscal relations	B
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	A
PI-10	Public access to key fiscal information	C
	C. BUDGET CYCLE	
PI-11	Orderliness and participation in the annual budget process	B
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+
	C(ii) Predictability and Control in Budget Execution	
PI-13	Transparency of taxpayer obligations and liabilities	C+
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	A
PI-15	Effectiveness in collection of tax payments	A
PI-16	Predictability in the availability of funds for commitment of expenditures	B
PI-17	Recording and management of cash balances, debt and guarantees	C+
PI-18	Effectiveness of payroll controls	A
PI-19	Competition, value for money and controls in procurement	C
PI-20	Effectiveness of internal controls for non-salary expenditure	B+
PI-21	Effectiveness of internal audit	D+
	C(iii) Accounting, Recording and Reporting	
PI-22	Timeliness and regularity of accounts reconciliation	A
PI-23	Availability of information on resources received by service delivery units	B
PI-24	Quality and timeliness of in-year budget reports	B+
PI-25	Quality and timeliness of annual financial statements	C+
	C(iv) External Scrutiny and Audit	
PI-26	Scope, nature and follow-up of external audit	D+
PI-27	Legislative scrutiny of the annual budget law	B+
PI-28	Legislative scrutiny of external audit reports	B+

Credibility of the Budget

2. **The Belarus PFM system performance from 2005-2007 supported a credible budget.** The tight control framework, including treasury management, assures the budget can be brought in as enacted. The deviations between approved and actual budget have been in the favourable direction over the period (over-achievement of revenues), due in part to strong economic and therefore revenue growth, but also to the good-practice of using conservative macroeconomic forecasts in developing the budget.¹ The “C” assessment on Indicator 1 aggregate expenditure out-turn should be viewed in this context. With one relatively small exception total state budget expenditure for the years 2005-07 in each major functional sector has been at least at the level envisaged in the budget as originally presented. Arrears of expenditure are insignificant, reflecting both the positive cash position from robust economic and revenue growth, and the tightly-run financial control apparatus.

Comprehensiveness and Transparency

3. **The Belarusian PFM system produces a fairly complete and comprehensive set of information.** While there is always room for improvement, the budget classification and comprehensiveness of information included in budget documentation generally meets good practice standards. The budget includes administrative, functional and economic classifications of central government, tax and other revenues. Some effort is underway to introduce a program budget structure. Capital expenditure is presented as a single line, but conditional and unconditional grants to lower tier governments are included. There is also good information available with which to manage fiscal risks from subnational governments and even from state-owned enterprises.

4. **Very detailed information is given to Parliament in the presentation of the Republican Budget,** which now includes the Social Protection Fund and a number of other important Funds which were formerly outside it. Information is also given about the Consolidated Budget, which includes the revenues and expenditures of the remaining extra-budgetary funds together with projections of the revenues and expenditures of lower tier governments.

5. **Some information is given to the general public about budget proposals, and about budget execution, both annual and in-year.** Some information is published about contract awards. But most of the detailed budget documentation, the resources provided for individual service delivery units (schools, hospitals, etc.), and external audit reports are not easily made available to the general public.²

6. Major areas of potential improvement include monitoring and management of quasi-fiscal activity in directed lending schemes of state-owned banks, clearer assignment

¹ Conservative macroeconomic forecasts effectively serve as a cushion or contingency fund for the budget, maximizing the likelihood of favorable fiscal developments (excess revenue over spending).

² Citizens are legally entitled to request an audit report but the administrative procedure is still too cumbersome to encourage citizens and media to review the audit report.

of responsibilities for subnational government, better use of the information in identifying and managing fiscal risks, and most significantly, greater public access to all key budget and budget execution documents.

Policy-based Budgeting

7. **Belarus is implementing improvements to the budget to make it more policy-oriented, and future PEFA assessments would be able to capture progress made in this area.** Key issues include more strategic use of budget ceilings, full introduction of program budgets, and further implementation of the medium-term expenditure framework (initiated in 2008), including preparing a debt sustainability analysis.

8. **The annual budget process is broadly orderly**, in the sense that the calendar is generally understood and respected, and Ministries and lower tier governments are given clear instructions on the economic and other assumptions to be used in preparing their detailed budget submissions, which reflect discussions between MoF and MoE. But there is no collective Government discussion at that stage of relative expenditure priorities, and budget organizations are not given expenditure ceilings within which their submissions have to be prepared. Expenditure ceilings in the budget process are issued by MoF as indicative targets. Legislative approval has been given by the legislature in recent years well before the start of the following financial year.

9. **The Budget proposals are accompanied by the budget outturns for the current year (estimates) and for the prior's year.** Requirements for multi-year budgeting are set by the new Budget Code and the government plans to introduce it starting from the 2010 budget. The government has also begun to introduce elements of program budgeting, which look to co-ordination between different Ministries and different levels of government to achieve particular policy objectives, for example in the fields of education and health. But the expenditure projections are not yet established as determinants of subsequent budgetary planning, program budgeting is not yet integrated into the annual and medium-term budgetary planning processes, and investment is still planned separately (under MoE control) from current expenditure.

Predictability and Control in Budget Execution

10. **The Belarus PFM system, including revenues and expenditures, score relatively well on control dimensions.** Taxation and expenditure systems emphasize control, but predictability of expenditures to spending units is quarterly and does not promote operational efficiency. Improvements have been made to taxation to improve predictability, but these were introduced after the period under review and would need to be reflected in future PEFA assessments. The treasury system is strong, and Belarus may be ready for a second-generation financial management information system and further treasury modernization. Areas for particular improvement include better predictability of resources for spending units, better aggregation and management of cash balances, stronger procurement arrangements to encourage more competition and efficiency gains, complete introduction of a more formal commitment control system, and modernization of internal audit arrangements.

11. **Almost all receipts and payments pass through the automated Treasury system, at central government or oblast/rayon levels.** In either case checks are made by the Treasury office whether payments are provided for in the budget and covered by the approved quarterly cash flow forecast, and whether all correct control and procurement procedures have been followed. Central government cash flows are almost all centralized through the Treasury Single Account (TSA) at the NBRB, but those of each oblast and rayon take place through accounts at the (commercial) Belarus or Agroprom Banks. Debt data recording, monitoring and reporting appears to be reliable and up-to-date, although some risks could arise from the uncontrolled issue of guarantees of domestic borrowing by lower tier governments.

12. **There is a heavy apparatus of compliance controls at central and local levels.** In addition to the procedures operated by and within spending Ministries or lower tier authorities to ensure correctness, there are periodic inspections by MoF central and/or local inspectorates (KRU), sometimes in conjunction with the State Control Committee (SCC). The main focus of these inspections is comprehensive ex post checking of transactions, with a view to the discovery and correction of errors. Internal audit, in the sense of an operation reporting to management on the performance of the systems for which it is responsible, hardly exists in Belarus, although there are indications of recent KRU inspections identifying improvements in systems needed to prevent errors from recurring. Audit as a tool to increase efficiency is currently not the focus of attention.

13. **Present legislation (in the form of a Presidential Decree) requires the bulk of public procurement to be subject to some sort of competitive process, and information is published about the results of tenders.** However, some of the largest contracts can be and sometimes are placed directly, by decision of the President. In some cases the enterprises bidding for contracts are controlled by the Ministries which are placing those contracts. Much of the procurement of standard goods and services is channeled through a limited number of state enterprises. Price controls over inputs in construction and civil engineering projects substantially negate any competitive process. There is no central body charged with collecting and publishing consistent and complete information about public procurement, and acting as independent referee in the case of complaints by unsuccessful bidders. However, there is recognition in Government that overall reform may be justified and could bring significant benefits. The GoB is drafting a new procurement law in 2009.

Accounting, Recording and Reporting

14. **Basic systems for accounting, recording and reporting are in place.** There are regular reconciliations between transactions data in the Treasury systems, central and local, and accounting data provided by Ministries and lower tier governments. There are accounting records for every service delivery unit (schools, hospitals, cultural centers, etc.), although these are not published, and the internal audit/control system has not reviewed the accuracy of accounting records for these front-line users. Quarterly and annual revenue and expenditure execution data for both the Republican (central government) and consolidated budgets is regularly published. Accounting standards used in Belarus (with the exception of those used by banks) are national standards which do

not comply with international standards in either the public or private sectors. A variety of other financial statements are prepared for internal use in MoF, but apparently these do not include a consolidated balance sheet or a statement of financial assets and liabilities. The SCC prepares a report on execution of the Republican (but not the consolidated) Budget for consideration by the Parliament, but does not certify the reliability of any of the financial statements.

External Scrutiny and Audit

15. **Belarus has well-established procedures for consideration by the Parliament of the Government's Budget proposals.** Until recently these focused mainly on the Republican Budget rather than on the consolidated state (i.e. general government) budget. For 2008 fuller information was provided about the economic outlook and the wider fiscal policy background. In addition to formal procedures after the presentation of the Government's proposals, there are informal consultations with Parliamentarians during the preparatory work on formulating the Budget, which are considered to be of greater importance in influencing its content.

16. **External Audit in Belarus does not follow international standards, with the State Control Committee's (SCC) reporting to the President rather than Parliament.** The SCC audit focuses mainly on the compliance of transactions with all applicable legislation. According to the former Chairman of the Parliamentary Committee responsible for examining the Budget and its execution, Parliament has normally supported the recommendations made in the SCC's annual report on budget execution in its advice to the government. Overall, there is not sufficient evidence of any contribution from external audit towards improving the efficiency of public service delivery, and external audit makes only a moderate contribution to the accountability of government to the wider public. There is scope for modernizing external audit procedures, greater publication of results.

B. ASSESSMENT OF THE IMPACT OF PFM WEAKNESSES

17. **PFM systems have three objectives: macrofiscal discipline, strategic allocation of resources, and operational or technical efficiency.** Stepping back from the detailed assessment of the PFM system, it is important to relate the findings to these three objectives to better assess relative risk.

18. **Belarus has an effectively functioning fiscal system, which has enabled it to finance and execute a budget delivering relatively good public services to the general population.** But the structure of controls is heavy, focussed on compliance and resource-intensive, and there is a risk that maintenance of the system in its current form may obstruct desirable improvements in resource allocation and operational efficiency.

19. **The present administrative structures in Belarus are primarily designed to ensure compliance with all applicable rules and regulations.** The control apparatus is itself administratively burdensome, and it obliges those who are responsible for the delivery of public services to focus their efforts on correct compliance rather than on the

most efficient service delivery. At the same time the absence of transparent financial reporting by state-owned industry in accordance with international standards means that there are risks that too many resources may be pre-empted in the “real” sector by inefficient and unprofitable enterprises. There is thus considerable scope for re-focusing different aspects of the PFM system to give greater priority to efficiency; this should include the creation of incentives to deliver any given level of public services more economically.

20. **Macrofiscal discipline.** For the period under review (2005-2007), revenues were robust from strong economic growth. Under these conditions, the ability of the PFM system to support fiscal discipline was not tested. Nonetheless, the strong treasury function and control structure would be expected to contain spending under conditions of fiscal retrenchment. The main areas of concern would be improving oversight and reporting of quasi-fiscal activity and state-owned enterprises, liabilities from which could pose a risk to fiscal discipline. Moreover, a more policy-oriented budget would enable better assurance that social safety net programs would be protected, as well as enable stronger efforts to find fiscal space under an orderly retrenchment process, and better target limited resources to strategic priorities.

21. **Strategic Allocation of Resources.** At present, the budget process does not have a strong policy or strategic focus. Efforts to introduce a medium-term expenditure framework are underway, which should serve to better link sector plans with the budget, and link national development objectives to the budget. Initial efforts to introduce program budgets, better identifying the uses of ministry resources, will also assist in adding a strategic dimensions to ministry spending.

22. **Operational Efficiency.** The current Belarus PFM system is control oriented, as noted above. Ministries do not have significant discretion in spending allocations, and are limited in the predictability of resource flows and compliance with normative rules and treasury regulations from seeking expenditure efficiency gains or productivity improvements. The top-down budgeting and expenditure control system in place does not encourage more intensive use of existing resources, and this is an area that may receive far more attention in coming years as economic growth prospects are more restricted.

1. INTRODUCTION

A. OBJECTIVES

1.1 This Public Financial Management Performance Report (PFMPR) is prepared in response to the request of the Belarusian authorities to undertake a Public Expenditure and Financial Accountability (PEFA) assessment to benchmark the Belarusian public financial management (PFM) system against international standards for improving the effectiveness and efficiency of public spending. It is also intended to provide a baseline assessment of the Belarusian PFM system, which would contribute to the formulation of a PFM reform strategy and against which the future improvements in the PFM system could be measured. The baseline period covered in the report is through December 2008³, incorporating additional information at the request of the authorities. The text selectively reflects developments after December 2008, but these are not reflected in the assessment scoring. Subsequent PEFA assessments would appropriately reflect the rapid progress made in several areas.

B. PROCESS

1.2 The team organized a launch workshop with Belarusian counterparts and main stakeholders with the primary objective of clarifying the methodology for assessment and issues to be addressed during the assessment in early 2008. The main Government of Belarus (GoB) counterpart for the preparation of the PFMPR is the Ministry of Finance (MoF). The MoF established a government-wide PEFA working group (WG), headed by the First Deputy Minister of Finance and consisting of representatives of different departments in the MoF and of the other parts of the government principally concerned.

1.3 The WG undertook an initial self-assessment exercise, whose results formed the starting point for a main mission by the study team in April 2008. The World Bank team reviewed the Government's self-assessment and supporting documentation and analyses; requested further documentation and analyses where necessary; and conducted interviews with the WG and main stakeholders. This stage of the work involved detailed discussions with many stakeholders, including management and experts from the Ministry of Economy (MoE), Ministry of Taxes (MoT), State Customs Committee (SCC), Ministries of Education, Health and Transport, Social Protection Fund (SPF), State Control Committee (SCC), Economic Committee of Parliament, Minsk and Mogilev Oblasts, and Bobruisk Rayon. Thereafter, the World Bank team worked on the draft PFMR in accordance with the PEFA guidance, seeking to examine and understand the evidence presented in relation to each indicator. The draft report was discussed in detail with the main Belarus interlocutors in the course of a further mission in October 2008, when further information was obtained and some proposed ratings adjusted.

³ Data analysis refers to the three last full fiscal years for which data were available to the team by January 2009, i.e. to 2005-2007.

Following this mission the report was revised to reflect these discussions. A February 2009 team mission discussed the revised draft report with the WG, received some updated information and further data, and selectively revised the report based on this additional information.

C. METHODOLOGY

1.4 The PEFA methodology is set out in the Public Finance Management Performance Measurement Framework (available, also in Russian, at www.pefa.org). It is based on 28 Indicators covering all aspects of a country's PFM system. It should be emphasized that PEFA is essentially a backward-looking process, based on evidence about actual public sector financial management over the last 2-3 completed fiscal years. Each Indicator is scored on a scale from A to D. The three donor-related indicators are not covered, as during the review period there was limited donor financing.

1.5 The main sources of information used for this PFMR are: (a) the self-assessment prepared by the GoB WG; (b) official GoB documents and statistics; (c) external evaluations and reports (WB, IMF); and (d) interviews with users and providers of PFM information (including government officials, representatives of development partner organizations, and professional advisers on aspects of the Belarus tax and legal systems). To the limited extent possible the review team has sought to triangulate information. There was no non-governmental organization involvement in the assessment.

D. SCOPE

1.6 Finally, the PEFA assessment focuses primarily on the national level of a country's PFM system. At the national level it seeks to cover the entire PFM system, including cross-cutting issues, the revenue side, and the Budget cycle from planning through execution to control, reporting and audit. A number of the Indicators are designed to probe into how the national level interacts with sub-national governments and with public service providers at local level. Each country has its own arrangements concerning these matters: in some federal countries lower tier governments may be completely independent of the central government in the way they finance themselves and in deciding what public services they should provide, and on what terms, while in the most centralized countries administrations at regional level may simply be part of central government.

1.7 Belarus is in an intermediate position: oblasts and rayons have some limited discretion on both the revenue and expenditure sides, but the overall size and shape of their budgets is largely determined by central government, which is also responsible for collecting almost all tax revenue, even where there is some local discretion over the rates. It is therefore essential that the Indicators concerning overall budgetary planning and the credibility of the budget should be judged on the consolidated state budget, including oblasts and rayons, rather than on the Republican only.

Table 2 Belarus Administrative Structure

Institutions	Number of Entities	2007 Expenditures (BYR millions)	% total 2007 expenditures
Central Government *	<p>Presidential Administration, Parliament – National Assembly (Chamber of Representatives and Council of Republic), Council of Ministers, Constitutional Court, Supreme Court, Supreme Commercial Court, Office of Public Prosecutor, Central Bank (National Bank), State Control Committee</p> <p>24 ministries (architecture and construction, internal affairs, housing and utilities, health, foreign affairs, information, culture, forestry, defense, education, tax collection, emergency situations, natural resources and environmental protection, industry, communication and information, agriculture and food, sports and tourism, trade, transport and communications, labor and social protection, finance, economy, energy, justice)</p> <p>7 State Committees (Security, Military-Industrial, Property, Science and Technology, Standardization, Border, Customs)</p> <p>8 State Organizations, subordinated to the Council of Ministers (concerns --Food Industry, Petroleum and Chemicals, Light Industry, Pharmaceutical and Microbiology, Forestry, Woodworking and Pulp-and-Paper; Belarusian Republican Union of Consumer Cooperatives; Republican Centre for Sanatorium-and-Spa Treatment; Commissioner for Religions and Nationalities)</p> <p>13 other state bodies and organizations (incl., National Statistics Committee, National Cadastre Agency, and others)</p>	19,414,474	41
Autonomous Government Agencies	1 (Social Protection Fund of the Ministry of Labor and Social Protection **)	10,386,450	22
Subnational Governments	<p>7 regional budgets (6 oblasts and Minsk-city)</p> <p>130 base level budgets (118 rayons и 12 towns of oblasts' subordination)</p> <p>1426 primary budgets (1348 rural districts, 64 rural settlements и 14 towns of rayon's subordination)</p>	17,825,922	37
Total		53,734,938	100

* Includes ministries, departments and deconcentrated entities.

** Legal status "Extra-budgetary fund of the Republican Budget". From 2004 to 2009, the SPF was approved with the Republican Budget in the ABL but as a separate earmarked fund and included into the Treasury system.

2. COUNTRY BACKGROUND INFORMATION

2.1 This section provides information on country and economic context of the Republic of Belarus, to allow sufficient understanding of the core characteristics of the PFM system and the wider context to PFM reforms.

A. CONTEXT AND ECONOMIC SITUATION

2.2 The Republic of Belarus is a landlocked country with a total surface area of 20.8 million ha and population of 9.7 million, over 70 percent of which living in urban area. It is strategically located between the EU and Russia and has direct borders with Latvia, Lithuania, Poland, Russian Federation, and Ukraine. Belarus has the potential for providing a high level of income for its population. Belarus has access to growing markets, productive agricultural and forestry resources, and the population is highly educated. However, to benefit from these opportunities the country needs to address a number of critical challenges.

2.3 **Since getting its independence in 1991, Belarus has faced challenges similar to those faced by other CIS countries:** the transition from plan to market economy, the opening of the political process, and the continued delivery of basic services in an environment of enormous change. Belarus undertook limited, yet initially sufficient reforms, in an increasingly benign external environment, achieving significant economic growth and avoiding the sharp drop in per capita incomes experienced by many of its neighbors. The country has now one of the highest income levels among CIS countries and the poverty rates among the lowest in ECA region (see Table 2.1).

2.4 **Despite some similarities, the Belarus' experience is rather distinct from that of other transition countries in the region.** Most notably, the government plays a much more active role in Belarus than in neighboring transition countries, which is consistent with a relatively large state budget and other means of state influence over resource allocation. In Belarus, the overall size of the government budget (almost 50% of GDP) remains one of the highest in the ECA region. In some cases, this may have alleviated problems in control over tax and budgetary processes that have plagued some other former Soviet countries. Comparatively high levels of social spending have supported what appears to be a relatively strong social safety net in Belarus.

2.5 **The Belarus economy remains heavily state-controlled, with much of industry and agriculture remaining in state ownership.** Wages are partially controlled, as are the prices of many basic commodities. The burden of taxation is heavy (taxes and charges imposed by government correspond to about 50 per cent of GDP), and the unusually large number of different taxes results in taxpayers having to make numerous different payments at frequent intervals. In addition to the disincentive impact of the tax system, the scope for entrepreneurship is greatly reduced by administrative obstacles. General government expenditure similarly corresponds to about half of GDP.

2.6 **In recent years, Belarus' economic growth was strong, registering almost 10 percent per annum on average during 2004-2007.** The growth has been accompanied by improvements in labor productivity and energy efficiency. Moreover, a substantial terms of trade improvement (primarily, energy terms of trade) and strong partner country growth were important factors behind these high growth rates. The centralized economic system distributed these terms-of-trade gains across the economy through higher wages and transfers, boosting domestic demand. The household consumption rose in real terms by almost 13 percent per annum on average during this period, leading to a reduction in poverty headcount ratio from 27.1 percent of population in 2003 to 7.7 percent in 2007, with inequality remaining low and rather stable. Investment growth was also strong, with the real growth of gross fixed capital formation at 21.5 percent per annum on average in 2004-2007.

2.7 **The strong growth performance was supported by improved macro-economic policies although signs of overheating emerged in the past few years.** Price controls and the exchange rate peg helped to lower inflation from to single-digit numbers by 2006. At the same time, high growth and improved fiscal management have kept public debt ratios at low levels (11.6 percent of GDP at the end of 2007). Gross external debt has also been relatively low, less than 30 percent of GDP in 2007, about two-thirds of which is short-term debt. However, with rapid wage and credit growth fuelling domestic consumption, and the fiscal stance loosened through directed lending, the current account turned from a surplus of 1.4 percent of GDP in 2005 to a deficit of 6.6 percent of GDP in 2007. There was a rapidly widening domestic savings-investment gap with most of the external financing needs met through increased short-term borrowing (particularly bank borrowing and trade credits), while FDI played a more limited role. While the level of international reserves increased from 0.5 months of imports in 2004 to 1.6 months of imports in 2007, they remain well below prudential norms of three months.

2.8 **In spite of the strong economic growth and improved macro policy performance of recent years, the Belarusian economy entered late 2008 with a number of key macro-financial vulnerabilities that have subsequently crystallized as a result of the external shocks arising from the recent economic and financial crisis.** These features include an inflexible exchange rate regime, high reliance on energy subsidies from Russia, high concentration of the economy (in terms of production, export, tax base), the large size of the government and limited private sector role.

2.9 **The impact of the global financial and economic crisis on Belarus started to become evident in October 2008 through pressures on the balance of payments.** The current account position was adversely affected by a worsening in the terms of trade (due to a reduction in Russian energy subsidies, and a fall in the price of major exports such as fertilizers) and a decline in export demand as a result of the recession in partner countries. Available financing became sharply limited as a result of global financial deleveraging and the drying up of external capital flows to emerging markets. The Government attempted to maintain its currency peg against the US dollar at the expense of rapidly dwindling reserves. In the face of these mounting pressures the Government sought financial assistance from the IFIs and bilateral donors (Russia).

Table 3 Belarus: Selected Economic Indicators, 2004-2008

	2004	2005	2006	2007	2008
GDP (nominal, US\$ m)	23 142	30 210	36 962	45 276	60 755
GDP per capita (current US\$)	2 356	3 091	3 798	4 667	6 276
GNI per capita, Atlas method (current US\$)	2 160	2 760	3 470	4 220	5 380
<i>% changes over the previous year</i>					
Real GDP	11.4	9.4	10.0	8.6	10.2
Consumer Prices	18.1	10.3	7.0	8.4	14.8
GDP deflator	22.7	18.9	10.8	12.9	21.2
<i>% of GDP</i>					
General Government Balance	0.9	0.4	1.4	0.4	1.4
Current account balance	-5.2	1.7	-3.9	-6.6	-8.4
Gross Domestic Investment	28.5	28.5	32.2	34.1	37.2
FDI, net	0.7	1.0	1.0	3.9	3.9
Gross External Debt	21.8	17.0	18.5	27.7	26.1
Public Debt	8.9	8.3	8.8	11.6	13.0
Public External Debt	3.2	2.6	2.3	5.2	6.3
Official reserves (months of imports of goods& services)	0.5	0.9	0.7	1.6	0.9
Merchandise Terms of Trade Index (2000=100)	106.6	119.7	124.3	121.1	134.4
Unemployment rate, %*	1.9	1.5	1.2	1.0	0.8
Poverty incidence (national definition), % population	17.8	12.7	11.1	7.7	6.1
Gini index (income concentration)	25.4	25.6	26.2	27.4	27.4

Sources: National Statistics, WDI, and IMF.

*Registered unemployment

2.10 The authorities' macro policy adjustment to external imbalances arising from the crisis has involved both expenditure reduction, through limiting nominal wage growth, cutting real investments and targeting a zero fiscal deficit, and promoting expenditure switching through changes to exchange rate policy. At the same time as implementing these macro measures, the Government has renewed its efforts focused on improving the business environment at the micro level through the government's Liberalization Program, containing 52 priority measures aimed at easing administrative and regulatory burdens (especially, regarding entry), liberalizing prices, improving customs and tax administrations, and reforming land and property relations.

2.11 On the fiscal side, the revised 2009 target of a balanced central government deficit, excluding bank recapitalization costs, compares with a projected deficit of 1.8 percent of GDP under the approved annual budget law for 2009. The Government's downgrading of the growth outlook through early 2009 has been accompanied by significant additional adjustment to fiscal plans to meet the zero deficit

target given the contraction in revenues. The authorities' expenditure revisions include restraining budgetary sector wage growth and current expenditures (including subsidies) and, in particular, making cuts to capital expenditures, while funds for targeted social assistance are planned to double in 2009. Overall, the importance of the PFM reforms and introduction of principles of good governance, aimed at increased efficiency of public spending has been intensified in the face of the crisis.

B. OVERALL SYSTEM OF GOVERNMENT AND GOVERNMENT DEVELOPMENT STRATEGY

2.12 **Belarus is a unitary state; its Constitution was approved in 1994 and amended by the referendum of 1996.** The vertical structure of government consists of four tiers, with the central government embodied in the office of the President, the Council of Ministers, and the bi-cameral Parliament (National Assembly), and three tiers at the sub-national levels: the regional tier (with six oblasts and Minsk-city)⁴, the rayon tier (also called the "base" tier)⁵, and the sub-rayon tier (also called the "primary" tier)⁶. The Constitution provides for each level of government to exercise a considerable measure of control over the affairs of the lower level governments subordinate to them.

2.13 **The National Assembly consists of the lower chamber, House of Representatives** (110 seats, of which, all members are elected by universal adult suffrage to serve four-year terms) **and the upper house, the Council of the Republic** (with 64 seats, of which, 56 members are elected by regional councils and 8 members are appointed by the president, all for four-year terms). The Parliament is the supreme legislative body, but substantial legislative power is conferred on the President. Much of the currently applicable PFM legislation (for example in the fields of public procurement and taxation) takes the form of Presidential Decrees rather than laws enacted by Parliament following extensive discussion. The most recent Parliamentary elections took place in September 2008.

2.14 **Local Deputy Councils(7) for sub-national governments are elected by the constituency of the appropriate territory, while the chairpersons of the Local Executive Committees are appointed by the President of the Republic (oblasts) or the executive head of the next higher level government (rayons and municipalities).** Lower tier governments receive the whole proceeds of certain taxes, and defined shares in the revenue from other taxes (notably profit tax and VAT). The balance of lower tier government revenue comes in the form of conditional and equalization grants. Each level of government is responsible for the provision of particular services (for example rayons for schools, and oblasts and the Republic for tertiary education), but there are still some overlaps (e.g. in the provision of hospitals).

⁴ The oblasts, are named after the cities that serve as their administrative centers (Brest, Homyel, Hrodna, Mahilyow, Minsk oblast, and Vitsebsk.) The capital city of Minsk also has the status of oblast.

⁵ This tier includes rayons (118) and also cities (12) subordinated to the oblast government (as opposed to smaller cities in the fourth tier that are subordinated to the rayon government.)

⁶ This tier includes rural districts (1,348), rural settlements (64), and smaller towns/cities (14).

2.15 **The Republic of Belarus has adopted a Program of Social and Economic Development (PSED) 2006-2010 which sets out its medium-term development agenda.** The PSED assumes a broadly unchanged external environment and the maintenance of the main elements of the centrally planned economy. It looks for an overall increase in production of 55 per cent over the five year period, with growth accelerating to 8-9 per cent a year on the basis of accelerated domestic and foreign investment. On this projection inflation would fall to 5 per cent a year. The PSED includes a number of elements which WB broadly supports, some of which are closely related to PFM reform. These include pursuing budgetary and fiscal policies which will create conditions for economic growth and competitiveness by reducing the tax burden, simplifying collection, reducing the burden of controls and inspections, reducing subsidies and introducing transparent and clear procedures for public procurement. The PSED was formulated before the increase in energy prices took effect, and needs to be reviewed. There has been increasing understanding of the need for unleashing the major constraints to growth, which are related to the business environment and the unfinished transition reform agenda.

2.16 **Starting in late 2007, the Government launched a reform program aimed at reducing the regulatory and administrative costs of doing business.** The stated ambition of the Government is to rank among the top 30 countries in the world in terms of the ease of doing business. In 2008, Belarus undertook a number of regulatory reforms to make doing business easier. It facilitated access to credit by eliminating the minimum loan reporting threshold at the public credit registry, and made business start-ups easier by setting up a unified registry database and halving the minimum capital requirement. It created a one-stop shop for property registration and introduced a broad administrative simplification program that set strict time limits at the registry and computerized its records. These achievements had been reflected in the Doing Business in 2009 report where Belarus was ranked 85th on the ease of doing business out of 181 economies reviewed in the report. This is a 30 position improvement compared to last year, which brought Belarus to the club of “top reformers”, globally and regionally.

2.17 **Despite these accomplishments, a challenging reform agenda remains if the Government is to improve the business and investment climate and strengthen the incentives for private sector development.** Reforming administrative and regulatory barriers will facilitate the entry and growth of new small and medium enterprises (SMEs) and help the existing businesses remain competitive in the crisis conditions.

2.18 **These reforms also call for the reconsideration of the role of state in the economy, enhancing public-private dialogue and deepening reforms of public administration, the civil service, and the judiciary.** All this has major implications for medium-term budgetary planning, for the level and structure of taxation, for expenditure priorities within a constrained envelope, and for reinforcing market disciplines and accounting transparency throughout public services and the publicly-owned sections of the “real” economy. The impact of the economic and financial crisis has catalyzed the work both on the short-term liberalization program for 2009 and on a medium-term program aimed at comprehensive “modernization of the economy”, including

transformation of institutions aimed at intensification of investment processes, support for innovation, strengthening the incentive structure for business operation and productivity growth, harnessing robustness of the economy.

C. PFM REFORM RATIONALE

2.19 **Given the relatively large share of public spending as a percentage of GDP (50 percent of GDP in 2007) and the strong influence of the state in economic and social affairs in Belarus, a sound public financial management system and capacity that ensures the quality of public spending must be a high priority for overall economic development in Belarus.** The significant size of social expenditure, which accounts for the half of total expenditures, also shows the importance of public spending in Belarusian economy and development. Since the central government closely supervises the activities of lower tier governments, which are all subject to the Treasury receipts and payments system and the Internal Control Department (KRU) of the Ministry of Finance, this assessment covers the Consolidated Budget (i.e. all revenue and expenditure of general government, bringing together central government, oblasts and rayons) rather than just the Republican Budget.

2.20 **Recognizing the importance of a sound PFM system, the Belarusian authorities have taken a number of measures for its improvement,** including the introduction of program budgeting, extension of the coverage of the budget by bringing most extra budgetary funds within it, and improvement of the quality of public investment spending. However, there still remain a number of weaknesses in public financial management, especially in the area of strategic allocation and transparency and accountability of public spending.

2.21 **Since 2003, the Bank has provided continuous technical assistance in the area of PFM. The first PEIR for Belarus was prepared in 2003, and provided small follow-up technical assistance in the areas of budget code preparation, intergovernmental fiscal relations, and program budgeting.**⁷ In 2007, Policy Notes on Selected Issues in Public Finance were prepared, addressing the major issues in the area of intergovernmental fiscal relations and capital budgeting.⁸ In addition, the IMF has conducted a number of technical assistance missions to support PFM improvement, ranging from treasury, budget classification, fiscal ROSC to program budgeting.⁹

D. DESCRIPTION OF BUDGETARY OUTCOMES

Fiscal Performance

2.22 Over the period 2005-07 the Belarus Consolidated Budget ended with a surplus as revenue growth outstripped increases in expenditure. Capital expenditure took

⁷ *Belarus : Strengthening Public Resource Management, Report No.26041-BY, June 20, 2003, World Bank*

⁸ *Taking Stock of Intergovernmental Fiscal Relations: Issues, and Challenges; Selected Issues in Capital Expenditures--Improving the Quality of Public Capital Expenditures to Promote Growth, 2007, World Bank*

⁹ See the latest IMF Article IV Consultation Staff Report for the full list of TA missions in fiscal area.

an increasing share of total expenditure during this period, a trend which is projected to continue despite the rising burden of subsidies to cushion the impact of higher energy prices on consumers and some sections of industry.

Table 4 : Belarus: Consolidated Budget Indicators 2005-07, in percent of GDP

	2005	2006	2007
Total Revenue	47.4	48.4	50.0
Tax revenue	34.3	34.0	35.6
Total Expenditure	47.0	47.0	49.6
Current expenditure	37.8	37.1	38.9
Capital expenditure*	8.3	9.6	10.0
Fiscal Balance (Cash)	0.4	1.4	0.4
Primary Balance	1.2	2.2	1.2
Net Financing	-0.4	-1.4	-0.4
External	0.3	0.02	3.2
Domestic	-0.7	-1.5	-3.7

Sources: MoF.

* Including capital transfers.

Allocation of Resources

Table 5 Actual Budgetary Allocations by Sector

(percent of total consolidated budget expenditures excluding debt service expenditures of central and local governments)

	2005	2006	2007
General Public Services	12.8	11.0	12.2
National Defense	2.4	2.7	2.6
Public Order and Safety	4.6	4.7	4.4
Economic Affairs	19.5	20.4	23.9
Environmental Protection	1.3	1.2	1.1
Housing and Community Amenities	5.5	5.3	4.6
Health	9.8	9.5	9.2
Recreation, Culture, and Religion	2.3	2.5	2.4
Education	13.1	13.0	11.8
Social Security and Welfare Services	28.7	28.8	27.8

Sources: MoF.

Table 6 Actual Budgetary Allocations by Economic Classification

(percent of total consolidated budget expenditures excluding net lending)

	2005	2006	2007
Current Expenditure	82.0	79.5	79.6
Exp. On Goods & Services	39.2	37.9	35.5
Wages & Salaries	22.,5	22.5	20.3
Other Purchases of Goods & Services	16.,7	15.4	15.2
Interest Payments	0.8	0.8	0.8
Subsidies	12.7	12.2	16.6
Transfers	29.3	28.5	26.7
Capital Expenditure	18.0	20.5	20.4

Sources: MoF.

E. LEGAL AND INSTITUTIONAL FRAMEWORK FOR PFM

Key actors in Belarus' PFM process: roles and responsibilities

2.23 **The main responsibility for PFM rests with MoF, and in particular with its Budget, Tax Policy and Treasury Departments.** The planning of expenditure in the different functional areas is the responsibility of other MoF Departments, in consultation with the Line Ministries. MoF interaction with lower tier governments takes place through the oblasts, who in turn supervise the rayon budgets. The Treasury Department is responsible for execution of the Budget, at central level for the Republican Budget, and through its local branches at oblast and rayon levels for the execution of lower tier government budgets. The Finance departments of lower tier governments carry out the same functions in relation to their budgets as MoF in relation to the Republican Budget.

2.24 **Line Ministries and lower tier governments operate their own internal control procedures.** Beyond this they are all subject to periodic inspections by the internal control (KRU) department of MoF, which like the Treasury has subsidiary operations in each oblast and rayon government. These inspections are supplemented by those of the State Control Committee (SCC) which performs an external audit function and reports to the Parliament each year on the execution of the previous year's Budget. In practice KRU and SCC inspections are coordinated and often carried out jointly. Both KRU and SCC focus primarily on compliance with all applicable rules and regulations. In addition to inspecting public service activities, KRU and SCC make periodic inspections of enterprises which cover tax compliance, compliance with wage controls, compliance with required procurement procedures, etc.

2.25 **Tax collection throughout the country is mainly the responsibility of the Ministry of Taxes and Fees (MoT), covering all taxes except import and export duties, and VAT and excise duties on imports, which are the responsibility of the State Customs Administration (SCA).** The levying of sales and services taxes, and the profit tax surcharge used to subsidize transport services, is entirely at the discretion of lower tier governments who receive all the revenue. Where tax rates are set nationally, lower tier governments may receive a share (of up to 100 per cent) in the proceeds; the shares have been fixed in the new Budget Code which came into effect January 1, 2009.¹⁰

2.26 **Investment planning is the responsibility of the Ministry of Economy (MoE) while the MoF sets the aggregate budget amount for investment annually.** This responsibility covers all investment, not just investment in public

¹⁰ Personal income tax and land and property taxes are assigned 100 per cent to lower tier governments, as well as other less important taxes; 50 per cent of profit tax revenues go to the lower tier governments where enterprises are located (except that Minsk city receives only 36.2 per cent), and 30 per cent of VAT revenue is assigned to lower tier governments on the basis of their populations. Overall, lower tier governments currently receive 37.5 per cent of total tax revenues, and are responsible for about 45 per cent of consolidated budget expenditures, the difference being made up by central government grants.

services. Investment in the “real” sector does not appear in the Budget unless it is the subject of a specific grant, but government at all levels influences such investments through directed lending by government-controlled banks, through the provision of guarantees for bank borrowing, and through the granting of tax exemptions in certain circumstances. Investment in different public services (health, education, transport, etc) is guided by strategies – defined as lists of priority projects – to be implemented in stages as funds become available, including in some cases through external borrowing. The planning process is not fully integrated into medium-term expenditure planning as a whole, nor does it consistently ensure that the ongoing requirements for current expenditure to use and maintain new facilities are fully taken into consideration.

Budget process and budget calendar

2.27 **The new Budget Code sets out the whole budget system, covering all aspects of revenues and expenditures at each level of government, and places appropriate emphasis on the Consolidated Budget in the context of overall fiscal policy.** Although at central government level some revenues and expenditures remain outside the Republican Budget as strictly defined, the new Budget Code provides for a complete picture to be given in the presentation of the Government’s proposals. Revised functional and administrative classifications of revenue and expenditure consistent with COFOG were introduced in 2007; a revised economic classification consistent with GFS 2001 was implemented in 2009.

2.28 **A clear timetable exists for budget preparation and is generally adhered to in practice.** The timetable provides for the preparation in April each year of the economic projections and assumptions to be used at all levels of government in constructing the following year’s budget. Thereafter detailed instructions are issued by MoF for the Budget submissions which are all consolidated, following discussions by each tier of government with its hierarchical superior, by MoF in time for submission by the Council of Ministers to the President by 1 September. The President in turn submits his approved version of the proposals to the Parliament by 1 November. Thereafter the Parliament should approve the Republican Budget (including the grants to lower tier governments) by 1 December, so as to allow time for the lower tier governments to finalize their budgets before the beginning of the next financial year.

Box 1 Belarus PFM Legislation

Belarus has rather extensive PFM legislation, represented by a number of documents, including:

- Constitution of the Republic of Belarus
- Budget Code*
- Law on Local Governance and Self-Governance
- Tax Code**
- Customs Code
- Law on Budget System***
- Law on Budget Classification***
- Law on Domestic Public Debt***
- Law on Foreign Public Debt***
- Law on State Control Committee
- Annual Budget Laws
- Edicts and decrees of the President of the Republic of Belarus
- Regulations of the GoB, joint regulations of the GoB/NBB; and regulations of the Ministry of Finance.
- Regulations and statutes of local government and self-government authorities.

*Came into effect on January 1, 2009.

**General Part. The Special Part is was completed and introduced January 1, 2010.

*** Became invalid with the introduction of the Budget Code.

3. PFM ASSESSMENT

A. BUDGET CREDIBILITY

3.1 **The credibility of the budget matters to citizens, investors, and all those who implement the Budget.** The difference between the initially approved budget and the actual expenditures and revenues measures the budget deviation, which provides a measure of the overall performance of the PFM system at a high level.¹¹

PI 1: Aggregate expenditure out-turn compared to original approved budget

Indicator	Brief Explanation	Score
PI-1 Aggregate expenditure out-turn compared to original approved budget (Scoring method M1)	In two of the last three years the actual expenditure of the Consolidated Budget deviated from the initially approved amount by more than 10 percent but less than 15 percent.	C

3.2 **Aggregate expenditure out-turns compared to the original approved budget for 2005-07 is shown in Table 7 below.** The same comparison is also given for the Republican Budget only. The deviation is actually somewhat smaller for the Republican Budget, and would have justified a rating of B, but given the close supervision central government exerts over the budgets of lower tier governments, the co-ordination between central and lower tier governments in the delivery of public services, and the importance of the overall fiscal stance, the assessment, as noted above, is made in respect of the Consolidated Budget. The primary factor contributing to the consistent pattern of additional spending on the different services compared to the initially budgeted amounts, is conservative revenue forecasting using rather pessimistic macroeconomic forecast. The ground rule during the preparation of the Budget is that any deficit should not exceed 1.5 percent of GDP Revenue forecasting needs to continue building in-house capacity, especially given a fast-changing world economy.

3.3 **The apparently low “C” rating does not reflect well the actual performance of the PFM system in Belarus.** The system actually performs relatively well, with the low rating reflecting actual deviations produced by positive influences –

¹¹ As explained in paragraph 2.16 above, this assessment focuses primarily on the Consolidated Budget, which brings together all revenue and expenditure of central government, oblasts and rayons, rather than on the narrower concept of the Republican Budget which covers central government only (and does not include certain extra-budgetary funds).

strong economic growth, and good-practice use of conservative economic growth estimates.

Table 7 Aggregate expenditure out-turn compared to original approved budget
(in BYR billions)

Year	Consolidated Budget	Republican Budget	Consolidated Actual	Republican Actual	Deviation CB (%)	Deviation RB (%)
2005	27,347.6	18,938.1	30,308.4	20,533.8	10.8	8.4
2006	35,234.5	26,370.0	36,833.4	27,219.6	4.5	3.2
2007	41,904.9	31,629.3	46,897.9	35,572.3	11.9	12.5

Sources: MoF, debt service payments excluded.

PI 2: Composition of expenditure out-turn to original approved budget

Indicator	Brief Explanation	Score
PI-2 Composition of expenditure out-turn compared to original approved budget(Scoring method M1)	Variance in expenditure composition did not exceed overall deviation in primary expenditure by more than one per cent in any of the last three years.	A

3.4 **The composition of expenditure generally matches the approved budget.** With small exceptions, the only adjustments to the Consolidated Budget in the course of execution were upwards, so that there was very little difference between the net overall variation and the total of absolute variations. This stronger assessment score does reflect that the current budget system is able to deliver funds to approved government priorities. Table 8 presents the composition of expenditure and deviation from budget.

Table 8 Variance in expenditure composition of Consolidated Budget
(in BYR billions)

	2005			2006			2007		
	Approved	Executed	Deviation	Approved	Executed	Deviation	Approved	Executed	Deviation
General Public Expenditure	2908.8	3875.2	966.4	4066.6	4375.4	308.8	4884.3	5742.2	857.9
National Defense	570.4	720.1	149.7	923.1	991.0	67.9	1137.1	1206.2	69.1
Law Enforcement and Safety	1257.9	1382.7	124.8	1725.6	1719.2	-6.4	2010.8	2062.7	51.9
National Economy	5045.9	5916.8	871.0	6943.5	7520.3	576.8	8325.6	11189.0	2863.4
Environmental Protection	384.9	383.1	-1.8	425.9	460.3	34.4	480.8	537.8	57.0
Housing and Utilities	1327.7	1670.9	343.2	1619.1	1965.3	346.2	1911.3	2152.5	241.2
Health Care	2809.2	2966.1	156.9	3382.6	3509.2	126.6	4202.6	4325.2	122.7
Physical Culture, Sports,	608.7	702.7							97.4

Culture and Mass Media			93.9	842.8	916.2	73.4	1023.0	1120.4	
Education	3660.1	3980.0	320.0	4696.6	4775.4	78.8	5465.9	5547.3	81.4
Social Policy	8774.1	8710.7	-63.4	10608.7	10631.2	22.5	12463.5	13014.5	551.0
Total Expenditures (excl. Debt service)	27347.6	30308.4	3087.5	35234.5	36863.4	1337.4	41904.9	46897.9	4347.8
Composition Variance, %		11.3			4.6			11.9	
Total Expenditures deviation, %		10.8			4.5			11.9	
Difference between the variance in composition and overall deviation		0.5			0.1			0.0	

PI 3: Aggregate revenue out-turn compared to original approved budget

Indicator	Brief Explanation	Score
PI-3 Aggregate revenue out-turn compared to original approved budget (Scoring method M1)	Actual domestic revenue collection was never below, but always well above the defined threshold of 97 per cent of budgeted domestic revenue estimates in each of the last three years.	A

3.5 **Substantial excesses of revenue were collected each year in most categories;** particularly noteworthy were the high revenue from contributions (resulting from high margins on sales of energy products in 2005, and the large increase in revenue from export duties in 2007.¹² Table 9 below shows Budget estimates and out-turns for each major type of revenue accruing to the Consolidated Budget for the period 2005-07.

Table 9 Aggregate revenue out-turn compared to amounts in original Consolidated Budget (in BYR billions)

	2005		2006		2007	
	Budget	Actual	Budget	Actual	Budget	Actual
Taxes on incomes and Profits	4,013.1	4,918.7	5,844.2	6,143.4	7,120.4	7,464.7
Taxes on Property	1,073.6	1,148.6	1,291.7	1,268.4	1,272.8	1,519.2
Taxes on Goods	10,659.4	11,082.7				

¹² According to the PEFA Secretariat Instruction, this indicator is asymmetric: collecting significantly less revenue than the budget estimate results in a lower score, but collecting significantly more revenue than indicated in the budget still scores A.

and Services			13,554.6	14,749.4	16,411.2	16,810.8
Taxes on Foreign Trade	1,410.1	1,682.3	1,964.6	2,068.7	2,381.9	6,281.3
Other Taxes and Fees	1,675.5	3,497.8	2,404.5	2,703.4	2,522.1	2,159.6
Social Security Contributions	6,699.7	7,345.5	8,135.9	9,287.7	9,915.8	11,256.7
Non-tax Revenues	1,110.8	1,149.4	1,312.6	2,170.3	1,508.3	2,556.7
Total	26,642.1	30,824.9	34,508.0	38,391.3	41,130.2	48,049.0
% excess over budget		15.7		11.3		16.8

Sources: MoF.

PI 4: Stock and monitoring of expenditure payment arrears

Indicator	Brief Explanation	Score
PI-4 Stock and monitoring of expenditure payment arrears(Scoring method M1)	(i) The stock of arrears has been below 1 per cent of the Consolidated Budget in each of the last three years (A). (ii) Reliable and complete data on the stock of arrears is generated at the end of each year (and also quarterly) (A).	A

3.6 **The stock of arrears has been below 1 per cent of the Consolidated Budget in each of the last three years** (see Table 10). “Arrears” are measured as the sum of unpaid invoices for goods and services already received as reported by budget organisations, *even if the date for payment has not yet expired*. This definition is much tighter than the one used in the PEFA assessment methodology, where arrears are defined as ‘expenditure obligations that have been incurred by the government for which payment is *overdue*’. The amount of consolidated budget arrears, even using the government definition, was below 1 percent of total expenditures of consolidated budget every year during 2005-2007 and went down significantly in 2007 due to the reduction of local budget arrears, which are somewhat higher than the republican budget arrears but little more than one percent of total expenditures of local budgets in the most recent year. There were no arrears resulting from shortages of cash in the Treasury (including all the branches in lower tier governments).

Table 10 Expenditure Payment Arrears

(% of total expenditure out-turn of the respective budget)

Period	o/w		
	Consolidated Budget	Republican Budget	Local Budgets
End 2005	0.6	0.2	1.4
End 2006	0.7	0.1	2.3
End 2007	0.4	0.1	1.1

3.7 **Information on unpaid invoices, etc. is collected quarterly from all spending authorities.** There was no evidence of any significant delays in the making of any payments, and thus no need to make special arrangements to collect information about the age profile of arrears. In preparation for revenue downturn from global economic crisis, the MoF has introduced an additional control measure which mandates spending ministries to get approval from MoF before incurring capital project obligation (which in fact functions as a form of commitment control). In addition, cash management and procurement rules require any new contract and purchase order to be submitted to the Treasury. Treasury registers or approves the purchase order only if the contract is within total appropriation limits and the quarterly cash allotment for the budget user. The authorities report that treasury is improving monitoring of accounts payable.

B. COMPREHENSIVENESS AND TRANSPARENCY

PI 5: Classification of the budget

Indicator	Brief Explanation	Score
PI-5 Classification of the budget (Scoring method M1)	The formulation and execution of budgets at each level of government, including revenue and expenditure passing through extra-budgetary funds, is based on administrative and functional and sub-functional classifications (last revised in 2007) consistent with COFOG. The economic classification of GFS 2001 is introduced for 2009.	A

3.8 **The intention of this indicator is to assess whether all expenditure is budgeted and reported according all applicable classifications,** including a GFS-consistent economic presentation and, where applicable, its place in a program directed towards a specific policy objective. In Belarus the bulk of this information is available directly from the Treasury system, although where expenditure remains outside that system, it is collected separately from the budget organizations concerned.

3.9 **In Belarus, detailed administrative, functional and sub-functional classifications consistent with COFOG/GFS 2001 are used in budgetary planning and execution at all levels of government,** such that any transaction can be reported in accordance with them. In 2009, the MoF has introduced GFS 2001 economic classification, which completes the migration of all classifications from 1986 to 2001 IMF OGFS standards. However, it appears that some expenditure hitherto classified as “capital repairs” should be part of current rather than capital expenditure, necessitating some refinements to how the classifications are used. A Program and Sub-program classification covering about 20 per cent of consolidated budget expenditure was introduced from the beginning of 2009.

3.10 **Capital and current expenditure are still planned separately in the Belarus system.** Capital expenditure¹³, which is the responsibility largely of the Ministry of Economy, is shown in the enacted in the Budget Law as a single line. However, once the Budget has become law, the functional breakdown of capital expenditure is determined, and promulgated and published by Order of the Minister of Finance. Thus the complete breakdown of all general government expenditure, by functional, economic and administrative classifications is available at the start of each fiscal year. Dimension score: A

PI 6: Comprehensiveness of information included in budget documentation

Indicator	Brief Explanation	Score
PI-6 Comprehensiveness of information included in budget documentation (Scoring method M1)	The Budget documentation includes eight of the nine information Benchmarks specified by the PEFA Framework.	A

3.11 The assessment reviews how information in accordance with each benchmark is incorporated into the budget documentation.

3.12 In Belarus, the Parliament approves Republican Annual Budget Law (ABL) while local budgets are approved by the local councils. The supplementary documentation for the republican ABL contains information on local budgets but it is provisional. Transfers from Republican to Local budgets are planned on the assumption that they should be in balance, so that when local budgets are approved, any deficit they might otherwise have will need to be covered from local sources.

- (a) **Macro-economic assumptions**, including at least estimates of aggregate growth, inflation and exchange rate. Information of this kind has been presented in the Explanatory Note to the Draft Annual Budget Law in the past three years. (Satisfied)
- (b) **Fiscal deficit**, defined according to GFS or other internationally recognized standard. Complete information is given about debt service payments, principal and interest, together with a projection how any deficit would be financed. The ABL also contains a limit on the increase in domestic debt (for instance, Article 28 of 2007 ABL); ceiling for state guarantees (for instance, Article 29 of 2007 ABL sets a limit of BYR 500 bn); the same Article sets the limit for guarantees provided by local budgets (not absolute amount but in percent of their expenditure, 20 percent in 2007); and the limit on the stock of external debt (US\$ 2 bn in 2007) (Satisfied)

¹³ MoE plans public investment; other capital expenditures such as major repair and maintenance are planned by MoF/line ministries

- (c) **Deficit financing.** This is the subject of a special Appendix to the draft law. (Satisfied)
- (d) **Debt stock.** Separate sections of the budget documentation describe the domestic and foreign state debts.(Satisfied)
- (e) **Financial Assets,** including at least details for the beginning of the current year. No information is provided about general government holdings of financial assets. Given that the government owns many enterprises, a few of which have been partially privatized through the sale of shares, and that the Social Protection Fund has accumulated a substantial surplus on which it receives interest, this omission is significant. (Not Satisfied)
- (f) **Prior year’s budget out-turn,** presented in the same format as the budget proposal. (Satisfied)
- (g) **Current year’s budget** (either the revised budget or the estimated out-turn) presented in the same format as the budget proposal. (Satisfied)
- (h) **Summarized budget data** for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year. Volume II of the Annual Budget Law for the Republican budget contains detailed expenditure information for both current and previous year with breakdown by functional, economic, and administrative classifications. (Satisfied)
- (i) **Explanation of budget implications of new policy initiatives,** with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs. Detailed information is provided in the Explanatory Note about the amounts to be collected in respect of each major source of revenue in the consolidated budget and the cost of new policy initiatives. Many new initiatives are included as specific line items in the budget, and the cost can be seen there. Further improvements could be made to the estimates of main policy changes published in the explanatory note. (Satisfied)

PI 7: Extent of unreported government operations

Indicator	Brief Explanation	Score
PI-7 Extent of unreported government operations (Scoring method M1)	(i) All extra-budgetary expenditure (though some earmarked funds are not included in the Budget Law appropriations) is included in fiscal reports. Significant own-source revenues and associated expenditures remain outside the budget, but are included in quarterly fiscal reports. These reports cover lower tier governments as well as to central government. Subsidies to state enterprises, particularly in the energy sector, are covered by specific budgetary provision Major quasi-fiscal activity is	C+

	<p>related to directed lending schemes. Dimension score: (C)</p> <p>(ii) Complete information about all donor-funded projects is included in fiscal reports. (A).</p>	
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3.13 **Belarus has made progress in incorporating extrabudgetary funds into the budget documentation.** After significant budget consolidation in 1998 when five extra-budgetary funds were brought to the budget, Innovation Funds and the Social Protection Fund remained the largest EBFs in Belarus. The SPF was brought into the budget in 2004. The Innovation Funds were incorporated into the budget in 2005. However, a number of small EBFs remain, though their share in consolidated budget expenditures fell from 12 percent in 2005 to less than 5 percent in 2007. In addition, the own-source revenues and expenditures of subordinate budgetary institutions remain outside the budget. In 2007, expenditures out of “own-source” revenues (e.g. fees for higher education which cover about 40 per cent of the expenditure of the institutions concerned) amounted to just over 3 per cent of total consolidated budget expenditures. The execution reports on EBFs and “own-source revenues” depend on separate returns to MoF, since these resources remain outside the Treasury system. The MoF produces information on transactions with such resources and funds by aggregating reports (monthly, quarterly, annual) made by the resource administrators in the budget organisations concerned and plans to include them into the Treasury system from 2010 (stipulated by the New Budget Code).

3.14 **However, there is considerable quasi-fiscal activity not included in the budget, mainly directed lending.** With energy subsidies being transparently accounted for in the Budget and the remaining difference between tariff and cost-coverage being covered by the cross-subsidization, the major quasi-fiscal activities during the period under consideration are related to directed lending schemes by state-owned banks and related to this the growth of government deposits in these banks and periodic recapitalizations of these banks. The annual cost of these operations was estimated at about one percent of GDP in 2005, 2006 and most of 2007 (or about two percent of consolidated budget expenditures).¹⁴ However, these quasi-fiscal operations have surged since late 2007, with the flow amounting to 3.5 % of GDP through end-August 2008.¹⁵

3.15 **In total, on average during 2005-2007, the level of unreported expenditures of consolidated budget has been close to 10%.** Acknowledgement of the progress in increased budget coverage during the period under consideration and the existence of reports on these operations (albeit only periodical and not included in the general Treasury system reports), as well as the GoB commitment under the Stand-By Agreement with the IMF to discontinue the schemes and move Government deposits to the NBRB accounts allows for the score C. Dimension score: C

¹⁴ World Bank/IMF 2008 FSAP Update.

¹⁵ IMF SBA project document. January 2009.

3.16 **An inventory and consolidation of all existing sources of fiscal and quasi-fiscal spending, along with a full consideration of contingent commitments such as loan guarantees, will reveal the true picture of government finance in Belarus,** and provide a foundation for prioritizing expenditure categories, eliminating redundancies, and bringing state financial obligations in line with the overall objectives of macroeconomic stability and the realization of key social objectives. The urgency and importance of this task has been increased recently and while a lot has been done in this area during last 3-4 years, there is still long way to go.

3.17 **Cash grants received from donors pass through the Treasury system, and so expenditure is fully included in fiscal reports.** At this moment, there is no donor-funded direct budget support projects. Taking into account the government commitment to the PFM reform and the number of recent improvements (including those, documented in this report), a planned World Bank Development Policy Loan will be channelled directly to the Treasury,. Dimension score: A

PI 8: Transparency of Inter-Governmental Fiscal Relations

Indicator	Brief Explanation	Score
PI-8 Transparency of Inter-Government Fiscal Reform (Scoring method M2)	<p>(i) The allocation of spending power (grants plus shared taxes) is not based on transparent rules. (D)</p> <p>(ii) Reliable information is given to lower tier governments on their allocations from central government at each stage in the Budget preparation process. (A)</p> <p>(iii) Consolidated fiscal data is collected and reported covering more than 95 per cent of general government expenditure according to sectoral categories. (A)</p>	B

3.18 **In Belarus the objective of the fiscal transfer system is to enable each oblast (and its subordinate rayons) to provide the same minimum level of public services throughout the country,** with central government grants filling the gap between the actual tax revenue accruing to each oblast/rayon and the total amount required to finance that level of services. In practice, the achievement of this objective is far from straightforward, and it has proved very difficult to devise a transparent formula for the allocation either of total spending power (i.e. tax revenue plus grants) or of grants which achieves the desired result. One reason is that special provision needs to be made outside any formula for particular situations (notably the continuing costs occasioned by the Chernobyl disaster); this is done through conditional grants whose spending is essentially determined by the central government.

3.19 **Responsibility for providing some services is not assigned exclusively to one tier of government.** Thus hospital services are provided both from central government and oblast budgets, and some oblast hospitals serve people from other oblasts, while residents of the city of Minsk have readier access to the services of Republican Budget hospitals than residents of other oblasts. This factor makes it more

difficult to calculate a “standard cost entitlement” to hospital services which could be used in assessing the total resources each oblast should be able to command. It is generally considered that the overall process is not fully objective and transparent; instead there remains some limited scope at the margin for negotiation between MoF and oblasts on the overall financial envelope.

3.20 **Some important steps have already been taken to improve the stability and predictability of the system.** The new Budget Code fixes the assignment of revenues to lower tiers of government, so that there will no longer be any need to negotiate the revenue sharing rate annually, while the calculation of standard per capita costs for some of the most important services gives lower tier governments a measure of assurance about much of their financing. In addition, progress has been made in moving away from a system which essentially financed the continued operation of health and education facilities in their existing configuration, towards one in which the governments concerned have an incentive to rationalize such facilities so that better services can be provided in return for any given level of expenditure. Dimension score: D

3.21 **The timeliness of reliable information to lower tier governments on their available resources is good.** The hierarchical arrangements for budget preparation have in recent years provided lower tier governments with indications of the resources (revenues and grants) likely to be available to them for the following year from an early stage in that process. Lower tier governments are sufficiently consulted in the preparation of the Republican Budget, before it is submitted to the President and the Parliament, and the material provided to the Parliament includes a projection of the Consolidated Budget (i.e. including the revenue and expenditure of oblasts and rayons). Dimension score: A

3.22 **Extent of consolidation of fiscal data for general government according to sectoral categories is also good.** Complete budget execution data, broken down by functional, economic and administrative classifications, covering lower tier governments as well as central government, is collected and reported quarterly. Most of the data comes from the Treasury system at each level of government, but information is also included on transactions which do not pass through the Treasury accounts. Dimension score: A

PI 9: Oversight of aggregate fiscal risk from other public sector entities

Indicator	Brief Explanation	Score
PI-9 Oversight of aggregate fiscal risk from other public sector entities (Scoring method M1)	(i) State-owned enterprises report regularly to their supervising units at the relevant level of government. Foreign borrowing requires the consent of MoF, but lower tier governments can guarantee domestic borrowing by enterprises up to a limit of 30 per cent of their budget revenues (less transfers). Quarterly and annual reports are produced by the National Statistics Committee (Belstat) on the financial position of publicly-owned enterprises, and submitted to the Ministry of Economy and other Ministries concerned. The annual reports are published	A

	<p>each May. (A)</p> <p>(ii) There is continuous monitoring by MoF of the financial position of lower tier governments (including the issue of guarantees). Summary reports are made monthly, and detailed reports quarterly; daily information can be accesses by MoF through the Treasury system. (A)</p>	
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3.23 **Extent of central government monitoring of autonomous government agencies and state-owned enterprises is reasonable.** In Belarus organisations financed directly from central and local government budgets are fully integrated into the budgetary reporting systems at the different levels of government, and are thus subject to continuous monitoring by MoF. State-owned enterprises (SOEs) operating in the “real” sector make regular reports to their sponsoring units at the relevant level of government, which may also receive some of their post-tax profits as part of non-tax revenue. Foreign borrowing by public enterprises requires specific MoF approval, but their domestic bank borrowing may be guaranteed by oblast and rayon governments without reference to MoF, within the overall local government debt limit of 30 per cent of the budget revenues (less transfers) for each oblast/rayon.¹⁶

3.24 **Quarterly returns are made by SOEs, and joint stock companies in which there are government shareholdings, to the government’s Statistics Committee (SC) covering revenues, net profits, changes in amounts payable and receivable, energy and tax payment arrears.** The individual returns and audited reports are communicated to the Ministry of Economy department concerned with bankruptcy, while the aggregated returns are sent to MoF and other interested Ministries. Separate returns are made by banks to the NBRB, which publishes consolidated information for the financial sector. Belstat publishes annual aggregated information on the financial position of public enterprises based on their annual accounts within 5 months of year-end, and is ready on request to provide regional or industrial sector breakdowns. Score for this Dimension: A¹⁷

3.25 **The extent of central government monitoring of lower tier governments’ fiscal position is sound.** The vast majority of all transactions at all levels of government take place through the Treasury system, to which MoF has constant access. Summary reports are made monthly to MoF, and more detailed reports quarterly,

¹⁶ This is the ceiling on the local government debt introduced by the Budget Code. Previously the amount of guarantees had been fixed in the ABL at 20 percent of local government approved expenditures. The fact that lower tiers of government issue guarantees and may borrow up to 30% of their revenues without MOF approval raises concerns about contingent liability. This risk is recognized and reflected in the assessment of Indicator II.

¹⁷ The PEFA framework provides for an “A” for this dimension based on reporting and availability of information. Belarus scores well in this respect. However, the uses of this information could be improved. For example, including a section on potential fiscal risks and how the risks will be managed in a pre-budget statement or medium-term expenditure paper would be valuable. The EU pre-accession economic programs for new member states did include such discussions, and would be a good practice to adopt for Belarus.

by all Ministries and lower tier governments. Lower tier governments have discretion to borrow temporarily from central government within preset limits; such borrowing is the subject of monthly reports to MoF (as is the issue of guarantees by lower tier governments, see (i) above). Given that MoF has access to all details of lower tier governments' transactions, this power to borrow temporarily without the prior consent of MoF does not appear to present the same degree of fiscal risk as their power to guarantee borrowing by enterprises. Score for this Dimension: A

PI 10: Public access to key fiscal information

Indicator	Brief Explanation	Score
PI-10 Public access to key fiscal information (Scoring method M1)	The general public has full access to information covering two of the six PEFA benchmarks. Partial information is available concerning a further two benchmark elements.	C

3.26 Belarus meets only two of six elements of information to which the public should have access, resulting in a score of “C” for this indicator.

- (i) **Annual budget documentation (as in PI 6):** While the Annual Budget Law (main text with Annexes) is accessible by everyone and posted at the MoF website as well as at the official legal website (www.pravo.by), additional documentation (as prepared for the Parliamentary hearings), including the Explanatory Note is only partly accessible through the MoF website. It is not made available in its entirety in any mass media or to the general public. The major changes in budget policy are explained by the high MoF officials in mass-media. The PEFA Guideline requires a ‘complete’ set of annual budget documents, including explanatory notes, to be publicly available in order to satisfy this element. (Not Satisfied)
- (ii) **In-year budget execution reports.:** Reports on Republican Budget execution are published monthly, and on consolidated budget execution quarterly, the latter with some delay. In addition, Belarus subscribed to the IMF Special Data Dissemination Standard in December 2004. Since then, the fiscal data in the SDDS format are presented at the MoF website (in English and Russian). The data include the following information: General Government Operations (updated quarterly), Central Government Operations and Central Government Debt (updated monthly). (Satisfied)
- (iii) **Year-end financial statements:** Budget execution reports are published five months after the end of the financial year. (Satisfied)
- (iv) **External audit reports:** Although the SCC’s reports on budget execution are provided to members of Parliament, they are not available to the general public. (Not Satisfied)

- (v) **Contract awards:** Information is published about the award of many public contracts. But some major contracts are awarded directly at the discretion of the President, and there is no single body responsible for ensuring the consistent publication of all contracts above a certain threshold. (Not Satisfied)
- (vi) **Resources available to primary service units:** No information is published about the costs of operating particular hospitals, clinics or schools. (Not Satisfied)

C. POLICY-BASED BUDGETING

PI 11: Orderliness and participation in the annual budget process

Indicator	Brief Explanation	Score
PI-11 Orderliness and participation in the annual budget process (Scoring method M2)	<p>(i) There is a clear Budget Calendar which is generally respected, but Ministries and lower tier governments may have only four (rather than six) weeks to prepare their budget submissions after receiving the MoF budget circular containing the guidelines and assumptions to be used. (B)</p> <p>(ii) The MoF budget circular sets out expenditure ceilings within which budget organisations (Ministries, oblasts) should work. But these ceilings do not represent decisions of the President’s Office or Council of Ministers. (C)</p> <p>(iii) In each of the last three years the Parliament has approved the following year’s Budget before the start of the fiscal year. (A)</p>	B

3.27 Given the main responsibility of MoF in the annual budget formulation process, this Indicator seeks to assess whether the political leadership (the Council of Ministers) and the Ministries and other budget organisations participate effectively in the process, thereby having an impact on macro-economic, fiscal and sectoral policies.

3.28 **There is a clear Budget Calendar which is generally understood and respected.** But budget organisations (Ministries, oblasts) have had only four weeks to prepare their submissions, following receipt of the MoF Circular with guidelines and assumptions to be used. It may be difficult for oblasts to consult fully within such a timescale with the rayons which are subordinate to them. The new Budget Code introduced in FY 2009 gives budget organisations a bit more breathing space within the overall timescale for budget preparation; although a six week time period is not

specifically required, MoF's intention is that lower tier governments should have longer than they have had in recent years. Score for this Dimension: (B)

3.29 **Priority setting and political foundation for instructions in the Budget Circular could be improved.** While the economic projections, and assumptions to be used in preparing budget submissions (inflation, wage rates, etc) are the subject of consultation between MoF, MoE and the NBRB, the sectoral allocation of available funds is not the subject of any collective Ministerial discussion before budget organisations are notified of the ceilings within which they should work. The fact that investment is planned separately, outside the main budget formulation process, represents a further weakness in present arrangements. Score for this Dimension: (C)

3.30 **Belarus has timely budget approval by the Parliament.** The draft Republican Budget law for the following year is submitted by the President to Parliament by 1 November each year. In each of the last three year Parliamentary approval has been given two weeks or more before the beginning of the new fiscal year on 1 January. Score for this Dimension: (A)

PI 12: Multi-year perspective in fiscal planning, expenditure policy and budgeting

Indicator	Brief Explanation	Score
PI-12 Multi-year perspective in fiscal planning expenditure policy and budgeting (Scoring method M2)	(i) Illustrative multi-year fiscal projections are provided as part of budget documentation, but there are as yet no firm links to subsequent budget allocations. (C) (ii) Although each year's Budget includes material on debt financing, it is doubtful whether the medium-term external risks associated with the Government's overall policy stance have been taken fully into consideration. No DSA has been done by the Government to date. The MTDS is yet to be formulated (D) (iii) Despite the start in introducing aspects of program budgeting, there are not yet sufficient links with budgetary and investment planning. (C) (iv) Investment planning hitherto has focused mainly on identifying and specifying a series of priority projects to be implemented as resources become available. This planning has not been fully integrated into overall budgetary planning. (C)	D+

3.31 **This Indicator addresses whether effective medium-term plans are made to make best use of available resources** (including external funding for investment) in the development of the economy and the provision of public services, and whether these plans actually guide the annual budget ceilings and allocations.

3.32 **Requirements for multi-year budgeting are introduced by the new Budget Code, although multi-year projections had been initiated informally earlier.** However, the realism of these projections has not yet been demonstrated, and it remains to be seen whether these allocations will have any determining role in future budget allocations. In the Budget proposals for FY 2011, the MoF plans to include consolidated budget projections for the two subsequent budget years. Dimension score: C

3.33 **Belarus has not undertaken any debt sustainability analysis if its own.** While the IMF has done DSA for Belarus annually as a part of Article IV Consultations and discussed them with the counterparts, the DSA did not become the GOB instrument for the analysis of the vulnerabilities and risks of present and future borrowing. This was both due to the rather low level of public debt and absence of dedicated Public Debt Management Unit. Recognizing the importance of strategic and effective debt management in anticipation of increased foreign and local borrowing, the Debt Management Office (DMO) has been established in October 2008 as a consolidated unit responsible for all (domestic and foreign) public debt management. The new DMO is organized along functional lines into funding; strategy analysis and risk monitoring; and recording, payment and reporting operations. For the new department to become functional the debt manager needs receiving a clear mandate establishing the new functions, staffing the different units and providing them with an adequate infrastructure and investing in capacity-building, including capacity for conducting the DSA analysis and interpretation of its results and for developing a medium-term debt strategy. Dimension score: (D)

3.34 **Sector strategies and multi-year costing of recurrent and investment expenditure are in place.** Each ministry prepares its five year Strategic Plan with the list of capital projects and its estimated costs included. However, the strategic plan seems rather too ambitious. Only 30% of projects from the strategic plan are actually funded by the annual budget. Also, there seem numerous government-wide strategic documents prepared for different purposes. This could potentially confuse strategic priorities and lose practical value in guiding budget preparation and setting priorities.

3.35 **A start has been made in introducing elements of program budgeting since 2005,** whereby the efforts of central government Ministries and lower tier governments are to be mobilised over periods of 4-6 years to achieve particular policy objectives, e.g. to reverse the recent deterioration in expectations of life. Strategies/Programs have been prepared for the achievement of such objectives with expenditure and intended outputs specified for each successive year; about a third of Consolidated Budget expenditure in 2007 fell within the definition of the different Government Programs.

3.36 The Programs are currently under review, with the objective of eliminating those where the funding is uncertain or where no clear timetable is prescribed for the achievement of quantified objectives. The Budget Circular now requires Ministries and lower tier governments to provide details of intended expenditure and outputs, with expenditure under the different programs broken down by functional and administrative, but not economic classifications (reflecting the continued separation

between current expenditure and investment in the planning and budgeting process).
Dimension score, C¹⁸

3.37 **Linkages between investment budgets and forward expenditure estimates can be strengthened.** Investment planning, where the main responsibility currently rests with MoE rather than MoF, has hitherto been thought of in relation to the economy as a whole, with success measured by the excess of actual investment over pre-set targets. In both “real” and general government sectors it has taken the form of the preparation of a series of priority projects in each sector, which would be executed as funding through enterprise cash flow, through the budget or through external borrowing, becomes available. The widespread adoption of program budgeting should help to ensure that public service facilities are used as effectively as possible (through a combination of rationalisation and new investment), while at the same time the timing of investment needs to be clearly specified so that the ongoing costs of using and maintaining facilities can be taken fully into consideration in budgetary planning. Dimension score: C

D. PREDICTABILITY AND CONTROL IN BUDGET EXECUTION

PI 13: Transparency of taxpayer obligations and liabilities

Indicator	Brief Explanation	Score
PI-13 Transparency of taxpayer obligations and liabilities (Scoring method M2)	<p>(i) Belarus has more different taxes than most other countries, resulting in taxpayers having to make numerous separate tax payments. Different classes of taxpayer are treated differently in respect of the same economic operations as a result of the arrangement whereby businesses and entrepreneurs whose operations are below a certain threshold may opt to pay a single turnover or gross margin tax in place of income and profits taxes and VAT. The comprehensiveness of the tax base is further eroded by the tax exemptions available for some strategic activities. (D)</p> <p>(ii) Legal texts are readily available from the tax authorities, or on their websites. The Ministry of Taxes and Fees (MoT) has a body of officials separate from its inspection service to advise taxpayers on their obligations. The recent and continuing efforts to simplify the system are evidence of the difficulties taxpayers may have in understanding and compliance. MoT draws attention to the scarcity of professional advisers available to help taxpayers comply with their obligations. (B)</p> <p>(iii) Appeals by taxpayers registered as legal entities are</p>	C+

¹⁸ reflecting the incomplete integration of Programs into the budgetary planning and execution processes over the period 2 005-07

	heard by specialised judges in the economic courts but the independent administrative appeal mechanism is absent at present (B)	
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3.38 **This Indicator seeks to assess the operation of the tax system from the standpoint of the taxpayer**, i.e. whether businesses and individuals can readily understand how tax liabilities are determined, whether they can be confident that all taxpayers are treated equally, and whether they have access to impartial appeals procedures in the event of disagreement with the tax authorities.

3.39 **The prevailing tax environment in Belarus has been seen by business community as a major obstacle for improvement in competitiveness and new private sector development.**¹⁹ The overall tax burden is high (about 50 percent of GDP), with a number of significant distortions embedded in the tax system design.²⁰ The latter includes turnover taxes, high incidence of individually-granted tax exemptions and the system of sales taxes that have a serious anti-imports bias. Marginal rates of Social security contributions (payroll taxes) are also high (35%), increasing the total labor costs for the employer. As the private share of the economy increases high rates on payroll taxes may encourage under-reporting of wages and collusion between employers and employees to evade taxes. In addition, there are major inefficiencies on the tax administration side, such as the existence of many minor separate tax payments, excessive paper requirements for tax filing, discretions in tax audits, and disproportionately high penalties for small tax offences.²¹

3.40 **There has been a growing recognition from the GoB side these problems and increasing efforts to address them in the recent reform programs.** During 2005-2008, Belarus eased the tax burden by abolishing some levies, such as the “Chernobyl tax” (payroll tax) and unemployment tax (turnover tax), and simplifying the tax system for small businesses.

3.41 **The 2009 budget law introduced the further reduction in the turnover tax rate from 2 to 1 percent; and abolished major turnover taxes from 2010.** The rates for local sales taxes are unified at 5 percent for both imported and domestic goods and services as the first step to their full elimination in 2010. The tax base of real estate tax is reduced by the removal of moveable assets. The tax on operation with securities was eliminated and the revenues are incorporated into the general profit taxation system. The 2009 ABL also approved the transition to the flat PIT 12% rate (and increase in the tax deductible base) from a five-rate progressive schedule (from 9 to 30 percent).

¹⁹ See, *BEEPS 2008* and *Paying Taxes in 2009*.

²⁰ The overall burden of taxation (about 50 percent of GDP) is calculated as the ratio of the sum total of all budget revenues (tax, non-tax revenues and contributions for state social insurance) to GDP. In 2008, the ratio of tax revenues to GDP was 36.3 percent.

²¹ It is important to note that the majority of taxpayers in the Republic of Belarus only pay the eight major taxes on a regular basis, most of which are paid on a quarterly basis.

3.42 **During 2009/2010 has been simplifying tax return procedures, primarily through launching a system of electronic filing. In 2010 the Government is to be reduced the frequency of tax payments.** The system of tax audits is to be streamlined in 2010, while tax penalties would be reconsidered within the framework of a broader overhaul of the current structure for administrative penalties and fines. The government program also provides for a reform in the corporate income tax (profit tax) through major adjustments in its tax base. The list of currently non-taxable expenditures (advertising, consultancy, audit, etc. costs) would be considerably reduced to bring it closer to international practices. The adjustments in non-taxable expenditures also include a more adequate coverage of labor costs by relaxing some of the existing administrative norms. There are also plans to gradually reduce social security contributions as a part of the general reform of the social security system.

3.43 Acknowledging all of the GOB efforts in this area, the assessment below will be based on the measures in effect as of December 31, 2008, as far as the legislation concerned, and 2005-2007 fiscal year as far as data concerned.

3.44 **Clarity and comprehensiveness of tax liabilities.** The way in which tax liabilities are defined by law is inconsistent with normal international practice. Previous losses cannot be set against profit tax liability in a subsequent period, and there are restrictions on the extent to which various business costs can be set against income in arriving at taxable profits (wholly or partially disqualified costs include costs incurred in running more than one car, the use of advertising and consultancy services, payroll costs in excess of defined amounts, costs of compulsory statutory audit). Multiple rates and exemptions for some taxes (especially, VAT and profit tax) as well as a number of special tax regimes (Free Economic Zones, High Technology Park, new activities in rural areas) result in different treatment of taxpayers for comparable transactions, erode the tax base, provide “wrong” incentives (tax avoidance and evasion) and creating problems in policing the thresholds for entitlement to favourable treatment. Most of the special tax regimes could be eliminated and for some of them the government could establish “sunsets” to allow time to adjust.

3.45 Turnover taxes and sales taxes at the local level (coexistent with the national VAT and until 2009 levied at different rates dependent on the goods and services origin) overburden the system and create distortions (this is especially refers to turnover taxes). There are a number of nuance taxes and fees (especially, at local level), established by the local budgets annual laws, which reduces the predictability of tax obligations and complicates business planning. The list of local taxes that local governments can levy should be set in the Tax Code (and cross referenced in the Budget Code) but not through annual budget laws.²² Looked at as a whole, the system is complex and burdensome, and there are significant exceptions to the equal treatment of taxpayers. Dimension score: D

²² The draft Specific Part of the Tax Code of the Republic of Belarus contains the composition of local tax and fee payers, their objects of taxation, and tax base, the maximum size of the tax rates, as well as specific issues of calculating and paying such taxes and fees.

3.46 **Taxpayers' access to information on tax liabilities and administrative procedures.** The authorities consider that taxpayer should have no difficulty in obtaining information about tax liabilities and administrative procedures. Legal texts are readily available in written form or on the authorities' web-sites, and MoT has established a service separate from its tax inspectorate to advise taxpayers on compliance with their obligations. Both MoT and the State Customs Committee (SCC) have sought to simplify the taxes for which they are responsible (e.g. simplification and rationalisation of the customs duty structure, facilitation of tax payments). But problems for taxpayers remain, particularly for businesses subject to the whole range of direct and indirect taxes, given the scarcity of qualified independent professional advisers available to help them. It appears that more could and should be done by MoT e.g. through information sessions and/or the production of more user-friendly basic explanatory material to educate and reassure taxpayers. Dimension score: B

3.47 **Existence and functioning of a tax appeal machinery.** Since taxes are initially paid on the basis of declarations by taxpayers, disagreements between tax-collectors and taxpayers generally arise when tax inspections (MoT carry out 60,000 inspections every year) give rise to demands for additional payments. In such circumstances there are provisions for appeals to hierarchical superiors within the tax collection machinery, and also to the Courts. According to MoF, the lodging of an appeal suspends the collection of any tax outstanding and/or any penalty imposed. Cases involving businesses registered as legal entities are heard by specialised judges in the economic courts, but individual taxpayers can only appeal through the general courts. 200 appeals against MoT were heard in 2007, of which 25 per cent were decided in favour of the taxpayer: there were 125 appeals against SCC, with taxpayers successful in 13 per cent of cases. Both MoT and SCC consider that the number of appeals is falling, and that more of them are being decided in favour of the authorities. Dimension score: B

PI 14: Effectiveness of measures for taxpayer registration and tax assessment

Indicator	Brief Explanation	Score
PI-14 Effectiveness of measures for taxpayer registration and tax assessment (Scoring method M2)	(i) A single business registration with the rayon authorities covers taxation, social security, bank accounts, etc. (A) (ii) In Belarus registration, which covers a number of other relationships between business/individual entrepreneur and the state, is practically impossible to avoid. Once registered, taxpayers have every incentive to make some kind of tax declaration, since otherwise they would face arbitrary assessments which they would have to pay pending an appeal. (A) (iii) There is strong planning and monitoring of tax audit and fraud investigation programmes, which takes full account of risk factors. (A)	A

3.48 This Indicator seeks to assess the functioning of the tax system from the standpoint of the authorities, i.e. whether the authorities are well informed about the identity and character of taxpayers, whether they are able to enforce compliance with obligations, and whether they have effective arrangements for countering tax fraud.

3.49 **Controls in the taxpayer registration system.** Registration of a business (legal entity) or an individual entrepreneur with the rayon office of the Single State Registry of Legal Entities and Individual Entrepreneurs is the essential condition for carrying on any business. It results in automatic registration with the authorities responsible for tax, social security, insurance and official statistics; documents confirming registration with these various authorities are issued simultaneously with the document confirming the business registration, and thus make possible the opening of a bank account. Once the original registration has taken place there is no obstacle to communication between the different databases. Dimension score: A

3.50 **Effectiveness of penalties for non-compliance with registration and declaration obligations.** Registration as a business (or as an individual entrepreneur) is almost impossible to avoid, and this carries with it automatic registration for tax purposes. Once registered, taxpayers have every incentive to make some kind of tax declaration, since otherwise they risk the imposition of arbitrary assessments whose collection would not be suspended pending the results of an appeal. (Note that this dimension covers only the making of some kind of tax declaration; it does not consider whether or not the declaration is correct.) Dimension score: A

3.51 **Planning and monitoring of tax audit programs.** All taxpayers should in principle be subject to audit/inspection at least once every five years, with larger enterprises subject to more frequent audit by the authorities. In addition to this, large enterprises, banks, quoted companies and foreign-owned enterprises are subject to an annual independent audit (directed primarily at tax and regulatory compliance) by a registered auditor.²³ MoT and SCC both state that inspections are based on an analysis of risk factors (and particularly on any signs of possible under-declaration); these include size, recent establishment, and status as VAT net refund claimants. Dimension score: A

PI 15: Effectiveness in collection of tax payments

Indicator	Brief Explanation	Score
PI-15 Effectiveness in collection of tax payments (Scoring method M1)	(i) Consolidated Budget tax arrears (other than taxes postponed by Government decision) were less than 1 per cent of total revenue at the ends of the last two financial years. (A) (ii) All tax revenue is paid directly into accounts controlled by the Treasury. (A)	A

²³ If a taxpayer is subject to an inspection by MoF KRU, the requirement for an annual audit is suspended.

	(iii)A monthly report on consolidated budget revenue execution is compiled, which takes into account taxpayers' self-assessment declarations, their payments and unpaid taxes assessed as a result of inspections/audits. (A)	
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3.52 **Collection ratio for gross tax arrears.** Tax collection has been rather good too, in spite of high tax rate: budget arrears fell from 1.4 percent of consolidated budget revenues in 2005 to 0.8 percent in 2006 and 0.4 percent in 2007 (i.e. total amounts outstanding arrears in two out of three years under consideration were less than one per cent of total taxes and fees collected in those years). See Table 11. This suggests about high tax effort in Belarus. Dimension score: A.

Table 11 Tax Amounts Outstanding

End Year	Total Amount Outstanding BYR bn	Deferred Taxes BYR bn	Net Arrears BYR bn	Arrears as % of Tax Collected
2005	653.4	225.8	427.6	1.4
2006	678.0	356.2	321.8	0.8
2007	504.0	308.8	196.8	0.4

Sources: MoF Self-assessment, MoF info on deferred payments controlled by tax authorities, IMF Country Report 07/311, Table 10 of statistical appendix

3.53 **Immediate transfer of tax collections to the Treasury.** Tax payments are immediately transferred from the banks into which payments are made to the Treasury Single Account at BNB in the case of revenues accruing to the Republican Budget, and to accounts opened by local Treasury offices in Belarus Bank in the case of revenues accruing to local budgets. Information about all tax payments is available to the MoF central Treasury on a daily basis. Dimension score: A

3.54 **Frequency of accounts reconciliation between tax assessments, collections, arrears and transfers to the Treasury.** Tax payments are mainly based on self-assessment declarations by taxpayers, with assessments by the tax authorities being made following inspections (or the analysis of tax returns). A detailed monthly report is compiled from returns by all local tax offices covering revenue execution against budget for each tax in each oblast/rayon, and including information about taxes assessed but not paid by the due date. Dimension score: A

PI 16: Predictability in the availability of funds for commitment of expenditures

Indicator	Brief Explanation	Score
PI-16 Predictability in the availability of funds for commitment of expenditures	(i) MoF notifies budget organisations of cash availability quarterly in advance, taking into account known seasonal patterns of revenue and expenditure. MoF notifies NBRB of its expectations concerning revenue and expenditure on a weekly basis, but this information is not based on returns	B

(Scoring method M1)	<p>by spending authorities. (B)</p> <p>(ii) The quarterly cash flow allocations constitute ceilings within which spending authorities can be confident of cash being available to meet payments due. (B)</p> <p>(iii) Significant adjustments in budget allocations are normally made twice a year by Decree of the President of the Republic. (B)</p>	
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3.55 **Extent to which cash flows are forecast and monitored.** The MoF Treasury Department prepares annual cash flow forecast after the budget approval by Parliament and updates cash flow quarterly, reflecting expectation from spending ministries. Once Parliament has approved the Budget, MoF prepares a quarterly cash allocation to spending authorities, including the conditional and unconditional grants to be paid to local governments through the oblasts, which also takes into account its forecasts of seasonal and other variations in revenue flows. Local governments prepare similar projections of their cash requirements, so that they can notify MoF of any temporary borrowing needs where their immediate cash requirements are expected to exceed their income from taxes and central government grants. MoF monitors the position on a weekly basis, and notifies the National Bank of Belarus (NBB) accordingly, but the cash allocations are not updated in-quarter on the basis of detailed consultations with spending authorities taking into account their expectations. Nevertheless a budget organization may ask to have its cash allocation rescheduled between quarters, provided that it remains within the approved annual total. Dimension score: B.

3.56 **Reliability and time horizon of information to spending authorities on cash availability.** Spending authorities have reasonable assurance that cash will be available within the quarterly ceilings notified to them by MoF. (MoF also maintains a register of major contract commitments extending further forward.) Cash availability has not represented a significant problem in recent years. Since a fully satisfactory rating requires a six month forward planning period, this dimension is rated (B).

3.57 **Frequency and transparency of adjustments to budget allocations notified to spending authorities.** Within a fiscal year budget revenues and expenditures can be revised by means of adopting a Law of the Republic of Belarus (where increases are needed in overall ceilings for revenue and/or expenditure), by acts of the President of the Republic of Belarus (where significant functional reallocations are made within approved totals), and by decisions of the Government of the Republic of Belarus and decisions of local Councils of Deputies within the limits of the approved budgets and the authorities delegated to them. The volume of revenues and expenditures of the Republican Budget can thus only be increased or reduced by the Parliament of the Republic of Belarus or—on its instruction—by the President of the Republic of Belarus. Revisions of individual amounts in the Republican Budget are made no more often than once a quarter (as a rule, 1-2 times per year).

3.58 **In the process of budget execution, the Ministry of Finance and relevant local financial agencies are authorized to make changes in spending allocations according to the economic and administrative expenditure classifications**

of relevant budgets, within the limits of approved annual allocations by sections, subsections, and types of the functional expenditure classification. Similarly, Budget resource administrators are authorized to redistribute budget allocations between budget resource recipients subordinated to them.

3.59 **Taken overall, the arrangements for in-year changes in budget allocations are clearly defined in law, and reasonably transparent.** But the executive branch has quite a wide measure of discretion outside legislative control, and many changes take place without public announcement. Dimension score: B

PI 17: Recording and management of cash balances, debt and guarantees

Indicator	Brief Explanation	Score
PI-17 Recording and management of cash balances, debt and guarantees (Scoring method M2)	(i) Domestic and foreign state debt data are complete and reliable, and are updated monthly, but exclude un-guaranteed borrowing by state enterprises. (A) (ii) Central government’s cash balances are consolidated daily, but local government cash balances are held in numerous accounts at Belarus Bank, although they are reported as part of the Treasury system. (C) (iii) Foreign borrowing, and the issue of guarantees for foreign borrowing require Government consent. Local governments can give guarantees for domestic borrowing by enterprises within a ceiling of 30 per cent of their revenues (less transfers) without prior MoF approval. (D)	C+

3.60 **Quality of debt data recording and reporting.** MoF keeps the register of domestic state debts, including borrowing and the issue of guarantees by local governments, which is updated monthly on the basis of returns by borrowers. Foreign borrowing by government bodies, including the issue of guarantees, requires the approval of the Government (arranged through MoF). There is some foreign borrowing by state-owned enterprises without guarantee, which is not included in MoF reports; details are, however, held by NBB. The information about non-guaranteed debt collected by NBB has been published in NBB’s reports and website. The volume of state borrowing, including the issue of guarantees by local governments, is regulated by each year’s Budget Law, which places limits on the increase in debt stock as a percentage of GDP, and on the issue of guarantees as a percentage of local governments’ approved revenues or budget expenditures. Dimension score (despite the omission of un-guaranteed borrowing by state enterprises from reports): A

3.61 **Extent of consolidation of government cash balances.** The cash flows of both central and local governments are managed through the Treasury system, at central or local government level. Central government receipts and payments all take place through the Single Treasury Account (STA) at NBRB. However, although local government income and expenditure transactions take place through local branches of the

(MoF) Treasury (with the central Treasury having full access to information about them), and the same tests are applied before payments are made as in the case of central government transactions, their cash balances are not consolidated overall but left on deposit at different branches of the (state-owned commercial) Belarusbank or Agrobank. MoF considers that there would be legal and practical difficulties in the way of consolidating all local government cash balances, and that such balances are of minor importance. Another reason of practical difficulty arises from the fact that own-source revenue from local government is kept and managed outside treasury system while ex-post reporting is made later on. The MoF acknowledges this challenge and would consider bringing own-source revenue from oblast and line ministries into treasury system in 2010. Dimension score: C

3.62 **Systems for contracting loans and issuing guarantees.** Domestic and foreign loans may be contracted by central government within the limits laid down in each year's Budget Law. Foreign loans and the issue of guarantees for foreign borrowing both require the approval of the Government. Local governments do not have the power to take bank loans, but may borrow temporarily from MoF, issue securities and extend guarantees for domestic borrowing by enterprises within a limit for local Government debt of 30 percent of their approved revenue (less transfers)²⁴, without the prior consent of MoF. Introduction of the limit on domestic borrowing represents progress towards more effective fiscal risk control. Since 2006, data show that considerable use has been made of this power, although it was stated that less than five per cent of such guarantees have actually been called (in which case the local government concerned has recourse to the assets of the enterprise in question). It was pointed out that many of these guarantees are issued in accordance with government policy (e.g. for the development of rural areas) and in that sense could be regarded as under government control. This power for lower tier governments to issue guarantees for enterprise borrowing without needing prior MoF approval, and without estimation of the impact on state debt management, represents a significant fiscal risk, and present difficulties for debt management in case of macroeconomic fluctuation. Dimension score D

PI 18: Effectiveness of payroll controls

Indicator	Brief Explanation	Score
PI-18 Effectiveness of payroll controls (Scoring method M1)	(i) There are effective links between budget organisations' personnel and payroll records, with changes in individuals' details in personnel records automatically requiring consideration of their implications for the payroll. (A) (ii) Personnel and payroll records are regularly updated. (A) (iii) Ministries and local governments maintain appropriate controls over changes in payroll records. (A)	A

²⁴ In 2007 and 2008, local government guarantees were limited to '20' per cent of their approved budget 'expenditures'. In 2006 the limit was 10 percent of approved expenditures.

	(iv) All central and local government units are subject to periodic inspection by MoF KRU, sometimes in association with the State Control Committee, and particular attention is paid to payrolls. (A)	
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3.63 **The numbers, pay (including various special allowances reflecting qualifications and length of service) and grading of public servants are tightly controlled by the central government:** numbers and grading by the President’s Administration, pay levels and structure by the Ministry of Labour, and payroll by MoF. MoF allocates funding to spending Ministries based on precise information about the approved numbers and grading of public employees on each organisation’s payroll. Employing organisations must justify to MoF changes to their payrolls, e.g. because employees qualify for additional pay based on length of service, and can only grant promotions if there are vacancies (or if approval is given to additional employees at a higher grade). In addition to inspections by MoF KRU (which has branch operations at local level as well as the central operation) they may be inspected by Ministry of Tax to see that personal income tax is correctly collected, and by SPF to see that social security contributions are correctly paid. The same disciplines apply in local government in respect of employees in the health and education services.

3.64 **Linkages between personnel records and payroll operations.** The MoF ensures that Ministries and local governments keep accurate electronic records of personnel and payrolls, and that these are appropriately linked. Dimension score: A

3.65 **Timely updating of personnel and payroll databases.** Personnel and payroll records are updated by Ministries and their counterparts in lower tier governments monthly in time to ensure that staff are correctly paid. Dimension score: A

3.66 **Internal controls of changes to personnel records and payroll.** There is effective hierarchical supervision of changes to personnel and payroll records by the personnel and finance functions in each Ministry and lower tier government department. Dimension score: A

3.67 **Effective operation of payroll audits.** Personnel records and payrolls are subject to both internal controls operated by the responsible administrations and to a range of external inspections (MoF KRU, SCC, etc) which pay particular attention to the possibility of deliberate errors. These inspections have found little evidence of inflated payments or of “ghost workers” being inserted into payrolls while a few minor errors in payment calculation are reported - afterward, the loss has been recovered and responsible staff sanctioned. Dimension score: A

PI 19: Competition, value for money and controls in procurement

Indicator	Brief Explanation	Score
PI-19 Competition, value for money and controls in	(i) Although it appears that about 75 per cent of contracts (by value) are procured using competitive methods, there are frequent restrictions covering the operation of	

procurement (Scoring method M2)	<p>competition (restricted tendering lists, operation of price controls, requirement for purchases to be made through monopoly suppliers) etc. (C)</p> <p>(ii) The applicable legislation provides for derogation from competitive tendering below a monetary threshold. However, there is also a myriad of other reasons why competitive tendering may be avoided as many types of goods are procured using specific regulations. There is no single comprehensive regulation covering all Public Procurement; (C)</p> <p>(iii) There is no single authority with responsibility for compliance with applicable legislation, and no dedicated procurement complaints mechanism. (C)</p>	C
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3.68 **The applicable general legislation is the regulation “On Supplies of Goods for State Needs” which defines a competitive bidding as default procurement method.** However, the actual procurement process is governed by a number of decrees and resolutions with the Presidential Decree No. 529 being the most important regulation. However, there is not yet a law on Public procurement despite several attempts to introduce one in the past years. In addition to the Presidential Decree there are other decrees governing procurement of specific goods (e.g., medical, agriculture, sports and tourism and construction).

3.69 **To date there is no public procurement agency.** The Ministry of Economy has responsibility for general policy on public procurement, developing procurement related regulations and collecting data and statistics on contract awards, while the Ministry of Architecture and Construction is responsible for building and civil engineering contracts, including control of the prices of inputs. In the most part procurement is centralised and Ministries (and their counterparts at oblast and rayon level) are required to procure many types of goods through the public enterprises such as Belresources, which acts as a purchaser and monopoly supplier. The Ministry of Economy does not control the procurement practices of other public authorities, or their compliance with applicable legislation.

3.70 **Use of open competition for the award of contracts above a threshold value.** The Ministry of Economy data show that in the period 2005-07 about 75 per cent of general government procurement by value involved some sort of competitive process, with open competition accounting for somewhat less than 50 per cent of the total. However, if this is viewed from the perspective of numbers of contracts the proportion of direct contracts goes up dramatically to over 90 per cent due to the large number of small value contracts. It is also doubtful whether competition can be fully effective when the prices of many inputs are controlled, and many procurement operations are required to be undertaken through a monopoly public purchasing enterprise. Dimension score: C.

3.71 **Justification for use of less competitive procurement methods.** The legislation provides for contracts for goods below 80,000 Euro to be let following a published invitation to submit price quotations which required at least two bids to be obtained, and for contacts below 10,000 Euro to be let following the submission of prices by at least three potential suppliers. But there does not appear to be any specific legislation governing the use of restricted rather than open tendering. Dimension score C.

3.72 **Existence and operation of a procurement complaints mechanism.** Many potential suppliers are public enterprises controlled by their customers, and few foreign suppliers have participated in tenders. Complaints have to be submitted to the purchasing authority, and if not resolved can be appealed to the Courts. Reported complaints (to MoE) have been relatively few (although the number has recently risen sharply).²⁵As there is no functioning complaints mechanism other than through the Courts, the interpretation of the low figure of registered complaints needs caution as it may well be that the lack of complaints could reflect the lack of an effective mechanism for redress and the low faith that bidders may have in the integrity of the existing system rather than the “good quality” of the procurement process. More specifically, the overall absence of a specific public procurement law results in the absence of a dedicated complaints mechanism and this, in turn, is reflected in the number of registered complaints. Dimension score: C

PI 20: Effectiveness of internal controls for non-salary expenditure

Indicator	Brief Explanation	Score
PI-20 Effectiveness of internal controls for non-salary expenditure (Scoring method M1)	(i) Annual cash planning and quarterly cash allocation, combined with a MoF register of contracts extending beyond the current year ensure that expenditure does not outrun available cash. Arrears of expenditure are insignificant. (B) (ii) Expenditure by central government, oblasts and rayons is subject to detailed rules and procedures. Discipline is reinforced by strong ex post compliance controls undertaken by Ministry/local Finance Departments, MoF KRU and State Control Committee. However, the concentration of resources on control activities of this kind seems rather excessive (B) (iii) Both the MoF central Treasury and oblast/rayon Treasuries require prima facie evidence that procedures have been complied with before payments are authorised. The refusal rate is extremely low. (A)	B+

²⁵ In 2007 overall there were reportedly 5000 complaints in Belarus related to the procurement process, of those 146 specifically concerned construction works. The Ministry of Economy, themselves, registered 74 complaints in 2007 (of those 20 in construction), whilst in the first quarter of 2008 there were 46 complaints concerning construction works only.

3.73 **Effectiveness of expenditure commitment controls.** The Belarus system does not include a comprehensive commitment control as such, separate from other expenditure controls. Instead it depends on annual cash planning at a very detailed level, with firm cash allocations to spending units quarterly in advance. It is supplemented by a MoF Register of contracts extending beyond the current year. The Treasury system rejects proposed payments which are not supported by prima facie evidence that the expenditure is included in the annual budget provision and the quarterly cash plan, and that all required procedures have been complied with. The fact that expenditure arrears are insignificant confirms the effectiveness of the system. In addition, the MoF has introduced in 2009 a commitment control measure for capital projects to better monitor and control highly-likely fluctuating revenue in-flow situation throughout the year. Dimension score, reflecting absence of commitment control system as such: B.

3.74 **Comprehensiveness, relevance and understanding of other internal control rules/procedures.** Belarus has a well-established administrative system with a strong emphasis on different layers of control. This system was judged to work well during the time of the USSR, and continues to operate as intended. Spending units (Ministries and their lower tier government counterparts) need to maintain systems which will satisfy Treasury controls and also their own inspection services; they also need to ensure, so far as possible, that the MoF KRU and the State Control Committee will not be able to find errors and irregularities in their operations. It may be for consideration whether the concentration of resources on ex post compliance checking could inhibit the most efficient and economical provision of public services, since the controls are themselves resource-intensive, and they may discourage consideration of possible alternatives, and more efficient, ways of achieving any given result. However, the evidence is that internal controls work effectively if not always efficiently with multiple checks that concentrate on compliance rather than efficiency in use of resources. Dimension score: B.

3.75 **Compliance with rules for processing and recording transactions.** Treasury procedures at both central government and oblast/rayon levels, together with the operation of ex post inspection controls, result in a high degree of compliance with the rules for processing and recording transactions. Dimension score: A

PI 21: Effectiveness of Internal audit

Indicator	Brief Explanation	Score
PI-21 Effectiveness of internal audit (Scoring method M1)	(i) Internal audit in the sense of a service advising management how to overcome identified weaknesses in their systems does not exist in Belarus. However some of the work of MoF KRU is directed towards identifying and correcting system weaknesses. (C) (ii) The absence of comprehensive internal audit coverage precludes any systematic distribution of reports. (D) (iii) Systems review/audit has hitherto been only a by-product of	D+

	internal control activity, and as yet no systematic response to it has yet been developed. (D)	
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3.76 **Coverage and quality of the internal audit function.** Internal audit, in the sense of a service without operational responsibility advising management on how to overcome identified systems weaknesses, is not part of the Belarus system. To date almost all internal control activities have been highly concentrated on checking of compliance (how closely the rules are followed) rather than audit of the effective use of public resources. However, MoF KRU inspection activities have begun to move beyond compliance testing designed to detect individual errors towards identifying systems improvements which would improve the economy and efficiency of public service operations, and it was stated that some of the work of internal control departments in different Ministries has some of the characteristics of internal audit. For example, KRU have pointed (in their internal control reports) to the need to bring engineering expertise to bear more effectively in the specification and management of building and civil engineering contracts to ensure the quality of the outputs and thus value-for-money (incidentally confirming the existence of problems in securing value for money in public service procurement, cf PI-19). Dimension score: C.

3.77 **Frequency and distribution of reports.** Because a systematic internal audit function remains to be developed, no general arrangements have yet been developed for the production and distribution of reports. All audits/inspections are centrally co-ordinated by an interdepartmental Committee chaired by the head of the State Control Committee; in 2006 there were some 70,000 such inspections, with the number falling to 68,000 in 2007. The results of all controls are recorded in a register (Book of controls) and reports are sent to directly interested parties and the summary report is prepared and submitted to the President’s Office but not easily available to public. Of the 68,000 controls carried out in 2007, 19 received complaints and 2 were not agreed. Dimension score: D.

3.78 **Extent of management response to internal audit findings.** No evidence is available about management responses to systemic weaknesses identified by KRU or other inspections, mainly due to the fact that the descriptions of the errors found focus on non-compliance rather than on an analysis of weaknesses in the system. As the control concentrates on identifying instances of non-compliance, the normal response generally focuses on disciplinary action rather than on identifying the causes of problems and devising measures to prevent their future occurrence. For example, whilst the result of recent KRU ‘audits’ has shown that a greater professionalism in the specification and management of building and civil engineering contracts would need to be developed, it is not clear that management have yet taken any wide-ranging action to achieve this. Dimension score: D

E. ACCOUNTING, RECORDING AND REPORTING

PI 22: Timeliness and regularity of accounts reconciliation

Indicator	Brief Explanation	Score
PI-22 Timeliness and regularity of accounts reconciliation (Scoring method M2)	<p>(i) Bank reconciliations for all central governments, Oblast and Rayon bank accounts which are part of the Treasury system take place at least monthly. Where budget operations, or extra-budgetary revenue and expenditure, are outside the Treasury system, the responsible spending authorities are required to reconcile their expenditure and banking records prior to submitting their returns to the Treasury (A)</p> <p>(ii) Suspense accounts and advances are reconciled monthly in the course of preparation of monthly operational reports for submission to MoF. (A)</p>	(A)

3.79 **Regularity of bank reconciliations.** As examined in PI-17, there is a single Treasury system covering central government, Oblasts and Rayons. For central government most revenue and expenditure passes through accounts at the BNB, with daily reconciliation of flows and balances. Oblast and Rayon Treasuries operate through accounts at the (State-owned commercial) Belarus Bank (BB) and Agrobank, with comparable daily reconciliation of flows and balances. But some budget organisations remain outside the Treasury system, as do some extra-budgetary operations. For general government as a whole, monthly reconciliation takes place in the context of the submission of budget execution reports to MoF; according to MoF Treasury, spending authorities responsible for budget operations, or for extra-budgetary revenue and expenditure, which fall outside the Treasury system, are required to carry out a reconciliation between their expenditure records and their bank account data before submitting their reports. Dimension score: A.

3.80 **Regularity of reconciliation and clearance of suspense accounts and advances.** Oblast and Rayon balances at the BB and Agrobank are part of the single Treasury system. Information about them is accessible to the MoF central Treasury on a daily basis. Travel advances and operational requests are cleared and reconciled monthly at all levels of government in the context of monthly operational reporting to MoF. Dimension score: A

PI 23: Availability of information on resources received by service delivery units

Indicator	Brief Explanation	Score
PI-23 Availability of information on resources received by service delivery	(i) Annual accounts are prepared covering the expenditure of each school, hospital, etc, and the information is available to check whether service providers do receive resources (both financial and in-kind) as planned in the	B

units (Scoring method M1)	budget, during its execution. But budgets are not notified in advance to the managers, and neither budgets nor accounts are published. (B)	
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3.81 **Resources received by service delivery units.** The costs of each service delivery unit (SDU) are largely determined by centrally set pay levels and norms (e.g. space and teacher provision per pupil). The tier of government responsible in each case (Rayons for most schools, Oblasts for most hospitals) builds up the budget for each SDU on the basis of these norms. Some resources (e.g., educational textbooks) are allocated by central government Ministries (with required parental contributions paid to the Ministry), while the individual government responsible has a measure of discretion in the allocation of resources for repairs and maintenance. SDUs have very little discretion in or accountability for the allocation of resources; their individual budgets, which are not published, are essentially determined by the responsible governments. A school may be able to secure some relatively small addition to its resources by selling produce grown on its land, or using the produce to improve the food provided to pupils.

3.82 **An annual account is produced of the expenditure of each SDU, but these accounts are not published.** No special surveys have been undertaken in the past three years to track the actual flow of resources (financial and in-kind) to SDUs. Salaries for teachers and health workers are paid directly from the government responsible, and goods and services are also delivered directly by the government concerned²⁶. Site visits by the assessment team found no sign that education, health and other social services suffer from the diversion or misappropriation of resources by the Oblast or Rayon administration. On the contrary, it would appear that lower tier governments operate very stringent checks, making misappropriation quite difficult. Dimension score: B

PI 24: Quality and timeliness of in-year budget reports

Indicator	Brief Explanation	Score
PI-24 Quality and timeliness of in-year budget reports (Scoring method M1)	<p>(i) Classification of data allows comparison with the original budget, but expenditure is covered only at payment stage as a comprehensive commitment control is not applied in Belarus (B)</p> <p>(ii) Reports covering general government as a whole are prepared monthly and quarterly by the 25th of the month next to the reporting period. Reports on annual execution of oblasts' and Minsk-city consolidated budgets are to be submitted to the Treasury by February 25th of the year following the execution year so that Annual reports on execution of consolidated budget are ready in the early March. (A)</p>	B+

²⁶ This assessment is based on the meeting with Bobruisk rayon Finance Dept and staff actually running a school and a cultural facility financed by the rayon

	(iii) The reports are mostly underpinned by the operation of the single Treasury system, and are generally reliable. (A)	
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3.83 **Scope of Reports in terms of coverage and compatibility with budget estimates.** The Reports cover general government as a whole, and are broken down by functional administrative and economic classification. Expenditure formally treated as extra-budgetary is included in these reports. But there is no separate reporting of expenditure at the commitment stage. Dimension score: B.

3.84 **Timeliness of the issue of Reports.** Ministries, Oblasts and Rayons prepare their own in-year execution reports and submit them to MoF on quarterly basis. The MoF issues a consolidated expenditure reports within four weeks of the end of each quarter. Dimension score: A.

3.85 **Quality of information.** The operation of the single Treasury system provides a cross-check on most of the information submitted by Ministries, Oblasts and Rayons (but some elements of expenditure (5-10 per cent of the total) covered by the returns remain outside the single Treasury system). Dimension score: A

PI 25: Quality and timeliness of annual financial statements

Indicator	Brief Explanation	Score
PI-25 Quality and timeliness of annual financial statements (Scoring method M1)	<p>(i) Consolidated government statements are prepared annually covering all expenditure, but coverage of financial assets and liabilities is incomplete. (C)</p> <p>(ii) The annual report on central government expenditure is produced within two months of the end of the year. A consolidated report on general government revenue and expenditure is prepared within four months of the end of the year. (A)</p> <p>(iii) Statements are presented in a consistent format based on national accounting standards which are not compatible with international standards. (C)</p>	C+

3.86 **Completeness of the financial statements.** The main focus of the financial statements is on revenue and expenditure execution for the Republican Budget (i.e., central government expenditure only) including information on financing of deficits. A number of subsidiary reports are prepared covering expenditure on fixed assets, expenditure on scientific research, flows of stocks of materials, etc. A statement is prepared on extra-budgetary revenues and expenditures, but there are no separate and comprehensive statements on financial assets and liabilities. Revenue and expenditure information is prepared covering general government as a whole within four months of the end of the year. Dimension score: C.

3.87 **Timeliness of the submission of the financial statements.** The statement on the execution of central government expenditure is submitted for examination by the State Control Committee (SCC) two months after the end of the year. A consolidated report on general government revenue and expenditure is produced within four months of the end of the year. Dimension score: A.

3.88 **Accounting standards used.** The financial statements are based on national accounting standards which are not consistent with international accounting standards for use in the public sector. The Accounting Law does not require or permit the application of IFRS, though new instructions require certain entities to report under IFRS starting with financial statements for the year ended in 2008. The instructions require banks to prepare annual audited financial statements in accordance with both national financial reporting standards for banks (NFRSB) and IFRS (two sets of financial statements will be required). In addition, the new instructions require that 30 major enterprises, mostly large open JSCs and SOEs, are to prepare both NAS and IFRS financial statements. As there is no process for the official adoption and publication of IFRS as part of national legislation, however, the application of these requirements becomes rather difficult. Furthermore, in practice, either the non-official Russian translation or the English versions of IFRS published by the IASB are used, which may create some inconsistencies in the application of IFRS. Dimension score: C

F. EXTERNAL SCRUTINY AND AUDIT

PI 26: Scope, nature and follow-up of external audit

Indicator	Brief Explanation	Score
PI-26 Scope, nature and follow-up of external audit (Scoring method M1)	<p>(i) Audit coverage is comprehensive but and the scope of audit is very limited. There is no disclosure of audit standards. (C)</p> <p>(ii) The SCC's annual reports on its examination of budget execution statements are presented to Parliament within four months of their receipt of those statements from MoF. (A)</p> <p>(iii) SCC stated that almost all their recommendations are accepted and implemented by the government; they have been asked to provide examples of such recommendations and of the action taken in response to them. Apart from the annual report on budget execution, there is no publication of SCC reports or of responses to them (D).</p>	D+

3.89 The PEFA analysis assesses public audit arrangements against a standard in which public external audit is carried out independent of government, includes both a comprehensive financial audit and a wide range of performance/value for money audits, and gives rise to published reports which receive published responses from

auditees. Such audits are carried out after the event, and the auditor by definition has no involvement in or responsibility for operational management.

3.90 **The Belarus arrangements do not conform to this accepted model.**

The SCC which performs in Belarus some of the tasks assigned (in other jurisdictions) to the supreme audit institution is subordinated to the President rather than to the Parliament: its Chairman (appointed by the President) is formally a member of the Council of Ministers, its primary function is to be part of, coordinate and oversee the overall control arrangements (see PI-20 and 21 above), and most of its reports form part of the government's internal processes, which are not disclosed to the public. However, information about the SCC reports findings are presented in mass-media and the number of various publications, interviews, etc. has been increasing recently. For instance, according to the SCC statistics, provided to the team, in 2007 there had been 8096 presentations in media, and this number increased to 11082 in 2008. It intervenes extensively in ex ante controls, thereby taking part of the responsibility for operational management; in most jurisdictions such activity is considered incompatible with the status of independent 'external' auditor.

3.91 The SCC's activities under current arrangements do not contribute towards the Belarus government's accountability to its citizens. Furthermore, when the SCC performs their "external audit" they very often do so in association with MoF, KRU and other bodies that perform internal controls/audits; thus there is no clear boundary between external audit and internal control/audit. On the other hand, it is worth noting that a presidential decree has been enacted to better coordinate inspection activities among MoF KRU, ministries' KRU and SCC and to move toward more performance-oriented audit.²⁷

3.92 **Scope and nature of audit, and adherence to audit standards.** SCC's audit mainly consists of compliance testing of transactions. Due to an overall need to reduce the number of inspections (audits/controls) the SCC coordinates all the controls/audits carried out on a particular entity, and mandates what is called a "complex control" where all controlling bodies come at the same time and perform controls/audits concerned with their own sphere of activity. Therefore, most often SCC inspections are co-ordinated with those of MoF KRU, of the tax authorities and of the comparable inspection units in each lower tier government. It is therefore difficult, if not impossible to separate the functions of internal and external audit. As with KRU, it is understood that these inspections sometimes address systemic issues (but no evidence is available from published reports). All Ministries, other central government bodies and extra-budgetary funds, and all Oblasts and Rayons, are included within the SCC's scope of activity. SCC includes a division of financial police which works on criminal investigations with staff of the Ministry of the Interior. The annual reports on budget execution do not include any comprehensive financial audit, or any opinions on the overall accuracy or reliability of the financial statements provided by MoF. SCC considers that they adhere to international (INTOSAI) public auditing standards, but no specific information is available about the conformity of their audit with those standards. (C).

²⁷ Presidential decree No. 510 Oct. 16 2009.

3.93 **Timeliness of submission of audit reports to the legislature.** SCC’s annual reports on budget execution are submitted to the legislature (in accordance with applicable legislation) within three months of the receipt of statements from MoF. (A).

3.94 **Evidence of follow-up on audit recommendations.** The annual reports on budget execution are the subject of Parliamentary hearings which are reported in the media. However, despite the broad statement that the reports are “public” they are not made freely available to the public. Other reports by SCC form part of the government’s internal processes; in some circumstances SCC can intervene directly in administrative matters to enforce its findings and recommendations, and its activities are generally seen as carrying the authority of the President. SCC states that almost all their recommendations (both in the budget execution report and in other reports) are accepted by the government and that they often address systemic issues rather than specific errors or infringements. (D)

PI 27: Legislative scrutiny of the annual budget law

Indicator	Brief Explanation	Score
PI-27 Legislative scrutiny of the annual budget law (Scoring method M1)	(i) The legislature’s review covers fiscal policies for the coming year as well as detailed estimates of expenditure and revenue. But a firm medium-term framework incorporating the government’s expenditure priorities and specific policy objectives has not yet been established. (B) (ii) The legislature’s procedures are firmly established, comprehensive, and well respected. (A) (iii) The legislature has at least one month to consider the draft budget, having been previously consulted about the macro-economic background to its preparation. (A) (iv) There are clear rules limiting in-year amendments to the budget without prior legislative approval. (A)	B+

3.95 **Scope of the legislature’s scrutiny.** The arrangements for the Parliament’s involvement in the preparation of the budget are set out in the Budget Code law which has recently been revised. Detailed arrangements for consultation with the Parliament on prospects for economic and social development and on the draft budget to be prepared in the light of these prospects are the subject of a government decision promulgated each year in March. Following informal consultation with members of Parliament (particularly the Chairmen of relevant Committees), which is considered to have an important impact, there are formal arrangements for budgetary hearings once the draft budget has been submitted by the President, however, it must be indicated that Parliament is rather part of the process and not seen as a body providing independent scrutiny. The hearings, and previous discussions, cover all aspects of fiscal policy, including debt financing, as well as details of expenditure and revenue. Although

Parliament's detailed consideration of the government's proposals is primarily directed towards central government revenue and expenditure (the "Republican Budget"), full information is given also about the revenue and expenditure of Oblasts and Rayons whose overall shape is closely controlled by the central government. The Parliament's scrutiny also extends to extra-budgetary funds, notably the Social Protection Fund.

3.96 **However, the government has only recently initiated the presentation of its budgetary plans in the framework of a medium-term strategy for the development of the economy and the public services**, which should incorporate its expenditure priorities and integrate the policy objectives to be achieved, and it has yet to be established how effectively the strategy will constrain the preparation of future budgets. Dimension score: B.

3.97 **Extent to which the legislature's procedures are well-established and respected.** The overall arrangements for the Parliament's consideration of the draft budget are set out in the Budget Code law. Specialised Committees have been established to consider the macro-economic background and different elements of expenditure, which are attended by representatives of MoF and other Ministries concerned. In addition to these formal arrangements, there are informal consultations during the process of budget preparation between individual members of Parliament (particularly the Committee Chairmen) and officials concerned in MoF, MED and other Ministries. Dimension score: A.

3.98 **Adequacy of time for the legislature to respond to the budget proposals.** The Budget Code law, and the detailed arrangements decided each year by the government, ensure that the Parliament has sufficient time to consider both the macro-economic outlook within which the budget proposals are subsequently formulated, and the draft budget as eventually submitted by the President. In practice the Parliament has had at least two months between the time by which the President must submit the draft budget, and the time by which time the budget should be approved. Under the New Budget Code, which will be implemented from 2009, the budget must be submitted to Parliament by 1 November, and should be approved by 1 December, in order to give lower tier governments time to finalise their budgets. However, the interaction at the prior stage of budgeting may be seen as justifying formally allowing Parliament only four weeks for its discussion of the final budget proposals. Dimension score: A.

3.99 **Rules for in-year amendment of the budget without prior approval by the legislature.** These rules are set out in the Budget Code law. MoF can approve expenditure reallocations to different administrative units or for different economic purposes within the approved totals for sub-functional headings (e.g. between different agricultural development programmes). The President can authorise more far-reaching reallocations provided the overall total expenditure remains within the overall ceiling set in the annual budget law. Any overall increase in total expenditure requires a new budget law approved by Parliament. Comparable arrangements are in force concerning amendments to Oblast and Rayon budgets. Dimension score: A.

PI 28: Legislative scrutiny of external audit reports

Indicator	Brief Explanation	Score
PI-28 (Scoring method M1)	<p>(i) Parliament considers the SCC report on budget execution without delay in the context of discussion of the annual law approving execution of the previous year's budget. (A)</p> <p>(ii) Following receipt of the SCC's budget execution report, some hearings are usually held with government representatives concerned with the findings and recommendations. (B)</p> <p>(iii) The Chairman of the relevant Committee of the 2004-08 Parliament stated that the Parliament specifically endorsed the SCC's recommendations, and notified the government accordingly. Such communications from the Parliament have not been published. (B)</p>	B+

3.100 **Timeliness of Parliamentary examination of audit reports.** Parliament examines the SCC's annual report on budget execution in the context of its consideration of the law confirming the execution of the budget for the year in question. The process is understood to take about a month following receipt of the report. Dimension score: A.

3.101 **Extent of hearings on key findings.** According to the Chairman of the responsible Parliamentary Committee (2004-08) hearings were normally held in a small group with a few government representatives concerned with SCC's findings or recommendations. Dimension score: B.

3.102 **Recommendations by the legislature and response of the government.** It is understood that the Parliament generally endorsed the SCC's recommendations, and communicated this endorsement to the government. The Parliament's communications and the government's responses have not been published. According to the SCC, these recommendations usually concerned systemic issues. Dimension score: B.

4. GOVERNMENT REFORM PROCESS

Recent and On-Going Reforms

4.1 **Belarus has been making improvements to its PFM system since independence.** A strong treasury operation was introduced, and improvements to arrears management and accounts payable have been introduced over the past decade. More recently, in 2008-9, improvements to the budget code, budget comprehensiveness, and the introduction of a medium-term expenditure framework and program budgeting as well as Tax reform are underway.

4.2 **A PFM Reform strategy is expected to evolve from the PEFA Assessment.** Following this assessment, a dialogue with the authorities is expected to lead to a proposed PFM reform strategy. Once drafted, the Ministry of Finance would assume responsibility for having the strategy adopted by Government, if that is chosen, including dialogue with international institutions regarding possible technical or financial assistance to the reform process.

Institutional Factors supporting Reform Processes

4.3 **A highly motivated, well-trained MoF staff is leading many reforms.** The staff have been engaged in international fora, such as the OECD Senior Budget Officials meetings for Central and Eastern Europe, as well as the PEM-PAL initiative, and have received training from the IMF Institute, among others. The staff are regularly exposed to international practices

4.4 **The GoB has made clear its intention to harmonize with international standards (particularly the EU), and continue reforms.** The clear progress made to date, and commitment of senior MoF officials, suggests there are good prospects for further reform implementation.

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