

**Diagnostic Facility for Shared Growth (DFSG)  
Fifth Call for Proposals  
Application Form**

<b>Title of the Proposed Study:</b>	<b>How Firms Grow in Belarus?</b>
<b>Country:</b>	<b>Belarus</b>
<b>Proposed Start Date:</b>	04/01/2011
<b>Proposed End Date:</b>	10/01/2011
<b>Total Amount Requested:</b>	US\$ 75,000
<b>Request for Cross Support:</b>	Very likely. [To be discussed.]
<b>Task Team Leader Name:</b>	Gallina A. Vincelette and Marina Bakanova
<b>Managing Unit (OUI):</b>	ECSPE
<b>Telephone:</b>	202.473.0288 and 5254.230, respectively
<b>Trust Fund Certified (Yes/No):</b>	Yes.

**1. Consistency with DFSG objectives:** *What are the objectives of the proposed work and how do they link to the objectives of the DFSG call for proposals, more specifically to country-level analysis of the constraints to inclusive growth?*

The proposed project contributes to understanding the sources of growth at the firm level. It develops a methodology and a user-friendly tool for analyzing enterprise surveys data, gathered by the National Bank of Belarus (NBRB). The data covers firms in all industrial sectors and construction as well as major services sector (namely, transport, trade and catering). Since 2001 through a quarterly survey, the NBRB has been collecting enterprise financial (“hard” data) and business sentiments (“soft” data) information. Pairing these two types of data to unveil micro-level decisions is the key innovation, which the project promotes.

Specifically, the analysis will unbundle the linkages among firms (state-owned enterprises (SOEs) in particular as they contribute some 55% of output, 66% of employment, and 45% of exports) to understand the incentives mechanism behind the redistribution of resources/factors of production in the economy. The firm level data from the NBRB will be used to assess the economic value of domestic resources used in the production process by deriving the ‘true’ or transfer-free opportunity cost of intermediate resources and factor inputs. Sectoral differences among firms in industry, services, and construction will be emphasized. The analysis will also evaluate the implications of the current system for resources allocation on productivity, growth, employment, export performance, and efficiency of public support.

The proposed project has two major goals:

- Develop with and deliver to the client (NBRB) a user-friendly tool for calculating productivity, competitiveness, investment efficiency, and financial information for user-tailored groups of enterprises/sectors/clusters/regions and pairing such analysis with changes in the business environment as captured by the business sentiments segment of the survey.
- Build the capacity of the Economic Analysis Unit of the NBRB and Ministry of Economy in using the tool and analyzing micro-data for informing policy decisions and preparing of analytical reports for policy-makers and the general public.

The proposed work is closely linked with the objectives of the DFSG Fifth Call for proposals to fund country-specific growth diagnostic studies, which would offer an in-depth understanding of how an economy is actually growing. While the proposed project will benefit from the growth work conducted under the on-going CEM, it will greatly complement the aggregate analysis with the outlined above sectoral/micro analytical aspects. By evaluating the implication of the prevailing system of resource allocation in the economy, the project will inform policy decisions on identifying bottlenecks to growth.

**2. Technical soundness and originality:** *How does the work build on existing methods? Is new ground covered within the particular country context on inclusive growth? Have you obtained the necessary data to conduct the analysis? Specify to what extent you intend to use micro data on firm and household sides and the analyze links between aggregate and micro information.*

While the proposed project has a notable element of novelty, it will built on existing methods and tools (some of which developed under the DFSG). For example, growth accounting using firm-level data allows for assessing the role of different factors of production – capital, labor,

and technological progress or productivity, analyzing productivity performance and investment efficiency. Furthermore, the decomposed series can be adjusted to reflect rates of capacity utilization to improve the assessment of the contribution of capital to economic growth. Rates of return on capital can be used to approximate the efficiency of investment and can be interpreted as the opportunity cost of investment in the economy. Applying share-shift analysis within sectors will help assess the impact of structural changes across sectors on labor productivity growth.

To capture industry-specific challenges and features, the analysis will analyze *micro data* to inform about the distribution of factors of production, their allocation to the productive processes, and the reasons/incentives structure behind those decisions. The novelty of this analysis will come from linking the products of the “hard” data analysis (conducted through, but not limited to, the tools specified above) with the “soft” data analysis reflecting the business sentiment and incentives for decisions at the firm level.

We have received and reviewed the following information related to the NBRB survey: (i) the complete set of questioners, variables definitions, sectoral coverage, and frequency of the surveys ; and (ii) a sample of the NBRB dataset for a subsector of industry (the machine building sector, around 170 firms) to determine the feasibility and scope of the proposed project. The information provided to us allows us to believe that the quality of data is high and will allow us to pursue effectively the objectives of this project.

**3. Relevance to country priorities:** *How does your proposal fit in with ongoing country work and dialogue on development priorities? Is this linked to specific AAA work, CAS or PRSP preparations? How does the analysis contribute to the analytical basis for policy priorities in the country context?*

This activity will support the overall Bank program for Belarus, including the on-going work of the ECSPE team (CEM, programmatic PER, programmatic DPL), the ECSPF privatization and financial market development teams, and other sectors in shaping their policy advice to Belarus. Specifically, it will help the Bank deepen its policy dialogue on structural reform priorities and understanding of the functioning of the state-led economic model, with a particular focus on state-owned enterprises. This analysis will contribute to the following concrete issues central for the on-going dialogue with the government: the system of state support, quantitative targets, labor market flexibility, competitiveness, investment efficiency, and institutional constraints for growth.

**4. Knowledge sharing, dissemination and capacity building plan:** *How do you plan to involve local partners in the process of preparing the report? How do you plan to disseminate your country study?*

The NBRB has expressed its strong interest in working closely with the Bank on developing the methodology and techniques for the micro analysis of productivity, competitiveness, and investment efficiency suitable to the dataset with the aim to produce a joint analysis that will be later updated and carried out by the NBRB experts independently. The proposed Project is based on the strong client’s need and commitment and provides a unique opportunity to develop new knowledge and bring new skills to the client.

The proposed project will consist of the following three major components:

- *Development of the methodology and training of core NBRB staff* (April-June 2011)  
Under this component, WB staff and international experts jointly with the NBRB experts will analyze the existing dataset to formulate the hypotheses to be tested. Two workshops

will be organized: (i) an inception workshop (via VC) bringing together the teams (including experts from the NBRB, the Ministry of Economy, and Belstat); and (ii) a technical workshop (including hands-on training) in Minsk. In addition, this component may include on the job training for the client (WB consultant will be working with the NBRB experts to tailor the software program for the needs of the analysis). A technical note with the description of methodology will be prepared during this phase.

- *Preparation of a methodological note for a segment of the economy* (May-Sept, 2011)  
Under this component, the team will draft a note on the efficiency of a segment of the SOEs sector in Belarus. The Bank team will conduct an analysis jointly with the client. To verify the results, enterprise visits will be organized. The Draft Note will be discussed at the meeting of the Government Inter-agency Working Group (IAWG) for the CEM preparation.
- *Dissemination of Results* (October 2011)  
Under this component, a finalized Note featuring the methodology and results from the analysis will be presented at two events: (i) a seminar for policy-makers at the NBRB premises, and (ii) a seminar for a larger audience, including academia, donor community and representatives of Central Banks of Russia, Kazakhstan and Ukraine. The Final Note will be published as a joint WB-NBRB product and will be posted at both the WB and the NBRB websites.

**5. Client and donor engagement, and any participation of external agencies:** *Comment on collaboration with clients and donors on this work, as well as foreseen participation of other external agencies.*

This proposal is being put forward at the request of the NBRB, expressed during the September 2010 meeting of the CEM Intergovernmental Agencies Working Group and confirmed during the World Bank Economic Team Mission on November 8-25, 2010. The Government of Belarus and the NBRB value highly the recent experience in the joint organization of high-level events and seminars on structural reform priorities, joint work on strategic policy documents, and have consistently expressed their strong interest in continuation of these practices and their deepening at meetings with the Bank management, including ECA VP and ECCU2 Country Director.

The proposed Project is a joint activity with the National Bank of Belarus, which will allow for a deeper longer-term engagement with the NBRB. It will also be implemented in close coordination and cooperation with the Ministry of Economy and the Research Institute under the Ministry of Economy (RIME), and the National Statistics Committee (Belstat).

Since many ECA central banks have similar surveys, other regional clients could benefit from this work. In particular, this project may be especially relevant for the central banks in Russia, Kazakhstan, and Ukraine. The IMF team working on Belarus has also expressed interest in participating in this project. Upon approval of the proposal, their involvement will be discussed.

**6. Budget** – Total Amount to be Requested: **US\$75,000** (Note, the limit is \$75,000)

*Please present a detailed budget with unit costs broken down by category (e.g. consultant fees, travel costs, etc.), fiscal year, and source of funding (DFSG and other sources including BB, other trust funds, donors).*

	FY 2010	FY 2011	FY10&11	FY10&11
Activity / Category	DFSG	DFSG	DFSG Sub-Totals	Other (BB, TF, donors)
<b>Financed by the Bank:</b>				<b>\$15,000</b>
Bank staff costs (under the CEM P123083)				\$15,000 (BB)
<b>Financed by the Client:</b>				<b>\$21,000</b>
NBRB staff time (5-7 people) premises for 2 seminars and hands-on workshop				15,000 (in kind)
Ministry of Economy staff time (2 people)				\$3,000 (in kind)
Belstat staff time(2 people)				\$3,000 (in kind)
<b>Financed under the DFSG:</b>				<b>\$75,000</b>
Consultants	\$15,000	\$20,000	\$35,000	
Travel	\$10,000	\$18,000	\$28,000	
Media & Workshops (incl. printing materials, equipment, simultaneous interpretation)	\$3,000	\$3,000	\$6,000	
Other (translation)	\$2,000	\$4,000	\$6,000	
<b>Sub-Totals:</b>	<b>\$30,000</b>	<b>\$45,000</b>	<b>\$75,000</b>	

*Note: DFSG awards can only be used for consultants, travel, and media and workshops. DFSG awards cannot be used for Bank staff costs. If other sources of funding have not yet been secured, please provide reasonable estimates of BB funds and other sources of funding that you intend to seek.*

### **Expected Output and Quality Review**

TTLs benefiting from funding under this Call are expected to submit their study within **six months of receipt of the DSFG grant**. A quality review process led by PRMED will follow, prior to dissemination of the studies.

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### **Deadline: January 31, 2011**

**Please submit (1) this application form, and (2) a letter/e-mail from the relevant Country Director indicating support of the proposed work to Ms. Cornelia Mirela Catuneanu [ccatuneanu@worldbank.org](mailto:ccatuneanu@worldbank.org) and include “DFSG – Fifth Call for Proposals” in the subject line of your emails.**