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RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
BELARUS MSME ACCESS TO FINANCE PROJECT
APPROVED ON SEPTEMBER 28, 2017
TO
DEVELOPMENT BANK OF THE REPUBLIC OF BELARUS

FINANCE, COMPETITIVENESS AND INNOVATION
EUROPE AND CENTRAL ASIA

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I. BASIC DATA

Product Information

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Financing Instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>P152276</td>
<td>Investment Project Financing</td>
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</table>

<table>
<thead>
<tr>
<th>Original EA Category</th>
<th>Current EA Category</th>
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<tbody>
<tr>
<td>Partial Assessment (B)</td>
<td>Partial Assessment (B)</td>
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<table>
<thead>
<tr>
<th>Approval Date</th>
<th>Current Closing Date</th>
</tr>
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<tr>
<td>28-Sep-2017</td>
<td>31-Dec-2022</td>
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Organizations

<table>
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<tr>
<th>Borrower</th>
<th>Responsible Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Bank of the Republic of Belarus</td>
<td>Development Bank of the Republic of Belarus</td>
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</tbody>
</table>

Project Development Objective (PDO)

Original PDO

The Project Development Objective (PDO) is to improve access to finance for private MSMEs and enhance governance and the institutional capacity of the Development Bank of the Republic of Belarus.

Summary Status of Financing

<table>
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<tr>
<th>Ln/Cr/Tf</th>
<th>Approval</th>
<th>Signing</th>
<th>Effectiveness</th>
<th>Closing</th>
<th>Net Commitment</th>
<th>Disbursed</th>
<th>Undisbursed</th>
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</table>

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

I. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES
A. Project Status

The Project Development Objective (PDO) is to improve access to finance for private micro, small and medium-sized enterprises (MSMEs) and enhance governance and the institutional capacity of the Development Bank of the Republic of Belarus (DBRB). The project has been progressing in a satisfactory manner, with a disbursement ratio of 57.5 percent currently. In the last ISR, dated February 19, 2020, the progress towards achievement of PDO and overall implementation progress were both rated satisfactory. The project has three components: Component 1 (Credit Line), Component 2 (Institutional Strengthening of DBRB), and Component 3 (Project Management and Implementation). The amounts allocated in the Loan Agreement are: 56.2 million US$ for Component 1, and 3.8 million US$ for Components 2 and 3.

The high disbursement ratio achieved has been driven by rapid progress achieved under the Credit Line (Component 1). As of January 01, 2020, the project provided financing for 145 sub-loans for 125 unique MSME beneficiaries. The fast disbursement of the Credit Line has been driven by many positive developments, primarily by three partial currency conversions of the loan amount from US$ into EUR; two of which were executed in 2019 and one in early 2020. As a result, sub-borrowers continue to have access to loans both in US$ and EUR for working capital and investments. The majority of loans are EUR-denominated: 2.4 million US$ for 6 sub-loans vs. 22.9 million EUR for 139 sub-loans. With this fast pace of disbursement, the Project Implementation Unit (PIU) expects the amount allocated for the Credit Line (Component 1) to be fully disbursed by the end of the current calendar year (December 31, 2020).

The Credit Line has contributed to filling a market gap for long-term loans in foreign currency for MSMEs. The overwhelming majority of the sub-loans (85.1 percent by volume) have benefited micro- and small enterprises, which typically have constraints to accessing long-term finance. The project has supported lengthening the maturity of bank loans to MSMEs. Currently 53.6 percent of sub-loans have a maturity of 3-5 years whereas 32.3 percent of loans have a maturity of 7-10 years, with an average maturity of 6 years for both USD and EUR denominated loans. In comparison, 39.1 percent of all loans issued to legal entities in hard currency in Belarus 2019 had a maturity of 1-3 years with only 11.7 percent of loans exceeding 3 years. The sub-loans cover the entire territory of the Republic of Belarus, with highest shares by volume in Minsk (22.7 percent), Minsk region (except for Minsk) (19.8 percent), Brest region (19.1 percent) and Grodno region (18.7 percent). The majority of the sub-loans have supported enterprises in the manufacturing and transport industries (37.6 percent and 38.8 percent respectively).

The DBRB governance and business model continue to be strong. DBRB operates on a financially sustainable basis and is in compliance with applicable NBRB regulations, has a positive return on assets and regulatory capital (according to the national standards). As of March 24, 2017, the Supervisory Board had no representative of the National Bank of the Republic of Belarus. The Supervisory Board consists of 8 members, 5 of them independent directors, making more than half of the Supervisory Board and corresponding to the best international practice of corporate governance. The new Board composition was approved in March 2020. In July 2019, DBRB purchased the common (ordinary) shares that were under the operational management of NBRB. On December 19, 2019 the Head of State signed a Decree amending the current mandate of DBRB. These changes are expected to strengthen DBRB’s position as a national financial institution and continue the successful implementation to mobilize long-term financing of large investment projects, finance exports, and support MSMEs in order to promote sustainable economic growth. DBRB granted 2,398 million BYN new loans in 2019, 5.4 percent of which through PFIs and leasing companies and 94.6 percent through direct lending, compared to 2.4 percent through financial intermediaries and 97.6 percent directly in 2016.

Under Component 2 on Institutional Strengthening, the project supports improvements in the following areas: a) strengthening operational capacity of DBRB (including operating policies, new instruments, monitoring/disclosure and
evaluation practices), b) enhancing IT systems and processes, c) designing and carrying out knowledge events (including for MSMEs under the project) and d) carrying out capacity building activities for PFIs. The disbursement of Component 2 began in October 2019, with the procurement of legal services on venture financing and a senior management training for a total amount of 21 thousand US$. The disbursement of Component 2 has been delayed as the procurement of IT-related items (item b above), which accounted for the vast majority of Component 2 in the initial procurement plan, was carried out using DBRB’s own resources for a total amount of 4.5 million US$ during the period of 2015-2018, due to delays in the approval and effectiveness of the project. The amounts were used for the procurement of high-tech hardware and relevant software, as well as design of the budgeting system. As a result, on February 25, 2020 DBRB requested reallocation of 3.2 million US$ from Components 2 and 3 to Component 1.

Financial management arrangements are satisfactory and there are no overdue audits. Overall Safeguards rating and Procurement rating are satisfactory.

B. Proposed changes

The initial procurement plan for the project amounted to 3.8 mm US$ for Components 2 and 3. The initial procurement plan included the following categories of items / consulting services to be procured by DBRB:

1. Items / Consulting services that were procured in 2015-2018 using DBRB’s own resources. This category is predominantly related to IT systems and included procurement of hardware and software, creation of MSME support program database used for project management, and consulting services for diagnostics, technical design, and implementation support for the IT strategy. The category also included consulting services for the review of the compliance and Anti-Money Laundering systems and design of the DBRB website. These items/services amounted to 2.8 million US$ out of the 3.8 million US$ in the initial procurement plan and were procured using other sources due to the delay caused in the approval of the project. These items actually cost DBRB 4.5 million US$.

2. Consulting services that remain in the procurement plan and will be implemented during 2020-2022. These services include the following items: i) seminars, workshops, and conferences to enhance PFI capacity in risk management and operational processes, ii) training of DBRB staff in financing instruments, and iii) survey of access to finance for MSMEs to assess demand and supply factors. These consulting services amounted to 400,000 US$ in the initial procurement plan.

3. Consulting services for activities that will be replaced by more strategic initiatives to be implemented during 2020-2022. The initial procurement plan included consulting services for certain activities amounting to 250,000 US$ that the DBRB senior management has recently re-assessed. The activities will be replaced with more impactful and strategic initiatives that are strongly aligned with the business strategy of DBRB and reflect its expanded mandate. These activities were discussed and agreed with the World Bank during the supervision mission held in February 2020.

4. Consulting services under Component 3 on Project management, which are predominantly carried out by DBRB staff and will remain in the procurement plan for a smaller amount. These services amounted to 400,000 US$ in the initial procurement plan and covered financial management, environmental and social safeguards, procurement, project management and monitoring, translation and interpretation. These services will remain in the revised procurement plan but for a smaller amount as most of the work has been successfully carried out by DBRB staff. The PIU is now staffed by 4 DBRB staff and 1 consultant.

As a result of these developments, project restructuring is proposed to re-allocate 3.2 million US$ from Components 2 and 3 to Component 1. Following the proposed re-allocation, there will be 374,160 US$ and 200,000 EUR available for Component 2, equivalent to 592 thousand US$ (FX rate as of April 03, 2020). During the latest supervision mission, held in late February 2020, the World Bank team discussed extensively with DBRB senior management and the PIU the
use of the remaining funds under Component 2 to ensure achievement of the PDO with regards to strengthening the governance and the institutional capacity of DBRB. It was agreed to refocus the procurement plan in line with DBRB’s mandate and business plan and national objectives for the development of the financial market. Accordingly, DBRB plans to focus the remaining funds on:

1) strengthening the capacity of DBRB for new product development
2) supporting knowledge events and capacity building for SMEs, and
3) building capacity of PFIs.

The detailed plan for Component 2 activities in the period 2020-2022 is as follows:

1. Strengthening operational capacity of DBRB (~210,000 US$ equivalent) includes i) preparation of legislation on venture capital, ii) diagnostic and training on export financing, iii) study on access to finance for MSMEs to inform new product development, iv) capacity building at DBRB in line with the expanded mandate of the DBRB. These activities will enable DBRB to develop new products for MSMEs.

i) Belarus currently lacks legislation on venture financing, which is one of the most widely used mechanisms for supporting innovation and entrepreneurship. In the “Development Strategy of the Financial Market of the Republic of Belarus till 2020,” DBRB is tasked with establishing a fund for investment for start-ups and the regulatory framework for venture financing. The project will support legal services to establish the venture capital legal framework.

ii) Export financing remains a key objective of DBRB, accounting for 34 percent of total new loans granted in 2019. The legislative mechanism for support of Belarusian exports was amended in 2019 to further support export financing, including increasing the size of loans as a share of the export contract, enabling DBRB guarantees, reducing the minimum amount of export loans, and allowing the financing of import customs. Along with financial instruments, DBRB aims to develop non-financial export support instruments, which include advisory services to all participants in the export chain, and help support Belarusian exports as a “one-stop-shop.” DBRB aims to develop greater competence in this field to support the expansion of Belarusian companies into existing and new markets. The project will support a diagnostic and training on export financing.

iii) The project will support a study/survey on access to finance to identify the key barriers to access to finance for MSMEs and identify possible areas for improvement to fill the finance gaps. The survey will contribute to greater understanding of the needs of MSMEs and help support access to finance, especially after the anticipated negative effect of COVID-19 on MSMEs.

iv) The amended Decree on the DBRB has expanded DBRB’s mandate. Along with financing investment and infrastructure projects in line with government projects, export financing, and supporting MSMEs, new tasks include financing self-selected investment projects, infrastructure projects on the principles of public-private partnership, providing financial support to MSMEs not only for investment purposes, but also for replenishment of working capital. The project will support services to enhance DBRB’s competence in these new areas of activity.

2. Knowledge events capacity building for MSMEs (~355,000 US$ equivalent) including: i) Global Entrepreneurship Week for MSMEs and PFIs, ii) Other capacity-building activities for MSMEs. In DBRB’s Strategic Plan of Development for the period 2016-2020 non-financial support of MSMEs in a new focus of the bank to support development of the private MSME sector. The flagship event in this context is the organization of an annual Global Entrepreneurship Week since 2015, which has become the largest business event in Belarus. The event brings together individual entrepreneurs, MSMEs, as well as commercial banks and local authorities and includes speeches and workshops, start-up battles, hackathons etc. and contributes to the enhancement of capacity of both enterprises and commercial banks. DBRB plans to finance this event in 2020-2022 out of the project.

3. Capacity building for PFIs (~25,000 US$ equivalent) including: i) Capacity building for risk-management and operational processes of PFIs. In line with its expanded mandate, DBRB will also support partner banks in reaching out to MSMEs and improving their risk-management and operational processes (e.g. trainings and workshops on data science, product development, financial analysis).
The expected disbursement of Component 2 in 2020 is 233 thousand US$. It is expected that with these activities, the PDO will be achieved with regards to the institutional strengthening of DBRB.

The re-allocation will also support increased access to the Credit Line by private MSMEs, which are expected to be adversely affected by the spread of COVID-19.

II. DETAILED CHANGES

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

<table>
<thead>
<tr>
<th>Ln/Cr/TF</th>
<th>Current Expenditure Category</th>
<th>Current Allocation</th>
<th>Actuals + Committed</th>
<th>Proposed Allocation</th>
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<td><strong>1,906,884.00</strong></td>
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<td>IBRD-86960-002</td>
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<td><strong>Total</strong></td>
<td><strong>41,600,000.00</strong></td>
<td><strong>29,180,874.50</strong></td>
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