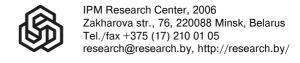
# BUSINESS IN BELARUS 2006

## STATUS TRENDS PERSPECTIVES



## Business in Belarus:

## Status, Trends, Perspectives. 2006

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The report represents an analysis of the business climate for small and medium-sized enterprises (SME) in Belarus. It demonstrates that development of small and medium business can play a key role in economic development for a medium-term period. Specifically, it can mitigate consequences of some possible unfavorable shocks. The report also provides findings of SME poll and national public enquiry. Based on the data received, an analysis of SME's basic features, problems, trends and perspectives is made and public attitude towards small business is reviewed.

The research reveals that despite certain positive changes, the business climate in Belarus still has certain restrictions and barriers that hamper fast growth of the SME sector, such as frequent inspections, high penalty charges, complex and costly procedures of securing necessary permits (licences, certificates etc.) and tax legislation. At the same time, the population has a positive attitude towards business development and the private sector, although preferring work in the sate sector. The main motivation for this attitude is that state enterprises provide social guarantees, stability of employment and workload during working time.

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#### 1. FOREWORD

For a long time SME development was not a priority for the government. 2006 however, the year of the 20-th anniversary of business development in the country can in a sense be named the year of awareness necessity of business development in Belarus.

The president and the prime-minister, as well as the key economic ministers made repeated statements regarding how important it is to intensify efforts on state support to SME development. One of the goals of the Program on Socio-Economic Development of Belarus for 2006-2010 is to increase the share of SME in the value added generated in the country to 20-22% of GDP. At present, SME's share in GDP is about 10%. Therefore, to meet the objective it is necessary to intensify activities to facilitate SME development in Belarus.

Certain steps in this direction were made by authorities in 2005-2006. Specifically, the principle of a 'onestop shop' registration principle was introduced. Although the Belarusian version of a 'one-stop shop' is still pretty far from its original meaning, the procedure of registration in different state agencies was simplified and cheapened considerably. Coordination of inspection bodies' activities was improved; the procedure of making unscheduled inspections was regulated. In 2006 the principle of computing penal sanctions was changed, so now one would expect gradual reduction in the amounts of penalties and interests to be paid. The government also made some steps to improve the licensing system.

At the same time most government statements on SME development support are not sustained by real actions and national policy of business development remains inconsistent and contradictive. For instance, in 2006 the decision was made to mark tea, coffee, footwear and some other goods with excise duty stamps. This will cause increase of entrepreneurs' costs so that small businesses and individual entrepreneurs will have to leave the market. The tax burden is heavy and remains virtually unchanged, in spite of yearly repeated intentions of the Ministry of Finance to reduce it. Tax legislation is complicated and inconstant and tax administration remains to be a labor-intensive and costly process. There is also a problem of securing numerous permits. No one can tell their total number; besides, the process of securing necessary permits is getting more costly and labor-intensive.

According to the World Bank Survey 'Doing Business 2006' which represents comparative analysis of the business climate in different countries in terms of 10 indicators: starting a business, employing workers, getting credit, enforcing contracts and closing a business, registering property rights, protecting investors, paying taxes, trading across borders and dealing with licenses Belarus ranks 106 (Armenia — 46, Russia — 79, Moldova — 83, Kyrgyzstan — 84, Kazakhstan — 86, Georgia — 100, Ukraine — 124, Uzbekistan - 138). According to the last Heritage Foundation research of economic freedom, Belarus ranks 151 among 157 countries.

The Transition Report of the European Bank for Reconstruction and Development (EBRD) evaluates general progress achieved by Belarus in implementing market reforms as one of the smallest (the same as in Turkmenistan and Uzbekistan). According to EBRD research despite some improvements in business climate of Belarus as compared to 2002 in terms of above indicator Belarus still lags far behind the countries of Central and Eastern Europe (CEE).

Thus, at present there are two contradictory tendencies. On the one hand, business climate in Belarus needs to be improved and the government makes certain steps in this direction. On the other hand, the practice of backdating and giving retroactive force to the passed legislative acts still exists; the procedure of securing necessary permits and licenses is time-consuming and costly; tax amounts and tax administration costs are high, regulation laws are contradictory and erratic, the amounts of penalty charges and sanctions are excessive. Moreover, some indicators of business climate have a tendency toward deterioration.

Consequently, all the groups that are interested in development of business in Belarus: entrepreneurs, business-unions and associations, think tanks, the government and the public should apply their best efforts to improve the situation. Business development in Belarus will facilitate restructuring of the country's economy and advance living standards.

Private SMEs are often more effective than state enterprises; quality and range of their services surpass those of the state companies by far. Besides, part of state companies badly needs restructuring, especially in regional and small towns. Today, many businesses are on the verge of bankruptcy because of the expenses for maintenance of extra employment. Any structural reform of industrial institutions shall inevitably lead to considerable reduction of employment. The sector of SME's can notably reduce tension in labor market and absorb part of laid off people. However, on the one hand it will take registration procedures and securing necessary permits to become easier and reasonably priced. On the other hand, the idea of entrepreneurship and responsibility of an individual for his socioeconomic well-being should be widely promoted among the public, including unlimited media.

In this report we would like to present the findings of our two research works - SME directors poll on quality of the business climate and development of the private sector in the country and results of the national public opinion poll on the attitude of the public toward entrepreneurship and selected problems of economic development. Besides, the report represents a general analysis of macroeconomic development of the country and a survey of positive and negative changes in legislation regulating SME operations that took place in 2005-2006. Additionally, the report contains some findings and recommendations related to business development.

The report brought to your notice is prepared within the framework of the project "Formation of the National Business Platform to Facilitate Reforms in Belarus". This project advanced further development of the dialogue between representatives of

business associations, state agencies, think tanks, international institutions and media.

We are grateful to everybody who participated in our seminars and round tables, promoting constructive discussion on the problems of encouraging business development in Belarus. We would like to express our gratitude to Mr. Yaroslav Romanchuk, Head of the Mises Scientific-Research Center and to Mr. Vladimir Karyagin, Chairman of the Minsk Capital Association of Entrepreneurs and Employers. We would like to express our special thanks to Mrs. Elena Suhir (Program Manager of the Center for International Private Entrepreneurship (CIPE), USA in the countries of Eastern Europe and Eurasia/Central Asia) for rendering invaluable assistance in development of free entrepreneurship in Belarus.

**Editors** 

#### 2. MACROECONOMIC PERFORMANCE

## 2.1. Selected results of economic performance of Belarus in 2001–2005

2005 was the last year of a "fiveyear plan". Well forgotten after the collapse of the Soviet Union, this phenomenon in fact reappeared in Belarus and turned to be synchronous with the next presidential term of A. Lukashenko. While the 2001-2005 five-year plan began with problems caused by pre-election populist policy pursued in 2000–2001 when businesses had to adapt to the tightening of monetary policy and fiscal discipline — the last 2,5 years virtually passed under the sign of accelerating growth of main macroeconomic indicators (target, forecasting and planned figures). Depending on the place of employment different experts explained this either by a favorable condition of the world raw material markets alongside with specific relations with Russia or by pursued policy or combination of the mentioned factors.

#### Growth of economy

According to official statistics during the 2001–2005 period, the Belarusian economy growth rate was rather high—on average 7.5% per year, at the same time from 2001 till 2004 the growth of economy accelerated (Table 2.1). According to specified data in 2004 the rate of economy growth constituted 11.4%, the 'record' of 1997 was hereby repeated.

The end of 2001 and 2002, when Belarus harvested the results of pursued populist policy, was the most difficult period for the Belarusian economy. However, a number of external factors helped the country's economy to escape crisis. General growth of the world economy determined growth in demand for raw commodities and subsequently rise in their prices. Despite the fact that Belarus is a net importer of mineral products and ferrous metals, this price increase turned to an advantage for the country's economy. Importers included them into their expenses (as appreciation of the mentioned goods was global) and the rise in proceeds and profits of exporters meant improvement of their financial status and extension of profits tax base.

Rise in world prices was just one component of success for the Belarusian economy in 2003–2004. While in 2002 export and import in value terms increased by 7.7% and 9.7% respectively, in 2003 their growth rate in value terms constituted 11.0% and 13.1%, and in 2004 — 15.0% and 20.2% respectively. Russia played a key role in the growth of external demand — export growth rate to this country in value terms exceeded export growth rate to all countries outside the CIS.

Four commodity lines, namely: mineral products, transport vehicles, chemical goods and ferrous metals provided the main growth in export in 2004 (their total contribution was more than 2/3 of export growth). In this regard only mineral products provided nearly half of total exports growth. These products were mainly supplied to countries far abroad. Enterprises of chemical industry continued to operate in their occupied market niches mainly on the markets of far abroad countries. Iron industry as well as oil refining continued to increase exports through utilization of recently commissioned new capacities. Therefore, high external demand that key Belarusian manufacturers were able to meet due to the timely investments provided the basis for the country's exports growth.

Protectionist policy toward countries outside CIS pursued by Russia made a substantial contribution to the growth of Belarusian exports. By the end of 2003, Russia raised import taxes for trucks over seven years old and some food products coming from the countries outside

Table 2.1. Output

		Growth rates, % yoy					
	Growiii fales, 70 yoy						
	GDP	Industrial production	Agriculture				
2001	4.7	5.9	1.8				
2002	5.0	4.5	0.7				
2003	7.0	7.1	6.6				
2004	11.4	15.9	12.6				
2005	9.2	10.4	1.7				
1 Q 2005	9.8	11.4	11.9				
2 Q 2005	8.2	9.3	8.9				
3 Q 2005	8.5	8.6	-1.3				
4 Q 2005	10.5	12.5	-0.5				
1 Q 2006	11.1	13.5	10.1				
2 Q 2006	9.4	11.7	5.0				

Source: Ministry of Statistics and Analysis.

Table 2.2. Impact of Russian protectionism on Belarusian exports

	Live animals and animal products			Vehic	les and aircr	aft
<del></del>	2002	2003	2004	2002	2003	2004
Exports, USD million	227.5	348.6	545.3	711.2	795.5	1110.1
Exports growth rates, %	-8.0	53.2	56.4	-8.2	11.9	39.6

Source: calculations according to the Ministry of Statistics and Analysis.

CIS. This led to considerable growth in exports of respective goods from Belarus. Food industry also got a good shot in the arm (Table 2.2).

Setting up a targeted increase in the average salary level contributed to the stimulation of aggregate demand. By the end of 2004, the targeted increase in the average salary level was set up to USD 200; by the end of 2005, up to USD 250 (in August 2001, on the eve of the presidential elections, the average salary level was USD 100). Both targets were reached, which resulted in further income growth. As a result, expenditures of households also grew. Consumption of households in 2001-2005 was the main component of aggregate demand and its contribution to GDP growth in 2005 reached 9.6 percentage points, which is higher than total GDP growth.

Increase in consumption and investment demand contributed to an increase of imports. Real strengthening of the Belarusian ruble was an additional factor for import growth. Starting from 2002 import growth exceeded export growth. As a result, the contribution of net exports to GDP growth was negative during the following years, the maximum figure was -5.9 percentage points in 2004.

From the supply side the industry was the main contributor to GDP growth in 2003–2005. The growth rate of industrial production increased from 4.5% in 2002 up to 15.9% in 2004. In 2005 some de-

crease was noted, although the growth rate still remained quite high (Table 2.1). The key export industries — fuel industry and machinery construction, as well as chemical industry and ferrous metallurgy (to a lesser degree) were the main contributors to the growth of industrial production. The success of these industries in 2004-2005 was conditioned by not only a favourable market situation but also by timely investments into the two largest enterprises — Belarusian Metallurgical Plant (2003) and Mozyr Oil Refinery  $(2004)^{1}$ .

Food industry also demonstrated a high growth rate. The production output in this sector grew quicker than in the industry as a whole. The contribution of food industry to overall growth of industry production in 2005 (1.9 percentage points) exceeded the contribution of fuel industry. The growth of food industry started in the second half of 2003 when Russia increased customs duties for a number of food products imported from the countries outside CIS. In 2004–2005, in addition to the Russian market, Belarusian food processing companies enjoyed the local market where the demand grew significantly and competition from import goods was restricted by Government orders. However, despite accelerated growth in consumption demand, the growth rate of food production slightly decreased in 2005, which is explained by the loss of part of the Russian market (first of all it applies to finished food products). The export growth of food stuffs in 2005 was mainly due to the "livestock and livestock products" group (milk and meat products), while export of finished goods decreased.

Belarusian agriculture continues to sustain largely due to direct and indirect state support. Direct state subsidies for the sector make up in general from 4 to 6 per cent a year. Apart from that, in 2004–2005 the assets of a number of loss-making agricultural enterprises were transferred onto the balance sheets of industrial companies, organizations and even private firms. This resulted in some improvement of the financial standing of agricultural enterprises. As for the factors that positively affected agriculture development, good harvest of graincrops in 2004 was one of them.

However, the good harvest resolved financial difficulties of the sector at the statistical level only. In spite of statistically registered growth of profitability and almost total disappearance of loss-making enterprises in the sector, agriculture occupies a fifth part of the amount of overdue payments to suppliers and a third part of overdue tax and social security payments. In fact, solvency of agricultural enterprises is achieved through continuous increase in loan financing for the sector. In 2005 a special focus was made on longterm financing, this moved the sector to a leading position in terms of growth of fixed capital investment. However, such loans as a rule are issued on a privileged basis and in

<sup>&</sup>lt;sup>1</sup> Belarusian Metallurgical Plant managed to fully utilize its capacities, increased as a result of modernization in 2000–2002. The line for steel production with the capacity of 1180 thousand tons per year was put into operation in 2003. (In 2003, 1694.2 thousand tons of steel was produced in Belarus). In 2004, a cat cracker was put into operation at Mozyr Oil Refinery that increased the volume of processed oil by 2 million tons per year at a deeper level. (Manenok (2005) To the world's standards. Belarusian market, 4, 639).

accordance with the Government's orders.

Finally, it is difficult to consider the data on agricultural production output volume as reliable since approximately half of all agricultural goods are produced in the private sector, i.e. individual farms, where the data on production can be overstated to meet the planned targets. As an example, in 2005 the State Control Committee on the Gomel region (the only region where targeted agricultural production growth rate was not only met but over fulfilled) demonstrated the data overstatement was widely used in order to meet the reguired figures. In the Zhitkovichi district the crop yield in individual farms amounted to 797 centners per hectare (the average figure in Belarus was 32.5), in the Oktyabrski district — 171. Both figures are impossible to reach from 'agricultural' point of view. Overstatement was also revealed in a number of other districts of the region.

## Income and expenditures of households

The dynamics of income of the population was mainly determined by the change in salary level. In the course of the stated period this level was increasing and its growth rate exceeded that of labor productivity. Only 2003 was an exception, when too intensive growth of salaries (as compared to labor productivity growth) caused worsening of the financial status of enterprises and investment activity recession. The salary level remained practically unchanged except for the state sector. In 2004-2005 the growth of salaries exceeded labor productivity again; however, the negative impact of this factor on the financial status of enterprises was unnoticeable due to favorable market conditions. Apart from that, the difference between the growth rate of salaries and labor productivity was mainly

Table 2.3. Political business cycle in Belarus

	Wages in USD	Wages payable	
	Growth rates	Goal	•
Referendum of May 14,1995 (Change of state symbols, integration with Russia,land reform)	160% yoy May, 1995, 188% yoy June, 1995	-	-
Referendum of November 24, 1996 (accretion of the president's power)	Lowering of wages in a month after the referendum	-	Sept.1996 24% of the wage bill, Oct.1996 6.5% of the wage bill
Presidential elections of September 9, 2001	–36% yoy 1999, 44% yoy 2000, 58% yoy Jan.–Aug. 2001	USD 100 by the month of elections	Aug.2000 17% of the wage bill, Sept.2000 Aug.2001 2.4% of the wage bill (Aug.2001 0.5% of the wage bill). After the elections – growth by 15 times
Referendum of October 17, 2004 (removing restrictions for the number of presidential terms for a single person)	28.6, 40.5 and 43.5% yoy Oct., Nov. and Dec. 2004 respectively	USD 200 by the end of 2004, USD 250 by the end of 200	Starting from Oct.2003 there are practically no wage arrears

Source: Gaiduk and others. (2005) Labor market in Belarus: general survey. Research and Analysis CASE 313.

due to the different deflators which were used for calculation of these indicators in real terms. Only in 2001 and 2005 different deflators could not explain the gap between the growth of salaries and labor productivity regarding the whole period of 2001–2005.

Research of the salary growth determinants in Belarus<sup>2</sup> revealed that salary growth was primarily conditioned by political factors. The growth of salaries tended to accelerate on the eve of important political events (presidential elections and referenda on bringing changes into the Constitution) and was slowing down in between (Table 2.3). Thus, a political business cycle<sup>3</sup> is characteristic of Belarus.

The main instrument of income policy in Belarus for the stated period was setting an average salary target. Originally, such target was set for the Government on the eve of presidential elections in 2001 when the average salary by the time of the election should have reached USD100. For the two years before the elections the average salary grew more than twofold (Table 2.3). In 2001, one of the targets of the Program on Socio-Economic Development of the Republic of Belarus for 2001-2005 was an increase of the average monthly salary up to USD 250 by the end of 2005 (intermediate goal — USD 200 by the end of 2004). All the targets have been

Considering that until the end of 2003 there were substantial amounts of wages arrears in Belarus, decrease of the arrears produced the same impact as increase

<sup>&</sup>lt;sup>2</sup> Chubrik A., Giucci R. (2006) Wage determinants in Belarus: labor productivity and wage policy. Policy paper of German Economic Team in Belarus A3/04/06, http://www.research.by/pdf/pp2006r04.pdf.

<sup>&</sup>lt;sup>3</sup> The political business cycle is a business cycle, which appears mainly as a result of manipulation by politicians who are in power with political instruments with the purpose of stimulating the economy on the eve of elections and increasing their (as

well as their party's) chances to be reelected (Glossary of political economy terms, http://www.auburn.edu/~johnspm/gloss/ political\_business\_cycle). Empirical research revealed the presence of political business cycle in terms of setting salary levels in both developed and developing countries.

Table 2.4. Household's cash expenditure structure, 2005 (%)

	Belarus	Brest Region	Vitebsk Region	Gomel Region	Grodno Region	Minsk	Minsk Region	Mogilev Region
Food	35.8	35.7	34.4	36.6	35.3	36.0	36.6	35.9
Clothes, footwear, textiles	7.8	8.3	7.4	7.8	8.1	7.9	7.8	7.3
Housing and municipal services	7.7	7.7	7.8	8.0	7.1	8.5	7.0	7.6
Deposits, savings and currency purchasing	6.0	6.2	5.4	5.1	6.8	4.6	7.0	8.2
Transport and telecommunications services Cultural and household	s 5.7	5.3	5.6	5.4	4.8	7.4	4.7	5.3
goods, furniture	5.5	5.7	6.3	5.9	5.0	5.2	5.3	5.3
Purchasing and maintenance of personal transport	e 4.2	4.0	3.3	3.7	4.9	5.3	4.2	3.2
Medical care and personal hygiene items	4.1	4.2	3.7	3.7	4.1	4.8	3.9	3.7
Other goods and services	23.2	22.9	26.1	23.8	23.9	20.3	23.5	23.5
Total expenditure	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Expenditure, BYR thousands*	677.8	612.2	632.2	600.1	645.9	922.3	687.1	609.8

<sup>\*</sup> On average per household per month. Source: Ministry of Statistics and Analysis.

Table 2.5. Prices

	Growth rates, % yoy (on average for period)		
	CPI	PPI	
2001	61.1	72.1	
2002	42.6	41.4	
2003	28.4	37.5	
2004	18.1	24.1	
2005	10.3	12.1	
1 Q 2005	12.4	15.0	
2 Q 2005	10.7	12.7	
3 Q 2005	9.9	10.7	
4 Q 2005	8.6	10.3	
1 Q 2006	7.7	8.2	
2 Q 2006	7.1	8.4	

Note: CPI – consumer price index, PPI – producer price index. Source: Ministry of Statistics and Analysis.

of salaries and was used before elections and other political events. As an example, before the referendum of 1996 the arrears of wages decreased from 24 to 6.5 per cent of an average monthly wage bill, one year before the 2001 elections from 17 to 2.4 per cent of the wage bill on average and to 0.5 per cent of the wage bill by the month just before the elections (Table 2.3).

The following reasons explain why it is important in Belarus to reach targeted salary growth. First of all, the State controls to a great extent not only the state but also the private sector in Belarus. Such control is facilitated by the fact that the

majority of medium and large enterprises directly report to sectoral ministries or are included in sectoral unities (Concerns) which "set" respective plans for enterprises to fulfill. Besides, there are punishment mechanisms for the failure to meet the set targets: dismissing a director, bringing to administrative liability, application of a "golden share" in case of wage arrears. Secondly, approximately half of GDP is concentrated in the State budget, which allows the State to subsidize less efficient companies at the expense of the taxes received from more efficient ones. Thirdly, the National Bank of Belarus is not fully independent. Apart from this, the six largest banks in the country belong to the State. This permits the use of credit policy in accordance with the Governmental and Presidential orders; in 2002 for instance, the loans by order constituted 20–25 per cent in the total amount of loans.

Dynamics of expenditure of population corresponded to the income dynamics. The structure of expenditures is typical for the countries of the region. The largest share in consumption expenses is purchasing foodstuff — almost 36 per cent in 2005. Generally, an average family spent 75-80 per cent of its total expenditures for purchasing goods and 20-25 per cent for service payment. Almost half of all service payments was spent for utilities (8% of monetary expenditures, Table 2.4). Approximately the same part of households' expenses was spent for light industry goods — cloths, footwear, textiles.

#### **Prices**

The 2001-2005 span was the period of macroeconomic stabilization in Belarus. Due to tightening of monetary policy and liberalization of foreign exchange market (which led to a slowdown in Belarusian ruble devaluation) the price increase was also slowing down in the course of the whole period. (Table 2.5). This affected all product groups, including foodstuff, which prices have been regulated, and housing and communal services, which prices have been administratively set. Economic growth acceleration and interest rate policy, which determined an increase of real demand for money, also contributed to disinflation processes.

Liberalization of the foreign exchange market, which led to a slow-down in Belarusian ruble devaluation, was one of the first steps to fight inflation. This, in its turn, decreased the demand for foreign cur-



rencies for saving purposes. This achievement was strengthened due to setting positive real interest rates in Belarusian rubles on financial instruments. Starting from the end of 2001 the rate of refinancing was exceeding inflation rate almost all the time. Due to this fact, a part of monetary supply was "tied up" in the form of deposits with a fixed period in Belarusian rubles, so the impact of monetary growth on inflation was reduced.

The dynamics of industrial producers' prices was also largely determined by monetary policy. However, such factors as a favorable world commodity markets situation, economic activity and the company's position in a certain sector had significant impact on it.

The influence of the world market situation materially affected the dynamics of producer' prices in 2002, when the growth in world oil prices caused a price increase for intermediate industrial products. Afterwards, the growth in world prices for oil and oil products did not bring the same effect to domestic prices in Belarus as, first of all, Russia was increasing the oil prices exported to Belarus more slowly and secondly these prices were tightly regulated on the eve of the referendum and elections.

Economic activity, and above all, investment activity influenced the price dynamics for capital assets. Acceleration of investment activity in the second half of 2003 and 2004, and respectively, the increase in investment demand contributed to acceleration of price advance for capital assets. The status of enterprises in the sector also influenced the sectoral dynamics of producers' prices. The highest rate of price advance was registered in those sectors where one or several companies were monopolies, in particular, electrical energy industry, petrochemistry and ferrous metallurgy. In the sectors producing consumer goods, the price dynamics was determined by demand and supply on the consumer market and generally it corresponded to CPI dynamics.

Quick acceleration of administratively set and controlled prices was characteristic of 2001-2003, while freely set prices grew slower. It also characterizes the political business cycle: in the period between elections the government pursues an unpopular policy. In this particular case it increased the share of coverage communal services' costs by tariffs. As a result, the share of households' expenditures for communal services in the total expenditures' structure increased by roughly 5 per cent.

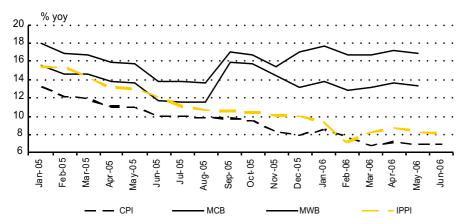
However, in the second half of 2003 the growth of communal tariffs was suspended as their increase turned out to be an economic challenge, which could harm the authorities in the course of forthcoming political events — a Referendum on September 17, 2004 and Presidential elections on March 19, 2006. As a result, tariff growth lagged behind the growth of consumer prices. The increase in consumer demand conditioning rather quick growth of foodstuff prices also contributed to the situation. Apart from this, protection of the food segment of the market from competition against imported goods also contributed to the increase of food prices.

In 2005, regulation of prices tightened. In October 2005 A. Lukashenko set up the target for the Government "to stay in line" with 8% inflation at the year-end. At the same time in the second half of 2005, a number of price-influencing factors emerged. First of all, starting from July some easing of the monetary policy began - the growth rate of money supply accelerated considerably while the economic growth rate remained the same. Secondly, prices for communal services started to rise again. Thirdly, a harvest failure contributed to increase of food prices. However, the regulation of prices restricted the impact of the first and the last above factors on consumer prices.

In the circumstances when above mentioned inflation factors were in force, A. Lukashenko's target was made possible to meet only by some specific features of communal services price statistics. For instance, in November, the index for heating tariff increase was 0.7 per cent as well as in the previous months (starting from April). However, according to the data of the Ministry of Statistics and Analysis, the heating cheapened by 28 per cent as compared to October. In December 2005 the tariff was unchanged, although according to the Ministry of Statistics and Analysis data it increased by 26.1 per cent as compared to November. As a result, in accordance with the official statistical data, heating cheapened by 9.2 per cent for the two months period, though in reality the heating price increased by 0.7 per cent. Generally for 2005 the discrepancy between the official data and real figures is larger. According to the Ministry of Statistics and Analysis data in 2005 heating cheapened by 10.6 per cent (on December-on-December basis), while in reality the heating tariff grew by 5.5 per cent. Taking into account the significant share of heating in the structure of CPI basket, such discrepancy had a large impact on the summary CPI indicator. By our estimates, it was underreported 0.4 per cent, i.e. in December the inflation rate should have been 8.4 per cent (yoy), so the President's target would not have been achieved.

A significant gap between CPI and some other inflation characteristic indices displays the problems with inflation recording. Among other in-

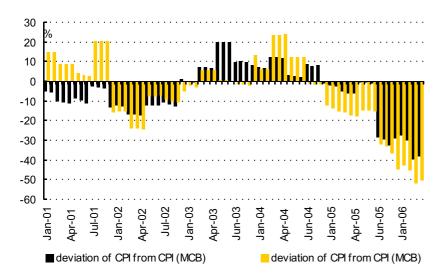
Fig. 2.1. Price indices comparison



Note: CPI – consumer price index, IPPI – industrial producers price index, MWB – minimum wage budget price index, MCB – minimum consumer budget price index.

Source: calculations based on Ministry of Statistics and Analysis data.

Fig. 2.2. Deviation of actual inflation from the estimates based on MCB and MWB



Note: Deviations of CPI from their estimates based on MCB and MWB are calculated by the following formula:

Deviation of CPI from CPI (MCB, MWB) =  $100 \cdot \text{CPI} / \text{CPI}$  (MCB, MWB) –  $100 \cdot \text{CPI}$  deviation is a minus number, then actual CPI is less than estimates.

Source: calculations based on Ministry of Statistics and Analysis data.

flation characteristic indices the main "controlling" indicator is CPI (Consumer Price Index) and to some extent, industrial producers' price index. Figure 2.1 shows that only these two indicators were steadily decreasing over the whole of 2005 and the first 2–3 months of 2006. Alternative indicators which characterize price dynamics (Minimal Wage Budget (MWB), Minimal Consumer Budget (MCB)) firstly,

remained at the level of the start of 2005, and secondly, the gap between them and CPI increased a lot. If the estimates based on MWB and MCB represent the dynamics of inflation in September 2005 — April 2006 better than CPI, it means that the inflation target for 2005 was not met. Bearing in mind that the President controlled the inflation level, a failure to meet this indicator on the eve of the elections could have

brought problems to the Government, so the Government had intensive stimuli to underreport the inflation indicator.

Estimating CPI in 2004 — May 2006 based on the average ratio of CPI to the indices MWB and MCB for the period from 2001 to 20044, the gap between such estimates and the actual CPI figure is insignificant up to August 2005 (as a rule, not higher ±20%, Figure 2.2). Starting from September 2005 they exceeded 30 per cent, and in the first quarter of 2006 they reached minus 40 per cent (for MCB) and minus 50 per cent (for MWB). Referring to the data on actual GDP dynamics in 2005, it is until August when its growth was slowing down, and starting from September it started accelerating. It became apparent specifically in August that remaining of this slowing down trend in growth would lead to the failure of the GDP plan fulfilment for January-September 2005. As GDP growth is the main indicator characterizing the work of the Government in Belarus, one can assume that in order to escape problems, the Government made "the correction" of some indicators, in particular CPI, which takes a significant share in GDP deflator. Therefore, it is likely that the real GDP as well as a number of other real indicators in 3-4 quarters of 2005 and 1 quarter of 2006 are overstated, and the period of the growth slowing down which started in the first quarter of 2005, is still continuing.

<sup>&</sup>lt;sup>4</sup> In the period of 2001–2004 the ratio of CPI to indices MWB and MCB (CPI, % yoy / MCB (MWB) index, % yoy) fluctuated from 0.97 to 1.41 and 0.94 to 1.56 respectively, while its average was 1.17 and 1.18 respectively. Based on these average numbers CPI evaluation can be done, i.e. CPI = 1.17\* MWB or 1.18 \* MCB. Deviation of such estimates from actual CPI numbers speaks either of high extent of price regulation for the goods from the baskets for which these indices are calculated, or garbling of actual data.

#### Currency Exchange Rate

At the end of 2000 the National Bank of Belarus unified the exchange rate (the multiple exchange rate practice was applied from 1996 till 2000) and created the conditions for Belarus to join the VIII Article of the IMF Charter, i.e. made the Belarusian ruble convertible for current operations. As a result, Belarusian enterprises brought a significant part of currency sales out from the "grey" area, which decreased the rate of devaluation of the Belarusian ruble. This resulted in actual strengthening of the Belarusian ruble in relation to the Russian ruble and US Dollar during the whole period under review.

The switch by the population from savings in foreign currencies to savings in Belarusian rubles became one more factor of foreign currency market stability. If in 1999 the deposits in foreign currency took 70 per cent of the broad money, then in 2001 — 57 per cent, and in 2005 — 36 per cent. Such decrease in dollarisation allowed the National Bank to pursue a more efficient foreign currency policy.

Despite the above-mentioned positive factors, the external deficit of Belarus was increasing, and such sources for its coverage as foreign investment and external debt, were practically absent. As a result, the demand for foreign currency on the domestic currency market was growing quicker than the supply, and the National Bank was devaluating the ruble rather intensively. However, in 2004-2005 the growth of world prices for oil products conditioned significant supply of foreign currency to the country. This allowed the National Bank to decrease the rate of devaluation from 12.3 per cent in 2003 to 0.6 per cent in 2004, and to strengthen the ruble in its nominal value against the currencies of main trade partners in

2005 (Table 2.6). In fact, the National Bank was pursuing a policy of pegging the Belarusian ruble to the USD, while the exchange rates of the Russian ruble and the Euro were changing in accordance with their dynamics in relation to the USD.

## 2.2. Main challenges for Belarusian economy in 2006–2010

Economically, 2004 was a very successful year for Belarus. Its results made representatives of various international institutions stop questioning the quality of Belarusian statistics and prepare the research of "the Belarusian miracle". In 2005 the World Bank (IBRD) for the first time published their Country Economic Memorandum for Belarus and International Monetary Fund (IMF) -Country Report, dedicated to analysis of the factors of GDP growth. In it, an attempt was made to explain why GDP growth rates in Belarus were always higher than the IMF's forecast.

The institutions made a thorough analysis of economic development and the factors of economic growth and disclosed their findings about the risks and potential economic challenges in the medium-term period. In many instances it was their conclusion that pursuing the same policy will result in stagnation of the economy. On condition however

that all range of market reforms is started in the country, it would be possible to improve the economic situation without serious social consequences. At the same time the Government summarized first the preliminary and then the final results of the five-year plan and prepared the plan for the next five years — Program of Socio-Economic Development in 2006–2010, which was approved at the regular All-Belarusian Meeting on March 2–3, 2006.

However, it was already in 2005 that impact of the following factors restricting potential growth of GDP in the medium-term period became apparent. First of all, the situation on the non-commodity market is not favorable for Belarusian companies any longer — lots of Belarusian goods were moved to low, stagnating segments of the market. Secondly, starting from 2007 the Russian gas price will be increased for Belarus, and, depending on the volume of the increase, the Belarusian economy will face problems of certain level of gravity. Finally, the country's economy becomes more and more dependent on the prices for oil products. In the first half of 2006 the share of oil and oil products in Belarusian exports exceeded 40 per cent, so a significant fall in world prices for oil products will hit exports and the overall economic situation. Therefore, in the forthcoming "five-year period" the Go-

Table 2.6. Exchange rates

	NBB Excha	ange Rate, as of the end of	period
	BYR/USD	BYR/EUR	BYR/RUB
2001	1580.0	1391.5	52.3
2002	1920.0	1993.6	60.4
2003	2156.0	2695.2	73.2
2004	2170.0	2955.7	77.4
2005	2152.0	2546.4	74.9
1 Q 2005	2153.0	2791.3	77.4
2 Q 2005	2150.0	2591.1	75.0
3 Q 2005	2150.0	2591.8	75.4
4 Q 2005	2152.0	2546.4	74.9
1 Q 2006	2149.0	2607.3	77.6
2 Q 2006	2142.0	2723.0	79.5

Source: National Bank of Belarus.

vernment will have to deal with serious challenges requiring thorough revision of the existing economic model.

## Competitiveness at Russian market

One of the fundamental challenges for the country's economy in the medium run is the change of Russian market structure — the main market for the whole range of Belarusian products (food, engineering, woodwork products etc.). Firstly, the structure of consumer demand has changed in Russia: average monthly salary in 2005 exceeded USD 300, i.e. monthly income per person of an average family of 3 people exceeded USD 200. This figure represents a benchmark of some sort when consumers start to enjoy more expensive and higher quality products. Meanwhile, Belarusian goods are still in demand by those consumers who have not reached this benchmark yet. In contrast with "higher" segments of consumer goods market, these segments are stagnating at the moment. Moreover, many Belarusian products lose in terms of "price-quality" if compared with Chinese and Russian goods.

Secondly, the supply of "oil-dollars" to the Russian economy has changed the structure of investment demand. Big Russian companies head for advanced Western technologies, i.e. they moved from a renovation type of investment (reconstruction of old technologies) towards an innovation type. Belarusian engineering companies are regarded to be suppliers of investment equipment, which is in demand among Russian companies carrying out renovation investments. So the change of the investment demand structure in Russia led to their market shrinkage.

Thirdly, the active Russian protectionist policy which is pursued lately is aimed at restriction of the access to the Russian market for not only goods from countries outside CIS, so-called "far abroad" countries, but also from Belarus. This policy has affected Belarusian TV sets, sugar, pharmaceuticals and some other products. In the framework of the National Project of Village Development, Russian producers of agricultural equipment are lobbying a ban on purchasing Belarusian tractors with State funds.

Thus, the above tendencies as a whole will lead to gradual forcing out

Belarusian goods from Russian market. Taking into consideration that the alternative for this market can only be some countries of CIS, Asia and Africa, Belarus will came across reduction of exports to Russia and further growth of foreign trade deficit with the country.

This however is not the major issue. Many Belarusian enterprises forming an essential part of employment will face difficulties with their sales on the Russian market. Decrease in living standards of their employees will be a serious social problem requiring adequate reaction from the Government.

#### Gas price rise

Belarus remains one of a few CIS countries for which Russia did not change gas price in 2006 (Table 2.7). RAO Gasprom is pursuing the strategy of capitalisation increase through price rise for gas for those CIS countries which earlier received gas at preferential prices. Belarus will not be an exception — starting from 2007 the price for Russian gas will be increased. At present Gasprom insists on an increase up to USD 200 per 1000 m<sup>3</sup>, while the Belarusian side with reference to interstate agreements demands to change the price in accordance with price dynamics for the Smolensk Region (it was stated in this regard that the acceptable gas price level For Belarusian economy would be USD 100 per 1000 m<sup>3</sup>).

Dependence of the Belarusian economy on gas prices could be demonstrated through the volume of "gas subsidy". It is important to agree which price acts as a "benchmark". Considering the average price Gasprom was selling gas to Europe at (around USD 230), then the gain for Belarus from the preferential price was around 12 per cent of GDP in 2006. The price level at USD 100 means 2–3 per cent loss of GDP for Belarus. The loss will not

Table 2.7. Change in Russian gas price for some CIS countries in 2006

Country	Price in 2005, USD / 1000 m <sup>3</sup>	Price in 2006, USD / 1000 m <sup>3</sup>	Growth rate, %
Azerbaijan	60	140	133.3
Armenia	54	110 (80) <sup>1</sup>	103.7 (49.2)
Belarus	47	47	0.0
Georgia	62	110	77.4
Moldova	80	110, 160 <sup>2</sup>	37.5, 100.0
Ukraine	50	230 (95) <sup>3</sup>	360.0 (90.0)

<sup>&</sup>lt;sup>1</sup> The price grew starting from April 1, 2006. Based on the agreement for Russian armour supply to Armenia at knockdown costs the price of 1000 m<sup>3</sup> of gas is about USD 75–80.

Source: E. Rakova (2006) Prices for energy sources in the Republic of Belarus and possible scenarios of tariff raising. Presentation at conference "Aftereffects of price rise on energy sources for economic growth and competitive ability in Belarus and some CIS countries". http://www.research.by/rus/seminars/2006/d7e0148285e27927.html.

<sup>&</sup>lt;sup>2</sup> The price was raised twice: from January 1, 2006 and July 1, 2006.

<sup>&</sup>lt;sup>3</sup> Gasprom sells gas to the joint Russian and Ukrainian Company RosUkrEnergo at the price of USD 230, which in its turn supplies it to Ukraine at the price of USD 95 for 1000 m<sup>3</sup>.

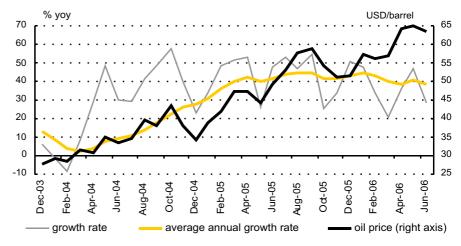
be that considerable if Belarus realizes its potential to increase energy efficiency. The problem is that it will take a significant restructuring of the economy and the existing system of State control over enterprises.

#### Oil price rise

Export of oil products played a key role in the Belarusian economy over the last year. An increase in world oil prices (Figure 2.3) and a larger increase in the prices for oil products (alongside with a deficit of production capacity for oil-processing) enabled Belarusian oil-processing companies which timely accomplished technical reconstruction<sup>5</sup>, to considerably increase the export volumes of oil products in money terms (as well as own oil, in Belarus up to 1.5 million tons is produced per year). As a result, the share of these products' groups in total exports exceeded 40 per cent in January-May 2006, although in 2004 it was less than 30 per cent, and in 2001 — less than 20 per cent (Figure 2.4).

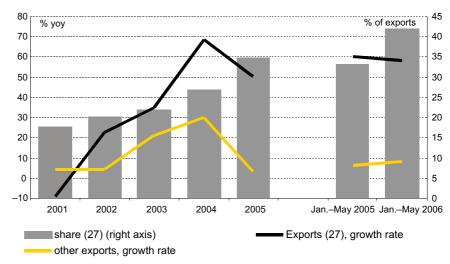
Specific relations with Russia are an important factor for the high "oil income" of Belarus. In 2005 Russia was selling oil to Belarus at USD 218.6 per ton, while Belarus was reselling it at USD 355.4 per ton. Such preferential price is explained by the

Fig. 2.3. Dynamics of world prices for oil



 $\it Source:$  calculations based on U.S. Department of Energy and Energy Information Administration data.

Fig. 2.4. Role of oil and oil products in Belarusian exports



Note: TNVED code "27" "Mineral oil, oil and their distillates". Source: calculations based on Ministry of Statistics and Analysis data.

commercial interest of Russian suppliers. In fact, it is equivalent to a subsidy at the level of 9% of GDP. According to the official statistics the real GDP increased by 9.2%, which means that this subsidy determined the dynamics of GDP to a considerable degree.

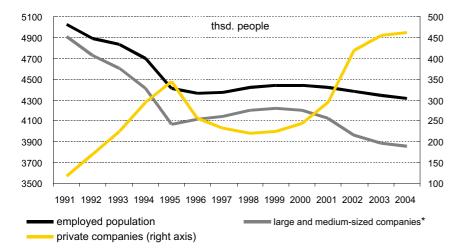
Such dependency of the Belarusian economy on the dynamics of oil product prices comprehends considerable risks. Firstly, the economy's Dutch Disease symptoms start to develop when a significant part of export sales is spent for consumption which at the end leads to stag-

nation of the sectors producing investment products.

Secondly, stabilization of oil product prices at the moment will in fact stop the growth of GDP (if the volume of oil processing remains the same), because at the expense of this "oil money" Belarusian government subsidies consumption, which in its turn is a GDP growth factor from the demand side. Naturally, a fall in oil and oil product prices will result in worsening of the economy condition. Thirdly, these external shocks are particularly dangerous considering current tendencies of consumption

<sup>&</sup>lt;sup>5</sup> At the beginning of 2006 the production capacity of Novopolotsk Oil Refinery was 21.3 tons of oil per year, of Mozyr Oil Refinery — 12.5 tons of oil per year (capacity utilization in 2005 was 45.7 and 79.7 per cent of the yearly average capacity respectively). In 2005 the volume of preliminary distillation oil was 19.7 tons, which is more than in Ukraine, where there are 6 oil refineries. At present both enterprises refine approximately the similar amount of oil, although the refining depth at Mozyr Refinery is 82-84 per cent which is 10 per cent more than at Novopolotsk Refinery. Increasing the capacity in oil refining at the low level of the capacity utilization is aimed at increasing the depth of processing to the level of European companies (85-87 per cent).

Fig. 2.5. Role of employment in private sector



- \* including small state-owned companies and other government organizations.
- \*\* private companies, entrepreneurs and their employees, private production households, farmers.

Source: Ministry of Statistics and Analysis.

development and problems in investment sectors. The probability of these external shocks is very high in the medium term, taking into account that the average increase of the world oil price is about 40% yoy during the past 2.5 years (Figure 2.3). Historically, long periods of oil price rise were always followed by decrease in its prices. Such shocks would ruin budgetary subsidy assistance to the industry and, correspondingly, they would require significant changes in the economy structure.

# 2.3. Role of small business in mitigation of consequences of unfavorable shocks: labor market

In the medium term the challenges for Belarusian economy mean that the country would either have to restructure the economy purposely, or such restructuring would eventually result in the decrease of living standards, growth of part-time employment and hidden unemployment and other social and economic problems. The experience of CEE countries shows that small business plays a significant role in mitigating negative consequences of unfavorable

shocks; in particular, it absorbs extra-employment. In this regard Belarus had a similar experience.

According to official figures the situation on the labor market of Belarus is quite favorable in recent years: the registered rate of unemployment is less than 2%, while employment is stable. However, considering the time frame from 1991 till 2005 one can see that employment reduced considerably — by more than 700 thousand people (Figure 2.5). In the state sector (represented by large and medium-sized enterprises, small state-owned companies and other institutions) in 1991-1995 employment was reduced by more than 800 thousand people. However, dynamic development of small private business during that period allowed mitigating to a wide extent the effect of employment reduction in the state sector. The number of employed in small business sector (private companies, entrepreneurs and their employees, private production households and farmers) for 1991-2005 increased by almost 250 thousand people.

As a consequence of closing down market reforms, suspension of the

privatization process and imposing barriers for small business development led to a decline in the number of private companies and correspondingly the number of their employees. At the same time the state sector supported in every way by the Governmental policy managed to employ the labor power released in the private sector. The enterprises of the state sector could not satisfy all wishing to be employed — as employment there grew by the same amount that was released in the private sector, while the share of the private sector in GDP is 4 times less than the one of the state sector. Therefore, even considerable state support could not help old state companies to become "generators" of workplaces. Rather, starting from 2002 the employment in the state sector has been shrinking. In 2002 the number of employed in state sector was reduced by more than 150 thousand people, and almost all were absorbed by the private sector which has to operate in a difficult institutional and macroeconomic environment.

Later, however, the Government reevaluated the potential of private business. While promoting the policy of support to state enterprises that work for the domestic market (in particular, in the services sector), the Government restricted opportunities for development of small private companies. As a result, in 2004, in spite of the favorable macroeconomic environment, growth of employment practically ended in the private sector and in 2005 — according to the preliminary data the number of employed in private sector was reduced. One of the main factors of this reduction turned to be the inability of the Government to solve the problems of individual entrepreneurs and small companies after the change of rules for VAT payments in trade with Russia. At the same time, excessive employ-

ment is still characteristic of state companies: according to some estimates it amounts up to 30 per cent from the total number of employed in the state sector.

Hereby, it is apparent that private business has a huge potential for creating new jobs and employing labor released from the state sector. Apart from that, a developed private sector could help in resolving problems of labor migration, which is estimated at the level of 200-300 thousand people and hidden unemployment (approximately the same amount). Finally, development of the private sector would positively influence overall economy development, since it would increase demand and encourage competition on the domestic market.

# 3. INSTITUTIONAL ENVIRONMENT FOR SMALL AND MEDIUM-SIZED BUSINESS OPERATION

Legislation is one of the key factors regulating development, formation and operation of small and medium business in a particular country though the level of the country development, its macroeconomic stability, level of income of population and tax burden are also of much importance. However, the dynamics and intensity of business conduct in a country is in many ways determined by conditions and costs of creating a new SME, securing all types of permits (licenses, certificates etc.), price control for finished goods, rent rate etc.

Inconsistency and instability of regulations governing conduct of business, practice of their backdating, costly relevant procedures, complexity of legislation combined with a large number of controlling state agencies and high penalties formulate the distinctive feature of Belarus in this field.

Lately general government bodies declare from time to time activation of their efforts on encouraging business development in Belarus. For the period from 2005 to the first half of 2006 a large number of documents regulating creation and conduct of business in the country was passed to this effect. These regulations have both positive and negative features. The following is an analysis of the main changes in registration, licensing, marking, price regulation and securing permits.

#### 3.1. Registration

For the period from 2002 — first half of 2006 about 30 legal acts were

adopted updating or as it is common to say "perfecting" process of registration to a grater or lesser extent. Even the main document<sup>6</sup> that approved the Procedure for State Registration and Liquidation (termination of operation) of Economic Entities in Belarus was amended 4 times.

The amendments introduced in legislation were aimed at certain economic entities and lines of business: advertising activity, operation of model agencies, training of models (clothes demonstrators) and organizations that are regarded as subjects of infrastructure for small and medium business support. This includes funds and NGOs for which registration and operation procedures were changed due to adoption of new laws<sup>7</sup> regulating their activity.

As a result of change in low submitting of documents from funds registration was suspended for 2 months. The funds created before adoption of the law had to adjust their statutes in accordance with the requirements of the law and present documents for state registration of amendments and/or supplements brought to the statutes to the local

executive and regulatory authorities. NGOs and their unions (associations) had to adjust their foundation documents in accordance with the applicable law in one-year term. Such decisions caused an increase of administrative charges related to preparation of documents, rise of notary costs, registration fees etc. On average adjusting foundation documents resulted in additional expenses to the equivalent of at least USD 1000 for each fund or NGO.

The organizations having the word "national" or "Belarusian" in their registered names were also affected by the change in registration. Answering the demands of the new law8, a large number of commercial and non-profit organizations and nonstate mass media had to pass deregistration in a three-month term. In doing so only the rate for deregistration (registration fee) was not supposed to be paid again. The rest of the deregistration costs (notary, seal, opening and closing bank accounts, changing of rent contracts, registration in state agencies etc.) as well as the costs connected with making new advertising brochures and informing partners of one's new details were paid by organizations themselves. The amount of these costs turned out to be far above that of funds and NGOs.

At the same time certain positive changes in legislation on registration

<sup>&</sup>lt;sup>6</sup> Presidential Decree № 11 "On improve-Ment of State registration and liquidation (Ceasing of activity) economic entities" dated 06.03.1999.

<sup>&</sup>lt;sup>7</sup> Law «On introduction of changes and amendments into the Law of the Republic of Belarus "On NGOs" dated 04.10.1994 and Presidential Decree №302 "On some measures to improve funds' activities" dated 01.07.2005.

<sup>&</sup>lt;sup>8</sup> Presidential Decree № 247 "On additional measures on regulation of use of words "National" and "Belarussian" dated 31.05.2005.

should be noted. According to the Presidential Decree №69 a one-stop shop principle was introduced for post-registration procedures, duration and cost of registration was reduced. Under an estimation provided by experts from the International Finance Corporation, the introduction of the new order for registration of economic entities will let them reduce their registration costs by 21% (mainly at the expense of cutting costs for notarization). Before the Decree was adopted, registration took on average 25 days. Starting from June 1, 2006 it takes on average 20 days. Registration in different state agencies took before 16 days, now — 10 days. SME volume of proceeds may grow approximately by USD 25 million a year, as they will be able to start operation on average 11 days earlier<sup>10</sup>. However these means are surely not enough to significantly simplify and speed-up starting of business.

The practice of giving "Scotch verdicts" is still common in Belarus. Although they are meant to stimulate development of business these verdicts often hinder its development. While admitting that the new Decree has some positive features it is worth noting that there are many problems that it leaves unsolved. The following are the main of them:

permissive principle of registration, despite continuing declarations of high-level officials to introduce not only declarative, but also notification principle;

- <sup>9</sup> Presidential Decree № 6 "On introduction of changes and amendments into the Decree of the President of the Republic of Belarus of 16 March 1999 № 11" dated 10.04.2006.
- <sup>10</sup> Please refer to "Business Environment in Belarus". Presentation of the research of the small and medium business sector at the seminar on 25 May 2006.

- excessive list of documents required for registration;
- notarization of foundation documents, which highly increases registration costs;
- excessive number of grounds to decline registration;
- decision to register an economic entity is adopted by collegial organs — executive committees, which causes the problem of following a time schedule;
- excessive number of grounds for liquidation of an entity.

Besides, the Decree introduced discrimination by forms of ownership. Specifically, it provides for possibility of registration despite existence of two grounds for declining it when a state-owned or majority state-owned enterprise is the founder of the entity (item 40.8 of Enactment).

Hopefully, the state will continue developing the procedure of registration, although it is very unlikely that the notification principle will be introduced in the near future. But even within the framework of the existing permissive principle of registration it is possible to solve above problems with the help of certain necessary and simple to take measures, such as:

- reduction by half the number of documents required for registration of a legal entity — from 9 to 4–5;
- abolishment of notarization of documents;
- clear regulation of liquidation procedure;
- most simplified procedure of liquidation for those SMEs, which are registered but do not operate and do not have state debts. This will enable numerous persons

who are formally considered to be the founders of such "frozen" enterprises in the process of liquidation to start/register a new business.

#### 3.2. Licensing

Legislative development in the field of licensing which is mostly reducing the number of licensed lines of business became active in the middle of 2003, when A. Lukashenko enacted his Decree № 17 which 1) significantly shortened the number of licensed activities 2) approved the List of Lines of Business Requiring a Special Permit (license); 3) specified state agencies and government organizations supervising issuance of licenses11. Today the list of licensed activities contains 49 types (before there were more than 1000). In the near term the number of licensed activities in Belarus is supposed to be shortened to 10-12 and after that licensing is intended to be gradually changed by certification, accreditation, attestation or some other form of state requlation.

Despite continuing talks on the subject there is not much change in reducing the number of licensed activities so far. Although 29 legal acts on licensing were developed and passed, for the past one and a half year all of them aim at strengthening the procedure of licensing and/ or bringing new types (subtypes) of licensed activities into the List. For instance, according to the amendments introduced to the List three types/subtypes were added to it. Nine types of activities were changed in terms of increase of number of works and services composing them. Only item 41: "Commercial fishery and extraction of

<sup>&</sup>lt;sup>11</sup> Presidential Decree "On licensing of cer-Tain lines of business" dated 14.07.2003.

aquatic invertebrates" was excluded from the list of licensed activities.

Realtors were the first to suffer from the change in licensing procedures. Under the Presidential Decree and the resolution of the government<sup>12</sup> all real-estate agencies within a three-month term had to prepare to secure new licenses for rendering services and to have nearly all their staff re-evaluated. Those employees of real-estate agencies who did not have legal, economic or technical higher education at the time of re-evaluation could not participate in it and therefore lost their jobs.

The fact that authorities regarded real estate services as a part of legal activity was the main official reason for the decision to conduct reevaluation and re-licensing, when actually 90% of realtors' working time is work with information, advertising, selection of possible variants, and only 10% is connected with documents and their execution. The government's opinion that the real estate market of Belarus is too criminalized was the second official reason. However, judging by the statistical data of the Belarusian Association "Real Estate" (BelAN) one may claim the contrary. About 60,000 real estate transactions are registered in Belarus annually, and only 0.25% of them are hold invalid in courts. As regards the housing market, every year courts in Belarus examine about 20,000 cases of which around 10% are cases on residential properties. The number of nullity actions regarding transactions with residential properties is about 200-300 per year which is only 1% of the whole number of civil actions.

Thus, the above figures rather tell the contrary, specifically, about the adequate proficiency of Belarusian realtors and inconsistency of the second reason.

This government resolution prevented individual entrepreneurs from going back to licensing real estate activity though it was them who rendered services to the people of small towns. Consequently, part of entrepreneurs from small towns lost their business and employees lost their jobs.

It is worth noting that real estate services were under state control through a procedure of certification before the resolution was adopted. Certification of real estate services (including re-evaluation of realtors) was conducted by the State Committee for Standardization, Metrology and Certification at the Council of Ministers of the Republic of Belarus. The problem of tightening quality control over real estate services could be solved through an increase of certification bodies that would naturally lead to tightening quality control on services. However, despite the objections of realtors and business-associations protecting their interests a different decision was made, which only reduced for today the number of economic entities in the real estate sector.

Companies providing employment, matrimonial and model agencies were also influenced by the change of law on licensing. The Decree issued by A. Lukashenko<sup>13</sup> tightened control of the citizens' of Belarus departure abroad. The main idea introduced in the document was that all economic entities that offer jobs

abroad (about 40) have to pass relicensing in the Ministry of Internal Affairs. Matrimonial and model (clothes demonstrator) agencies were to join them after securing the license of Ministry of Education. Regretfully, only 10 of 40 companies could secure a necessary license by the indicated period.

The Decree specified that "advertising for products and goods (works and services) produced and distributed on the territory of Belarus must be made with the engagement of citizens and organizations of the Republic only". Additionally, only local state employment agencies, model agencies and other economic entities having the appropriate license had the exclusive right to conduct castings. The Decree № 3 also introduced certain obligations and added some work to other institutions. For instance, in order to be able to participate in sports, cultural and other mass events, legal entities and individual entrepreneurs sending citizens to work or to study abroad (except for sending their own employees on business trips abroad) must present information on the citizens to the local Departments on Citizenship and Migration of the Ministry of Internal Affairs. Besides, legal entities and entrepreneurs operating in the field of tourism have to present to the above departments information on the tourists who went abroad in organized groups and did not return to Belarus during five working days from the date of the group return.

In the fall of 2005 another decree of A. Lukashenko was issued<sup>14</sup> bringing corrections to the above-mentioned decree. Provisions of this le-

<sup>&</sup>lt;sup>12</sup> The Council of Ministers' Resolution № 1419 "On introduction of amendments to the Guidelines on licensing of legal services" dated 16.11.2004.

<sup>&</sup>lt;sup>13</sup> Presidential Decree № 3 "On some measures to prevent people traffic" dated 09.03.2005.

<sup>&</sup>lt;sup>14</sup> Presidential Decree № 15 "On introduction of changes and amendments in some Presidential Decrees on measures to prevent people traffic" dated 22.11.2005.

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gal act were mostly aimed at young people going abroad to participate in sports, cultural and other mass events within an academic year. Activity of electronic matrimonial agencies was also in the center of attention. The new document provides for obligatory licensing of activities connected with collection and distribution of information (including via Internet) on individuals for the purpose of their meeting (operation of matrimonial agencies). The fact that the decree enlarged the range of persons allowed to conduct castings without license was its positive moment. Additionally, mass media and state cultural institutions were given the right to make competitive selections (castings) without special permit (license) for operations connected with employment of Belarusian citizens abroad. Apart from the mentioned purposes, model agencies were permitted to organize castings for employment of citizens in Belarus without any license.

Presidential Decrees № 11 and № 18<sup>15</sup> brought significant changes in licensing and business operation in the fields of production, advertising and turnover of alcoholic, nonfood spirituous products and nonfood ethyl alcohol.

Firstly, only legal entities are entitled in Belarus to conduct business on production, export and storage of alcoholic, non-food spirituous products and non-food ethyl alcohol and/or their retail (except for alcoholic beverages retail in public catering objects). The latter type of activity is included into the List of Licensed Business Activities.

Secondly, individual entrepreneurs are forbidden to conduct above lines of business.

Thirdly, as a result of a certain burst of entrepreneurial protest, individual entrepreneurs and legal entities whose main kind of activity is retail trade and public catering until January 1, 2007 are allowed to conduct retail of non-food spirituous products, toiletries, alcoholic and tobacco products on the basis of specific permits (licenses). They are also allowed to import these products without licenses. After the deadline only those entities that meet the presented requirements will be able to obtain a license.

Fourthly, the responsibility for breaking this law is established in the form of fines varying from 80 to 5,000 state defined amounts (as of 01.08.06 1 state defined amount ("bazovaya velichina") is BYR 31,000 or USD 15).

Starting from January 1, 2005 the Presidential Decree № 16<sup>16</sup> introduced licensing for new lines of business, such as: "game husbandry management" (licenses are issued by the Ministry of Forestry), "fishery management" (licenses are issued by the Ministry of Agriculture and Food Products) and "wood logging and milling activity" (before 01.01.2006 only logging was subject to licensing).

Simultaneously with the decree the Order № 581 was issued<sup>17</sup> establishing administrative responsibility

for citizens for illegal fishing and extraction of other types of shellfish, illegal hunting and other violations of fishing and hunting rules. The order also introduced economic responsibility for entrepreneurs and legal entities for above violations.

As to licensing of wood milling small enterprises operating in this field faced the threat of being closed. The point is that the Enactment on Licensing had a special requirement to the license applicants – "presence of technical means in possession of a legal entity under the right of economic control, operative management or the right of ownership". Small companies however normally rented or leased nearly all the equipment. To continue operation they had to get ownership of the equipment before July 1, which was surely beyond their powers. It was only due to the timely activities of the Council on Business Development and Business-Association of Entrepreneurs and Employers that the Council of Ministers brought respective amendment<sup>18</sup>.

Licensing of foreign trade activity also has some problems. It is known that there are certain peculiarities in licensing of import operations in Belarus. One of them is the necessity to obtain approval of the state agency supervising this type of activity. This in fact provides a legal opportunity to block access to the market for competitors. There are some of those examples in Belarus. Besides, although the number of licensed activities practically was not reduced, new forms of state regulation started to be actively introduced in the country, which shall be touched upon in the following paragraphs.

<sup>&</sup>lt;sup>15</sup> Presidential Decree № 11 "On harmonizing the State regulation of production, turnover and advertising of alcohol, nonfood alcohol products and non-food ethyl Alcohol" dated 09.09.2005 with changes and amendments of Presidential Decree № 18 dated 14.12.2005.

<sup>&</sup>lt;sup>16</sup> Presidential Decree № 16 "On some measures to improve the State regulation of environmental management and introduction of changes and amendments in Presidential Decree dated 14 July 2003 № 17" dated 08.12.2005.

<sup>&</sup>lt;sup>17</sup> Presidential Decree № 581 "On increasing responsibility for violation the rules of fishing and hunting areas, fishing and hunting" dated 08.12.2005.

<sup>&</sup>lt;sup>18</sup> The Council of Ministers' Resolution № 486 "On introduction of amendments to the Guidelines on licensing of logging and milling activities" dated 10.04.2006.

#### 3.3. Marking

Economically, marking of products pursues two objectives: fiscal (alcohol and tobacco excise taxes) and protective (protection of national market from smuggled goods). Practically however, the fiscal effect of marking is miserable (as a rule the excise stamp is very cheap), the protective effect is rather questionable (as there are ways to sell unmarked products), which means that marking increases transaction costs and price to consumers. Nevertheless, the topic of marking goods is getting more popular among the cabinet ministers for the last one and a half years.

The process started in 2004 when the Republic of Belarus Taxation Ministry adopted the "Instructions for Sales, Record, Keeping and Disposal of Control (Identification) Marks and Control of Their Use" <sup>19</sup>.

As a result, legal entities and entrepreneurs have to mark with the control (identification) stamps such goods as beer, motor oils, vegetable oils, sturgeon caviar and its substitutes, canned fish, aerated waters, low-alcoholic drinks and detergents. Sales of these products are conditioned by prior payment of the stamps cost in the amount established by Ministry of Finance of the Republic of Belarus in coordination with Ministry of Economy. Certainly, introduction of such innovation as marking of goods by economic entities have resulted in additional expenses and work time expenditures.

In 2006 marking of consumer goods continued. Under the government

<sup>19</sup> Presidential Decree № 444 "On introduction of marking goods with excise (identification) stamps" dated 14.09.2004; the Council of Ministers' Resolution № 1280 "On confirming the list of goods to be marked with excise (identification) stamps" dated 14 October 2004.

resolution<sup>20</sup> the list of marked goods was supplemented by natural and instant coffee and his substitutes, peel and glumes, practically all types of tea, footwear, mobile phones and other products.

The new list of marked goods will become effective from 2007. As the cost of one control mark is only BYR 15, it should not have much influence on the self-cost and the price of products. Nevertheless, the process of marking goods requires special hand-held or automated equipment. The average cost of a handheld marking device is about BYR 300,000. An automated marking device would cost about BYR 10 million or more depending on the type of production line. Moreover, marking of imported goods with control (identification) stamps is made outside the territory of Belarus. For instance, tea imported from China should be marked in this country, so Belarusian foreign trade partners are perplexed by this situation.

Considering this practice of marking, it is possible to come to the conclusion that the best intentions aimed to protect Belarusian market from defective products and "grey' imports will result in significant rise of price to consumers for which entrepreneurs and importers will again be found guilty.

#### 3.4. Certification

The procedure of certification for the period analyzed was considerably changed. According to the resolution<sup>21</sup> issued by the State Commit-

tee for Standardization, Metrology and Certification, 4 items were added to the list of products, services and staff, which are subject to obligatory certification. Starting from December 1, 2006 obligatory certification is introduced for passenger and cargo elevators; from November 1, 2006 — for dry starch (in retail trade); chilled, frozen, salted and smoked pork fat (in retail trade) and casein (dairy protein). The rest of regulative legal documents on certification were mostly related to big business and/or state organizations and associations.

#### 3.5. Taxation

Taxation is one of the main factors influencing the business climate and development of business in terms of number of taxes, tax rate, tax base, due date for tax payment, tax administration and responsibility for probable violations.

During the 2005–2006 taxation system, number of taxes and their rates practically did not change. Changes took place in the number of lists offering different preferences and benefits and in those provisions of legal acts that formulate tax base. Naturally, any change in this field directly influences the accuracy of tax records maintenance and is in direct proportion with responsibility for mistakes.

Traditionally, the largest number of changes was brought to the legislation regulating VAT calculation. As of 01.07.2006 this legislation included 176 effective legal acts, of which 48 were adopted in the period 01.01.2005–01.07.2006.

Under the Law of the Republic of Belarus "On Budget for 2006" the

<sup>&</sup>lt;sup>20</sup> The Council of Ministers' Resolution № 669 dated 27.05.2006.

<sup>&</sup>lt;sup>21</sup> The Resolution of the State Committee for Standardization, Metrology and Certification at the Council of Ministers of the Republic of Belarus № 16 "On introduction of changes and amendments to the Resolution of the State Committee for

Standardization, Metrology and Certification of 30 July 2004 № 35" dated 31.03.2006.

tax burden decreased at the expense of reducing turnover taxes by 0.9%. At the same time it is worth noting that according to the message of A. Lukashenko early in 2006 a working group was created on simplifying taxation which is presently effective. The Draft Law "On Budget 2007" will be based on recommendations of this group.

As for local taxes, their changes were not favorable to private business. Under the Law of the Republic of Belarus "On Budget for 2006" the following two local taxes were introduced: retail sales tax with a rate up to 5% (in practice - 5%) and service tax with a tax rate not exceeding 10% of the tax base (in practice — on average 5%). As a result we can see a discrepancy, i.e. declaring priority of service development the government "stimulates" the development by additional local tax. Though at present the tax rate is 5% in 2007 the authorities are planning to increase it till 10% (according to the information provided by the state agencies).

Judging by the law making schedule and daily agendas of the House of Representatives of the National Assembly of Belarus, no other legal document cardinally changing existing law on taxation is planned for the near future. For instance, a specific part of the Tax Code (development of the document started way back in the nineties).

As for a simplified taxation system for small businesses, in spite of repeated bringing up the problem by various organizations on different levels (including the Council for Business Development in the Republic of Belarus, the Belarusian Union of Entrepreneurs and Employers (BUEE), the Minsk Capital Union of Entrepreneurs and Leaseholders, the IPM Research Center,

the UNDP etc.) at present, possible changes exist in the form of project documents and intention declarations only. In reality there are cases of the situation getting worse.

Thus, under the government resolution<sup>22</sup> in 2005 the cost of a yearly patent was reconsidered and re-established for those small economic entities that use a simplified system of taxation. At first glance one would think they remained almost unchanged. However, certain lines of business requiring a yearly patent cost were specialized and specified by subtypes, which in some cases resulted in a real increase in patent cost. For instance, photographing was previously regarded as personal service that required a yearly patent cost at the rate of 180 state defined amounts. After the resolution came into force, this type of business is regarded as "other types of service" requiring a yearly patent that costs 900 state defined amounts, which is 5 times more.

#### 3.6. Pricing

For the past several years pricing regulation policy was rather contradictory. On the one hand, attempts were made to reduce the impact of administrative mechanisms on regulation of prices. For example, price caps for industrial products were gradually abolished, the list of enterprises-monopolists and consumer goods which prices are regulated centrally were shortened. On the other hand, such powerful price regulators as profitability caps. fixed prices for goods and services on the consumer market remained and finally, in 2006 the practice of establishing price caps for goods, works and services returned. Under

the president order<sup>23</sup> the procedure of establishing price caps for goods, works and services made by the Council of Ministers was extended to commercial organizations with foreign capital and individual entrepreneurs rendering paid medical services. Additionally, the new wave of price regulation will touch upon the prices for land use and survey operations, electricity and round timber.

Under the order violation of the established pricing procedures as well as absence of cost estimates (calculation specifying entries for expenses and factory prices for imported goods) implies imposing a penalty on economic entities amounting up to 30% of the costs of sold goods and services. On repeated violation the fine increases up to 50% of the costs. For absence of cost estimates in the process of establishing factory prices for goods and services a penalty amounting up to 40 of state defined amounts is imposed on the executive officer or the individual entrepreneur, on repeated violation — up to 80.

Pricing procedure was tightened in respect of the following goods and services: raw stock, flax-fibre, sugar, housing and municipal services, nearly all types of transport services, housing construction services and others.

In general, in the period of 01.01.2005-01.07.2006 the topic "Legislation on pricing" of the regulatory framework "Etalon" included 166 legal registered documents, 52 of which had become inoperative by that time. So the procedure of administrative regulation of prices is

<sup>&</sup>lt;sup>22</sup> The Council of Ministers' Resolution № 943 "On setting up the cost of a yearly patent" dated 27.08.2005 г.

<sup>&</sup>lt;sup>23</sup> Presidential Decree № 110 "On introduction of amendments and changes to the Presidential Decree dated 19 May 1999 № 285" dated 21.02.2006.

constantly changing and going to become active in the near future. One may come to this conclusion analyzing "Republic of Belarus Pricing Policy" <sup>24</sup>.

The Policy does not project fundamental change in the current pricing system. According to its provisions pricing in Belarus will continue to be developed — in order to raise reasonableness of the pricing system and intensify its impact on enhancement of the national economy. In this regard pricing will be developed in the following directions:

- harmonization of local prices with those in adjoining countries for protection of economic interests of the country;
- tightening control over the level and dynamics of expenses included into self-cost, creating conditions stimulating cost saving in production and realization of goods (works, services);
- fine-tuning legislation on pricing, specifying functions of the national state administration bodies that supervise pricing;
- increasing role and responsibility of local authorities for implementing of state policy in pricing, regulation and control over application of the established pricing order in regions.

In the government's opinion these and other measures will positively affect the financial condition of the country's enterprises. As the Policy does not contemplate abolishing sanctions for violation of pricing regulation, all measures will most probably be quite efficient.

 $^{24}$  The Council of Ministers' Resolution  $\ensuremath{N\!_{\! D}}$  799 dated 20.07.2005.

#### 3.7. State support

In conclusion of the survey we can not but touch upon one more document influencing development of small and medium business. This is the Presidential Order № 182 "On Development of Legal Control for Procedure of State Support to Legal Entities and Individual Entrepreneurs" dated 28.03.2006. The Order clearly differentiated powers of the president, Council of Ministers and local authorities on lending different kinds of state support. It has also adopted the following provisions:

- on the procedure of granting a grace and/or extension for paying tax, fees, customs duties, interest and tax credit;
- on the procedure of establishing regulatory revenue distribution;
- on the procedure of subsidizing and/or granting state budget funds for financing capital investments;
- on the procedure of granting budget loans and credits from state budget funds and their repayment;
- on the procedure of providing Government guarantees for credits issued by the banks of the Republic of Belarus;
- on the procedure of lowering prices (tariffs) for gas, electrical and heat power, petrol and diesel fuel; on granting a grace and/or extension on repayment debts for consumed gas, electrical and heat power;
- on the procedure and conditions of partial compensation of credit use interest to legal entities.

The Order therefore has some advantages as it to a large extent

simplifies the procedure of lending state support to SME. It is now clearly established in legislation which government agency lends support and grants preferences in a certain field. At the same time the Order does not include any crucially new provisions regarding state support to business development.

No other legal acts clearly regulating directions and extent of state support to business development were passed in the country. For the stated period the Law "On State Support to Small and Medium Business" was not adopted either.

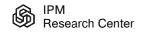
#### 3.8. Conclusion

Thereby, the institutional environment specifying directions and dynamics of business development in the country was changed insignificantly. Despite some positive changes related mostly to registration, legislation on licensing, certification, taxation, penalties and inspections virtually did not change and even worsened in certain fields.

Besides, for the stated period law change did not show any positive dynamics conditioning easier access of small companies to funds and resources, including those ineffectively utilized, except for some "single-point" decisions on lowering rent payment or selling (renting) objects of communal property. Nevertheless the government and business-associations should concentrate their efforts in these particular directions — changing of laws on microlending and improving access for small businesses to financial resources and property.

In general it is worth noting that the necessity of changing laws on regulation of small and medium business is still important, which is proved by numerous surveys of the

business environment in the country, wishes of business community and passed decisions of government authorities.



# 4. STATUS AND TENDENCIES OF SMALL AND MEDIUM ENTERPRISES DEVELOPMENT

## 4.1. Definition of Small and Medium Enterprises (SME)

Different types of criteria are applied in the world today to refer to an enterprise as small or medium-sized. Most of them are based on number of employed, company's annual sales, overall annual balance, value of assets, consumed energy etc. Sometimes such criteria are applied as the fact that the owner of business works together with his employees, the extent of specialization in management (ILO, 1961) or affiliation of the company to the "formal" or "informal" sector.

The Organization for Economic Cooperation and Development (OECD) defines a company as "very small" if it has less than 19 employees, as "small" if it has less than 99 and as "medium-sized' if the number of its staff varies from 100 to 499 employees. A company that employs more than 500 people is regarded as "large".

The particular approach in identifying a company as "small" in Belarus is predetermined by specifics of national economy. The European Commission recommends referring to a company as medium-sized if it employs less than 250 people provided that the company's annual sales do not exceed EUR 40 million and overall annual balance - EUR 27 million. Small companies have a number of staff in the range from 10 to 49, annual sales less than EUR 7 million and an annual balance not exceeding EUR 5 million. The Commission also identifies micro-enterprises with the number of employed less than 10.

There is no unified system for identifying small and medium-sized enterprises in the USA: every line of business has its particular criteria. As a rule, a company is regarded small on the condition that:

- the number of employed does not exceed 500 — in industry;
- the number of employed does not exceed 100 — in wholesale trade;
- annual sales do not exceed USD 6 million — it retail trade and services;
- annual sales do not exceed USD 28.5 million — in heavy engineering;
- annual sales do not exceed USD
   28.5 million in agriculture.

In Bulgaria, for instance, a company is regarded small if it employs less than 50 people, mediumsized—less than 200; in Hungary—less than 100 and 500 respectively. In Lithuania small companies have less than 50 employees, their annual sales do not exceed 500,000 Litas; in Latvia—less than 25 employees, annual sales do not exceed 200,000 Lats and overall annual balance not exceeding 70,000 Lats.

In accordance with Belarusian law a company is regarded as "small" if it is non-corporate or if it has the status of a legal entity and employs one of the following number of people:

 up to 100 people — in industry and transport;

- up to 60 people in agriculture, including farm enterprises (peasant economies) and in the scientific-technical field;
- up to 50 people in construction and wholesale trade;
- up to 3 in retail trade and consumer services;
- up to 25 in other non-productive spheres.

Since there is no definition for a "medium-sized" enterprise in Belarusian law, there is no statistic of their performance, while the world practice of private enterprise evaluation uses notions as "small and medium-sized enterprises". According to some estimates about 5,000-6,000 companies can be considered medium-sized in Belarus. Therefore, the official statistics data provided by the Ministry of Statistics and Analysis on the performance of small companies does not fully reflect the importance of this sector to the state economy (underreporting takes place). At the same time in the State Program on Socio-Economic Development of Belarus for 2006–2010 the paragraph related to business development includes targeted performance indicators for not only small but also for medium-sized enterprises. Thus, it is possible to achieve targeted performance indicators in the SME sector (in terms of employment, GDP, sales) by simple a change in the statistics for accounting and calculation of the sector indicators.

# 4.2. Number and distribution of small and medium-sized enterprises

In development of small business Belarus lags far behind neighboring countries. While performing comparative analysis however, it is necessary to take into account that the official statistics does not take into account individual entrepreneurs among small economic entities. As a result, the number of individual entrepreneurs per 1,000 people and their share in total employment are underreported. On combination of these two groups of private business their aggregate as of January 1, 2006 will be equal to 21.6 entities per 1,000 people.

Starting from 1996, administrative regulation of the economy intensified, which caused a downswing in the number of small companies and individual entrepreneurs (Figure 4.1). Before 1999 the two segments of private business had similar trends. Then the number of entrepreneurs increased simultaneously with decreasing of the number of small companies. This tendency continued until 2003 when it was reversed (small companies grew in number and the number of entrepreneurs declined).

Fluctuations in the number of small companies can be explained by changes in law, which in turn makes the business activity of legal and non-corporate entities more profitable. In 1999, the legislation related to registration and business conditions for legal entities was tightened, resulting in a decline of the number of small enterprises. In 2003, under a presidential decree an individual entrepreneur could not hire more than two employees. Therefore, a lot of entrepreneurs had to re-register as legal entities.

Due to the lack of statistical data on operational results of non-corpo-

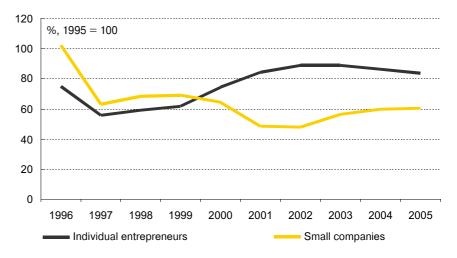
rate entities, further analysis is performed exclusively for one group of small companies — legal entities.

Most of small enterprises in Belarus operate in trade and public catering. As of the end of 2005, 1.2% of small companies were engaged in this business. An essential part of small companies operates in manufacturing (23.5%) and construction (12.3%). Their proportion of the total number of small enterprises grew by 2.7% and 0.6%, respectively. To a large extent, this growth occurred at the expense of shrinking the share of trade and

public catering. Despite the expanding share of small manufacturing enterprises, their contribution to the total output in 2004 and 2005 remained flat at 7.1%, a decrease of 1.5% against 2000. At the same time, the share of small enterprises in the total retail turnover grew significantly to 10.1%, which is twice as much as in 2000 (Figure 4.2). As of the end of 2005, the share of small business in GDP fell slightly against 2004, amounting to 8.1%.

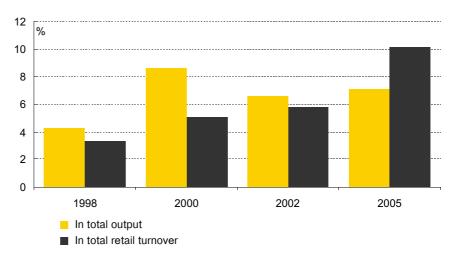
Small enterprises play a key role in foreign trade, providing 21.3% of the total foreign trade turnover. This is

Fig. 4.1. Changes in number of small companies in Belarus



Source: Ministry of Statistics and Analysis

Fig. 4.2. Share of small companies in total output and retail turnover



Source: Ministry of Statistics and Analysis

achieved through an active participation of such companies in the import of goods and services (29.1% of the total imports of Belarus). At the same time, these indicators tend to decrease. Though in 2004, the share of small business in foreign trade turnover and imports amounted to 23.2% and 31%, respectively, its share in export fell from 13.8% to 13.3%.

The distribution of small enterprises over the territory of the country is highly uneven. The major part is concentrated in Minsk (56.3%), making the number of small companies equal to 93.2 per 100,000 of population, whereas their average ratio for Belarus is 33.9. A relatively high concentration of small enterprises is characteristic of regional centers and industrially developed cities.

# 4.3. Role of small and medium-sized enterprises in providing employment

Small business is traditionally important for employment. It provides working places for the majority of population in developed countries. As of the beginning of 2004, 47.6% of the total labor force in Great Britain was engaged in small business. In EU-15 countries, as well as in Iceland, Liechtenstein and Switzerland, the share of small and medium business in total employment is 69.7%. In the countries of Central and Eastern Europe this indicator is close to the European level. In Slovakia, for instance, 65.9% of population is engaged in small and medium business<sup>25</sup>.

The share of small business in the total employment of CIS countries is much lower. For example, only 11.3% of the labor force in Russia

<sup>25</sup> Oravec, J. (2005) Small and Medium-Sized Enterprises in Slovakia. Policy Brief 28, William Davidson Institute.

Table 4.1. Main economic indicators of small business entities' activities in Belarus, BYR bn

	2004	2005	Growth rate, %
Average monthly salary, BYR thsd	258.2	346.3	34.1
Volume of total output (including works and services) in actual factory prices minus taxes and sales duties to be paid	7447.7	10331.5	38.7
Volume of industrial output (including works and services) in actual factory prices minus VAT, excise taxes and other sales taxes	3113.1	4295.4	38.0
Volume of consumer goods output (including cost of liquors and beer) in factory prices	1068.7	1345.6	25.9
Volume of contract works made by owner's own efforts	927.1	1271.8	37.2
Retail trade turnover	1076.6	1605.2	49.1
Food products	491.2	782.5	59.3
Non-food products	585.5	822.7	40.5
Total receipts	22674.7	31768.4	40.1
Cost of goods, products, works and services sold	7250.3	10946.5	51.0
Profit from goods, products, works and services sold	807.8	1163.9	44.1
Profitability of goods, products, works and services sold, %	11.1	10.6	_
Net profit	403.3	778.7	93.1

Source: Ministry of Statistics and Analysis.

was engaged in small companies in 2003. Taking into account individual entrepreneurs and farms, this indicator increases to 25.3%<sup>26</sup>. The share of small business in total employment in Belarus was 10.5% (14.6% including individual entrepreneurs) by the end of 2005.

Manufacturing prevails in employment among economic sectors; it employs 38.2% of those engaged in small business. The share of trade and public catering as well as the share of construction is also significant (24.7% and 16.2% respectively). As for employment in other sectors of the economy, the role of small enterprises there is insignificant. Tendencies of sectoral employment repeat those of number of small companies. The share of trade and public catering gradually declines while employment in industry and construction grows.

## 4.4. Profitability and financial indicators

In 2005 the majority of indicators characterizing business activity of small enterprises grew in volume (Table 4.1). The volume of retail trade increased by one and half times. Particularly sales of food products grew. Total output of goods, works and services produced by small businesses grew by 38% as well as the output of industrial goods. Profit grew by 44.1%. Of all the key indicators only profitability decreased and constituted 10.6%. The reason for this is that the growth rate of production cost exceeds the growth rate of sales (Table 4.1).

26.9% of small business companies were unprofitable at 2005's yearend; as compared to 2004, their number grew by 14.5%.

Analysis of companies' performance by form of ownership shows that small private companies demonstrate the highest rate of profitabili-

<sup>&</sup>lt;sup>26</sup> Analysis of the role and place of SMEs in Russia. Statistical Note. Resource Centre of Small Entrepreneurship, 2004.

Table4.2. Financial indicators of small business entities' activities by sectors, 2005

	Sales	proceeds	Cost of goods, works and services sold		Profit from goods, products, works and services sold		Profitability of goods, products, works and services sold, %	
_	BYR bn	in % to 2004	BYR bn	in % to 2004	BYR bn	in % to 2004	%, 2004	%, 2005
Total	31768.4	140.1	10946.5	151.0	1163.9	144.1	11.1	10.6
Industry	6298.5	131.3	3849.9	136.9	373.2	137.3	9.7	9.7
Agriculture	216.0	134.8	142.0	131.1	9.9	239.1	3.8	7.0
Transport	958.5	126.5	660.9	127.3	29.2	87.5	6.4	4.4
Telecommunications	67.0	172.6	35.3	149.6	9.0	217.1	17.5	25.4
Construction	2071.1	136.0	1218.5	134.9	185.4	131.8	15.6	15.2
Trade and public catering	15641.8	130.0	1489.4	153.6	344.4	151.6	23.4	23.1
Business logistics	391.1	112.7	53.8	148.5	8.6	156.3	15.2	16.0
Municipal housing economy	21.1	167.6	13.2	146.7	1.3	232.5	6.1	9.7
Non-productive public services	46.0	135.3	30.2	147.2	2.6	108.8	11.8	8.8
Healthcare, physical culture and social security	72.3	164.7	49.9	145.1	3.4	228.4	4.4	6.9

Source: Ministry of Statistics and Analysis.

ty: it exceeds profitability of state companies by 4.9%. Non-state legal entities are the most effective in the private sector (profitability 13.3%). Then follow companies with foreign capital having a mixed form of ownership—10.5%. Foreign companies have the lowest profitability (6.2%).

Sectoral analysis of financial performance represents that the highest profitability was registered among the companies operating in telecommunications, trade and public catering. Small business companies engaged in construction also had profitability above average level. The most unprofitable companies are found in transport, healthcare and agriculture.

The fastest growth of profitability was registered in the sector of tele-communications: for 2005 it grew by 45% (Table 4.2). Profitability of small companies operating in agriculture, healthcare, utility services, physical culture and social security also grew, drawing closer to the average level. Lowering of profitability was registered in transport and non-production types of public services.

# 4.5. Key features of small and medium-sized enterprises: empirical data

In October-December of 2005 the Research Center of the Institute of Privatization and Management had SME's polled to monitor the main aspects of their activity. 400 directors and private company owners participated. The selection displays key features of small and medium business by geographical and sectoral principle and by form of ownership<sup>27</sup>.

Data provided by the National Tax Inspectorate and the Ministry of Statistics and Analysis of the Republic of Belarus was used in preparing the selection. Only legal entities participated in the poll.

Distribution of legal entities by form of incorporation is shown by Table 4.3.

Nearly 40% of the respondents participating in the poll operated in trade and public catering, approximately every fourth enterprise operated in industrial sector. For the

rest of polled lines of business were: public services (9.3%), construction (12%), other services (tourism, advertising, audit etc.) (Table 4.4).

By volume of employment the companies were arranged in the following order:

- · from 1 to 10 people 20%;
- from 11 to 50 people 42%;
- from 51 to 100 people 22%;
- from 101 to 200 people 10%;
- · more than 200 people 6%.

The majority of SME's was created without foreign capital. Table 4.5

The average time of entrepreneurial activity for the respondents-SME directors is 9.4 years. A small number of new companies entering the market is characteristic of business development in Belarus. It is difficult to start a new business because of heavy regulatory burdens and high costs. As a result, SME directors' entrepreneurial experience is growing (Table 4.6).

Distribution of the companies by regions is shown by Table 4.7.

<sup>&</sup>lt;sup>27</sup> Please find attached the questionnaires and the answers of the poll in the Annex 1.

Table 4.3. Distribution of answers to the question: "What is your company's corporate structure?

	Number of companies	% of respondents
Unitary Enterprise	134	33.5
Limited Liability Company	112	28.0
Additional Liability Company	44	11.0
Open Joint-Stock Company	68	17.0
Closed Joint-Stock Company	30	7.5
Full Partnership	5	1.3
Limited Partnership	1	0.3
Producers' Cooperative	1	0.3
Total	400	100.0

Source: IPM Research Center.

Table 4.4. Distribution of answers to the question: "What is your company's main line of business?"

	Number of companies	% of respondents
Trade and public catering	156	39.0
Public services	37	9.3
Production	90	22.5
Construction	48	12.0
Transport and telecommunications	25	6.3
Education	10	2.5
Other	34	8.5
Total	400	100.0

Source: IPM Research Center.

Table 4.5. Distribution of answers to the question: "What is the share of foreign capital in your company's authorized fund?"

	Number of companies	% of respondents
No foreign capital (0%)	321	80.3
Up to 30%	46	11.5
From 31 to 50%	22	5.5
From 51 to 75%	5	1.3
100% foreign capital	2	0.5
No answer	4	1.0
Total	400	100.0

Source: IPM Research Center.

Table 4.6. Distribution of answers to the question: "What is your entrepreneurial experience (in years)?"

	Number of companies	% of respondents
1 year	7	2.0
2–3 years	36	9.0
4–5 years	91	23.0
6–7 years	73	19.0
8–10 years	99	25.0
More than 10 years	86	22.0
Total	400	100.0

Source: IPM Research Center.

Table 4.7. SME distribution of by country regions

	Number of companies	% of respondents
Minsk	208	52.0
Minsk Region	31	7.8
Brest Region	33	8.3
Grodno Region	33	8.3
Vitebsk Region	29	7.3
Gomel Region	32	8.0
Mogilev Region	34	8.5
Total	400	100.0

Source: IPM Research Center.

4.6. Role of business associations and media in support and development of SMEs in Belarus

International and local experts, representatives of national business, note the fact that the business climate in Belarus is far from being ideal. Typical problems for small enterprises existing in any country, such as high taxes, difficulties with obtaining credit and lack of management skills, are aggravated in Belarus by numerous inspections, high penalty charges and difficulties with securing permits, and an unstable and contradictory legal system. As a result the number of SME practically does not change in the country, explicit and implicit costs connected with conduct of business continue to grow.

Besides, entrepreneurship and entrepreneurs are relatively new phenomena for Belarus. So despite the evident usefulness of entrepreneurship recognized by authorities and population, state and non-state media sometimes build a negative image of an entrepreneur (Table 4.8). For example, only 44% of SME directors think that public opinion formed by independent media on the role and place of an entrepreneur is positive. The population evaluates publications on business and entrepreneurs in state media even more positively than publications in independent media.

A variety of unions and business associations deal with settling the problem of improvement of business environment. In the USA hundreds and thousands of different organizations are engaged in its advocacy, i.e. they are not engaged in lobbying interests of a certain sector or enterprise but pursue a goal-oriented policy of protection and representing SME interests, work on creation and development of the

positive image for an entrepreneur in mass media.

Creation of a positive image of entrepreneurs and businessmen, protecting their rights and interests is in the own hands of Belarusian businessmen. In doing so, it is reasonable for them to be united into business associations or unions because of their current separateness and disorganization. However, only 15% of the polled are members of business-associations. Three years ago a similar poll revealed 16% of such businessmen. In that way most of SMEs in Belarus do not want to participate in business-associations and prefer solving problems of their business by themselves. It is not high entry fees that explain their reluctance to enter business unions. The most common motivation is that the unions, in the respondents' opinion, are helpless and useless in solving everyday business problems (Table 4.9). On the one hand, assistance of unions in securing numerous permits, calculation and payment of tax and solving other current problems is really modest. On the other hand, there are many examples when businessmen addressed business associations and received adequate assistance. Besides, there are numerous sectoral associations within the framework of businessunions; membership of them facilitates formal and informal socializing letting businessmen discuss problems, share experience, develop strategies of joint behavior.

In our opinion the fact that only 15% of SMEs are members of businessunions is conditioned by the absence of up-to-date information about the real activity of unions and their potential. Belarusian entrepreneurs are not well aware of the potential benefits from membership in business associations. In fact, every fifth of the polled does not have any information about them at all. It

Table 4.8. Distribution of answers to the question: "What impact have Belarusian media on formation of public opinion about entrepreneurial business?"

	Public opinion they form is rather positive	Public opinion they form is rather negative	They have no impact on public opinion
SME Leaders, % of			
Respondents			
State media	30	29	41
Independent media	44	14	41
Population, % of			
Respondents			
State media	46	23	31
Independent media	34	26	40

Source: IPM Research Center.

Table 4.9. Distribution of answers to the question: "Why don't you become a member of any business association?"

	% of answers
I think that associations are helpless in solving my problems	31.8
My business does not need their assistance and services	24.3
I have no information about activities of such associations	20.3
I hope to solve my problems by myself	17.3
I think it to be politically disadvantageous	8.8
High membership fees	2.8
Other	1.5

Note: Several answers could be chosen.

Source: IPM Research Center.

Table 4.10. Distribution of answers to the question: "Activities and assistance of what organizations facilitating small and medium business development you encountered?"

	Number of companies	% of answers
Non-state organizations		
Business incubators	8	2.0
Business associations	82	20.5
Institute for Privatization and Management	20	5.0
Other	_	_
State organizations		
Council for Business Development	27	6.8
Local Council for Business Development	26	6.5
Interagency Committee on Entrepreneurship at the	11	2.8
Council of Ministers	11	2.0
Regional Interagency Committee on Entrepreneurship	15	3.8
Entrepreneurs Financial Support Fund	19	4.8
Other	_	_
International organizations		
International Finance Corporation (IFC)	2	0.5
European Bank for Reconstruction and Development (EBRD)	17	4.3
UN Development Program (UNDP)	7	1.8
Other	2	0.5
I encountered no such organization	279	70.0

Source: IPM Research Center.

is worth noting that it is the task of businessmen themselves to pursue a more active and "aggressive" policy (as well as separate thematic companies), demonstrating their potential and benefits of membership, advocate real cases of consulting and rendering assistance to certain companies or business associations, directions of their activities etc.

At the same time only one of every fifth SME that is informed about activities of unions is a member. So the activity on development of busi-

Table 4.11. Distribution of answers to the question: "What in your opinion is the most effective way for entrepreneurs to protect and assert their rights?"

	% of respondents
Independently assert one's own rights and force bureaucracy to obey laws	30.3
Cooperate with state centers for business support	20.0
Unite into voluntary business associations	18.5
I think that entrepreneurs do not know how and why they need to protect and assert their rights	17.0
Cooperate with think tanks	6.3
No answer	7.8
Other	0.3
Total	100.0

Source: IPM Research Center.

Table 4.12. Distribution of answers to the question: "Do you personally support the idea of creation of a coalition of employers' unions to protect their rights and improve economic policy?"

	% of respondents
Fully support	12.5
Rather support	37.5
Rather do not support	24.0
Absolutely do not support	6.8
I think that entrepreneurs will never associate	13.8
Other	1.8
No answer	3.8
Total	100.0

Source: IPM Research Center.

Table 4.13. Distribution of answers to the question: "In what way are you personally prepared to facilitate improvement of the business climate in the country?"

	%
	of respondents
I am not prepared	43.5
I am prepared to lend material (or other) support to employers' unions in those matters only where I am personally interested in	30.5
I am prepared to personally participate in preparation of documents and other activities on improvement of business climate in the country	11.5
I am prepared to lend material (or other) support to any efforts on improvement of business climate in the country	8.0
No answer	5.3
Other	1.3
Total	100.0

Source: IPM Research Center.

ness associations will not be enough by itself – it is necessary to improve their efficacy giving fuller consideration to the interests of small business.

SME directors are rather poorly informed about the existence and potential of different private and state organizations that are supposed to make operation of SMEs in Belarus easier (Table 4.10). In this regard SME directors encounter the activities of private organizations more often. Business education

which improves business efficiency has an important function in support of business development. In our opinion collaboration of business associations and business schools may result in a synergetic effect, facilitating mutual growth of competences and improving efficiency of business unions dealing in advocacy and private business resource centers.

According to the poll, 47% of respondents consider protection of interests and rights of entrepreneurs

within the law as the most important task of business associations, another 40% think it to be legal defense of businessmen's rights in state agencies. Only 27% of polled SME directors think that the task of business unions is to create a positive perception of the role of businessmen and entrepreneurship in society. At the same time, 26% of respondents noted that business associations are unable to solve any problems of entrepreneurs. A third of SME directors is prepared to protect and assert his rights by himself (Table 4.11).

In many other transitional countries where business climate was also far from being perfect, local entrepreneurs, independent experts, business unions and associations were joining their efforts to create the so called National Program for Business Support or National Business Platform. These documents describe main problems for business development in a given country, offer ways of solving them and measures on improvement of regulatory environment. Within the framework of such a coalition it is possible to work closely with central and local authorities, representatives of Parliament and media, explaining and protecting own position and initiatives. The experience of Romania, Poland, Ukraine, Kazakhstan and other countries speaks for advantage of such cooperation for all the parties involved.

The number of people committed to the idea of creating a business coalition in Belarus exceeds the number of those who are against it. (Table 4.12), considering even those respondents who are sure that entrepreneurs will never be united. Moreover, more than half of entrepreneurs is prepared to personally assist the improvement of the business environment in the country (Table 4.13). Accordingly, business associations, think tanks, independ-

ent media and entrepreneurs should work together, strengthening and supplementing each other's efforts.

The National Business Platform has already been developed. It unites entrepreneurs on 6 topical issues of the country business climate development: ownership rights protection and market institutions development; taxation; licensing and system of granting permits; inspections, fines and penalties; registration and liquidation; access to information and state openness. Except for analysis of the most important issues, the document also provides ways of solving them. One can become acquainted with the document on the web-site of Minsk Capital Association of Entrepreneurs and Employers (www.allminsk.biz).

# 5. BUSINESS CLIMATE AND ADMINISTRATIVE REGULATION ASSESSMENT

# 5.1. Key problems of business climate from SME directors' viewpoint

The poll of SME directors in Belarus confirmed findings of other research about serious problems in regulation of private business activities in Belarus. Specifically, the respondents were asked to array the 19 problems that SMEs normally face in their operation by their relevance (Table 5.1).

Eight key problems (they were assessed by more than 3 points) together with the respondents' evaluation results are presented in Table 5.2. Despite the fact that on average none of the problems was assessed by more than 3.21 points, every fifth-sixth SME director assessed specific problems of regulatory climate by 5 points, i.e. as very complex. Considering those SME directors who assessed the mentioned problems by 4 points the total number of such directors will amount to 40%. Solving these particular problems must become the actual task and priority for the Government, Parliament and business associations so as to further improve the regulatory climate in Belarus.

For the majority of Belarusian SMEs, especially those operating on the market for a long time, even these problems are solvable. However they hamper creation and development of new businesses since new companies can not afford large staff to solve above problems. Although business in Belarus has for long adapted to the complex, con-

tradictory and unstable business climate, it is Belarusian residents who pay the price for this adaptation as lower competition causes price rise (as compared to other countries), a narrow range of products and in many cases poor service. In consequence of these par-

Table 5.1. Distribution of answers to the question: "What are the problems that you face in your activities?"

Prob	lems	Average score
1.	Severe sanctions for violations	3.21
2.	Excessive number of inspections performed by controlling and taxation authorities	3.18
3.	Securing licenses	3.16
4.	Absence of guarantees for private ownership protection	3.15
5.	Certification procedures	3.15
6.	Complex and unclear rules of taxation and accounting	3.13
7.	Frequent changes in tax reporting	3.06
8.	Unstable and complex legislation	3.04
9.	Difficulties with obtaining a credit	3.00
10.	Total dependence on controlling bodies	3.00
11.	Reporting to state authorities	3.00
12.	Necessity to obtain permits and approvals from state agencies regarding business activity	2.76
13.	Absence of time limitation for tax violations	2.74
14.	Relationship with local authorities	2.66
15.	Non-payment of clients	2.59
16.	Excessive price control	2.57
17.	Possibility of direct debiting funds or non-judicial assets forfeiture	2.55
18.	Low customer demand	2.50
19.	Lack of superiors' management and economic skills	2.24

Note: Respondents had to evaluate each of the listed items by five-scores scale, where "5" – is the most serious problem, "1" - the subject is not a problem)

Source: IPM Research Center.

Table 5.2. Most complex regulations

		Complexity index (1 score – there is no				
		problem,	problem, 5 scores - the problem is serious), %			
		1	2	3	4	5
1.	Severe sanctions for violations	8.7	17.8	34.3	22.3	16.9
2.	Excessive number of inspections performed by controlling and taxation authorities	10.9	21.3	26.3	21.6	19.8
3.	Securing licenses	14.3	11.6	31.3	28.7	14.0
4.	Certification procedures	14.9	17.7	23.8	24.4	19.2
5.	Absence of guarantees for private ownership protection	13.5	18.3	26.3	23.4	18.6
6.	Complex and unclear rules of taxation and accounting	13.4	14.9	32.4	24.1	15.2
7.	Frequent changes in tax reporting	12.7	19.9	31.4	20.5	15.6
8.	Unstable and complex legislation	13.3	19.4	31.5	21.8	13.9

Source: IPM Research Center.

ticular obstacles and problems, business in Belarus remains small with only a few exceptions.

#### 5.2. Interference into operation

It is common knowledge that all state companies are administratively bound by setting up production expansion indexes for them. The specific character of economic policy pursued in Belarus is that development indexes are set up for private companies as well. It is worth noting that three years ago the practice of setting up production growth rates was noted by 20% of respondents. In 2005 as many as 40% of the private company directors noted that they received administratively established growth rates for gross figures (Table 5.3).

It is obvious that the figure 40% is an average: the larger the company the larger the extent of state interference into its operation. For instance, only 24% of the companies employing less than 10 people claimed setting up their growth rates, 44% — employing less than 100 people and 61% — employing from 100 to 200 people. By sectoral assessment setting up growth rates was claimed by 42% of respondents operating in trade, 54% — in public services, 41% — in production, 50% — in construction, 33% — in transport and telecommunications and 25% — in education.

#### 5.3. Tax legislation issues

According to the Republic of Belarus Taxation Ministry Press Service, 31.6% of all companies and 25.8% of registered individual entrepreneurs were inspected in terms of their compliance with applicable law on taxation and entrepreneurship in 2005. The inspections unveiled violations among 67% of checked companies and 66% of inspected individual entrepreneurs. For the first quarter of 2006, 9,900 of enterpris-

Table 5.3. Distribution of answers to the question: "Do Belarusian state administration bodies set up your output growth rates?"

	% of respondents, 2002	% of respondents, 2005	
Yes	20	40	
No	80	56	
No answer	_	4	
Total	100	100	

Source: IPM Research Center.

Table 5.4. Comparison of Belarus with neighboring countries

	Belarus	Ukraine	Russia
Number of tax payments per year	113	84	27
Time spent for computation and payment of taxes, hours/ year	1188	2185	256
% of taxes payable from gross profit of a company	122	51	41

Source: World Bank, Doing business 2006 (www.doingbusiness.org).

Table 5.5. Distribution of answers to the question: "What taxes do you think to be the heaviest for development of your business?"

	% of answers
Profit tax	66.8
VAT	41.5
Sales taxes	32.0
Payroll taxes	29.5
Income tax	24.0
Customs duties	14.5
Local taxes	10.8
Excise taxes	3.0
Other	0.5

Note: Up to three answers could be chosen.

Source: IPM Research Center.

Table 5.6. Dependence of answers to the question: "What taxes do you think to be the heaviest for development of your business?" on the size of a company, %

on the company size		% of answers	
	Profit tax	VAT	Sales taxes
From 1 to 10 people	49	35	35
From 11 to 50 people	70	40	30
From 51 to 100 people	74	51	35
From 101 to 200 people	71	53	29
More than 200 people	68	27	27

Source: IPM Research Center.

Table 5.7. Average value of sales taxes paid by entrepreneurs

Company's main line of business	% of sales paid to the budget in the form of all taxes and payments, by entrepreneur's estimate	In entrepreneurs opinion, fair % of sales to be paid to the budget in the form of taxes	
Trade and public catering	26.7	12.9	
Public services	32.1	14.5	
Production	27.7	13.5	
Construction	30.8	15.0	
Transport and	32.5	15.4	
telecommunications			
Education	45.4	16.3	
Other	24.7	11.4	
Average for all SMEs	28.6	13.5	

Source: IPM Research Center.

Table 5.8. Distribution of answers to the question: "What steps in your opinion should be taken to make the tax system more efficient?"

	% of respondents
Reduce tax rates	52.8
Simplify taxation rules and accounting	45.0
Reduce number of taxes and non-tax payments	44.3
Introduce simplified system of taxation for small and medium-sized economic entities	37.5
Reduce sanctions for violations	19.8
Introduce additional tax privileges	14.3
Other	0.3

*Note:* Up to three answers could be chosen.

Source: IPM Research Center.

Table 5.9. Distribution of answers to the question: "How many times did your company experience inspections last year? What was the average duration of each inspection?"

		Number of	Duration of	Inspections
		inspections,	one	took place, %
		times	inspection,	of
			days	respondents
1.	Tax Inspection	1.61	3.75	91.3
2.	Fire Prevention Supervisory Authorities	1.59	1.15	74.1
3.	Sanitary Inspection	2.12	1.25	65.7
4.	Militia	2.10	1.37	15.9
5.	State Inspection Agency	1.39	2.19	22.4
6.	Committee for State Security (KGB)	1.33	1.38	9.0
7.	Organs of the prosecutor's office	1.10	1.95	6.5
8.	Price control bodies	1.60	1.66	29.3
9.	Standards control bodies	1.50	1.69	34.6
10.	Environmental control bodies	1.53	1.22	24.9
11.	Licensing bodies	1.22	1.38	29.6
12.	Organs for protection of consumers	1.61	1.37	14.6
13.	Ministries, executive departments, trusts	1.38	2.92	8.1
14.	Local authorities	2.25	1.73	21.8
15.	Other (specify)	1.25	2.25	99.7

Source: IPM Research Center.

es and 13,900 of registered entrepreneurs were checked regarding their compliance with applicable law on tax and entrepreneurship. The inspections unveiled violations among 67% of checked companies and 63.6% of individual entrepreneurs<sup>28</sup>. The Taxation Ministry control measures resulted in additional budget revenues amounting to BYR 172.3 billion.

Notwithstanding the ministry's declarations about lowering the number and duration of inspections, amounts of calculated penalties were not reduced and in January–May of 2006 additional BYR 171.6 billion was directed to the budget

<sup>28</sup> Please refer to the website of the Taxation Ministry http://nalog.by/news/ministries/mnsnews02-02-061.html

(i.e. the amount comparable with the gross revenues for 2005).

Why are tax violations so frequent among companies and entrepreneurs? Is it because of the intention of the vast majority of SMEs to evade taxes, their lack of tax law knowledge or it is the result of mixed and complicated tax legislation which is impossible to comply with? According to the World Bank and its research "Doing Business 2006" taxation in Belarus is among the most complicated and extravagant in the world. According to the calculations of experts making international comparisons, the tax bill of a Belarusian company is on the average 20% more than its total earned profit (Table 5.4).

A problem like "high taxes" was intentionally not included into the

questionnaire for SMEs among 19 major issues of business climate. From the one side, it was possible to forecast with high probability that it will be assessed as one of the most important. From the other, it is common for all businessmen in the world not to be satisfied with their tax level.

However, tax legislation and administration is a serious problem in the country and requires change not only by the World Bank estimates. According to the poll, such issues as "complex and incomprehensible regulations for taxation and tax reporting" ranked sixth and seventh (Table 5.2), while "excessive penalties for violations" and "excessive number of inspections of regulatory and taxation bodies" rank first and second respectively.

67% of respondents consider profit tax to be the heaviest for business development. VAT ranks second (Table 5.5).

There is a certain connection between the size of a company and significance (heaviness) of the particular tax (Table 5.6). The larger the company, the more "painful" is the payment of profit tax and often of VAT, though there is no such tendency for other sales revenue taxes.

The aggregate of all taxes that a typical SME has to pay to the state amounts to 28.6% of revenues, though the fair percentage to be paid in the form of taxes it would consider to be twice as little — 13.54% (see Table 5.7). It is interesting that the tax volumes by sectors estimated by SME directors as a percentage of revenues differ considerably: from 45% in education to 27% in trade and public catering. The difference between the answers to the question on "fair percentage" is insignificant.



Analysis of the problems naturally results in entrepreneurs' proposals on simplification of tax legislation. More than half of respondents find reduction of tax rates justified and necessary (Table 5.8). While this particular measure may contradict the plans and possibilities of the Ministry of Finance and the Government, such other measures as simplification of accounting and taxation procedures, reduction in number of tax and non-tax payments appear to be rather easy to fulfill.

#### 5.4. Inspections and penalties

As was noted above, one of the major problems hampering business development is high penalties for violations in the conduct of business. Penalties however "result" from inspections. According to research, in Belarus one control body on average checks a particular enterprise more than once within a year. Moreover, there is more than one controlling body making inspections (Table 5.9).

Therefore, in 2004 one SME was on average inspected 23 times. These inspections took on average 27 working days. Inspections of SMEs by tax authorities were the most frequent. On average one SME was inspected by tax authorities 1.61 times within a year, in this regard some respondents noted that tax authorities checked their companies 10–12 times. Though inspection's average duration was 4 days, in some cases it continued 10–15 days.

Inspections performed by tax authorities were noted by 91% of respondents. The volume of inspections made by local tax authorities on the regional level is of particular interest (see Table 5.10). Thus, no one of the respondents having business in Minsk noted, that his company was checked more than 4 times within a year. At the same time such cases were recorded in Grod-

no and Brest regions. The majority of SMEs that noted just one inspection for a year was from Minsk region, a minority — from Vitebsk region where only 33% of SMEs was inspected once in 2004.

Fire safety authorities rank second in number of inspections. Some respondents noted that their companies were checked by fire safety authorities 5–10 times.

Most frequent are inspections performed by hygiene authorities, militia, and local management and pricing authorities. Judging by the high frequency of inspections it may by concluded that the extent of price control is large.

3.65 employees of a typical SME are engaged in accounting for state bodies, though this is an average figure. Normally the larger the com-

Table 5.10. Number of tax inspections that SME experienced in 2004 by regions

	Tax inspection, number of times						Difficult to say	Total	
	1	2	4	5	6	10	12		
Minsk	60.3	19.6	1.6	_	1.6	0.5	-	16.3	100.0
Minsk Region	70.8	12.5	_	_	_	_	_	16.7	100.0
Brest Region	55.6	11.1	7.4	_	7.4	_	_	18.5	100.0
Grodno Region	50.0	35.7	_	3.6	_	_	3.6	7.1	100.0
Vitebsk Region	33.3	38.9	5.6	5.6	_	_	_	16.7	100.0
Gomel Region	60.7	7.1	_	_	_	_	_	32.1	100.0
Mogilev Region	61.9	14.3	4.8	4.8	_	-	_	14.3	100.0

Source: IPM Research Center.

Table 5.11. Distribution of answers to the question: "What in your opinion is the share of private companies' turnover that is not recorded in accounting (shadow turnover)?"

		% of respondents	
	2000	2002	2005
Up to 10%	14.4	17.5	25.0
10–25%	28.5	19.0	26.5
26–50%	16.8	3.4	15.0
51–75%	18.2	3.4	3.8
More than 75%	_	3.2	1.3
No answer	15.1	36.0	7.0
There is no such thing	6.9	17.5	21.5
Total	100.0	100.0	100.0

Source: IPM Research Centre.

Table 5.12. Share of shadow turnover depending on a company's line of business

	% of respondents							
	There is no such thing	Up to	10–25%	26–50%	51–75%	More than 75%	No answer	Total
Trade and public catering	23.1	23.1	22.4	18.6	4.5	1.3	7.1	100.0
Public services	18.9	35.1	29.7	5.4	5.4	_	5.4	100.0
Production	21.1	24.4	31.1	10.0	3.3	2.2	7.8	100.0
Construction	10.4	33.3	22.9	25.0	4.2	_	4.2	100.0
Transport and telecommunications	28.0	24.0	32.0	4.0	4.0	_	8.0	100.0
Education	40.0	_	40.0	10.0	_	_	10.0	100.0
Other	23.5	20.6	26.5	17.6	-	2.9	8.8	100.0

Source: IPM Research Center.

pany the more employees are working on accounting. It means that a larger number of employees is engaged in nonproductive activity, i.e. in making notes and reports which rises costs and prices of any company. For example, SMEs employing less that 10 people have 1.4 employees for accounting, less than 50 people — 2.8 employees, less than 100 - 4.4, less than 200 - 6.7, more than 200 — 12 employees. Most of accounting is registered in the Gomel region (on average 12 employees per SME, least — in the Minsk region (1.8 employees).

Excessive regulation and state interference into SME operation can be evidenced by the following contradictory fact. A typical SME director spends 5.32 hours per week for communication (relationships) with bodies of state administration. That is in fact one day a week the director of a private company in Belarus is not in his workplace resolving issues with authorities. At this point if the director of a small SME spends 5.1 hours per week for relationships with state authorities, of a larger SME (more than 100 people) — 6.6 hours (for SME employing more than 200 people — 7.2 hours). It should be noted that the number of people engaged in accounting or the time a director spends for communication with state authorities is irrespective of the company's line of business.

# 5.5. Shadow economy and corruption

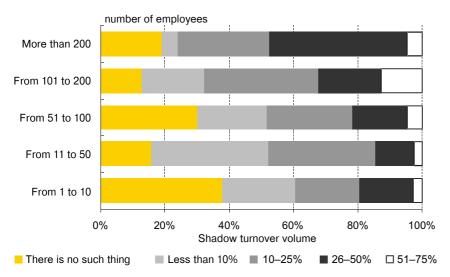
Shadow turnover

Complicated and inconsistent rules for business conduct in the country resulted in maintenance and even growth of the shadow economy. In 2005, 52% of respondents defined the volume of the shadow economy in their companies at levels up to 25%, while in 2000 there were 43% of such respondents, in 2002 — 37% (Table 5.11). The difference in answers between 2002 and 2005 shows through even more if one analyzes such versions of answers as "26-50%" and "51-75%" of turnover. It is possible though that lower figures in 2002 can be explained by a high share of the respondents who refused to answer this guestion.29

Table 5.12 represents a sectoral distribution of answers to the question on shadow turnover. In SME directors' opinion it is substantial in construction, trade and public catering.

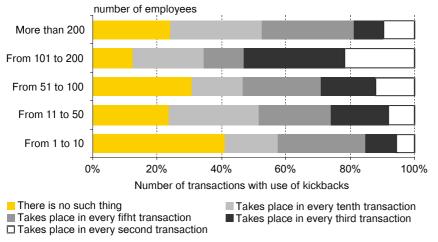
Besides, there is a clear dependence of company's engagement in shadow turnover from its size (Fig. 5.1.). Companies employing more than 200 people estimate their shadow turnover at 26–50%.

Fig. 5.1. Dependence of shadow turnover volume on the company size



Source: IPM Research Center.

Fig. 5.2. Dependence of number of transactions with use of kickbacks on the company size



Source: IPM Research Center.

<sup>&</sup>lt;sup>29</sup> In spite of the assurance of interviewers of anonymity and confidentiality of the poll and individual questionnaires, a part of respondents refused to answer the questions regarding shadow economy and corruption. This is entirely understandable due to the fear of SMEs' managers participated in the poll in view of possible inspections and repressions.

#### Bribes and corruption

Bribes and corruption are another problem directly generated by complex legislation, an excessive number of inspections and inadequate penalties. Despite repeated declarations on fighting corruption in recent years, the index of Belarusian economy corruption boomed (see, for instance, Transparency International organization research data and its Appreciation Index to Corruption, according to which Belarus moved from a 66th position in 2002 to a 107th position in 2005)<sup>30</sup>.

The fact that among Belarusian officials responsible for economy the level of corruption is fairly high is proved by IPM polls data (Table 5.13). For instance, 77% of SME directors occasionally or repeatedly bribe government officials. Such high rates cause reasonable doubts regarding the effectiveness of the pursued policy of fighting corruption. According to world practice there is only one way to fight corruption to destroy its cause instead of aggravating penalties.

According to the poll there is a dependency of frequency of bribing on the size of a company (Table 5.13). For example, 11% of directors of SMEs employing less than 10 people give bribes regularly, 23% — of SMEs employing less than 50 people, 27% — of SMEs employing more than 50 people.

The possibility to "settle the issue" informally (i.e. to minimize penalty or speed-up securing necessary permit etc.) is partially the factor of high adaptability of Belarusian business to regulatory environment as well as absence of substantial number of new companies at the market: companies and their directors operating on the market for

<sup>30</sup> Please refer to http://www.transparency.org/.

Table 5.13. Distribution of answers to the question: "How often in your opinion private company directors have to bribe (in any way) government officials?"

	% of res	pondents
	2002	2005
Occasionally	40.7	57.0
Regularly	39.4	20.3
There is no such thing	18.5	18.8
Refuse to answer	1.4	4.0
Total	100.0	100.0

Source: IPM Research Center.

Table 5.14. Distribution of answers to the question: "How often in your opinion private company directors have to bribe (in any way) government officials?", 2005

		% of respondents	
	There is no such	Occasionally	Regularly
	thing		
	Comp	pany's line of busin	iess
Trade and public catering	19.5	58.4	22.1
Public services	17.1	71.4	11.4
Production	23.5	49.4	27.1
Construction	8.3	68.8	22.9
Transport and telecommunications	16.7	66.7	16.7
Education	50.0	50.0	0.0
Other	21.2	60.6	18.2
	Nι	umber of employed	d
From 1 to 10 people	28.9	60.5	10.5
From 11 to 50 people	14.7	62.0	23.3
From 51 to 100 people	16.5	56.5	27.1
From 101 to 200 people	11.8	64.7	23.5
More than 200 people	45.5	36.4	18.2
		Region	
Brest Region	28.0	56.0	16.0
Grodno Region	24.2	66.7	9.1
Vitebsk Region	13.8	55.2	31.0
Gomel Region	0.0	35.5	64.5
Minsk	20.9	65.7	13.4
Minsk Region	6.5	61.3	32.3
Mogilev Region	35.3	41.2	23.5

Source: IPM Research Center.

Table 5.15. Comparing answers to the question: "To what extent in your opinion such phenomenon as "kickback" for obtaining profitable orders is spread in Belarus?", %

	% of respondents	
	2002	2005
Takes place in every tenth deal	11.6	20.5
Takes place in every fifth deal	18.8	21.3
Takes place in every third deal	14.3	15.5
Takes place in every second deal	10.6	8.8
Takes place in each deal	12.7	1.5
There is no such thing	25.9	25.5
No answer	6.1	7.0
Total	100.0	100.0

Source: IPM Research Center.

quite a long time accumulate necessary contacts and connections, that new companies do not have. As a result, a new company would not be created because of high transaction costs or it would bear increased risks connected with various inspections and their results.

#### "Kickbacks"

So called "kickbacks" – money rewards for a bargain settled, order placed, tender won etc.(as percentage of bargain or placed order) are one more factor evidencing high level of corruption and non-trans-

parency of business conduct in the country. Naturally, kickbacks are not recorded in accounting and therefore they are not subject for taxation.

Though the number of kickbacks slightly reduced as compared to 2002, it still remains substantial: 10% of companies operate using kickbacks in each or every second deal (see Table 5.15).

Sectoral distribution of such shadow transactions is the following: construction ranks first as 36% of respondents stated using kickback in each — every third deal, then follows in descending order trade (26%), production (25%) and public services (24%). There is also a direct linkage between the size of a company and its involvement in "shadow schemes" (Figure 5.2).

The larger the company the more often it practices kickbacks: while small companies face this occurrence in every first-third transaction in approximately 15% of cases, companies employing 50–100 people — in 29% of cases and mediumsized enterprises employing more than 100 people- in 53% of cases. In an essential number of cases therefore transactions are explained not by such market criteria as "price", "quality" etc. but personal motivation of sales managers, SME directors or respective officials.

To make the wrong situation with corruption and shadow transactions better it is necessary on the one part, to advocate and introduce business ethics and business social responsibility standards (observing the law is one of the key features). On the other part, business of Belarus, both big and small, needs liberalization of economic activity, simplification of multiple rules but above all — reduction of tax burden primarily through lowering and abolishing profit tax and introduction of regressive rates for social insurance.

# 6. FINANCIAL POSITION AND GROWTH FACTORS OF SME SECTOR IN BELARUS

#### 6.1. Finance and sales

Belarusian state companies demonstrate different and inconsistent performance. Some of them using the favorable external market situation, assets and policy of administrative promotion of aggregate demand inherited from the USSR, have reasonably good results acting as budget donors and the source of the "Belarusian economic miracle". Others need permanent state support in the form of preferential credits, preferential prices for energy sources, governmental grants, tax exemption, debts restructuring etc.

Against this background, the SME sector demonstrates its success: despite a complex regulatory environment and absence of state policy on business support, SMEs are growing every year, improving their financial results (Figure 6.1). In that way SMEs in Belarus managed to adapt to the specifics of the Belarusian investment climate and benefit

from the favorable macroeconomic market situation, having improved their financial indicators.

The growth in public purchasing power owing to the pursued state policy of income increase and the favorable external market situation for main export companies enabled a number of SMEs to improve their performance figures. Recently, state enterprises also demonstrate some extent of growth. However, firstly, it is rather growth in figures than in performance and secondly, the state sector in Belarus receives a significant volume of financial support in the form of subsidies, governmental grants, preferential prices etc. (so called "soft budget restrictions"), that SMEs do no have. Belarusian SMEs therefore are more efficient than state enterprises. They managed to use the ameliorated demand more efficiently, having improved their financial position.

It is characteristic that in 2005 the financial position of enterprises was improving regardless of their size or line of business. The situation in the field of public services was worse: only 32% of respondents noted improvement in financial position while in trade — 51%, in production — 57% and in construction — 58%.

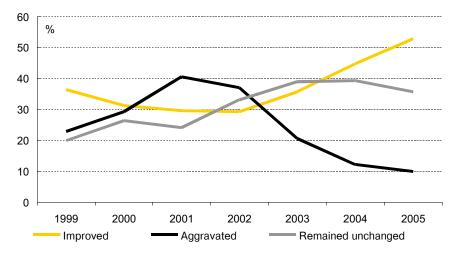
# 6.2. Sales volumes and financial state change factors

Sales volumes of half (50%) of Belarusian SMEs grew in 2005, another 40% noted that they did not change. Businessmen themselves point out that the growth in their companies' sales volumes was partially conditioned by a change in the companies' performance: change in the assortment or quality of goods and services, change in promotion system and advertising. In our opinion however, the main factor is the improvement in macroeconomic situation in the country. Growth in solvency of purchasers as a factor of financial standing improvement was noted by every fifth respondent. This is the second factor in terms of making reference to.

Table 6.1 represents the distribution of answers to the question what caused the change in sales volumes. It should be noted that the change in solvency of purchasers and the economic situation in the country was the factor that determined lowering in sales volumes of certain companies.

A number of SME directors tend to extrapolate the current favorable macroeconomic situation to the future. 60% of respondents believe

Fig. 6.1. Change in SMEs' financial position



Source: IPM Research Center.

Table 6.1 Distribution of answers to the question: "If sales volume of your company changed in 2005, what were the reasons for it?"

	% of a	nswers
	Growth in sales	Decline in sales
	volume	volume
Change in the assortment of goods/services	55	19
Change in purchasers solvency	34	28
Change in quality of goods/services	35	14
Change in prices for finished goods	87	14
Change in sales promotion and advertising	23	11
Change in economic situation in the country	19	31
Change in productive capacity of the company	16	14
Change in prices for raw materials and supplies	12	22
Change in qualification of personnel	13	11
Change in number of competitors	6	36
Other	3	17

Note: Up to three answers could be chosen.

Source: IPM Research Center.

Table 6.2. Distribution of answers to the question: "What is your projection for 2006 regarding the financial position of your company?" depending on the size of a company

	% of respondents				
	Will improve	Will aggravate	Will remain	Total	
			unchanged		
From 1 to 10 people	50.0	12.5	37.5	100.0	
From 11 to 50 people	61.5	5.9	32.6	100.0	
From 51 to 100 people	62.1	2.3	35.6	100.0	
From 101 to 200 people	63.2	5.3	31.5	100.0	
More than 200 people	63.6	4.5	31.8	100.0	

Source: IPM Research Center.

Table 6.3. Reasons for SME's lack of working capital

	% of respondents
Price rise for raw materials and supplies	22.5
Increase in costs	13.8
Decline in sales volume	12.0
Decline in solvency of the company	10.5
Acquiring of capital non-productive assets	9.3
Incentive payments to employees	6.5
Growth of exchange rate	5.0
Miscalculation of product pricing	3.5
Absence of cash management system	3.0

*Note:* Up to three answers could be chosen.

Source: IPM Research Center.

Table 6.4. Distribution of answers to the question: "Do you raise funds while financing your company?" depending on the size of a company

	Yes	No
From 1 to 10 people	32	68
From 11 to 50 people	47	53
From 51 to 100 people	58	42
From 101 to 200 people	71	29
More than 200 people	96	4

Source: IPM Research Center.

that in 2006 the financial position of their companies will improve and only 6% are of the opinion that it will grow worse. In this regard, larger companies are more optimistic in the forecasts on improvement of their companies' financial position in 2006 (Table 6.2).

42% of respondents plan to expand their activities at the expense of the following factors: mastering new types of activity (21%), extension of the assortment (20%), search for new outlets and up-country promotion channels (13%), access to foreign markets (10%).

#### 6.3. Loans and investments

Nearly a half of private companies (43%) face the problem of working capital deficiently. Its main reason is growth in prices for raw materials and supplies (Table 6.3).

50% of SMEs raise credit resources, which is an indication of growth in demand for microlending programs. Nevertheless, it appears that different forms of SME crediting need to be developed further as the share of the companies raising credit resources in the market-economy countries usually exceeds 50%.

Normally, it is rather medium-size enterprises than small companies that raise credit resources in Belarus (Table 6.4).

# 6.4. Competitive advantages of business in Belarus

The intention of SME directors and their staff for professional growth, market research, rival products manufacture and proper promotion and sales helps SMEs to survive and improve their performance.

In 2002, while the IPM Research Center was performing their previous study, every fourth SME director called knowledge of legislation one of the main competitive advantages, every fifth - acquaintance with governmental authorities. The number of such answers was many fewer in 2005 (Table 6.5). Today, business in Belarus starts playing by market rules, when exogenous factors (institutional environment) are far from being the most significant, giving place to professional management, expert financial planning, effective marketing and other inter-

nal factors of the companies' competitive recovery.

# 6.5. Directions of SME state support

In most countries, government pursues a specific policy aimed at promotion of small business development. This support policy is mainly expressed in creation of simple and stable "rules of play", support of microlending programs, organization of training and advisory services. In many countries, small enterprises have access to various schemes of simplified taxation.

In this context, business in Belarus is no different. Almost half of SME directors who participated in the poll would like taxes be reduced and certain tax privileges were granted to them as they pay, as was stated above, two times more taxes than they consider being fair (Table 6.6). High administrative costs natural for the tax system of Belarus move such measure of state support as simplification and consistency of tax system to the second place. Settling such an urgent issue as harmonization of state control of entrepreneurs' activities ranks third. In businessmen's opinion, high rent rates increasing business costs and prices significantly are also an important issue.

In this regard it seems interesting that 18% of respondents (i.e. every sixth SME director) noted a kind of answer like "the best support is not to interfere". 4% of respondents do not see any sense in state support at all. Therefore, the main thing the government can do to improve business environment is to reduce tax burden, simplify tax system and ease administrative control.

#### 6.6. Staff policy

The necessity to improve internal factors of competitive recovery motivates SME leaders to give special

Table 6.5. Distribution of answers to the question: "What are the main competitive advantages of your company for the moment?"

	% of answers	
	2002	2005
Professional staff	39.9	57.0
Knowledge of market, ability to forecast market conditions	59.8	48.3
Capacity to produce competitive products	34.7	39.5
Knowledge of modern market technologies	18.3	27.0
Efficient personnel management	16.1	21.0
Strong team of leaders	17.2	15.3
Contacts with state authorities and persons of influence	16.1	12.8
Knowledge of legislation	25.9	12.5
Strategy and philosophy of the company	19.6	11.8
Other	1.8	2.0

Note: Up to three answers could be chosen.

Source: IPM Research Center.

Table 6.6. Distribution of answers to the question: "What kinds of state support does your company need?"

	% of answers
Tax exemptions	42.8
Simplification and stability of the tax system	29.3
Normalizing state control on employers' activities (reducing number of inspections, simplification of procedures, relieving sanctions)	27.3
Rental exemptions	25.3
Stable legislation regulating business activities	21.0
Simplification of licensing and registration procedures	18.8
Best support is not to interfere	17.5
Business and personnel safety control	15.3
Providing state-guaranteed orders	9.3
Competitive environment protection or adherence to equality of rights for companies of different form of ownership	8.5
Development of microlending	7.5
Property and business risk insurance	7.0
Innovation activities support	6.5
Staff training, continuing education assistance	6.0
My business does not need any state support	4.0

Note: Up to three answers could be chosen.

Source: IPM Research Center.

Table 6.7. Distribution of answers to the question: "What are your preferences in providing your company with qualified personnel?"

	% of respondents		
·	2002	2005	
Professional education of personnel through various extension courses	29.9	21.8	
Search of knowledgeable specialists on labor market	64.6	65.8	
Search and engaging personnel among students and graduates	13.2	12.4	
Total	100.0	100.0	

Source: IPM Research Center.

Table 6.8. Distribution of answers to the question: "Do you think your company needs MBA graduates for its successful operation?"

	% of respondents, 2002		% of respon	idents, 2005
-	MBA			MBA
	for the staff	for yourself	for the staff	for yourself
Yes	20.9	16.4	14.8	10.7
No	22.5	22.8	40.9	36.1
I already have the degree	_	_	-	1.3
Diffucult to say	56.5	60.8	44.4	51.9
Total	100.0	100.0	100.0	100.0

Source: IPM Research Center.

attention to their education and staff policy. According to the poll, 80% of SME directors have higher education. While providing the company with highly qualified personnel, most SMEs prefer addressing the labor market in search of highly knowledgeable specialists. Every fifth respondent only chose professional education in various extension courses for his staff. (see Table 6.7). Professional education in extension courses was mostly chosen by SME leaders engaged in education (44.4%) and public services (29.4%), least — in transport (12.5%).

There is a certain (insignificant) connection between the size of a company and its director's preferences in search of personnel. Training courses are preferred by 24% of small companies (less than 10 people), 18% of companies employing from 11 to 50 people, 25% — from 51 to 100 people and 28% — from 101 to 200 people. In this regard there is no connection between staff policy and the region of a company. In Minsk 18% of respondents train their staff, in the Brest region – 50%, in the Grodno region — 30%, in the Minsk and Vitebsk regions — about 13%. A guarter of SME directors does not train their staff at all. 34% of SME directors train their staff by themselves. The most popular form of staff training is courses, seminars and trainings.

As compared to 2002, there occurred some change in understanding that MBA is necessary to carry on business in Belarus. In 2005, the number of respondents noting the necessity of an MBA academic degree for their staff reduced as well as the number of SME leaders noting the necessity of this degree for themselves (Table 6.8).

Analyzing companies by line of business presence of MBA graduates in the company staff was mostly chosen by enterprises engaged in production (23%), construction (12.5%), transport and telecommunications (12%). 12.5% of SME directors operating in construction and 11.2% — in trade consider an MBA degree as desirable for themselves. There is no connection in this case between the size of a company and the necessity to have MBAs for their staff. Regionally, MBAs are mostly popular in the Grodno region, the Vitebsk region and in Minsk.

# 7. POPULATION, PRIVATE SECTOR AND MARKET ECONOMY: POINTS OF CONTACT

The specifics of the pursued economic policy and its promotion in mass media outline in a certain degree its perception by the population. On the one hand the policy of piecemeal reforms implies existence of certain market or quasi-market tools in the form of some freedom for producers and sellers in price making, business competition, particularly in commodities retail sector, some freedom in conduct of business etc. On the other hand the policy of piecemeal reforms implies total or restricted government control of the majority of economic processes, resources and financial flows in the country. Normally, the policy of piecemeal reforms is pursued in close connection with active industrial policy, which implies absence of equal operational conditions and substantial government support to state companies. This support is lent in different ways — by preferential credits, tax exceptions, protectionist measures, administrative restrictions and "recommendations" etc.

In conditions when state mass media for almost one hundred percent dominates the country, the population perceives the pursued economic policy in a peculiar way. Thus, people can get commodities and services from private markets and companies, some travel to neighboring countries and far abroad, many have friends and relatives in business. People in that way have the opportunity to compare quality and prices for goods and services, wages and working environment at

state and private companies as well as the level and quality of life in Belarus and abroad. At the same time, intensive promotion of ideas and progress of the Belarusian economic model in the state media, highlighting mistakes of certain CIS countries in implementing market reforms and meaninglessness of the idea of market reforms, pursuing an active national policy in conditions when state forms of ownership prevails could not but determine public opinion.

This section focuses on the analysis of these and other phenomena related to the attitude of the population of Belarus toward selected necessary values and market economy institutions<sup>31</sup>. The second part contains an analysis of public attitude to business development and its perception of the image of an entrepreneur. The third part contains research on the following issues: what is the company's form of ownership that Belarusian people would prefer working at and why. The fourth part analyzes public attitude to selected types of the economy. The fifth part of the section presents some conclusions32.

# 7.1. Public attitude to entrepreneurship and entrepreneurs

For the most part, people in Belarus positively perceive business development in the country. For instance, answering to the question: "Is the activity of businessmen in your opinion beneficial or harmful to the country?" 34% of respondents replied that it was surely beneficial and 42% — rather beneficial. Only 9% of respondents were hostile to business development in Belarus.

In this regard analysis of positive and negative perception of business development according to geographical and socioeconomic criteria is of certain interest. Specifically the following hypotheses were verified:

- there is a big difference in perception of business development between rural and urban population;
- there is a difference in perception of business activity between western and eastern regions of the country;
- there is a direct connection between the level of education and perception of business activity;
- there is a direct connection between the age of respondents and their perception of business development in the country;
- perception of business activity depends on social status and income of respondents.

<sup>&</sup>lt;sup>31</sup> The section is based on the data of social research conducted at the end of 2005 by the socio metric laboratory "Novak" for the IPM Research Centre. 1,093 respondents were questioned (representative sample).

<sup>&</sup>lt;sup>32</sup> Only some selected questions of a quite vast questionnaire are analyzed in this paper. Please see attached the main characteristics of the sample and answers of respondents to other questions in Annex 2.

Table 7.1. Attitude to entrepreneurship depending on the respondents' place of residence

Entrepreneurs' activities are:	Res	Respondent's place of residence in thousands of people (% of respondents)					
	village						
	(less than						
	2000)	5 000	20 000	50 000	100 000	500 000	Minsk
Definitely beneficial to the country	31.1	52.5	38.0	32.6	47.9	21.1	41.9
Rather beneficial	54.2	44.4	50.7	50.0	44.8	68.4	46.9
Rather harmful	10.9	3,0	11.3	10.9	5.8	7.9	7.3
Definitely harmful	3.8	0,0	0.0	6.5	1.5	2.6	3.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: IPM Research Center.

Table 7.2. Attitude to entrepreneurs depending on the respondents' age

Entrepreneurs' activities	Respondents' age, years (% of respondents)					
are:	18–24	25-34	35–44	45–54	55-64	65+
Definitely beneficial to	47.6	51.2	43.9	41.1	32.4	20.1
the country						
Rather beneficial	51.0	44.8	50.6	48.9	54.3	47.7
Rather harmful	1.4	2.9	3.9	7.8	9.5	24.2
Definitely harmful	0.0	1.2	1.7	2.2	3.8	8.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: IPM Research Center.

Both city dwellers and village people perceive business activity in an equally positive way. Minsk and other big cities do not stand out in this regard, while people living in very small towns (less than 5,000 residents) and ordinary towns with populations less than 100,000 residents demonstrate the most positive perception. Putting it differently, there is no difference in perception of business development between urban and rural dwellers.

The research did not reveal any significant difference in perception of business development between respondents' regions of residence. Residents of all regions perceive business activity in much the same positive way (it is normally assumed though that the attitude of residents in Brest and Grodno regions toward business activity is more positive).

In this regard another tendency should be noted: the higher the level of education of respondents the more positive their perception of entrepreneurs. This hypothesis seems logical as it exists in all countries, including Belarus: rise in educational level leads to the rise in un-

derstanding of the meaning of many socioeconomic processes, including positive role of entrepreneurship for the country's progressive development. At this rate only 17 % of respondents with elementary and lower level of education think that business development is beneficial to the country. There are 30% of such people among respondents with secondary education, 39% — with specialized secondary education and 58% — with higher education. And vice versa, business development is disapproved of by 42% of respondents with elementary education, 15.4% — with secondary, 8.7% — with specialized secondary and only 4% — with higher education.

There is also a dependence of the attitude to entrepreneurs on the respondent's age: the higher the respondent's age the worse his or her attitude to entrepreneurs (Table 7.2).

It appears that only elderly people have elementary education in Belarus today as the country educational system in fact "makes" people to receive at least secondary or spe-

cialized secondary education. In this way the two factors — education and age of respondents are deeply intertwined. Their connection is confirmed by analysis of business activity perception depending on respondents' social status. For instance, 8% of pensioners think that business development is definitely harmful to Belarus. Combined with respondents considering business development to be more harmful than beneficial, this figure will amount to 29%. Another social class having a negative attitude to entrepreneurs is the unemployed. 14% of unemployed respondents think that entrepreneurship is harmful to the country. At the same time there is no such dependence between workers of state and private sectors: 93% of state sector workers and 99% of private sector workers support business development.

Besides, there is a clear direct connection in Belarus between the level of family income and perception of entrepreneurs: the lower the respondent's income the more negative his perception of entrepreneurs. Thus, negative perception of business development was noted by 20% of respondents with income level less than BYR 100,000 per a family member, 11.4% — with income from BYR 101,000 to BYR 200,000, 10.2% — with income from BYR 201,000 to BYR 400,000. If income level per a family member exceeds BYR 400,000 (about USD 186), the perception of entrepreneurs becomes definitely positive. This income level therefore can be regarded as a sort of a "social minimum benchmark" making it possible for an individual to purchase not only necessary food products and welfare items but also other goods and services frequently rendered by private sector. Accordingly the rise in income level results in a change in perception of business and entrepreneurship.

Nevertheless, the majority of the population is of the opinion that business development is more harmful to the country than beneficial. In this regard it is interesting how people perceive the role of entrepreneurs in society. To this effect respondents were offered 4 pairs of questions which were a mirror reflection of each other (through positive and negative image). Following are the respondents' answers in frequency of usage decreasing order (Table

7.3).

There are frequently some stereotypes in public perception in Belarus that can be explained either partially by Soviet mentality and current Belarusian ideology or lack of knowledge regarding the real situation in various world countries. A typical Belarusian considers foreign investments as necessary for the country, while at the same time being hostile though to the idea of investment attraction; or he may support a market economy, while at the same time adhering to excessive administrative price control. In this context, there is no such "duality" in perception of entrepreneurs and entrepreneurship — all four most frequent answers on the role of business in economy and society were positive. In other words positive attitude to business development in the country overlaps public appreciation of the positive role of entrepreneurs in economy and society.

More than one third of Belarusians would like to start their own business (see Table 7.4). In this regard they are no different from Poles, Slovaks or residents of Baltic States who would also prefer having their own business and working for themselves. For this purpose the state can either create favorable conditions (through the utmost simplification of the business climate and promotion of small business, primarily in the field of production), or block them by introducing complex

and costly rules for registration and business conduct, high taxes etc.

According to various business climate researches and national polls, the second approach prevails in Belarus. It is particularly problems of microlending (lack of start-up capital) and complex regulatory envi-

ronment (today an individual entrepreneur very often needs an accountant and/or a lawyer) which block the productive and creative intention of the population to start a business. Thus, on the one hand there is a problem of excessive employment for many enterprises and institutions in Belarus that rises

Table 7.3. Distribution of answers to the question: "How do you assess the role of entrepreneurs in society?"

	% of answers
Employ people and create new jobs	68
Provide people with various goods and services	49
Taxes from business activities form a significant part of state budget	29
They are the source of economic development	24
Their activity facilitates competition and lowering of prices	20
Lining their pockets is their main objective	17
They produce nothing but are engaged in speculative activities	13
They evade taxes as they do not think of their social responsibility	11
They unreasonably raise prices	6
They hamper normal course of economy development	1

Note: Up to three answers could be chosen.

Source: IPM Research Center.

Table 7.4. Distribution of answers to the question: "Would you like to become an entrepreneur?"

	% of answers
Would you like to start your own business in our country?	
I already have my own business	5
Yes, I would like	31
No, I wouldn't like	64
If you want to start your own business but have not proceeded to it yet, explai why? (several answers can be chosen)	n
I have no starting capital	82
I have no necessary management skills	25
I lack education (qualification)	18
There are no conditions for starting my own business in the country	18
Other	3
Difficult to say	1
If you don't want to start your own business, explain why? (several answers can be chosen)	
I am satisfied with what I do	41
I have no required abilities	35
It is too late (years)	12
I do not believe that I can earn more than as a salaried employee	9
There are many obstacles /it is hard	3
I have no capital	2
Difficult to say	3

Source: IPM Research Center.

Table 7.5. Distribution of answers to the question: "Would you like for your children to carry on business?"

	% of respondents		
	Population	SME Directors	
Definitely Yes	13	17	
Rather Yes	30	32	
Rather No	19	17	
Definitely No	9	3	
Difficult to say	29	31	
Total	100	100	

Source: IPM Research Center.

Table 7.6. Dependence of place of employment (private/ state-owned company) on respondents' age

Company's form of	Respondents' age, years (% of respondents)					
ownership	18–24	25-34	35-44	45-54	55–64	65+
State-owned	45.0	54.3	62.7	69.1	30.6	2.5
Private	17.5	32.5	27.8	19.6	9.7	1.5
Respondent does not work	37.5	13.2	9.6	11.3	59.7	96.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: IPM Research Center.

Table 7.7. Distribution of answers to the question: "What company would you prefer working at?"

	Respondents' age, years (% of respondents)					
Type of company	18–24	25-34	35–44	45–54	55–64	65+
State-owned	43.2	49.4	60.0	69.5	78.7	93.5
Private	56.8	50.6	40.0	30.5	21.3	6.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: IPM Research Center.

Table 7.8. Dependence of preferences in form of ownership on respondent's income

	% of response	ondents
Income level*	State-owned company	Private company
Low	70.4	29.6
Below average	65.8	34.2
Average	65.3	34.7
Above average	47.9	52.1
High	33.3	66.7

<sup>\*</sup> Answers to the question: "How do you assess your income level as compared to others?" Source: IPM Research Center.

costs and lowers companies' competitiveness. On the other hand about one third of the population would like to try starting a new business in Belarus but doesn't proceed to it because of lack of funds and conditions/skills.

Nevertheless, in spite of all difficulties in conduct of business in Belarus, 43% of the population and 49% of SME leaders would like their children to carry on business (Table 7.5).

Regionally, the Grodno region stands out in this context: here only 27% of respondents want their children to carry on business; the share of such respondents in other regions is approximately equal — 45–55%. There is a connection between the size of a population center and parents' wish for their children to carry on business: the bigger the center, the more people want for their children to carry on business.

# 7.2. People preferences by form of ownership for the company they would prefer working at

The vast majority of Belarusian citizens work for state enterprises. This is the result of the logic of ownership transformation in Belarus: fragmentary privatization was followed by soft nationalization: the State is the key shareholder of most jointstock companies, which therefore are no different from state companies; barriers for development of the private sector remain substantial. Consequently, the conditions and motivation of employees (whether they are accountants or electricians) at state and private enterprises differ essentially.

According to the poll, 45% of respondents work at state enterprises, while 19% work at non-state (private) companies (36% of respondents do not work being students,

pensioners, housekeepers, unemployed, etc.).

In this regard there is a certain dependence of the place of work on the respondent's place of residence. In the cities (including Minsk) and rural areas (less than 5,000 residents) the share of employed by state enterprises is about the same — nearly 45%. Regionally this share is much the same. At the same time the share of employed by private companies differs essentially: 10% — in rural areas, 25% in the cities and 30% — in Minsk. Regionally, the share of employed by private companies is the same — 15–18%. It should be noted that the share of people who do not work is the largest in rural areas — 44% (as compared to 31% in the cities and 24% — in Minsk).

There is a clear connection between respondent's age and his work in the private sector (see Table 7.6).

Similarly, there is a certain dependence of the respondent's work at a private company on his educational level. According to research among all employed in the private sector, 3% have post primary education, 16% — secondary or specialized secondary education and 32% — higher (incomplete higher) education.

What is the form of ownership of companies that Belarusians would prefer working at?

Despite a positive perception of business development in the country, half of respondents would prefer working at state companies (49%) and only about a quarter (27%) — at private companies. Another quarter of those polled does not have clear preferences and found it difficult to answer. Most Belarusians are satisfied with the form of ownership of the company they work at. 80% of respondents employed in private sector prefer

working at a private enterprise; in a similar manner those employed in state sector would not like to be employed in private sector.

Similarly to the analysis in the previous chapter, let us consider the following hypotheses:

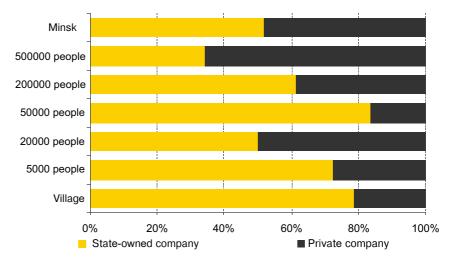
- a particular preference in the form of ownership depends on respondent's place of residence (city/country);
- there is a dependence of a respondent's preference to work at a state-owned company on his age;
- 3) form of ownership depends on respondent's level of education;
- 4) form of ownership depends on dependent's income.

Distribution of preferences depending on the geography of living is presented by Figure 7.1. It is worth noting that the population in Minsk, where most of the companies operating in industry and services are located, is not the most market-oriented as only half of its residents would like to work in the private sector. On average only 27% of respondents living in rural areas would like to work at a private company; there are 39% of such people among city dwellers and 48% — among residents of Minsk.

Conservatism and values of the past economic system determine preferences of the previous generation, most of which prefer stability of state enterprises while young respondents more frequently prefer working for a private company (Table 7.7).

Likewise the attitude to business development in the country the poll revealed clear dependence of preferences in the form of ownership from the level of education. For instance, among those who would prefer working at a private compa-

Fig. 7.1. Dependence of preferences in the form of ownership on respondent's place of residence



Source: IPM Research Center.

ny 9% have post primary education, 34% — secondary (specialized secondary) education and 49% — higher (incomplete higher) education.

Analysis of the poll results displays the following tendency: the more a respondent's income the more likely he would prefer working at a private company (see Table 7.8).

Depending on monthly income per family member this dependence looks as follows. Working at state enterprises is preferred by 70% of respondents having monthly incomes up to BYR 200,000 per family member, 63% of those with a monthly income up to BYR 400,000 per family member, 52% of people with monthly income up to BYR 600,000 and 44% of respondents having monthly income up to BYR 800,000 per family member. Respondents with monthly incomes exceeding BYR 1,000,000 per family member prefer working at private companies only.

In fact, social portraits of Belarusians presently working at private companies are no different from those who would prefer working at them: these are mainly people at the age of 25–45, living in big cities,

having specialized secondary or higher (incomplete) education and a monthly income per family member exceeding USD 300.

#### Motivation of preferences

Belarusian citizens prefer working at state enterprises. The logic of the majority's preferences is becoming clear after the study of motivation. For an analysis, respondents were offered the same register of answers including both material and non-material incentives (Table 7.9).

Thus, the respondents who prefer working at a state enterprise named three main reasons for their choice: stable wages (80%), social guarantees (67%) and stable employment (54%).

On the other hand motivation of respondents who prefer working at private companies is less concentrated and more complex: among the reasons people mention both high or stable wages, possibility to have more flexible working hours (i.e. material incentives) and specific business environment, positive attitude to employees, personal responsibility for success of work, possibility of self-realization and career growth (i.e. psychological, non-material incentives).

Table 7.9. Distribution of answers to the question: "If you would prefer working at state (private) enterprise it is because one of the following reasons?"

	Prefer working at, (% of answers)		
Motivation of preference	State enterprise	Private enterprise	
Business environment	2	29	
Positive attitude to employee, appreciation of his personal importance?	9	22	
Regular skills upgrading at the cost of employer	16	11	
Stable salary	80	23	
Stable employment	54	6	
Working hours are more flexible	7	33	
High salary	4	60	
Opportunity of self-realization and career growth	7	19	
Personal responsibility for success achieved	4	22	
Conditions are created when it is necessary to constantly improve one's skills in competitive environment	3	18	
Best prospects in future job search	3	7	
Social guarantees	67	2	
Measured pace of work, no stress	8	6	
Other	2	1	

Note: Up to three answers can be chosen.

Source: IPM Research Center.

Table 7.10. Distribution of answers to the question: "What in your opinion normally helps to get a good job?" depending on the company's form of ownership

	% of answers		
	At state-owned	At private	
Factors	company	company	
Contacts and connections	65	64	
High proficiency and knowledge	46	45	
Having a specialty which is currently of value	36	38	
Ability to be at odd with superiors	22	34	
Readiness to work like a beaver	26	17	
Creativity, initiative	29	9	
Discipline, responsibility, efficiency	19	32	
Other	2	1	
Difficult to say	2	3	

Source: IPM Research Center.

Table 7.11. Distribution of answers to the question: "What is the type of economy of a country you would prefer to live in?" depending on the respondent's social status

		% of res	pondents	
	A country with market economy and insignificant state regulation	A country with market economy and significant state regulation	A country with state-planned economy	Total
Private company owner	77.8	19.4	2.8	100.0
Farmer, individual entrepreneur Salaries employee at a	78.3	8.7	13.0	100.0
private company Salaries employee at a	53.0	40.4	5.3	100.0
state-owned company	38.4	46.3	14.4	100.0
Student	69.4	28.6	2.0	100.0
Pensioner	11.2	40.1	43.4	100.0
Housekeeper	48.4	38.7	12.9	100.0
Unemployed	46.9	34.4	15.6	100.0

Source: IPM Research Center.

What helps In obtaining a good job?

Despite different preferences in employment, opportunities to obtain a good job practically do not differ in Belarus. Absence of a labor market, difficulties of job search in a big city or a town makes contacts and connections the key factor of employment. Removing differences in quality of education between state and private universities, general deterioration in quality of education due to the lack of reforms in this sector and low wages of teachers; undeveloped labor market and lack of new vacancies led to the situation when high proficiency and extensive knowledge is also of importance (see Table 7.10). In this context the first set of three factors and the second set are approximately equal for the both types of companies.

# 7.3. Public attitude towards the type of economy

Apart from the research of public attitude to entrepreneurs and private sector development, analysis of opinions and preferences of the population towards selected micro-economical issues, such as type of economy and selected parameters of economic policy is also of much importance. Following are some aspects of these issues.

Only 19% of the population in Belarus answering to the question: "What economical system do you prefer?" — chose state-planned economy. As compared to the number of planned economy supporters in rural areas the number of them in Minsk is twice as little (15% against 30%; normally these two groups of respondents represent two poles of public opinion). More than a third of the population (36%) prefers living in a country with a market economy and insignificant state regulation (in Minsk — 50%, in rural areas — 20%). 39% more of respondents —

in a country with a market economy and substantial state regulation (35% — in Minsk and 48% — in rural areas).

Preferences of population with regard to the type of economical system depend on social status of respondents (Table 7.11). Pensioners, workers of state-owned companies, housekeepers and unemployed are very likely to choose substantial state regulation or planned and administrative system. It is obvious that their choice is determined by possibility of having a job and/or social guarantees in such a socioeconomic system.

In this regard there is a natural connection between the income per family member and choosing market economy; the higher the income, the more the number of market supporters (from 30% among liberal-democratic model supporters with low income to 75% — among the same with high income).

Thus, at first sight it turns out that a majority prefers market economy. Further analysis however reveals that due to lack of knowledge and information the population can not clearly understand the nature of particular types of economy that would be desirable for the country. For example, 42% of those who choose so called Swedish or German model of market economy (generally, European) where the state plays a certain (in some fields a significant) role, identify it with a liberal market economy (i.e. of a "small state" with a high level of economic freedom such as in the USA, New Zealand, Estonia, or Hong Kong), 17% — with the economy of Belarus, 5% — with the economy of USSR (Table 7.12). Moreover, 40% of Belarusians believe that a market economy combined with substantial state regulation constitute the Belarusian model of socio-eco-

Table 7.12. Preferences by type of economy

	% of respondents			
	market economy and insignificant	A country with market economy and significant	A country with state-planned economy	Other
	state regulation	state regulation		
As in former USSR	5.0	15.3	53.9	30.8
As in Poland or Baltic States	19.0	11.9	3.3	7.7
As in present Russia	4.7	2.1	0.6	7.7
As in Sweden, Denmark, Germany	42.0	25.1	7.8	30.8
As in USA	7.0	4.0	0.6	0.0
As in China	6.0	1.2	1.1	7.7
As in present Belarus	16.5	39.4	32.8	15.4
Other	0.3	0.9	0.0	0.0
Total	100.0	100.0	100.0	100.0

Source: IPM Research Center.

Table 7.13. Distribution of answers to the question: "What is the type of economy in your opinion that is preferable for Belarus?"

	% of respondents
As in present Belarus	23
As in Sweden, Denmark, Germany	22
As in former USSR	16
As in Poland or Baltic States	10
As in USA	3
As in China	2
As in present Russia	2
Other	0
Difficult to say	21
Total	100

Source: IPM Research Center.

Table 7.14. Distribution of answers to the question: "In which of the following countries in your opinion living standards are higher than in Belarus?"

	% of answers
In Ukraine	2
In Russia	21
In Lithuania	33
In Poland	54
In no country mentioned	31
Difficult to say	2

Note: Several answers can be chosen. Source: IPM Research Center.

Table 7.15. Distribution of answers to the question: "What form of ownership in your opinion is economically more efficient?"

	% of respondents
State	41
Private	39
Mixed	16
Difficult to say	4
Total	100

Source: IPM Research Center.

nomic development. People in that way poorly realize how operational principles of American, Polish or German economies differ from each other and particularly from those economies that underlie the Belarusian model.

Every fifth Belarusian is satisfied with the current economic model (Table 7.13). In this regard its main supporters are elderly people and pensioners, having primary or post primary education (37% and 33% respectively. About 60% more

respondents from this group prefer Soviet-type economy). Another feature which to a large extent characterizes supporters of Belarusian model is monthly income per family member. Practically 40% of respondents whose income does not exceed BYR 400,000 per family member support the current Belarusian economic model.

About one third of the population (31%) believes that living standards in Belarus are higher than in the neighboring countries (Table 7.14). As the questionnaire did not have the question on what of the following countries the respondent visited personally, it is rather difficult to say whether his answer was based on personal experience or Belarusian TV programs. About half of respondents who chose this answer are older than 55, have primary or post primary education and live in rural areas.

Most Belarusians favor a state form of ownership believing that economically it is most efficient. About every fifth Belarusian supports a mixed form of ownership having a vague idea though of what it is (Table 7.15).

The largest number of respondents supporting a private form of ownership are young people (60% of answers within the group of 18-34 years) and people with higher education (55% of answers against 20% among respondents with post primary education) living for the most part in big cities (in rural areas only 22% of respondents support private ownership while in Minsk and in regional cities — 50%). Naturally, people engaged in the private sector, individual entrepreneurs and owners of business "choose" a private form of ownership while there are only 15% of such people among pensioners.

Just a small number of the Belarusians is prepared to regard companies of the power industry, metallurgy and petrochemical industry, agriculture and transport as private lines of business (Table 7.16). Furthermore, very few are prepared to accept a symbiosis of state and private ownership in these fields.

Table 7.16. Distribution of answers to the question: "Which organizations, companies and sectors in your opinion should be state-owned and which should be private?"

		% of res	pondents	
	Should be	Should be	May be both	Difficult to say
_	state-owned	private	state-owned	
Sectors			and private	
Electric-power industry	91	2	7	0
Gas sector	90	2	7	0
Railway transport	80	4	15	0
Metallurgical works	77	4	18	0
Institutions of Higher Education	53	2	44	1
Schools	54	2	44	0
Hospitals and health clinics	46	4	50	0
Insurance	45	9	45	1
Air transport	70	5	24	0
Theatres, museums, libraries	52	5	42	0
Farm lands	34	11	54	1
Telephone communications	48	6	46	0
Radio	42	7	52	0
Television	35	6	58	0
Press	28	6	66	1
Food production	27	6	67	0
Construction and housing	41	4	54	1
Housing and municipal services	61	6	32	1
Trade	15	8	77	1

Source: IPM Research Center.

#### 7.4. Conclusion

Most Belarusians have a positive attitude towards development of business and the SME sector in the country. Despite an existing perception of entrepreneurs of "grabbers, resellers and egoists", Belarusians correctly regard the role of entrepreneurs as job creators, goods and services suppliers and tax payers to the local and national budget. Socially vulnerable groups of the population however - unemployed, pensioners, the poor — are hostile to success, economical activity and mobility of entrepreneurs. Envy and Soviet-type mentality still dominate certain part of Belarusian society.

Citizens at the same time are in no hurry to be employed in the private sector. Most Belarusians decide on values associated with a socialist rather than with a market economy. In many cases working in a private company requires more intensive physical and moral exertion, risks and stresses in recompense for a higher payment level and opportunities for professional growth. People however are reluctant to bear these risks and stresses connected with uncertainty of a private company's financial stability in Belarus. Proverbially, a titmouse in hand (in the form of low-profitable state enterprise) wins a bird in the bush (risky but potentially profitable private company). Despite the positive attitude of the population towards entrepreneurs and the private sector, most people prefer having a so called social package consisting of stable employment, workload and wages at a state enterprise.

Although Belarusians support markets and market relations, half of respondents poorly understand main operational principles of a market economy and do not distinguish types of economy in different counties. More than a third of population supports the existing econo-

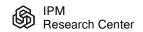
mic model and believes that living standards in our country are higher than in Lithuania and Poland.

It should be noted that almost all mass media in Belarus that are open to the majority (state-owned newspapers, radio and television) encourage in every way fixing of such passive mentality. Besides, advocacy of progress in Belarusian industry in the absence of market reforms and pursuance of a "big state" policy through excessive redistribution contributes to formation of paternalism, i.e. such condition when a person stops being sensible of his own responsibility for socio-economic situation in the country, entirely relying on the state (the government).

It is difficult to judge people for their reluctance to have a shot at business or private company as a salaried worker. On the one hand, every day it is intelligibly explained on TV how nice, stable and safe it is to work at a state enterprise, which will always receive state support should any difficulties occur. On the other hand, a person knows from relatives, friends and acquaintances how unstable and dependent private companies and business in Belarus are due to tight administrative control, high taxes, inconsistent and changeable regulations and inadequate penalties.

Nevertheless, significant economic changes are inevitable in Belarus. Large state-owned and numerous urban enterprises sooner or later will be reformed. Primarily it means reduction in the number of employed. The private sector may absorb the released work force and mitigate negative effects on the labor market. Even the Government today speaks of the necessity of significant growth of the SME share in GDP and in employment. And yet for the private sector to develop and create more and more new jobs and

for the people to stop being afraid of and wish to work at private companies real activities are needed rather than declarations.



# 8. AFTERWORD: MAIN CONCLUSIONS AND RECOMMENDATIONS

#### 8.1. Main conclusions

Development of small and medium business is important for socio-economic development of any country as it facilitates:

- development of competition on the market;
- development of economy through introduction of new, in many cases risky projects leading to technological and organizational innovations; mobilization of material, financial and natural resources that would have been uncalled otherwise as well as their more effective utilization;
- development of interconnection between different sectors of the economy, improvement of their mobility and efficiency;
- · creation of jobs;
- selection of most energetic and mobile individuals who regard business as a school for self-realization.
- increase in number of property owners and consequently, formation of middle class — main guarantor of political and social stability in a democratic society.

As a result of SME development problem analysis in Belarus the following conclusions can be drawn:

1. As well as three and five years before, problems for Belarusian entrepreneurs remained the same: high penalties for violations, excessive number of inspections performed by controlling authorities, complexity of taxation, certification and registration, lack of guarantees for protection of private ownership rights. As a result, the dynamics of SME development in Belarus lags behind dynamics of business development in the neighboring countries (both from the East and South and from the West). SME share in GDP still remains on the level of 10–12% and its share in total employment does not exceed 20%.

Bodies of state administration created a unique situation where entrepreneurs completely depend on them, acting as "pleaders" for licenses, certificates, permits and approvals that can be withdrawn at any point. Frequent changes in the "rules of the game" lead to multiple violations, subject to imposing severe penalties by the state inspection bodies. The necessity to have an extended staff of lawyers and accountants arises from that. This situation does not facilitate security and possibility of planning business in the medium and longer term perspective.

- 2. The World Bank Doing Business 2006 comparative study suggests that despite some improvement in the situation as compared to 1999–2000, the costs of entering a market, conduct and termination of business, calculation and payment of taxes, securing permits and other quality indicators of business climate in Belarus remain higher as compared to indicators of the neighbouring countries (Lithuania, Latvia, Poland, Russia and Ukraine).
- 3. The research of the International Finance Corporation (IFC) con-

ducted early in 2006 demonstrated that complex administrative procedures are a key issue of business climate in Belarus. In this regard, the main obstacles for securing permits are excessive number of documents, multiple-step procedure of obtaining them, and complexity of norms and regulations. In addition, according to the IFC the procedure of securing permits becomes more time-consuming and costly. As a consequence new jobs are not created in the country, taxes are not paid and many companies suspend operations for several months because of complex and lengthy procedures of securing licenses. SMEs in Belarus still continue to face difficulties on inspections such as: excessive powers of inspectors, lack of responsibility for unwarranted interference into the company's operation, indefiniteness of the procedure of inspection, warped judgments of inspectors. According to the IFC in 2005, 60% of SMEs dealt with inspections, instead of one inspection per year by one controlling body as was promised by the president and the government a typical company was inspected seven times.

4. The study of the IPM Research Center displayed that despite complex and costly administrative procedures regulating conduct of business in the country, the companies that remain on the market continue to develop. Private business actively and efficiently uses the advantages of the present macroeconomic conditions and growth in real income of the population. At the same time, in addition to internal factors of com-

petitiveness growth, advantages of knowledge of law and having "necessary" contacts and relations remain to be of importance. Shadow transactions are still present in the SME sector in Belarus and 80% of SME leaders give bribes and kickbacks regularly or periodically.

- 5. High rent rates and restricted access to financial resources and property remain to be a huge problem for businessmen. Property market monopolization (the state and large manufacturing outfits are the main property owners) resulted in high rent rates. Depending on the type of activity, rent costs sometimes reach as much as 20-45% of the output cost. In their relations with private business, property owners rely on short-term contractual arrangements, which also leads to additional costs and creates a basis for shadow transactions between government authorities and selected entrepreneurs.
- 6. Due to the low pace of business development in the country, duties are not returned to the budget, jobs are not created, explicit and implicit transaction costs connected with conduct of business hamper competition and increase costs of finished goods. Finally, it is the ordinary consumer who pays all the costs of such policy, settling for low competition and increased costs for SME finished products.
- 7. Opportunities for businessmen to lobby their interests alone are very limited. More than 80% of small and medium-sized companies are not part of any business association or union that would defend their interests. Businessmen's reluctance to cohere to defend their interests makes it easier for the authorities to regard the results of their performance as a source of budgetary recharge and personal enrichment. The vast majority of entrepreneurs stated that they have bribe regularly or periodically.

8. It is mass media that is able to change public attitude towards business activity. However, only half of SME leaders believe that non-state media creates a positive image of entrepreneurs. Their attitude towards state media is even more reserved.

# 8.2. Recommendations on small business development<sup>33</sup>

Registration and liquidation

It is necessary to stabilize and fundamentally improve law regulating creation, registration and liquidation of small companies. For this purpose it is necessary to speed up development and adoption of the following laws: "On State Support of Small and Medium Business in the Republic of Belarus (new edition), "On State Registration and Liquidation (Cessation of Activity) of Legal Entities and Individual Entrepreneurs", and "On Associations of Hirers (Employers) in the Republic of Belarus".

Besides, the following important measures simplifying the procedures of registration and liquidation ought to be remarked:

- a notification principle should be introduced for registration;
- a valid one-stop shop registration method should be implemented;
- the need to include lines of business in foundation documents should be abolished;

- the list of registration documents should be reduced for legal entities and individual entrepreneurs;
- voluntary notarization of documents for registration should be introduced;
- the rule of minimum statutory fund necessary for registration should be abolished;
- institution of primary creditor should be introduced and prior meeting his claims while performing bankruptcy proceedings should be set up;
- the procedure of selling pledged property should be simplified.

#### **Taxation**

As was noted above, taxation — starting from tax rates and number of taxes to the procedure of tax calculation and payment — is one of the main problems hampering business development in the country. To improve the situation the following steps should be taken:

- the taxation level should be reduced at least to the level of Russia (or lower) for the purpose of creation of an equal business environment with Russian companies and competitive recovery of Belarusian products;
- the tax system should be simplified through reduction of the number of taxes and payments (abolishing certain taxes and unification of taxes having a similar tax base, normalizing local taxes and dues collection), the list of economic entities entitled to use simplified taxation system should be extended;
- taxation of salary fund should be reduced;
- current rates of local taxes and dues paid from after-tax profit should be reduced to a volume not exceeding 3%;

<sup>&</sup>lt;sup>33</sup> The proposals of the experts of IPM Research Centre, Mises Research Centre, Business Association of Entrepreneurs and Employers named after Kunyavsky, Minsk Capital Association of Entrepreneurs and Employers, were inserted in the recommendations in the field of economic policy on promotion of business development in the country. Part of these proposals is included in the National Business Platform of Belarus.

- specific tax preferences and treatment for any sectors and enterprises should be abolished, i.e. realization of constitutional provision on equality of business environment should be provided;
- passing an act stipulating that amendments to the tax legislation should be enacted at least 12 months after adoption and publication;
- the requirement to report nonpaid taxes should be abolished;
- a electronic system of tax reporting should be created;
- tax reports should only be filed quarterly;
- principles of granting patents to micro business companies and individual entrepreneurs should be revised;

Implementation of this plan will significantly improve the economic environment and create stimuli for small business development. At the same time one can reasonably suggest that in the long-term period weak points of gross proceeds taxation will be of much importance, so introduction of income (i.e. cash flow) taxation may be considered as an alternative. Income taxation will make it possible to avoid an increase of the tax burden on small business entities having small profits and bearing losses. This "insurance effect" may out-weigh more irregular tax proceeds, as with reference to small companies, business risks and uncertainty in transition countries are much higher.

#### Ownership rights

Absence of a system for ownership rights protection results in growth of the shadow sector and registration of companies outside Belarus. That hampers significantly business development in the country and transformation of business from small to

medium and big. To this effect in our opinion, state regulatory bodies should take the following steps:

- legislate against seizure of goods out of court;
- abolish budget planning of revenues resulting from penalty payments as well as setting up plans on collection of penalty charges and volume of seized goods for state agencies;
- impose liability for backdating of regulatory documents;
- passing an act stipulating that amendments to the law regulating economic activity should be enacted at least 3 months after publication;

Licensing and Authorization system

The following changes in licensing appear to be necessary:

- adopt the law "On Licensing of Certain Lines of Business" clearly and precisely regulating licensing procedure and licensed business activities:
- abolish licensing of retail trade and other lines of business posing no threat to public health or the environment;
- approve an exhaustive list of documents for securing licenses and permits as well as the procedure of securing them;
- unify the order and procedure for securing licenses and permits in all state agencies;
- abolish requirement for notarization of duplicate documents while securing licenses and permits:
- reduce the list of documents necessary for securing licenses and permits;
- increase validity of licenses and permits to 7 years, automatical-

ly renewing it for the same term if the business entity observes applicable laws;

Inspections, fines and penalties

To support business development the following measures are suggested in this field:

- reduce the amount of penalties for economic violations;
- eliminate the possibility of unscheduled inspections except for the cases of criminal investigation;
- abolish powers of controlling bodies on seizure and non-judicial expropriation of assets of business entities;
- abolish the right to block business entity's current account except for the cases of criminal investigation;
- introduce clear legislative procedures of evaluation and reimbursement of damage caused by state controlling units to business entity.

Access to information and openness of state

- enact legislative rules on obligatory publication of all regulations issued by public authorities of different levels on web-sites and in media during 2 days following the execution, except for the documents falling under "secrets of state";
- provide liberalized and free access to particulars of state registration for commercial and nonprofit organizations, data on granting a taxpayer registered number and data on issued licenses;
- maintain web-sites and publication of specialized reports with information of marketing character: on contests, tenders and SME financing programs;

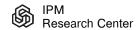
- make a credit register and provide free access to positive and negative information on money borrowers;
- enact legislative rule on obligatory presenting to the citizens and media of information on all types of public purchases and contracts by state authorities, including Executive Committees, ministries and executive departments.

#### Other measures

Among other means of state support we would like to highlight the following:

- 1. It is necessary to reconsider and revise the approaches, contents and importance of annually developed programs of state support to small business and fill them with specific actions on creation and management of centers for business support and incubators for small business; to create equal business conditions and free competition and cooperation of big and small enterprises. It is also necessary to create small companies rendering services on farming, fuel storage and delivery, agriproduct and raw product processing, storage and processing of wild berries, mushrooms, medicinal herbs, non-commodity timber and other local raw materials in every particular region. In this regard usage of funds from the state fund for employment assistance should be made possible to develop self-employment as well as creation of family and group enterprises.
- 2. Activities of the Interagency Committee for Small Business Support and Development should be stimulated as well as of the respective units of regional executive committees. In order to reach the objective, the expertise of current and newly passed laws should be organized with participation of associations of

- entrepreneurs (employers) and the Council for Business Support in the Republic of Belarus with the purpose of eliminating administrative barriers.
- 3. Improving access of small business entities to credit resources and property through:
- simplification of procedures and encouraging commercial banks to credit small enterprises, including lowering provision requirements and amounts of their statutory funds;
- creation of conditions for development of organizations and societies of mutual lending, warranty and insurance funds for small business;
- simplification of procedures of access and lowering production areas rent rates for private companies.
- 4. The extent of state interference into pricing procedures should be reduced. Particularly it is necessary to abolish price caps established by the government; obligatory estimation of planned and report calculations; restrictions for classifying consultation, auditing, information and marketing services as well as advertising expenses as input cost; regulation of profitability and margin caps in wholesale and retail trade. This will naturally lead to elimination of the necessity to employ sanctions for violating of pricing rules.



# ANNEX 1. DISTRIBUTION OF ANSWERS TO THE QUESTIONARY "SME DEVELOPMENT IN BELARUS"

#### 1. What is your company's main line of business?

	Number of companies	% of respondents
Trade and public catering	156	39.0
Public services	37	9.3
Production	90	22.5
Construction	48	12.0
Transport and telecommunications	25	6.3
Education	10	2.5
Other	34	8.5
Total	400	100.0

#### 2. What is your company's corporate structure?

	Number of companies	% of respondents
No answer	5	1.3
Unitary Enterprise	134	33.5
Limited Liability Company	112	28.0
Additional Liability Company	44	11.0
Open Joint-Stock Company	68	17.0
Closed Joint-Stock Company	30	7.5
Full Partnership	5	1.3
Limited Partnership	1	0.3
Producers' Cooperative	1	0.3
Total	400	100.0

#### 3. What is the share of foreign capital in your company's authorized fund?

	Number of companies	% of respondents
No foreign capital (0%)	321	80.3
Up to 30%	46	11.5
From 31 to 50%	22	5.5
From 51 to 75%	5	1.3
100% foreign capital	2	0.5
No answer	4	1.0
Total	400	100.0

#### 4. How mach heople in your company's work?

	Number of companies	% of respondents
No answer	4	1.0
From 1 to 10	80	20.0
From 11 to 50	169	42.3
From 51 to 100	87	21.8
From 101 to 200	38	9.5
More than 200	22	5.5
Total	400	100.0

#### 5. How did the financial position of your company change at different periods of time?

2003     35.8     20.5     39.0     4.8       2004     45.0     12.3     39.5     3.3       2005     52.8     10.0     35.8     1.5		Improved, %	Aggravated, %	Remained unchanged, %	Difficult to say, %
	2003	35.8	20.5	39.0	4.8
2005 52.8 10.0 35.8 1.5	2004	45.0	12.3	39.5	3.3
	2005	52.8	10.0	35.8	1.5

#### 6. What is your forecast for 2006 regarding your company's financial position?

	Number of companies	% of respondents
No answer	5	1.3
Will improve	238	59.5
Will aggravate	25	6.3
Will remain unchanged	132	33.0
Total	400	100.0

#### 7. Do you raise funds while financing your company?

	Number of companies	% of respondents
No answer	9	2.3
Yes	201	50.3
No	190	47.5
Total	400	100.0

#### 8. What is the crude estimate of your company's capital structure?

Component of capital	Number of companies	Share of component (average), %
Authorized capital	312	70.2
Credits in excess of 1 year	312	7.8
Credits up to 1 year	312	8.7
Merchandise creditors	312	13.3
Total	312	100.0

#### 9. What is the profitability of your company?

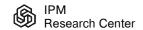
	Number of companies	% of respondents
No answer	11	2.8
No profitability (0%)	13	3.3
Up to 5%	57	14.3
From 6% to 10%	169	42.3
From 10% to 50%	140	35.0
From 50% to 100%	8	2.0
More than 100%	2	0.5
Total	400	100.0

#### 10. What was the change in sales volume of your company in 2005?

	Number of companies	% of respondents
No answer	5	1.3
Increased	197	49.3
Decreased	36	9.0
Remained unchanged	162	40.5
Total	400	100.0

#### 11. If sales volume of your company changed in 2005, what were the reasons for it? (Choose three main answers)

	Number of companies	% of respondents
Change in the assortment of goods/services	119	29.8
Change in purchasers solvency	80	20.0
Change in quality of goods/services	78	19.5
Change in prices for finished goods	53	13.3
Change in sales promotion and advertising	50	12.5
Change in economic situation in the country	49	12.3
Change in productive capacity of the company	38	9.5
Change in prices for raw materials and supplies	34	8.5
Change in qualification of personnel	29	7.3
Change in number of competitors	26	6.5
Other	12	3.0



#### 12. Was your company short of working capital during the past year?

	Number of companies	% of respondents
Yes	172	43.0
No	227	57.0
Total	400	100.0

#### 13. If your answer is "Yes", what were the main reasons for it? (choose three main variants)

	Number of companies	% of respondents
Raw materials and supplies price advance	90	22.5
The company cost increase	55	13.8
Decline in sales	48	12.0
Decline in the company financial solvency	42	10.5
Acquisition of fixed nonproductive assets	37	9.3
Incentive payments to employees	26	6.5
Increase in the currency rates	20	5.0
Miscalculation of product prices	14	3.5
Absence of the company cash management system	12	3.0
Other	7	1.8

#### 14. Do you plan to expand your business activities in the near 1–2 years coming?

	Number of companies	% of respondents
Yes	168	42.0
No	118	29.5
Difficult to say	114	28.5
Total	400	100.0

#### 15. If you plan to expand your business activities, in what way are going to do that?

	Number of companies	% of respondents
Mastering new lines of business	84	21.0
Product diversification	82	20.5
Quest for new markets and sales promotion channels inside the country	53	13.3
Access to foreign markets	41	10.3
Intensification of activity in advertising and marketing of products	37	9.3
Advanced vocational training of personnel	31	7.8
Improvement of product quality and price rises	28	7.0
Cut in prices	26	6.5
Change in enterprise management system (reshaping, reduction of personnel etc.)	25	6.3
Raising debt to invest in technologies and equipment	13	3.3
Raising additional own resources (such as share and bonds issue) to invest in technologies and equipment	4	1.0
Other	1	0.3

#### 16. What are the main competitive advantages of your company for the moment?

	Number of companies	% of respondents
Professional staff	228	57.0
Knowledge of market, ability to forecast market conditions	193	48.3
Capacity to produce competitive products	158	39.5
Knowledge of modern market technologies	108	27.0
Efficient personnel management	84	21.0
Strong team of leaders	61	15.3
Contacts with state authorities and persons of influence	51	12.8
Knowledge of legislation	50	12.5
Strategy and philosophy of the company	47	11.8
Other	8	2.0

#### 17. What in your opinion is the share of private companies' turnover that is not recorded in accounting (shadow turnover)?

	Number of companies	% of respondents
No answer	28	7.0
There is no such thing	86	21.5
Up to 10%	100	25.0
10–25%	106	26.5
26–50%	60	15.0
51–75%	15	3.8
More than 75%	5	1.3
Total	400	100.0

#### 18. How often in your opinion private company leaders have to bribe (in any way) government officials?

	Number of companies	% of respondents
No answer	16	4.0
There is no such thing	75	18.8
Occasionally	228	57.0
Repeatedly	81	20.3
Total	400	100.0

#### 19. To what extent in your opinion such phenomenon as "kickback" for obtaining profitable orders is spread in Belarus?

	Number of companies	% of respondents
No answer	28	7.0
There is no such thing	102	25.5
Takes place in every tenth transaction	82	20.5
Takes place in every fifth transaction	85	21.3
Takes place in every third transaction	62	15.5
Takes place in every second transaction	35	8.8
Takes place in each transaction	6	1.5
Total	400	100.0

# **20. What are the key problems that you face in your activities?** (Please, evaluate each of the following items by five-scores scale, where "5" – is the most serious problem, "1" - the subject is not a problem)

Proble	ms	Average score
1.	Severe sanctions for violations	3.21
2.	Excessive number of inspections performed by controlling and taxation authorities	3.18
3.	Securing licenses	3.16
4.	Absence of guarantees for private ownership protection	3.15
5.	Certification procedures	3.15
6.	Complex and unclear rules of taxation and accounting	3.13
7.	Frequent changes in tax reporting	3.06
8.	Unstable and complex legislation	3.04
9.	Difficulties with obtaining a credit	3.00
10.	Total dependence from controlling bodies	3.00
11.	Reporting to state authorities	3.00
12.	Necessity to obtain permits and approvals from state agencies regarding business activity	2.76
13.	Absence of time limitation for tax violations	2.74
14.	Relationship with local authorities	2.66
15.	Non-payments of clients	2.59
16.	Excessive price control	2.57
17.	Possibility of direct debiting of funds or non-judicial assets forfeiture	2.55
18.	Low customer demand	2.50
19.	Lack of superiors' management and economic skills	2.24

#### 21. Are your company output growth rates brought to your fulfillment by Belarusian state administration bodies?

	Number of companies	% of respondents
No answer	15	4.0
Yes	159	40.0
No	226	56.0
Total	400	100.0

### 22. How many times did your company experience inspections during the past year? What was an average duration of each inspection? (Please, estimate by each of the following state agencies)

		Number of inspections, Times	Duration of one inspection, Days	Inspections took place, % of Respondents
1.	Tax Inspection	1.61	3.75	91.3
2.	Fire Safety Authorities	1.59	1.15	74.1
3.	Sanitary Inspection	2.12	1.25	65.7
4.	Militia	2.10	1.37	15.9
5.	State Inspection Agency	1.39	2.19	22.4
6.	Committee for State Security (KGB)	1.33	1.38	9.0
7.	Organs of the prosecutor's office	1.10	1.95	6.5
8.	Price control bodies	1.60	1.66	29.3
9.	Standards control bodies	1.50	1.69	34.6
10.	Environmental control bodies	1.53	1.22	24.9
11.	Licensing bodies	1.22	1.38	29.6
12.	Organs for protection of consumers	1.61	1.37	14.6
13.	Ministries, executive departments, trusts	1.38	2.92	8.1
14.	Local authorities	2.25	1.73	21.8
15.	Other (specify)	1.25	2.25	99.7

#### 23. How many of your employees are engaged in accounting for state administration bodies?

3.65 employees.

# **24**. How much time on the average you as a company director spend on your relationship with state administration bodies? 5.32 hours per week.

#### 25. Which taxes most strongly restrict the development of your business? (specify up to three variants)

	Number of companies	% of respondents
Profit tax	267	66.8
VAT	166	41.5
Sales tax	128	32.0
Payroll taxes	118	29.5
Income tax	96	24.0
Customs duties	58	14.5
Local taxes	43	10.8
Excise taxes	12	3.0
Other	2	0.5

#### 26. What steps in your opinion should be taken to make the tax system more efficient?

	Number of companies	% of respondents
Reduce tax rates	211	52.8
Simplify taxation rules and accounting	180	45.0
Reduce the number of taxes and non-tax payments	177	44.3
Introduce a simplified system of taxation for small and medium-sized economic entities	150	37.5
Reduce sanctions for violations	79	19.8
Introduce additional tax privileges	57	14.3
Other	1	0.3

### 27. Please, give a crude estimation of the percentage of sales proceeds that you currently pay to the budget in the form of all kinds of taxes and payments.

28.6%

# 28. What percentage of sales proceeds to be paid to the budget in the form of taxes do you consider reasonable? 13.54%

#### 29. Are you or your company a member of any business association?

	Number of companies	% of respondents
Yes	60	15.0
No	338	84.5
No answer	2	0.5
Total	400	100.0

#### 30. Why don't you become a member of any business association?

	Number of companies	% of respondents
I think that associations are helpless in solving my problems	127	31.8
My business does not need their assistance and services	97	24.3
I have no information about activities of such associations	81	20.3
I hope to solve my problems by myself	69	17.3
I think it to be politically disadvantageous	35	8.8
High membership fees	11	2.8
Other	6	1.5

#### 31. What business associations do you know?

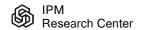
	Number of companies	% of respondents
Union of Entrepreneurs and Employers named for M.Kuniavsky	45	11.3
Minsk Capital Union of Entrepreneurs and Employers	125	31.3
Belarusian Union of Entrepreneurs	222	55.5
Regional Union of Entrepreneurs	92	23.0
Other	10	2.5

#### 32. Activities and assistance of what organizations facilitating small and medium business development you encountered?

	Number of companies	% of answers
Non-state organizations		
Business incubators	8	2.0
Business associations	82	20.5
Institute of Privatization and Management	20	5.0
Other	_	_
State organizations		
Council for Business Development	27	6.8
Local Council for Business Development	26	6.5
Interagency Committee on Entrepreneurship at the	44	0.0
Council of Ministers	11	2.8
Regional Interagency Committee on Entrepreneurship	15	3.8
Entrepreneurs Financial Support Fund	19	4.8
Other	_	_
International organizations		
International Finance Corporation (IFC)	2	0.5
European Bank for Reconstruction and Development	47	4.0
(EBRD)	17	4.3
UN Development Program (UNDP)	7	1.8
Other	2	0.5
I encountered no such organization	279	70.0

#### 33. What activities of business associations do you consider most important?

	Number of companies	% of respondents
Legal representation and asserting entrepreneurs interests and rights	187	46.8
Judicial protection of entrepreneurs rights in state agencies	157	39.3
Creation positive perception of the role of entrepreneurs and entrepreneurship in society	109	27.3
I think that business associations can not solve any problem of entrepreneurs	102	25.5
Other	2	0.5



## 34. Distribution of answers to the question: "What in your opinion is the most effective way for entrepreneurs to protect and assert their rights?

	Number of companies	% of respondents
Independently assert one's own rights and force bureaucracy to obey laws	121	30.3
Cooperate with state centers for business support	80	20.0
Unite into voluntary business associations	74	18.5
I think that entrepreneurs do not know how and why they need to protect and assert their rights	68	17.0
Cooperate with think tanks	31	6.3
No answer	25	7.8
Other	1	0.3
Total	400	100.0

## 35. Do you personally support the idea of creating a coalition of employers' unions to protect their rights and improve economic policy?

	Number of companies	% of respondents
Fully support	50	12.5
Rather support	150	37.5
Rather do not support	96	24.0
Absolutely do not support	27	6.8
I think that entrepreneurs will never associate	55	13.8
Other	7	1.8
No answer	15	3.8
Total	400	100.0

#### 36. In what way are you personally prepared to facilitate improvement of the business climate in the country?

Possible answers	Number of companies	% of respondents
I am not prepared	174	43.5
I am prepared to lend material (or other) support to employers' unions in those matters only where I am personally interested in	122	30.5
I am prepared to personally participate in preparation of documents and other activities on improvement of business climate in the country	46	11.5
I am prepared to lend material (or other) support to any efforts on improvement of business climate in the country	32	8.0
No answer	21	5.3
Other	5	1.3
Total	400	100.0

#### 37. What kinds of state support does your company need? (specify up to three variants)

Possible answers	Number of companies	% of respondents
Tax exemptions	171	42.8
Simplification and stability of the tax system	117	29.3
Normalizing state control on employers' activities (reducing number of inspections, simplification of procedures, relieving sanctions)	109	27.3
Rental exemptions	101	25.3
Stable legislation regulating business activities	84	21.0
Simplification of licensing and registration procedures	75	18.8
Best support – not to interfere	70	17.5
Business and personality safety control	61	15.3
Providing state-guaranteed orders	37	9.3
Competitive environment protection or adherence to equality of rights for companies of different forms of ownership	34	8.5
Development of microlending	30	7.5
Property and business risk insurance	28	7.0
Innovation activities support	26	6.5
Staff training, continuing education assistance	24	6.0
My business does not need any state support	16	4.0

## **38. Which of the following features in your opinion are characteristic for state-owned and private companies' directors?** (Specify up to three answers)

	State-owned companies' directors,%	Private companies' directors,%
Industry	41.0	59.5
Corner-cutting	12.8	5.0
Rationality	31.8	29.8
Liability to deception	18.8	4.8
Business acumen	25.5	64.0
Adventurism	5.8	11.8
Complete professionalism	27.8	27.3
High general cultural level	12.8	6.8
Reluctance to be faithful in the performance of duty	13.5	1.0
Non-professionalism, incompetence	8.5	0.5
Creativity, persistence	12.0	33.3
Gain	15.5	6.8
Honesty, decency	17.5	11.5
Low general cultural level	7.5	1.8
Ability to assert interests of their collective bodies	14.0	13.5

#### 39. Should the state in your opinion lend support to home producers? (several answers can be chosen)

Possible answers	Number of companies	% of respondents
Should lend support to all home producers	195	48.8
Should lend support to home producers but in high-technology industries only (such as military-industrial complex, computer technology, fundamental science)	80	20.0
Should lend support to agrarian home producers	68	17.0
Should not lend support	37	9.3
Difficult to say	71	17.8

#### 40. If you think that the state should lend support to home producers, explain why? (several answers can be chosen)

Possible answers	Number of companies	% of respondents
To prevent home producers from bankruptcy	82	20.5
To maintain employment and prevent unemployment growth	155	38.8
To let native industry and agriculture develop	185	46.3

#### 41. If you think that the state should not lend support to home producers, explain why? (several answers can be chosen)

Possible answers	Number of companies	% of respondents
Belarusian products should equally compete against other products on the world and domestic markets	28	7.0
Consumers should have a real choice concerning goods and services	27	6.8
It is consumers who pay in the long run for all kinds of state support through high prices and taxes	15	3.8
Any kind of state support is a potential source of corruption	20	5.0
Other	1	0.3
Difficult to say	11	2.8

#### 42. What sectors, companies and organizations in your opinion should be state-owned and what should be private?

	Should be state- owned, %	Should be private, %	May be both state- owned and private, %	Difficult to say, %
			•	
Electric-power industry	70	4	23	3
Gas sector	70	3	24	3
Railway transport	54	4	39	3
Metallurgical works	55	3	38	4
Institutions of Higher Education	26	5	66	3
Schools	31	5	60	4
Hospitals and health clinics	15	6	74	5
Insurance	17	16	63	4
Air transport	28	8	60	6
Theatres, museums, libraries	36	2	58	4
Farm lands	21	10	65	4
Telephone communications	19	7	71	3
Radio	13	6	77	4
Television	12	7	77	4
Press	5	6	84	5
Food production	10	5	82	3
Construction and housing	20	5	72	3
Housing and municipal services	45	5	46	3

#### 43. Would you like for your children to carry on business?

	Number of companies	% of respondents
Definitely Yes	68	17.0
Rather Yes	126	31.5
Rather No	70	17.5
Definitely No	14	3.5
Difficult to say	122	30.6
Total	400	100.0

## 44. What impact in your opinion has state and independent media (television, press etc.) on formation of public opinion about entrepreneurial business?

	Public opinion they form is rather positive %	Public opinion they, form is rather negative,	They have no impact on public opinion, %	Difficult to say, %
Independent media	44	14	40	2
State media	30	28	40	2

#### 45. In you opinion social responsibility of business is mainly:

	Number of companies	% of respondents
Honest and fair conduct of business	125	31.3
Compliance with law	102	25.5
Making a maximum profit	65	16.3
Regular payment of taxes	61	15.3
Nondiscrimination	13	3.3
Benefiting from charity activities	9	2.3
Free and disinterested charity	7	1.8
No answer	15	3.8
Other	3	0.8
Total	400	100.0

#### 46. Was your company ever involved in charity activities?

	Number of companies	% of respondents
Yes	182	45.5
No	214	53.5
No answer	4	1.0
Total	400	100.0

#### 47. What are your preferences in providing your company with qualified personnel?

	Number of companies	% of respondents
Professional education of personnel through various extension courses	83	20.8
Search of knowledgeable specialists on labor market	250	62.5
Search and engaging personnel among students and graduates	47	11.8
No answer	20	5.0
Total	400	100.0

#### 48. Employees of which department of your company need training most in your opinion?

	Number of companies	% of respondents
Accounting department	83	21.0
Sales department	101	25.0
Marketing department	96	24.0
Purchasing department	42	11.0
Manufacturing	83	21.0
Mid-level managers	41	10.0
Top managers	17	4.0
Other	5	1.0
No specialists need training	114	28.0

#### 49. What form of personnel training was (is) conducted by your company during 2005?

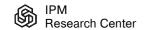
	Number of companies	% of respondents
Courses, seminars, trainings	98	24.5
Training within the company by one's own efforts	136	34.0
Training within the company through engagement of other specialists	41	10.3
Self-education	86	21.5
Training was not (is not) conducted	98	24.5

#### 51. What are the training organizations (or at least their names) that you know? How much do you know about them?

		Heard of, % respondents	Received advert (circular), %	Employees from my company were trained there, %
1.	«Zdes I seichas» (ZiS)	20.3	7.0	1.3
2.	«Key decisions»	6.0	3.3	-
3.	CABT SATIO	6.3	2.0	0.5
4.	«Marketing Systems»	15.5	3.8	0.5
5.	Business school IIEP	16.3	4.0	0.8
6.	Business school IPM	29.8	5.0	1.5
7.	«XXI century - consult»	25.5	6.8	1.3
8.	«Mercury International»	8.8	0.8	0.3
9.	Business school BSU	33.3	5.8	2.5
10.	Centre of Innovative Management	14.3	2.3	1.0
11.	Other	1.0	0.3	1.3

#### 52. Do you think MBA graduates are necessary in your staff for your company's successful operation?

	Number of companies	% of respondents
Yes	59	14.8
No	163	40.8
I don't know what an MBA is	177	44.3
No answer	1	0.3
Total	400	100.0



#### 53. Do you think it is necessary to get an MBA degree for yourself?

	Number of companies	% of respondents
Yes	42	10.5
No	141	35.3
I already have the degree	5	1.3
Difficult to say	211	53.1
Total	400	100.0

#### 54. What business press do you normally read on a regular basis?

	% of respondents, who answered «Yes»
Belarusian	
Business-Review	15.5
Marketing Reklama Sbyt	14.8
Finansovy Director	24.8
Otdel Kadrov	13.8
Secretarskoye Delo	1.5
Natsionalnaya Gazeta	7.3
BDG	12.8
Belorusskaya Gazeta	18.8
Belorusy I Rynok	19.5
Sovetskaya Belorussia (Belarus Today)	31.0
Glavny Bukhgalter	28.8
Argumenty I Facty	20.8
Russian	
Commersant	12.0
Secret Firmy	7.0
Dengi	7.0
I don't read business press	10.3

#### 55. Your sex

	Number of companies	% of respondents
Male	273	68.3
Female	123	30.8
No answer	4	0.9
Total	400	100.0

#### 56. Your education

	Number of companies	% of respondents
Secondary	1	0.3
Specialized secondary economic	29	7.3
Specialized secondary other	23	5.8
Incomplete higher	10	2.5
Higher economic	154	38.5
Higher legal	27	6.8
Higher other	141	35.3
Advanced degree (MBA)	5	1.3
No answer	10	2.5
Total	400	100.0

#### 57. Your age

40 full years

#### 58. Your overall business experience is:

9.4 years

#### 59. Specify the region of the poll

	Number of companies	% of respondents
Minsk	208	52.0
Minsk Region	31	7.8
Brest Region	33	8.3
Grodno Region	33	8.3
Vitebsk Region	29	7.3
Gomel Region	32	8.0
Mogilev Region	34	8.5
Total	400	100.0

# ANNEX 2. DISTRIBUTION OF ANSWERS TO THE QUESTIONARY "BELARUSIAN HOUSEHOLDS" ATTITUDE TO THE VALUES OF MARKET ECONOMY"

#### 1. How do you estimate your personal income level as compared to others?

Income level	Number of respondents	% of respondents
Low	148	13.0
Below average	216	20.0
Average	639	58.0
Above average	82	8.0
High	8	1.0
Total	1093	100.0

#### 2. How do you assess your material situation will change in the near future?

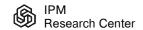
	Number of respondents	% of responded
Will slightly improve	252	23
Will significantly improve	107	10
Will slightly aggravate	91	8
Will significantly aggravate	36	3
Will remain unchanged	438	40
Difficult to say	169	16
Total	1093	100

#### 3. What is the percentage of your household income that is spent for food and public utilities?

	Number of respondents	% of respondents
Less than 10%	3	0.3
From 10 to 30%	101	9.3
From 30 to 50%	378	34.6
From 50to 80%	418	38.2
More than 80%	187	17.0
Difficult to say	7	0.6
Total	1093	100.0

#### 4. What purchases can you afford? (Specify all possible variants)

Expense items	Number of respondents	% of respondents
Sometimes I am short of money for simple food and cheap clothes	112	10.0
Only necessary food and clothes	663	61.0
Quality, varied food and nice clothes	268	25.0
Any food or clothes I want	68	6.0
Basic household appliances (refrigerator, TV-set, audio tape recorder, iron)	328	30.0
Modern equipment and appliances (music center, DVD player, kitchen unit, home cinema, modern computer, notebook )	107	10.0
Recently developed equipment and appliances (video, audio, HI END-class technique)	34	3.0
Cheap used car	100	9.0
Good but not brand-new car	62	6.0
Brand-new or almost new car	16	2.0
Can not afford buying a flat while badly need housing improvement	82	6.0
New flat (to improve living conditions) at the cost of savings for several years and/or mortgage lending	20	2.0
Additional property (for leisure or as investment )	14	1.0
Difficult to say	3	0.3



#### 5. What are the sources of your average monthly income?

	Number of respondents	% of respondents
Salary at state enterprise, institution	502	46
Pension	336	31
Scholarship	71	6
Unemployment payment	14	1
Salary at non-state enterprise (institution)	184	17
Half-pay, quarter-pay etc. income from secondary employment	38	3
Lease of premises (flat, dacha, garage)	19	2
Household plot	209	19
Dividends on stock	8	1
Interest on bank deposits	28	3
Income from own business (or participation in business in case of joint ownership)	18	2
Income from self-employment	51	5
Income from sale (resale) of goods	22	2
Grant money from funds appropriated for scientific and business projects	2	0
Rendering services privately (teaching, housecleaning, nursing etc.)	35	3
Occasional additional earnings	105	10
Other	38	4

#### 6. What company (institution) do you currently work at?

	Number of respondents	% of respondents
State enterprise (institution)	495	45
Non-state (private) enterprise (institution)	206	19
I do not work	393	36
Total	1093	100

#### 7. What company (institution) would you prefer working at?

	Number of respondents	% of respondents
State enterprise (institution)	539	49
Non-state (private) enterprise (institution)	298	27
Difficult to say	257	24
Total	1093	100

#### 8. If you would prefer working at state (private) enterprise it is because of: (up to three variants can be chosen)

Motivation of preference	Prefer working at, %	
_	State enterprise	Private enterprise
Business environment	2	29
Positive attitude to employee, appreciation of his personal meaning	9	22
Regular skills upgrading at the cost of employer	16	11
Stable salary	80	23
Stable employment	54	6
Working hours are more flexible	7	33
High salary	4	60
Opportunity of self-realization and career growth	7	19
Personal responsibility for success achieved	4	22
Conditions are created when it is necessary to constantly improve one's skills in competitive environment	3	18
Best prospects in future job search	3	7
Social guarantees	67	2
Measured pace of work, no stress	8	6
Other	2	1

#### 9. What in your opinion normally helps to get a good job?

Motivation	at State-owned company, %	at Private company, %
Contacts and connections	65	64
High proficiency and knowledge	46	45
Having a specialty which is currently of value	36	38
Ability to be at odd with superiors	22	34
Readiness to work like a beaver	26	17
Creativity, initiative	29	9
Discipline, responsibility, efficiency	19	32
Other	2	1
Difficult to say	2	3

#### 10. How do you assess the role of entrepreneurs in society? (Several answers can be chosen)

Possible answers	Number of respondents	% of respondents
They employ people and create new jobs	742	68
They provide people with various goods and services	539	49
Taxes from business activities form a significant part of state budget	314	29
They are the source of economic development	268	24
Their activity facilitates competition and lowering of prices	214	20
Lining their pockets is their main objective	187	17
They produce nothing but are engaged in speculative activities	139	13
They evade taxes as they do not think of their social responsibility	121	11
They unreasonably raise prices	62	6
They hamper normal course of economy development	16	1
Difficult to say	33	3
Other	6	1

#### 11. What do you think, entrepreneurs' activity is beneficial or harmful to the country?

Possible answers	Number of respondents	% of respondents
Definitely beneficial	374	34
Rather beneficial	457	42
Rather harmful	74	7
Definitely harmful	25	2
Difficult to say	164	15
Total	1093	100

# 12. What of the following features in your opinion are characteristic of state-owned and private companies' directors? (Specify up to three answers)

	of State-owned companies	of Private companies
Industry	47	37
Corner-cutting	11	10
Rationality	18	15
Liability to deception	11	15
Business acumen	33	62
Adventurism	6	15
Compleat professionalism	37	22
High general cultural level	13	7
Reluctance to be faithful in the performance of duty	5	6
Non-professionalism, incompetence	5	1
Creativity, persistence	17	32
Gain	14	20
Honesty, decency	14	4
Low general cultural level	6	2
Liability to charity	2	5
Other	2	1
Difficult to say	2	2

#### 13. There is an opinion that taxes are too heavy in the country and it is not necessary to pay all of them. Do you agree?

Possible answers	Number of respondents	% of respondents
Agree completely	114	10
Rather agree	243	22
Rather disagree	254	23
Disagree completely	249	23
Difficult to say	234	21
Total	1093	100

#### 14. What in your opinion are the key problems that entrepreneurs face in conduct of their business? (specify up to three variants)

Problems	Number of respondents	% of respondents
Heavy taxes	631	58
High rent rates	349	32
Unstable and inconsistent legislation	316	29
Corruption and necessity to bribe government officials	259	24
Absence of guarantees for private ownership protection	204	19
High penal sanctions	144	13
Difficulties with obtaining credits and their dearness	140	13
I face no difficulties, they are lame excuses	106	10
Difficult to say	81	7
Price control	46	4
Other	21	2

## 15. What steps in your opinion should be taken by the government authorities to streamline private business development in Belarus? (Specify up to three answers)

Possible answers	Number of respondents	% of respondents
Reduce tax burden	544	50
Improve legislation on small business	460	42
Simplify registration, licensing and other procedures controlling access to market	304	28
Develop small business financial support system	254	23
Protect business from abuse of controlling agencies	221	20
Protect business from abuse of criminal structures	161	15
Private companies do not need state support and assistance	72	7
Provide judiciary independent from executive bodies	80	7
All enterprises should be state-owned	70	6
Difficult to say	61	6
Other	12	1

#### 16. Would you like to start your own business in our country?

Possible answers	Number of respondents	% of respondents
I already have my own business	57	5
Yes, I would like	343	31
No, I wouldn't like	694	63
Total	1093	100

#### 17. If you want to start your own business but have not proceeded to it yet, explain why? (several answers can be chosen)

Possible answers	Number of respondents	% of respondents
I have no starting capital	283	82
I have no necessary management skills	87	25
I lack education (qualification)	60	18
There are no conditions for starting own business in the country	62	18
Other	11	3
Difficult to say	2	1

#### 18. If you don't want to start your own business, explain why? (Several answers can be chosen)

Possible answers	Number of Respondents	% of Respondents
I am satisfied with what I do	283	41
I have no required abilities	245	35
It is too late (years)	83	12
do not believe that I can earn more than as a salaried employee	61	9
There are many obstacles /it is hard	23	3
Other	23	3
Difficult to say	19	3
I have no capital	13	2

#### 19. Would you like for your children to carry on business?

Possible answers	Number of Respondents	% of Respondents
Definitely Yes	143	13
Rather Yes	329	30
Rather No	209	19
Definitely No	99	9
Difficult to say	315	29
Total	1093	100

## 20. Have you personally become aware of changes in economic situation of Belarus for the past 3 years? If "Yes", what were the changes?

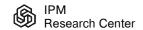
Possible answers	Number of Respondents	% of Respondents
Situation improved	192	18
Situation rather improved than aggravated	294	27
Situation remained unchanged	345	32
Situation rather aggravated than improved	131	12
Situation aggravated	42	4
Difficult to say	91	8
Total	1093	100

#### 21. How do you assess price rise in our country?

Possible answers	Number of Respondents	% of Respondents
Prices rise significantly	525	48
Prices rise reasonably	481	44
Prices hardly rise	38	4
Prices do not rise	15	1
Difficult to say	34	3
Total	1093	100

#### 22. Why in your opinion prices rise in Belarus? (Several answers can be chosen)

Possible answers	Number of Respondents	% of Respondents
State-owned companies set high prices for goods and services (municipal housing economy, transport etc.)	530	48
The State does not control prices properly	396	36
The State sets too heavy taxes for enterprises	278	25
Entrepreneurs push up prices to get more profit	200	18
Prices rise as there is no competition	145	13
The State "prints" more and more uncovered paper money	134	12
Prices do not rise significantly	71	7
Difficult to say	71	6
Other	22	2



#### 23. How do you assess prices to rise in future?

Possible answers	Number of respondents	% of respondents
Yes	977	89
No	21	2
Difficult to say	96	9
Total	1093	100

#### 24. What is the type of economy of a country you would prefer to live in?

Possible answers	Number of respondents	% of respondents
A country with market economy and insignificant state regulation of economy	395	36
A country with market economy and significant state regulation of economy	425	39
A country with state-planned economy	204	19
Other	20	2
Difficult to say	49	5
Total	1093	100

#### 25. Should the government limit people's income?

Possible answers	Number of respondents	% of respondents
Yes	212	19
No	752	69
Difficult to say	131	12
Total	1093	100

#### 26. In which of the following countries in your opinion living standards are higher than in Belarus? (Several answers can be chosen)

Possible answers	Number of respondents	% of respondents
In Ukraine	25	2
In Russia	231	21
In Lithuania	365	33
In Poland	593	54
In no country mentioned	334	31
Difficult to say	20	2

#### 27. What in your opinion should be the functions of state? (Up to three answers can be chosen)

Possible answers	Number of respondents	% of respondents
Law-making and law compliance control	694	63
Price control	451	41
Social assistance to helpless	401	37
Energy preparedness guarantee	249	23
Food safety guarantee	235	21
Boundary protection	218	20
Home producers support	211	19
Providing minimum social standards	170	16
Private ownership protection	170	15
Protection from foreign competition	63	6
Income transfers from the rich to the poor	56	5
Difficult to say	10	1
Other	5	0

#### 28. What is the type of economy in your opinion that is preferable for Belarus?

Possible answers	Number of respondents	% of respondents
Same as in present Belarus	249	23
As in Sweden, Denmark, Germany	242	22
Difficult to say	229	21
As in former USSR	172	16
As in Poland or Baltic States	109	10
As in USA	38	3
As in China	27	2
As in present Russia	26	2
Other	4	0
Total	1093	100

#### 29. What form of ownership in your opinion is economically more efficient?

Possible answers	Number of respondents	% of respondents
State	447	41
Private	432	39
Mixed	171	16
Difficult to say	45	4
Total	1093	100

#### 30. Should state in your opinion lend support to home producers? (several answers can be chosen)

Possible answers	Number of respondents	% of respondents
Should lend support to all home producers	618	56
Should lend support to home producers but in high-technology industries only (such as military-industrial complex, computer technology, fundamental science)	288	26
Should lend support to agrarian home producers	312	29
Should not lend support	54	5
Difficult to say	97	9

#### 31. If you think that state should lend support to home producers, explain why? (Several answers can be chosen)

Possible answers	Number of respondents	% of respondents
To let native industry and agriculture develop	653	69
To hold positions of employment and prevent unemployment growth	607	64
To prevent home producers from bankruptcy	391	41
Difficult to say	9	1
Other	1	0

#### 32. If you think that state should not lend support to home producers, explain why? (several answers can be chosen)

Possible answers	Number of respondents	% of respondents
Belarusian product should equally compete against other product at the world and domestic markets	31	26
Consumers should have a real option on goods and services	30	25
It is consumers who pay in the long run for all kinds of state support through heavy prices and high taxes	27	23
Any kind of state support is a potential source of corruption as it is hard to define fair criteria: to what sectors and companies support should be lent and to what it should be not	24	20
Difficult to say	65	55

#### 33. What organizations, companies and sectors should be state-owned and what should be private?

Sectors	Should be state- owned, %	Should be private, %	May be both state- owned and private, %	Difficult to say, %
Electric-power industry	91	2	7	0
Gas sector	90	2	7	0
Railway transport	80	4	15	0
Metallurgical works	77	4	18	0
Institutions of Higher Education	53	2	44	1
Schools	54	2	44	0
Hospitals and health clinics	46	4	50	0
Insurance	45	9	45	1
Air transport	70	5	24	0
Theatres, museums, libraries	52	5	42	0
Farm lands	34	11	54	1
Telephone communications	48	6	46	0
Radio	42	7	52	0
Television	35	6	58	0
Press	28	6	66	1
Food production	27	6	67	0
Construction and housing	41	4	54	1
Housing and municipal services	61	6	32	1
Trade	15	8	77	1

#### 34. What are the sources you get information from? (Several answers can be chosen)

Possible answers	Number of respondents	% of respondents
Non-state press	295	27
State press	702	64
Russian TV programs	853	78
Belarusian TV programs	898	82
Foreign TV programs	196	18
Internet	117	11
Radio stations	10	1
Friends, acquaintances	16	1
Other	2	0

#### 35. What impact in your opinion has Belarusian media on formation of public opinion about entrepreneurial business?

Possible answers	Independent media	State media
Public opinion they form is rather positive	32	44
Public opinion they form is rather negative	24	22
They have no impact on public opinion	38	30
Difficult to say	6	4
Total	100	100

#### 36. What media do you trust most? (Several answers can be chosen)

Possible answers	Number of respondents	% of respondents
Non-state press	109	10
State press	332	30
Russian TV	424	39
Belarusian TV	476	43
Foreign TV channels	95	9
Internet	70	6
I trust nobody	155	14
Difficult to say	129	12

#### 37. Do you consider yourself a believer? If YES what is your religion (confession)?

Possible answers	Number of respondents	% of respondents
Orthodoxy	832	76
Muslim confessions	0	0
Other Christian confessions (Catholics, Protestants, Uniats, Baptists etc.)	84	8
Other confessions	2	0
I do not consider myself a believer	144	13
Difficult to say, I can not define my confession	33	3
Total	1093	100

#### 38. How often do you go to church?

Possible answers	Number of respondents	% of respondents
I have never been to a church	146	13
Sparser than once a year	131	12
Once –twice a year	304	28
Several times a year but sparser than once a month	266	24
Once a month and more often	137	13
Difficult to say, I do not remember	109	10
Total	1093	100

#### 39. Where do you normally spend your leisure time? (Several answers can be chosen)

Possible answers	Number of respondents	% of respondents
At home	976	89
Visit friends, acquaintances	427	39
At dacha	198	18
At cultural institutions (cinemas, clubs, theaters, museums etc.)	128	12
At place of work or study	75	7
Other	16	1

#### 40. What kind of leisure is most typical for you in everyday live? (several answers can be chosen)

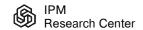
Possible answers	Number of respondents	% of respondents
Watching TV, video	915	84
Reading books, newspapers, magazines	634	58
Having fun with friends and relatives	397	36
Sleeping off	239	22
Listening to a music	274	25
Amusing myself with labor of love (sports, music, photography, drawing etc.)	340	31
Spending time at a computer	106	10
Visiting entertainments	79	7
Visiting restaurants, cafés, clubs	128	12
Relaxing, drinking	133	12
Doing nothing, "killing" time	89	8
Other	51	5
Difficult to say	5	0

#### 41. Following is the list of values. Please mark, to what extent each of the values is important to you.

Possible answers	Very important, %	More or less important, %	Absolutely unimportant, %	Difficult to say, %
Family	93	5	1	1
Peace	90	9	0	1
Safety	88	11	0	1
Welfare	83	16	0	1
Stability	82	16	1	1
Freedom	80	16	2	2
Law	79	19	1	2
Ownership	78	19	1	2
Order	78	19	1	2
Fairness	78	20	1	1
Human rights	77	20	2	1
Labor	76	21	2	2
Success	75	20	3	2
Equality	61	29	7	3
State	51	39	7	3
Democracy	50	39	8	4
God	49	31	13	8
Patriotism	47	39	11	3

#### 42. Respondents' sex

	Number of respondents	% of respondents
Male	516	47
Female	577	53
Total	1093	100



#### 43. Respondents' age

	Number of respondents	% of respondents
18-24	161	15
25-34	197	18
35-44	209	19
45-54	204	19
55-64	125	11
65 +	197	18
Total	1093	100

#### 44. Respondents' education

	Number of respondents	% of respondents
Primary and lower	40	4
Post primary	72	7
Secondary	271	25
Specialized secondary	402	37
Higher, incomplete higher	306	28
Difficult to say	2	0
Total	1093	100

#### 45. Social status

	Number of respondents	% of respondents
Owner (co-owner) of private company, business, organization	36	3
Self-employed, farmer	24	2
Salaried employee at a private company	155	14
Salaried employee at a state-owned company	481	44
Student	48	4
Pensioner	283	26
Housekeeper	32	3
Unemployed	35	3
Total	1093	100

#### 46. Size of household

	Number of respondents	% of respondents
One person	124	11
Two persons	288	26
Three persons	333	30
Four persons	256	23
Five and more persons	93	9
Total	1093	100

#### 47. Household income per capita

	Number of respondents	% of respondents
Less than 100 thous. roubles per capita per month	116	11
From 101 to 200 thous. roubles per capita per month	358	33
From 201 to 400 thous. roubles per capita per month	438	40
From 401 to 600 thous. roubles per capita per month	103	9
From 601 to 800 thous. roubles per capita per month	46	4
From 801 thous. to 1 mln. roubles per capita per month	9	1
From 1 000 001 roubles and more per capita per month	1	0
Refuse to answer	23	2
Total	1093	100

#### 48. Place of residence

	Number of respondents	% of respondents
Minsk	201	18
Minsk Region	166	15
Vitebsk Region	148	14
Mogilev Region	129	12
Gomel Region	165	15
Brest region	159	15
Grodno Region	126	12
Total	1093	100

#### 49. Size of population center

	Number of respondents	% of respondents
Village (less than 2000 residents)	307	28
5 000 residents	117	11
20 000 residents	81	7
50 000 residents	56	5
100 000 residents	281	26
500 000 residents	51	5
Minsk	201	18
Total	1093	100

# **Business in Belarus: Status, Trends, Perspectives. 2006**

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