BUSINESS IN BELARUS 2011

STATUS
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Business in Belarus 2011: Status, Trends, Perspectives

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Business in Belarus 2011: Status, Trends, Perspectives. The report discusses the economic situation of small and medium enterprises (SMEs), and their perspectives in the back of economic crisis of 2011. The report also analyzes SMEs participation in shadow economy, which is a coping strategy in harsh economic environment. Another focus of the report is prospects and limitations of small and medium business towards taking part in privatization process that is once again expected to be on the run in Belarus. Besides, the role of the support infrastructure of SME development and public-private partnerships is analyzed. In conclusion there are results of the survey on the issues connected to SMEs development in Belarus.

CONTENTS

1. INTRODUCTION

Despite the preserved high importance of large industrial enterprises in the economy, there is a fairly high potential for creation of new and development of existing small and medium-size enterprises (SMEs) in Belarus today. SMEs are able to react more flexibly to crisis phenomena in the economy being more mobile by nature. At the same time due to lack of excessive social obligations, small and medium businesses have an opportunity to direct the significant part of the revenues on modernization and innovative production development. It is an important SMEs advantage and benefit given the conditions of Belarusian economy functioning, which is still energy- and resource-intensive and dependent on raw materials' imports from outside.

An increase in a number of SMEs continued in 2010 (by 8.7% to 84,164 enterprises), which in turn means the country's private sector growth (in the overall quantity of small businesses private ownership organizations are dominant, share of which is 95.1%).

Nevertheless despite the number of SMEs observed steady growth, their economic situation and doing business conditions left a lot to be desired. Currency regulation, high competition not so much within small and medium businesses sector as with state enterprises continue causing SMEs economic and financial performance deterioration. As a result companies are concentrated on modernization and innovative development not so actively as they could and therefore in conditions of foreign companies market access improvement they will face serious challenges and problems.

Thus if in 2009 on the back of global economic crisis private initiative growth was mostly prevented by foreign trade drop and limited domestic demand, in post-crisis period one of the main problems was lack of domestic SMEs competitiveness in comparison with foreign enterprises together with unequal doing business conditions in comparison with SOEs.

The Directive № 4 "On entrepreneurship development and business activity stimulation in Belarus", signed by the President of Belarus at the end of December 2010, was aimed at private sector development stimulation and SMEs in particular. The main goal of the Directive is "further liberalization of the Belarusian economy, its competitiveness increase and favorable conditions for dynamic and sustainable development creation". Moreover 2011 was officially announced as a "Year of Entrepreneurship" in Belarus.

However, despite the authorities' efforts on private initiative stimulation, the country did not manage to reach the target level of development and to create more favorable doing business conditions in comparison with other countries. Despite the fact that Belarus was the third of the most active countries-reformers in business environment liberalization (after Georgia and Rwanda) according to the Doing Business 2006-2011 reports and authorities' intentions to enter Top-30 in terms of doing business conditions, Belarus is located in only 69th place in Doing Business-2012 report. This report analyzed 183 countries on key aspects of entrepreneurs' activity legal regulation. 10 indicators were taken as a base, according to which Belarus took the following positions: business opening – 9th, taxation – 156th, international trade – 152nd, property registration – 4th, construction permits' obtaining – 44th, crediting – 98th, business liquidation – 82nd, contracts' ensuring performance – 14th, investors protection – 79th, access to energy – 175th.

Starting from March 2011 the currency crisis gradually grew in Belarus, which is a reflection of aggravated economic imbalances and which had a very negative impact on SMEs doing business conditions. The country faced a dual challenge – need in urgent financial sector stabilization and further economy's liberalization together with large-scale structural reforms implementation, conduction of which was delayed since the beginning of 1990's.

All of the mentioned above means that in 2010-2011 under conditions of increasing crisis phenomena on the one hand and desire of local SMEs development support on the other, the complex and strategically correct economic policy aimed at SMEs doing business conditions simplification and equal conditions creation, becomes especially relevant. It is overwhelmingly important today along with the pointed reforms and legal system liberalization to create a foundation of principally new Belarusian SMEs development stimulation policy in order to strengthen its' participation in the national economy.

The IPM Research Center prepared materials on the basis of 407 SMEs representatives' survey aiming at analysis of last year changes in Belarusian business conditions and SMEs attitude to these changes. It was offered in the survey to give evaluation of the latest changes and tendencies in domestic legislation reforming, to describe the current SMEs situation, to identify the most sensitive questions and problems as

well as to define the main obstacles of successful business conduction. The authors would like to thank those who took part in the survey, roundtables and promoted constructive discussion on the Belarusian entrepreneurship promotion issues. Separately we thank Yaroslav Romanchuk, the head of the *Scientific Research Mises Center*, and Vladimir Karyagin, the chairman of the *Minsk Entrepreneurs and Employers Capital Union*. Special thanks to Elena Suhir (the *Eastern Europe and Eurasia/Central Asia program manager*, *Center for International Private Enterprise* (CIPE), USA) for her invaluable contribution to the Belarusian private enterprises development.

2. THE ECONOMIC SITUATION OF SMEs IN POSTCRISIS 2010 YEAR

2.1. SMEs structure in 2010

According to Belarus Ministry of Economy data and official statistics a slowdown in small business growth can be certified. So if in 2007-2009 their number more than doubled and amounted to almost 78 thousands as of January 1, 2010, just 6762 new organizations were formed during 2010 and the total number of small enterprises equaled to 84,164 (8.7% growth) as of January 1, 2011. In the overall quantity of small businesses private ownership organizations are dominant, share of which is 95.1%. Small state-owned enterprises form 1.7% and remained 3.2% are foreign owned.

It should be noted that despite fairly frequent mentioning of the term “small and medium enterprises” in domestic scientific literature, there is still no legally fixed assignment rate of private enterprise to medium, thus the authors in their study will be guided by the Ministry of Statistics and Analysis of Belarus definition. According to it middle enterprise is a commercial organization registered in Belarus with an average number of employees from 101 to 250 during the calendar year. As for the individual entrepreneurs, their number increased by 5.6% in 2010 and amounted to 231,834 at the beginning of 2011. For comparison, number of individual entrepreneurs increased by 15% during 2007–2009.

According to this data we can conclude that SMEs growth continued in 2010 which in turn means private sector growth. Apparently in 2010 after the “crisis” 2009 in terms of production/trade volumes recovery as well as wage growth SMEs appeared to be more successful due to greater economic flexibility and mobility, absence of jobs preservation necessity as well need in ungrounded maintenance of high rates of production and producing to stock, which is often observed in public sector. However, despite the continuing quantitative sector’s growth, its’ role in the economy is still insufficient. By the end of 2010 small business accounted for 12.4% of GDP (1 percentage point increase) and no more than 15% of staff strength.

Here the authors consider it necessary to emphasize small business investment activity, which is higher in comparison to public sector. Thus, accounting for just 12.4% of GDP and forming 12.5% in the total production volume of goods and services (just 0.6 percentage points growth in 2010), small business share in the total volume of investments in fixed assets increased from 23.9% in 2009 to 27.0% in 2010. That is obvious that in post-crisis 2010 small enterprises managed to adapt quickly to new external economic realities and were able not just to keep a high share in investments in fixed assets but to increase it significantly. During the same period medium size agents slightly reduced level of investments in fixed assets. While they accounted for 7.6% of GDP and 8.2% in the total production volume of goods and services, the figure mentioned above fell by 1.4 percentage points from 14.1% to 12.7%. Low rates of medium enterprises in comparison to small businesses can be partly explained by the fact that about one-third of them are SOEs[1], the traditionally primary goal of which is social obligations fulfillment, which in turn reduces the amount of investments.

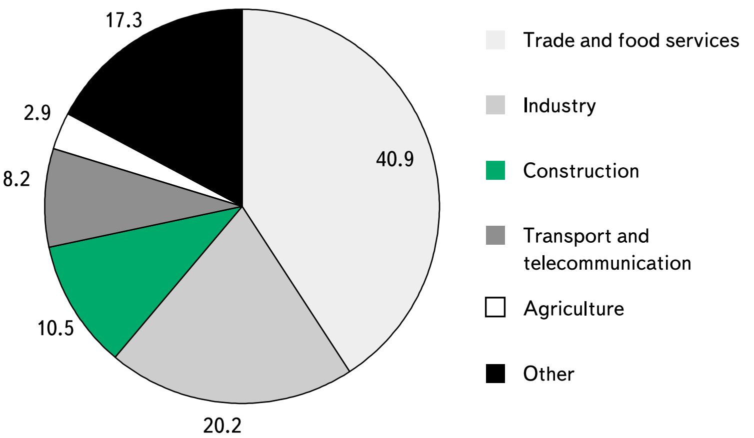
Traditionally SMEs account for high share in foreign trade. The share of medium-size enterprises equaled to 6.0% in 2010 and increased by 1.1 percentage point in comparison to 2009. Small business’s share grew by 3.2 percentage point from 30.5 to 33.7%. Belarusian small business’ exports volume grew by 35% and amounted to USD 9.8 billion. Small business imports of goods increased as well – up to USD 10.4 billion (33% growth).

As before, the greatest number of small enterprises is concentrated in trade and food services (40.9%), high shares are in industry (20.2%) and construction (10.5%). Small business distribution by sector is presented in Figure 2.1. Slightly different situation is observed among medium-size enterprises of Belarus (Figure 2.2). The largest share of them (because of already mentioned high share of SOEs) is involved in agriculture (28.5%). Also the high percentage is observed in such branches of the economy as industry and construction (24.6% and 18.2% respectively).

Geographic distribution of SMEs in Belarus is as follows (Figures 2.3 and 2.4). The majority of small businesses is concentrated in the capital – the share is equal to almost 39% of the total. Another 15.4% are located in Minsk region. Thus, Minsk and Minsk region account for more than half of all small businesses. As for the medium-size enterprises, their geographic distribution is slightly different. Nevertheless the largest share is concentrated in Minsk (21.9% of a total) the distribution of the remained part by district is not much inferior to the Belarusian capital. The explanation is that medium-size enterprises are less

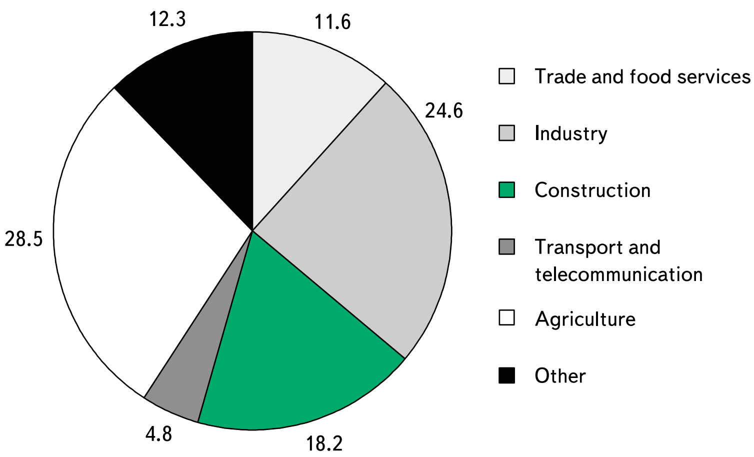
[1] State owned enterprises.

Figure 2.1. Small business distribution by sector in 2010, %



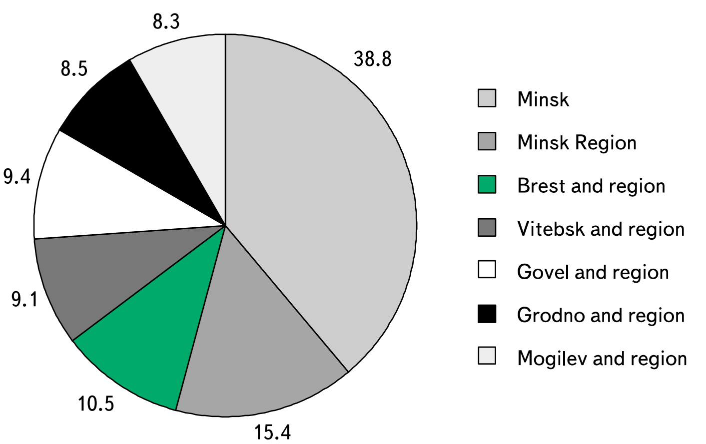
Source: BELSTAT.

Figure 2.2. Medium-size business distribution by sector in 2010, %



Source: BELSTAT.

Figure 2.3. Small business geographic distribution of in 2010, %



Source: BELSTAT.

focused on the services – more than 70% of them relate to the production: construction, industry or agriculture.

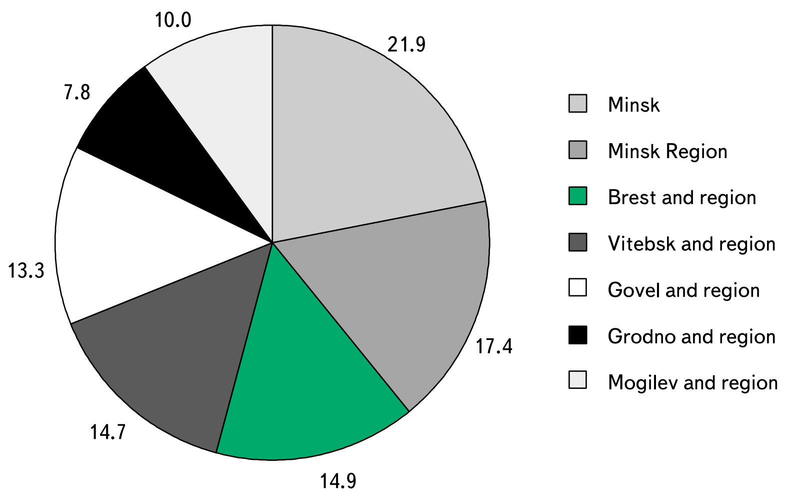
Thus, the growth of SMEs number continued in 2010, there were minor changes in their sectoral structure and location. As a whole these changes can be explained by SMEs reaction to the consequences of a crisis in 2009, which led to a significant foreign trade volume drop. In 2010 small and medium-size business was characterized by greater economic and social mobility in comparison to public sector. Nevertheless, despite these qualities as well as annual growth of SMEs investments share in the total investments volume, small and medium-size business is still an insignificant part of the Belarusian economy, its' growth of contribution to the national GDP volume amounted to just 1 percentage point.

2.2. Economic situation of SMEs in 2010

In order to evaluate SMEs economic situation the IPM Research Center conducted a survey, data of which is in many respects comparable to the above mentioned statistical data (sectoral distribution of SMEs), which generally is indicative of sample's representativeness.

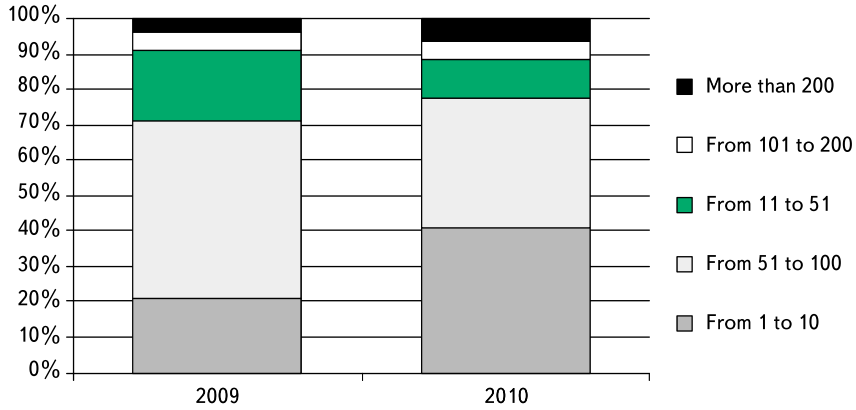
Thus, the analysis resulting from that survey allows concluding that 2009 crisis year impacted on the number of employed by Belarusian SMEs. As it is seen in Figure 2.5, just few medium-size enterprises managed to keep their staff in 2010 or slightly increase it. So, the number of SMEs with a number of employees above 200 grew from 3.9% in 2009 to 6.6% in 2010. However, the main tendency is characterized by a decrease in a number of workers. If the share of SMEs with a number of workers from 1 to 10 amounted to 21.3%, from 11 to 50 – 49.5% in 2009, then in 2010 these figures were 40.3% and 37.1% respectively. At the same time the share of enterprises with a number of workers from 51 to 100 dropped almost twice from 19.8% in 2009 to 10.8% in 2010. As it was mentioned above, this is first of all because of employers' freedom in private sector of Belarusian economy and their focus on profit, cost reduction in

Figure 2.4. Medium-size business geographic distribution of in 2010, %



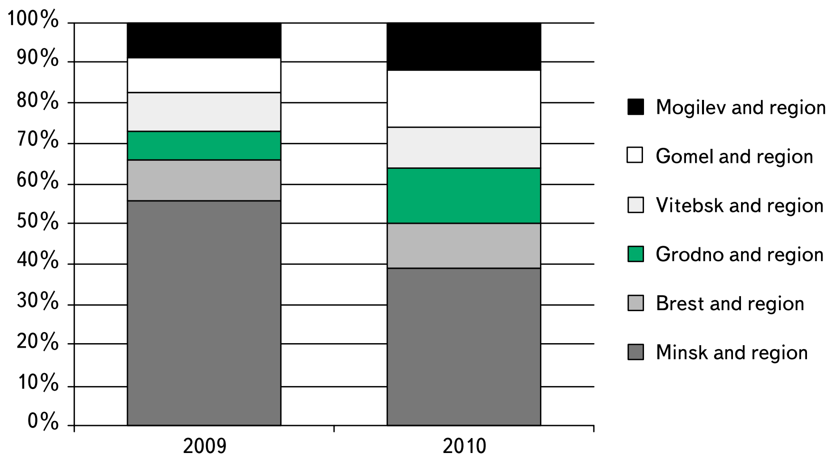
Source: BELSTAT.

Figure 2.5. Responses' distribution to the question: "How many people are working in your company?"



Source: IPM Research Center.

Figure 2.6. Responses' distribution to the question: "In what region is your company located?"



Source: IPM Research Center.

contrast to excessive emphasis of SOEs on jobs preservation.

The sectoral structure of SMEs located in Minsk is slightly different to the whole country's structure (see Table 2.1). According to the survey, there are more enterprises operating in the services in Minsk (consumer services, consulting services, education).

In contrast to services, industry is rather weakly represented in Belarusian capital. According to data presented in Figure 2.7 share of SMEs involved in manufacturing (industry) in Minsk is equal to 8.6% of all SMEs amount. In the regions and administrative center these figures are higher: Grodno – 51.9%, Brest and Gomel – almost 30%. Obviously such industrial SMEs allocation is favored by objective reasons (excessive city congestion, low mobility capabilities of produced goods, export-oriented companies' desire to place their production near mining or transport costs' reduction limits) as well as Minsk authorities' desire to move the maximum amount of industrial enterprises out of the city boundaries.

Belarusian SMEs continued to experience difficulties in doing business in 2010. According to the survey in 2010 8.4% of respondents rated the current enterprise condition as "bad", 27.5% – "below average" (in 2009 these figures were 5.6% and 14.3% respectively). 48.2% of respondents rated their companies as "stable" (56.5% in 2009) and only 6.6% evaluated the current state as "good".

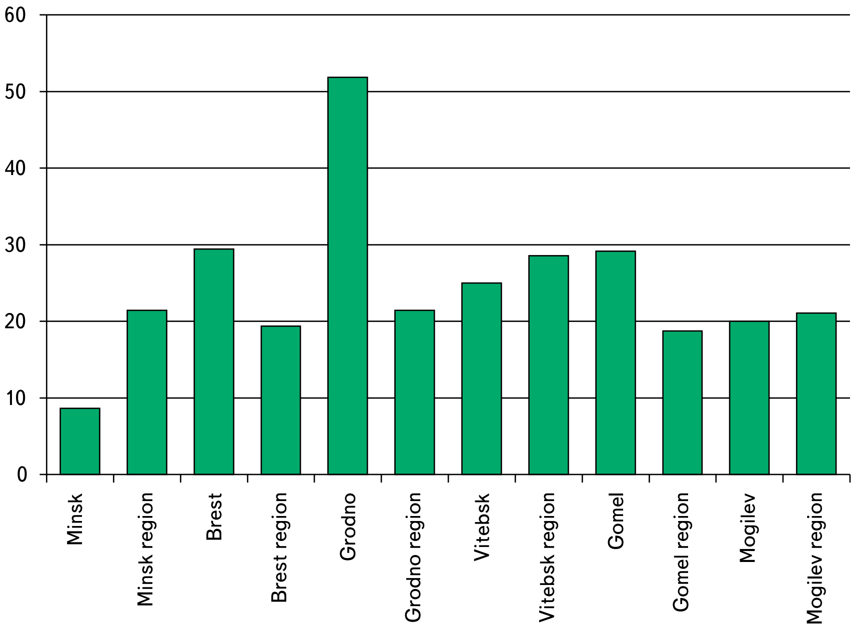
The most problematic situation is observed in trade. Obviously, such situation is primarily related to trade increment restrictions remained in 2010 and as a consequence low profitability of domestic SMEs. As the survey results showed, 12.4% SMEs representatives rated their enterprise economic situation as "bad", 29.5% – below average (see Figure 2.8). Thus, more than 40% of respondents experienced some difficulties in doing business in trade. 41.1% of respondents rated their enterprises as

Table 2.1. Comparison of SMEs structure in Minsk and in the country in general in 2011, %

	Country in general	Minsk
Trade	31.7	36.2
Food services	4.4	2.6
Industry	20.6	8.6
Construction	15.0	16.4
Transport and Communications	6.6	3.4
Consumer services	5.4	8.6
Consulting services	1.2	4.3
Education	0.7	2.6
IT services	3.4	4.3
Tourism	2.9	1.7
Advertising	1.2	0.9
Polygraphy/Publishers	2.0	3.4
Real estate	1.5	0.9

Source: IPM Research Center.

Figure 2.7. Share of industries SMEs in total number by regions



Source: IPM Research Center.

"stable", which is even lower than the sum of figures mentioned above. For comparison, just 7.8% evaluated their trade enterprise as "good".

Economic situation in most of SMEs in industry and food services was controversial in 2010. On the one hand more than 40% of the respondents (41.7% and 44.4% respectively) rated the economic situation of their enterprises as "stable". On the other hand almost the same number of respondents rated their companies' position as "below/above average" (23.8%/16.7% and 22.2%/22.2% respectively) and "good/bad" (7.1%/10.7% and 5.6%/5.6% respectively).

Appearingly high attention on domestic consumption as well as growing population's purchasing power as a result of public sector wages increase policy conducted by Belarusian authorities in 2010 allowed a number of domestic SMEs to preserve the achieved development level and even slightly improve it.

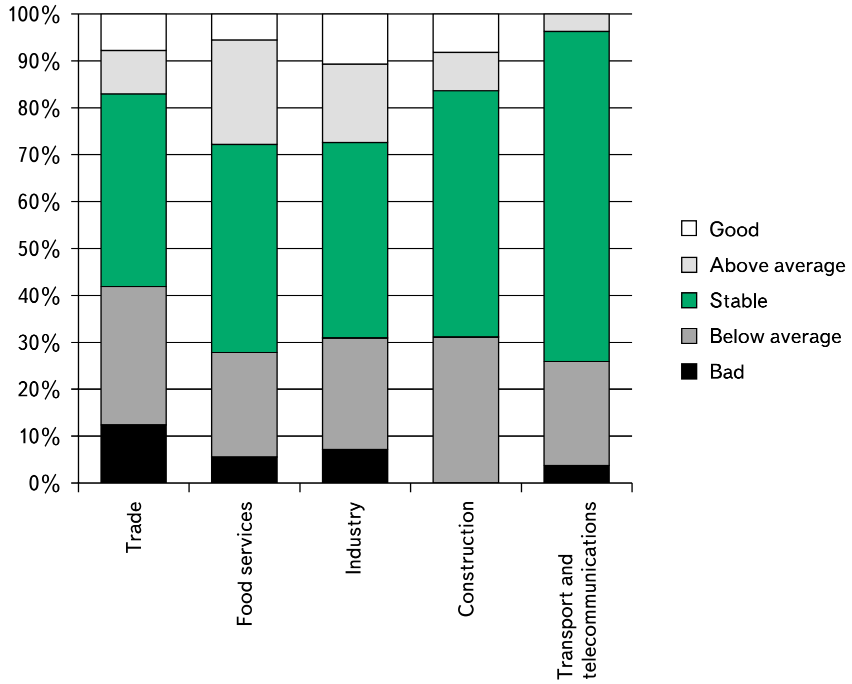
It is probable that these factors (public sector wage growth and increased foreign trade volume as well as raised demand from foreign partners) allowed almost a quarter of respondents to mention that in general their SMEs economic situation "slightly improved" in 2010 (Table 2.2). As can be seen the number of SMEs considering that their economic situation "remained unchanged" (31.9% vs. 23.7% in 2009) or "slightly improved" (25.8% vs. 18.5% in 2009) increased in 2010. Almost 6% of respondents reported a significant improvement in their economic situation (just 1% in 2009), while 10.3% believed that it became "much worse" (19.6% in 2009).

There are no representatives of the construction sector of Belarusian economy in the survey that rated SMEs economic situation as "bad". That may indicate that the construction had a more rapid recovery after the consequences of 2008–2009 economic crisis. More than half of the respondents rated the economic situation in construction sector SMEs as "stable" (52.5%). The number of those who rated it as "above average" or "good" was the same (8.2%).

The majority of those (70.4%) who rate the economic situation in their enterprise as "stable" are observed in "transport and telecommunications". This is mostly due to growth of foreign trade and transit through Belarus, which provided employment to transport companies' representatives and led to some freight and passenger market growth (one of the evidences is the logistics centers massive construction in Belarus). On the other hand, the continued growth of purchased equipment and utility costs, some fuel price growth as well as the competition with the public sector reflected in fact that almost quarter of the respondents (22.2%) rated the economic situation of their SMEs as "below average".

An interesting tendency is observed while analyzing the economic situation of SMEs depending on their size (see Figure 2.9). Based on the survey results we can conclude that the larger SME is, the easier it is to adapt to changing market conditions and to maintain the current level of business competitiveness. Thus, 14.8% of enterprises' representatives with a number of workers more than 200 rated their economic situation as

Figure 2.8. Responses' distribution to the question: "What is the current economic situation in your company?" – in some branches of the economy



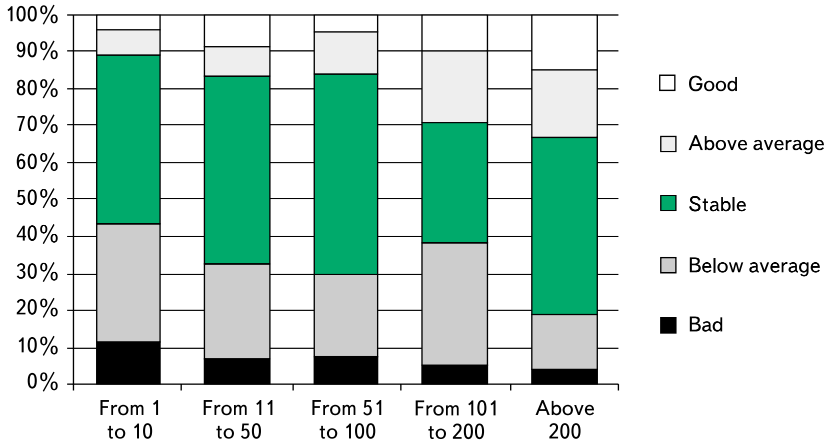
Source: IPM Research Center.

Table 2.2. Responses' distribution to the question: "How did the economic situation of your enterprise change during the last year?", %

	2010	2011
Became much worse	19.6	10.3
Became slightly worse	36.6	24.3
Unchanged	23.7	31.9
Slightly improved	18.5	25.8
Much better	1.0	5.7
NA/Hard to say	0.5	2.0

Source: IPM Research Center.

Figure 2.9. Responses' distribution to the question: "What is the current economic situation in your company?" – depending on the size of the company



Source: IPM Research Center.

"good", just 3.7% evaluated it as "bad" and almost half (48.1%) as "stable". At the same time opposite results have small SMEs with a number of workers from 1 to 10. Just 3.7% representatives of such enterprises rated their economic situation as "good". Simultaneously 43.3% reported negatively on enterprise's current economic situation (31.7% – "below average", 11.6% – "bad").

Thus, the number of those who think the economic situation in their enterprises is negative still remains high. An important role here is played by increased competition on the back of preserved subsidies to large SOEs. So, according to the survey 62% of SMEs representatives are assured that the competition in the Belarusian market has increased during the last three years, 34% – that it's been stable and less than 5% think that it has become weaker.

It should be mentioned that increased competition is recorded in all key branches of Belarusian economy. Table 2.3 shows that more than half of the respondents in such sectors as trade, food services, industry, construction, transport and communications said that competition in the market had increased during the last three years. The greatest competition strengthening was observed in trade – 65.9% of respondents mentioned it.

Similar situation was observed in the analysis of competition strengthening depending on SMEs size (Table 2.4). Increased competition was observed in small as well as medium-size enterprises during the last three years. Thesis regarding the fact that medium-size enterprises characterize their economic situation higher in comparison to small ones is confirmed. Thus, increased competition was mentioned by 55.6% respondents of SMEs with a number of workers more than 200.

As the competition increases more and more enterprises see their primary goal in preservation of business achieved level. For instance, around 52% of SMEs indicated this problem as a "very important" in 2010, and it was "irrelevant" for less than 3%. For comparison, 46% named business achieved level preservation as a "major challenge" in 2009. Simultaneously

Table 2.3. Responses' distribution to the question: "How did the competition in the market change in the last three years?" – in key branches of the economy, %

	Competition has strengthened	Competition is the same	Competition has become weaker
Trade	65.9	31.0	3.1
Food services	61.1	33.3	5.6
Industry	59.5	38.1	2.4
Construction	63.9	31.1	4.9
Transport and communications	55.6	37.0	7.4

Source: IPM Research Center.

Table 2.4. Responses' distribution to the question: "How did the competition in the market change in the last three years?" – depending on the size of the enterprise, %

	Competition has strengthened	Competition is the same	Competition has become weaker
From 1 to 10 workers	61.0	34.8	4.3
From 11 to 50 workers	63.6	30.5	6.0
From 51 to 100 workers	56.8	43.2	0.0
From 101 to 200 workers	71.4	23.8	4.8
More than 200 workers	55.6	40.7	3.7

Source: IPM Research Center.

Table 2.5. Responses' distribution to the question: "How, in your opinion, did the doing business conditions change during the last year?"

	Amount	%
Business conditions significantly improved	23	5.7
Business conditions slightly improved	111	27.3
Business conditions are the same	149	36.6
Business conditions slightly deteriorated	60	14.7
Business conditions deteriorated significantly	41	10.1
No answer/Hard to say	23	5.7
Total	407	100.0

Source: IPM Research Center.

was raising a number of those who see "business survival" as a primary goal also because of deteriorating conditions in the Belarusian market. This goal is "very important" for 35% of respondents (32% in 2009).

Obviously such results of the survey were influenced by the fact that around quarter of enterprises mention "slight" (14.7%) or "significant" (10.1%) "business conditions deterioration" (Table 2.5). At the same time more than one third of the respondents believes that business conditions haven't changed during the last three years and just 5.7% noted "significant improvements".

From the survey results we can conclude that 2010 was very controversial for Belarusian SMEs. On the one hand survey results showed the continuing challenges in doing business environment, increasing competition, the primary need in business achieved level preservation or even survival. On the other hand population income increased in 2010 while concessional consumer loans lending policy enabled the rapid growth of demand on SMEs products, which allowed the majority of them mentioning economic situation improvement or at least any changes absence. In this connection it is useful to analyze what factors contribute/impede the successful SMEs entrepreneurship conduction in Belarus as well as what measures would be implemented for further functioning improvement.

2.3. Factors contributing/impeding SMEs functioning

So, Belarusian SMEs continued to experience difficulties with doing business in 2010. However, as it was mentioned earlier, exactly SMEs appeared to be more flexible (than SOEs for instance) in its response to changing doing business conditions and external and internal market conditions. In many respects this is due to their greater freedom in actions and decision-making, absence of need in high production rates/trade volumes and their social obligations observance. Moreover, it is much easier for private enterprises, especially SMEs to change the business line during the system difficulties and structural changes in the national economy.

However, it should be noted that SMEs are much more driven in new methods of their activities' introduction and conduction, are more loyal to all sorts of innovations' approbation (for instance, delegation of authority practice from top-management to lower-level management, reduction of centralization in decision-making) and more quickly realize them in practice. These actions' effectiveness is shown in the results of Belarusian SMEs survey (Table 2.6).

As the survey results show team assistance provides greatest help in doing business for Belarusian SMEs: 62.4% respondents mentioned high importance of team assistance. High figures (more than half of the respondents gave the maximum score) have such factors as "management professional level" (56.0%), "market knowledge, ability to predict market conditions" (53.6%), "ability to produce competitive product" (51.6%). The respondents also noted high importance of the factor "level of legislation knowledge, ability to defend the rightness" (47.9%). As for "relations with authorities and influential people" according to SMEs representatives' opinion this factor is not that important in comparison to other mentioned above. Less than a third of respondents claimed that such relations are "very helpful", while nearly a quarter consider them as "irrelevant". Apparently the authorities and influential people keep following the implemented earlier policy of limited intervention into the

Table 2.6. Responses' distribution to the question: "What internal factors help you in doing business?"

	Complicates extremely				Doesn't matter				Very helpful		
	–5	–4	–3	–2	–1	0	1	2	3	4	5
Team availability/absence	3.2	0.5	0.7	2.0	1.7	5.9	2.5	2.2	7.4	11.5	62.4
Management professional level	1.2	0.2	0.5	1.2	1.2	9.3	2.2	4.9	8.1	15.0	56.0
Presence/absence of delegation of authority from top management to lower-level management practice, reduction of centralization in decision-making	2.2	0.0	1.0	2.7	2.5	35.9	3.9	4.2	13.5	12.5	21.6
Market knowledge, ability to predict market conditions	0.7	0.0	0.0	0.7	0.7	7.6	4.4	4.7	12.0	15.5	53.6
Ability to produce competitive product	1.2	0.0	0.2	0.5	0.5	17.4	2.9	3.9	7.9	13.8	51.6
Relations with authorities and influential people	2.0	1.0	0.2	1.5	1.5	23.3	7.9	7.9	13.0	11.5	30.2
Level of legislation knowledge, ability to defend the rightness	0.2	0.5	0.5	0.2	1.2	9.1	7.4	7.4	12.3	13.3	47.9

Source: IPM Research Center.

Table 2.7. Responses' distribution to the question: "What external factors impede your successful doing business?"

	Complicates extremely				Doesn't matter				Very helpful		
	–5	–4	–3	–2	–1	0	1	2	3	4	5
Level of competitiveness in the market	17.0	7.1	12.0	8.4	5.7	12.8	3.2	4.9	11.5	4.4	13.0
Presence of state support	4.4	1.5	2.2	2.5	2.5	34.6	7.4	10.8	13.3	9.3	11.5
Business environment in comparison to public sector	7.1	2.2	4.7	6.9	6.9	39.8	6.1	6.9	7.6	5.4	6.4
Level of property rights and private business interests protection	5.7	1.2	5.9	2.9	5.4	32.2	9.3	8.8	7.1	6.9	14.5
Corruption level	11.1	3.2	8.6	8.1	6.6	48.9	3.7	2.9	2.2	1.5	3.2
Foreign exchange regulation	33.9	5.2	7.1	4.4	3.9	23.6	2.2	2.0	4.2	3.7	9.8
Tax regulation and tax rates	11.8	5.7	10.3	10.3	9.1	22.6	5.9	5.9	6.9	3.2	8.4
Rent rates	10.1	5.7	10.6	11.1	9.1	29.0	4.7	5.2	5.4	4.9	4.4
System of control and penalties	13.3	6.6	13.8	13.0	11.3	21.9	3.7	2.9	4.4	2.9	6.1
Rates on banks' and other institutions' loans	16.7	7.1	8.6	9.8	7.4	32.2	2.7	2.9	3.7	3.7	5.2
Economic policy of other countries	5.7	1.7	2.7	5.2	5.2	61.9	4.7	4.9	3.9	2.0	2.2

Source: IPM Research Center.

competition between SMEs, preferring to focus their attention on large business.

Despite the fact that just 21.6% of respondents mentioned "delegation of authority practice from top-management to lower-level management, reduction of centralization in decision-making" as a substantially helpful factor in doing business, the authors believe that this is a significant result. The fact that every fifth company sees the possibility of its' work activization in decision-making centralization reduction is already signallling about the changes in SMEs managers psychology and their views on doing business principles. There is no doubt that the authority decentralization process takes much longer time in SOEs and is in the very beginning in Belarus.

The SMEs representatives survey regarding the successful doing business impeding factors was conducted in a similar way. The results of this survey are presented in Table 2.7.

As it can be seen, foreign exchange regulation is the greatest difficulty to domestic SMEs. It is noteworthy that the exchange rate of Belarusian ruble vs. currency basket was stable in 2010, 33.9% of respondents evaluated that factor at a minimum rate (–5 – extremely complicated). Obviously in the results of current 2011, when the country was severely hit by real currency crisis, such estimate will be given by much larger number of respondents.

More than half of the respondents gave a negative evaluation to the factor "level of competitiveness in the market" and 17% said that this factor extremely complicates successful doing business, which confirms our previous conclusions regarding relatively high influence degree of continuing increasing competition for SMEs in the domestic market.

It is a natural result that the smallest number of questioned SMEs representatives gave the lowest score to the factor "presence of state support" (4.4%). On the other hand, unexpectedly large number of respondents mentioned state support. So, more than 60% evaluated this support with scores from "1" to "5". Probably hear we are talking about the concessional lending preserved in pre-election 2010 as well as a number of SMEs measures and benefits on the back of once again announced SMEs business environment liberalization program.

The distribution of the "level of corruption" scores looks interesting. Thus, almost half of the respondents (48.9%) stated that this factor did not have any impact on the successful

Table 2.8 Responses' distribution to the question: "What are the main strengths and shortcomings of tax legislation?"

	This is a big problem				It doesn't matter			This is a great advantage			
	–5	–4	-3	–2	–1	0	1	2	3	4	5
Number of taxes and dues	15.2	4.7	11.8	8.6	9.8	22.6	8.6	5.7	6.1	3.7	3.2
Total sum of taxes (tax liabilities)	17.4	9.3	12.8	10.6	8.6	19.2	8.1	5.9	3.7	2.2	2.2
Frequency of changes in tax legislation	28.0	14.0	13.0	10.1	7.1	14.0	5.7	2.7	2.0	1.7	1.7
Regularity of filing and taxes and dues payments	2.7	5.9	7.9	6.1	10.1	41.0	6.4	3.9	5.2	5.4	5.4
Time and efforts spent on tax payments	10.1	7.1	11.3	8.4	12.3	30.5	5.9	3.4	5.9	2.5	2.7
Open access to tax information	2.5	2.5	6.4	4.4	3.9	25.8	3.7	9.8	15.2	9.1	16.7

Source: IPM Research Center.

Table 2.9. "What are the opportunities for your business in 2011?"

	Amount	Frequency of choice
More rational approach to financial resources usage	204	50.1
Search for the business models/solutions, more prompt actions	259	63.6
Qualified labor force hire at a lower cost	99	24.3
Withdrawal from the competitors market	120	29.5
Production facilities modernization	103	25.3
Usage growth of give and take schemes and subcontracts	32	7.9
Access simplification to financial resources	102	25.1
Other	17	4.2

Note. Not more than 5 answers were possible.
Source: IPM Research Center.

doing business. Apparently, the domestic SMEs got used to this phenomenon in the domestic economy and treat it like one of the conditions you can do nothing with except for accept it.

Traditionally there is a difference of views of Belarusian SMEs directors and public authorities regarding the tax questions. 2010 was not an exception here. Table 2.8 presents the survey data, according to which more than half of the respondents claim that almost every point provides several obstacles for successful doing business conduction. Except for, perhaps, "open access to tax information", where more than half of the respondents positively evaluated policy implemented in this direction, and 16.7% even called it "a great advantage of tax legislation".

The obstacles faced by domestic SMEs in 2010 have a significant impact on business activities. So, the most popular answer to the question "What are the opportunities for your business in 2011?" (Table 2.9) was "search for the business models/ solutions, more prompt actions" (63.6%). This is an alarm signal for Belarusian authorities, as many SMEs representatives under "search for the business models" understand business withdrawal from Belarus and its' transfer to Russia of Kazakhstan (our partners in the Customs Union), where significantly more attention is paid to the main obstacle – foreign exchange regulation.

So, despite the SMEs number growth, their economic situation and doing business conditions leave something to be desired. Moreover, while decrease in foreign trade and restricted domestic demand were the main difficulties for private initiative growth in crisis 2009, currently the main role is played by low competitiveness of domestic SMEs in comparison to foreign companies together with unequal economic activity in comparison to SOEs.

Foreign exchange regulation and high competition with SOEs rather than within SMEs sector lead to SMEs economic and financial performance deterioration. As a result companies are not as active in modernization, investment and innovation activities as they could be. Therefore in conditions of foreign companies' access to domestic market improvement and increasing competition they will face serious challenges and problems. An important form of real support can be equal doing business conditions for private and public enterprises. The idea of state support should change significantly, become address and more responsive to business needs.

Complex and strategically correct economic policy becomes very relevant in conditions of increasing crisis developments in the economy on the one hand and willingness to support domestic SMEs development on the other. It is important today to create a foundation of fundamentally new SMEs development stimulation policy in Belarus in order to strengthen its participation in national economy.

3. CORRUPTION AND SHADOW ECONOMY

3.1. Belarus in a Corruption Perception Index ranking

One of the most popular internationally recognized methods of economy's corruptness evaluation is the Corruption Perception Index[2] (CPI) of an authoritative international organization Transparency International. According to the data, published annually Belarus can be called a country with a high degree of national economy's corruption. Thus in the 2000's the place of Belarus has declined steadily, reaching the lowest level in 2006 – 151st place out of 180 possible (in 2002, Belarus occupied 36th place among the analyzed countries, in 2005 – already 107th). This decline was especially noticeable in comparison with stable or even improving situation in neighboring countries. Russia has moved from 126th place to 121st, Ukraine – from 107th to 99th. Belarus "shared" 151st place with the CIS countries: Tajikistan, Uzbekistan and Kyrgyzstan. Belarus consistently occupied a 151st place till the global economic crisis in 2008. The adoption of several doing business open format promoting (from economic and legal points of view) measures due to need in economy's liberalization allowed Belarus slightly to improve position in the world rankings.

During 2009 Belarus climbed 12 positions up – from 151th to 139th place in the Transparency International rating with a score of 2.4 of 10 points possible. The positive tendency continued in 2010 and the country with 2.5 points took 127th place. At the same time it should be noted that 127th place in the world ranking of CPI is still demonstrating the continuing high corruption and administrative control burden on Belarusian economy in comparison to several other European countries (Figure 3.1).

Thus, Belarusian score (2.4) is much smaller than the rankings of the leaders – Denmark, New Zealand and Singapore (9.3; the higher the accumulated score is, the lower is level of corruption, the maximum possible score – 10 points). It should be noted that Belarus shares 127th place with such countries as Ecuador, Lebanon, Nicaragua, Syria, Uganda (Table 3.1).

Ten of the least corrupt countries in the world are the following: Denmark, New Zealand, Singapore – 1st place, Finland and Sweden – 4th place, Canada – 6th place, the Netherlands – 7th place, Australia and Switzerland – 8th, Norway – 10th. Iceland and Luxemburg are 11th, and Hong Kong is 13th. The most corrupt in the world are: Iraq – 175th place, Myanmar and Afghanistan – 176th and Somalia closes the list on the 178th place.

Among the CIS countries and neighboring countries the situation is following: Estonia – 26th place, Poland – 41st place, Lithuania – 46th place, Latvia – 59th place. It is noteworthy that almost all of the member countries of the European Union, with the exception of Latvia, have improved their position in comparison to last year's ranking.

Georgia is 68th place (was 66th year before). Moldova worsened its' position significantly and dropped from 89th place to 105th and now shares it with Kazakhstan. Armenia is 123rd place, Belarus is 127th. Azerbaijan and Ukraine improved their positions and now share 134th place. Russia dropped from 146th to 154th place and shares it with Tajikistan.

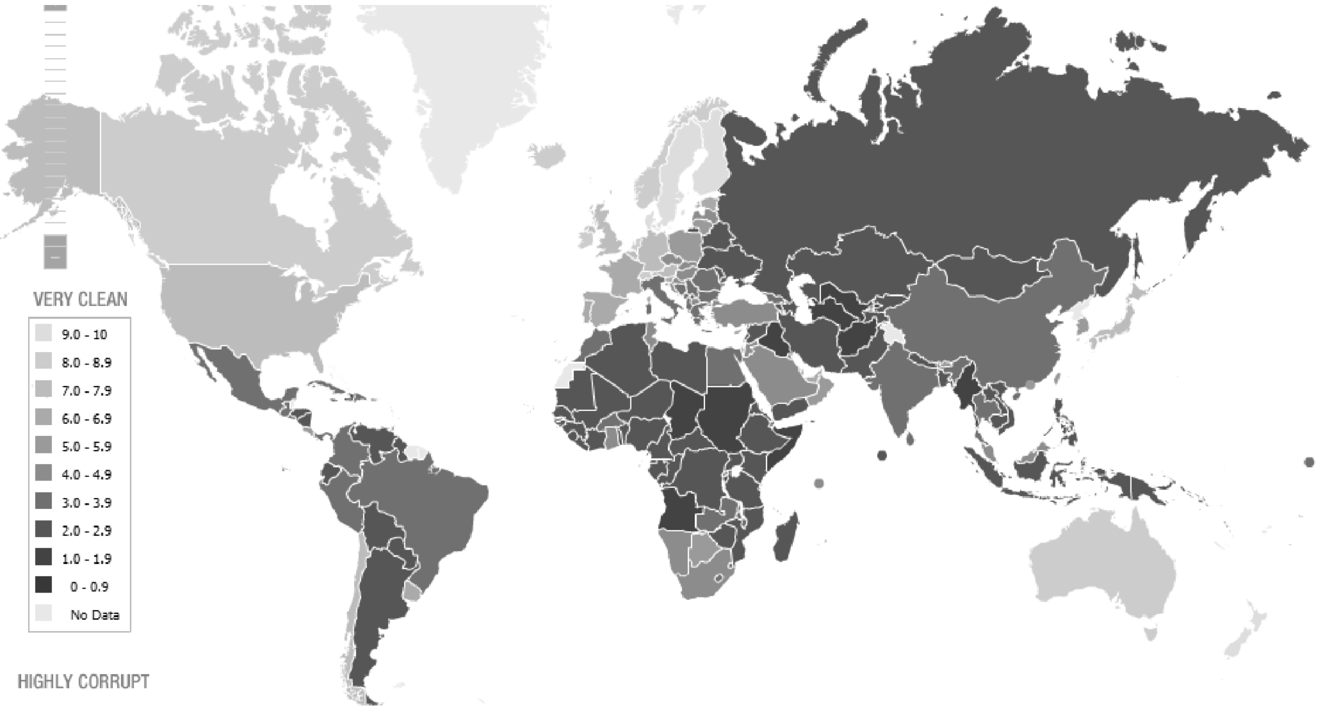
Table 3.1. Comparison of several countries according to Corruption Perception Index in 2010

Place	Country	Ranking
1	Denmark, New Zealand , Singapore	9.3
26	Estonia	6.5
41	Poland	5.3
46	Lithuania	5.0
59	Latvia	4.3
68	Georgia	3.8
105	Kazakhstan	2.9
105	Moldova	2.9
123	Armenia	2.6
127	Belarus	2.5
134	Azerbaijan	2.4
134	Ukraine	2.4
154	Russia	2.1
154	Tajikistan	2.1
164	Kyrgyzstan	2.0
172	Turkmenistan	1.6
172	Uzbekistan	1.6

Source: Transparency International.

[2] Corruption Perception Index (see: http://www.transparency.org/). The CPI, compiled by Transparency International, measures the perceived levels of corruption in the public sector of any country and is a composite index, drawing on data from surveys conducted among experts and the business community (13 different polls of experts and business representatives). CPI 2010 ranks 187 countries on a scale of 0 to 10, where zero indicates the highest level of perceived corruption and ten – its lowest level.

Figure 3.1. World map according to CPI ranking in 2010



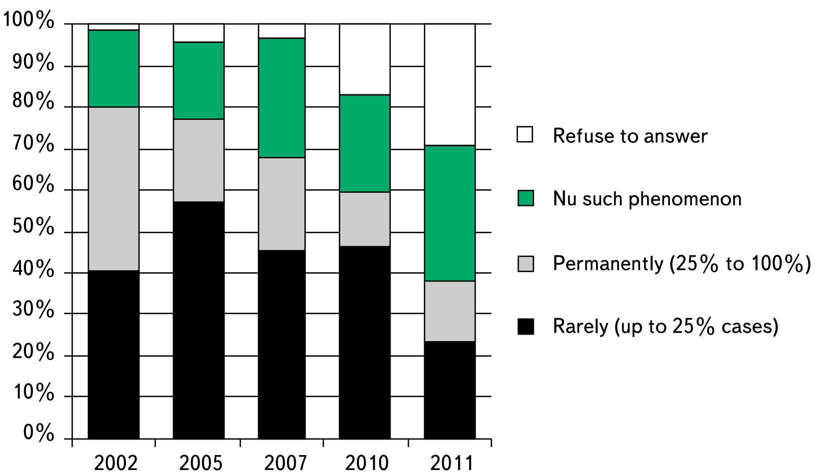
Note. Dark color – high level of corruption; light – low corrupted countries.
Source: Transparency International.

Table 3.2. Answers to the question: "How often executives of private companies are forced to bribe (in any way) administrative agents?", %

	2002	2005	2007	2010	2011
Infrequently (up to 25% cases)	40.7	57.0	45.4	46.1	23.6
Permanently (from 25% to 100%)	39.4	20.3	22.7	13.5	14.3
No such phenomenon exists	18.5	18.8	28.8	23.1	33.2
No answer/ Refuse to answer	1.4	4.0	3.2	17.3	29.0
Total	100.0	100.0	100.0	100.0	100.0

Source: IPM Research Center.

Figure 3.2. Frequency of bribing the public authorities representatives in 2002–2011



Source: IPM Research Center.

The most corrupt among CIS countries are Turkmenistan and Uzbekistan, which shared 172nd place in 2010.

A. Lukashenko, the President of Belarus, on September 23, 2010 through Decree № 485 approved the State Anti-Crime and Corruption Program for 2010–2012. It replaced the previous Anti-Corruption Program for 2007–2010. General Prosecutor's Office became responsible for Program's implementation.

At the same time, as the results of the survey[3] conducted by the IPM Research Center showed, despite the struggling with corruption measures taken, its' level almost did not reduce. As the international practice shows, no country has coped with the corruption solely through punitive actions and harsh sanctions. Competition, openness, transparency, publicity, simplicity and legislation and administrative procedures accessibility are

[3] Directors of Belarusian SMEs took part in the survey. 407 domestic SMEs from different sectors of the economy were surveyed.

Table 3.3. Answers to the question: "How often executives of private companies are forced to bribe (in either way) administrative agents?", %

	Amount	%
There is no such phenomenon	135.0	33.2
Up to 25% of cases	96.0	23.6
26–50% of cases	42.0	10.3
51–75%of cases	8.0	2.0
More than 76% of cases	8.0	2.0
No answer/Refuse to answer	118.0	29.0
Total	407.0	100.0

Source: IPM Research Center.

Table 3.4. Answers to the question: "How often executives of private companies are forced to bribe (in either way) administrative agents?", %

	No such phenome non exists	Up to 25% of cases	26–50% of cases	51–75% of cases	More than 76% of cases	NA / Refuse to answer
Field of activity						
Trade	32.6	24.0	16.3	3.9	2.3	20.9
Food services	38.9	27.8	11.1	–	5.6	16.7
Industry (manufacturing)	28.6	20.2	9.5	1.2	1.2	39.3
Construction	36.1	21.3	8.2	–	4.9	29.5
Transport and communication	37.0	25.9	7.4	3.7	–	25.9
Consumer services	54.5	18.2	–	–	–	27.3
Consulting services	–	20.0	40.0	–	–	40.0
Education	33.3	33.3	–	33.3	–	–
IT services	35.7	28.6	–	–	–	35.7
Real estate	16.7	16.7	–	–	–	66.7
Tourism	33.3	25.0	–	–	–	41.7
Advertising	40.0	40.0	–	–	–	20.0
Polygraphy/Publishers	25.0	37.5	–	–	–	37.5
Other	23.1	30.8	15.4	–	–	30.8
Average	33.2	23.6	10.3	2.0	2.0	29.0
Number of employees						
From 1 to 10	31.7	24.4	8.5	2.4	1.2	31.7
From 11 to 50	40.4	23.2	9.9	1.3	1.3	23.8
From 51 to 100	29.5	29.5	15.9	2.3	2.3	20.5
From 101 to 200	4.8	19.0	9.5	–	9.5	57.1
Above 200	29.6	14.8	14.8	3.7	3.7	33.3
Average	33.2	23.6	10.3	2.0	2.0	29.0
Region						
Minsk	33.6	27.6	12.1	4.3	1.7	20.7
Minsk region	21.4	38.1	19.0	2.4	–	19.0
Brest	52.9	23.5	17.6	–	–	5.9
Brest region	6.5	35.5	9.7	–	16.1	32.3
Grodno	14.8	18.5	3.7	–	–	63.0
Grodno region	32.1	32.1	14.3	7.1	–	14.3
Vitebsk	65.0	–	–	–	–	35.0
Vitebsk region	57.1	19.0	4.8	–	–	19.0
Gomel	37.5	4.2	–	–	–	58.3
Gomel region	18.8	31.2	15.6	–	3.1	31.2
Mogilev	53.3	10.0	3.3	–	–	33.3
Mogilev region	36.8	5.3	10.5	–	–	47.4
Average	33.2	23.6	10.3	2.0	2.0	29.0
Year of establishment						
Prior to 1996	37.3	19.4	10.4	–	1.5	31.3
1997–2004	30.1	21.8	9.8	2.3	3.8	32.3
2005–2007	34.0	23.7	11.3	1.0	2.1	27.8
2008–2010	33.6	28.2	10.0	3.6	–	24.5
Average	33.2	23.6	10.3	2.0	2.0	29.0

Source: IPM Research Center.

the main instruments to fight corruption in the western developed economies, which are constantly high in the international Corruption Perceptions Index ranking.

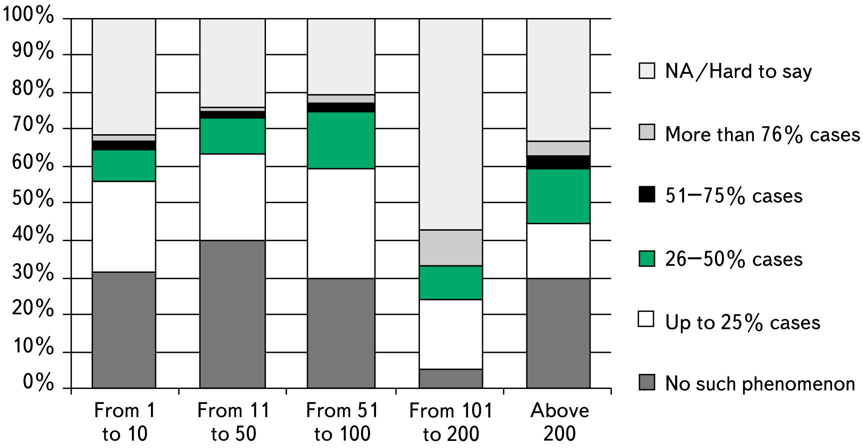
3.2. Bribes

According to the results of the IPM Research Center survey a significant proportion of respondents permanently or from time to time give bribes to government representatives (Tables 3.2–3.4). This share – around 70% – remained unchanged during the last several years despite the active fight against corruption in the state. That indirectly confirms the findings of Transparency International on high corruptness of the Belarusian state administrative bodies. At the same time, according to our surveys, the number of SMEs claiming about the absence of bribery cases increased significantly (from 18.8% in 2005 to 23.1% in 2010 and 33.2% in 2011). One of the most possible reasons of such results is the financial system crisis of the beginning of 2011, which hindered SMEs access to foreign currency significantly, led to a production volume drop and as a result to drop in income. In that way in minimized the possibility of giving bribes. At the same time the so-called psychological factor should be noted, which consists in that some minor bribes are eventually no longer taken as bribes by SMEs representatives and therefore were not reported in the survey results. It also must be noted that the number of those who refused to answer the question about the frequency of bribing has recently increased, and that doesn't allow speaking about the positive dynamics with confidence.

Several trends can be identified according to the last decade survey data (Figure 3.2). So, the number of respondents refusing to answer the question about the frequency of bribes is growing from year to year. At the same time the decrease in the frequency of "constant bribing" is noted (from 39.4% in 2002 to 14.3% in 2011). Probably a part of the respondents, which mentioned "constant bribing" before just refused to answer the question and thereby increasing the number in the column "no answer/ refuse to answer". The results of the survey conducted in 2011 allowed looking closer at the frequency of bribing (see Table 3.3).

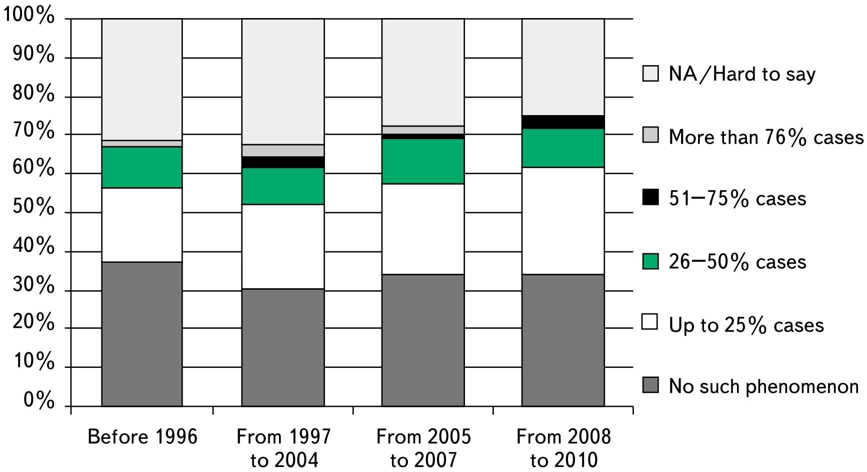
As it is shown in Table 3.4, there is a frequency of bribing of public

Figure 3.3. Relationship between company's size and frequency of bribing



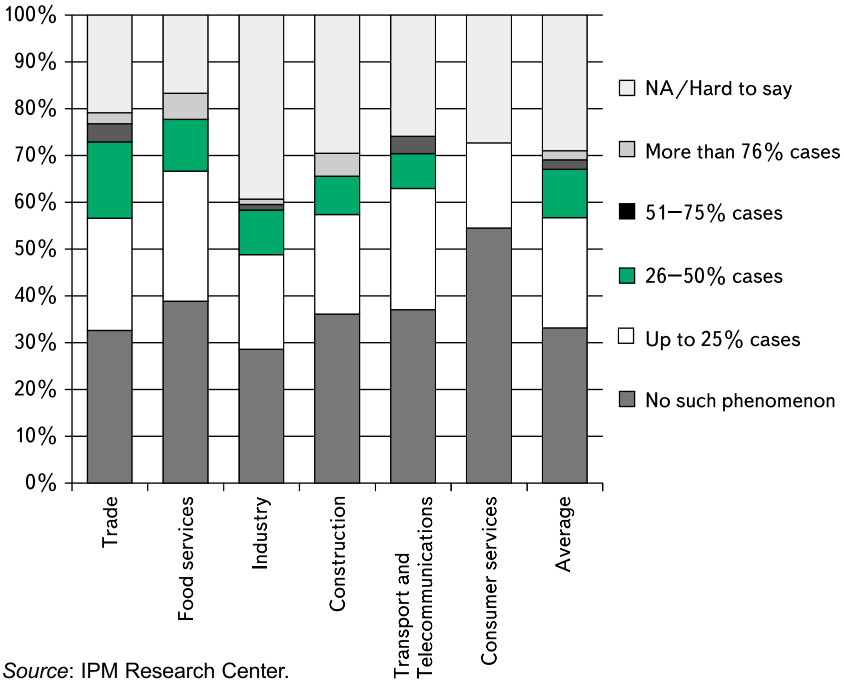
Source: IPM Research Center.

Figure 3.4. Relationship between company's year of foundation and frequency of bribing



Source: IPM Research Center.

Figure 3.5. Relationship between company's field of activity and frequency of bribing



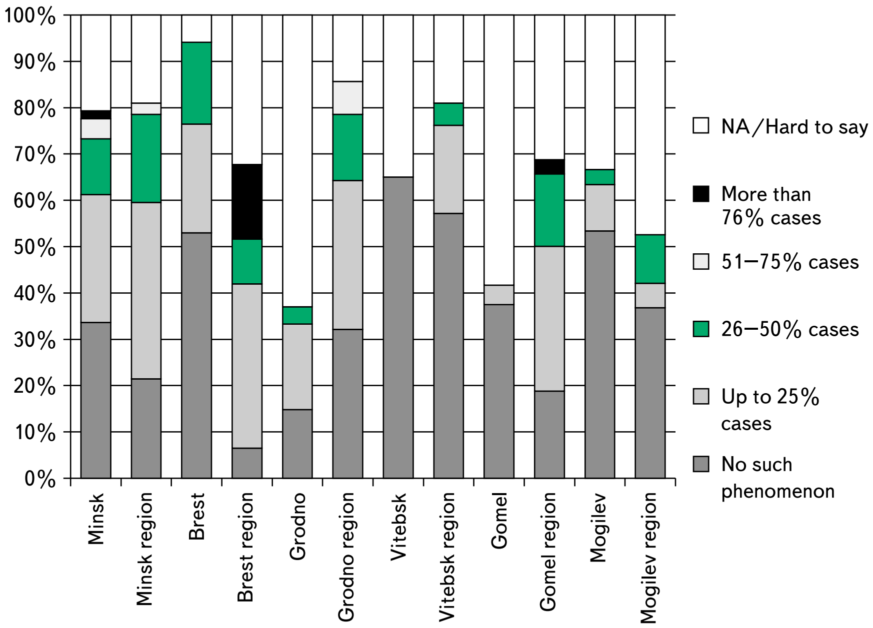
Source: IPM Research Center.

authorities representatives reduction tendency in Belarus. Just 2% of the respondents stated that they are forced to give bribes in 51–75% of cases; same 2% have to give bribes in more than 75% of cases. Together with the fact that just 10.3% of respondents declare the fact of bribing in 26–50% of cases we can conclude that these situations occur more frequently in less than a quarter of cases. But that's important to mention one more time here the high percentage of Belarusian SMEs who refused or wasn't able to answer the question about the frequency of bribing (29%) forcing to take these findings with caution. Figure 3.2. shows the changes in bribing frequency in 2002–2011 years.

According to obtained results the number of bribes depends on the size of the company (Figure 3.3). Small and medium companies with a number of workers from 1 to 10 and from 11 to 50 most often talked about the absence of bribing practice (31.7% and 40.4% respectively). That is probably partly due to either already mentioned physiological factor or that company's turnover is insufficient to pay bribes. The larger the company is the greater number of respondents mentioned the bribing cases (more than 76% of cases): 9.5% of respondents from the companies with a number of workers from 101 to 200, 3.7% – companies with a number more than 200 employees. At the same time the percentage of those who refused to or was not able to answer about the frequency of bribing is much higher among the large companies. Apparently, the fear regarding such cases' disclosure and the responsibility for them to relevant state authorities are the main reasons of that.

Analysis of corruption in terms of "age" of the company like in the previous surveys doesn't allow identifying the clear pattern. Approximately 40% of respondents regardless the company's year of foundation reported cases of bribing, about 33% of respondents declared absence of such phenomenon in their practice and

Figure 3.6. Relationship between region and the frequency of bribing



Source: IPM Research Center.

Table 3.5. Responses' distribution to the question: "In your opinion, in what areas/business regulatory authorities there is the largest number of bribing and corruption?", %

	1	2	3	4	5	NA
Price regulation	49.6	19.2	17.0	2.5	3.2	8.6
Licenses	43.2	19.4	18.2	8.1	5.9	5.2
Hygienic registration and certification	32.9	17.7	19.9	11.8	11.5	6.1
Sanitation	28.3	19.9	18.4	13.3	15.0	5.2
Fire Supervision	26.5	15.2	20.6	19.4	13.3	4.9
Tax payment	56.3	17.7	11.8	5.7	3.4	5.2
Tax audits	41.3	21.6	17.4	9.6	4.7	5.4
Customs clearance	39.1	18.4	16.2	7.9	10.3	8.1
Permits for land	27.3	16.5	18.7	13.0	14.7	9.8
Obtaining various permissions in local authorities	28.5	17.2	20.1	13.5	14.0	6.6
Lease	39.3	17.0	18.2	11.8	7.9	5.9
Tenders	29.5	9.3	18.2	12.3	23.6	7.1

Note. "1" – extremely rare, "5" – very often.
Source: IPM Research Center.

Table 3.6. Answers to the question: "How is such a phenomenon as 'kickbacks' in return for profitable contracts widespread in Belarus?", %

	2002	2005	2007	2010
Every tenth	11.6	20.5	17.6	12.3
Every fifth	18.8	21.3	17.6	11.6
Every third	14.3	15.5	13.7	8.1
Every second	10.6	8.8	9.5	4.5
Every single	12.7	1.5	3.7	3.1
There is no such phenomenon	25.9	25.5	33.4	24.1
No answer	6.1	7.0	4.6	36.3
Total	100.0	100.0	100.0	100.0

Source: IPM Research Center.

29% were not able to answer the question (Figure 3.4).

In order to analyze the relationship between field of activity and frequency of bribing several branches of economy were selected where the largest number of companies was observed: trade, food services, industry, construction, transport and telecommunications, consumer services (Figure 3.5). The least number of bribes was observed in consumer services, which is possibly due to low turnovers and already mentioned psychological factor. The largest number of bribes was observed in trade and food services, while construction (last year leader) moved to the 3rd place. One of the reasons of that is the financial crisis of the beginning of 2011, when substantial number of construction projects was suspended indefinitely because of limited access to foreign currency in the country.

In regional perspective the best situation with the corruption like in the previous year results is in Vitebsk and Vitebsk region as well as Brest and Mogilev (Figure 3.6). In Vitebsk region the largest number of respondents denied cases of bribing, and even more – none of the respondents mentioned such cases. Of course, that does not mean that there is no bribing phenomenon in Vitebsk and certainly several cases of bribing were "hidden" in the column "No answer/Hard to say" (35%). The number of bribing cases in Brest region grew significantly. That is possible that partly it is because of commencement Customs Union work and substantially increased number of freight's registration passing through Belarusian border.

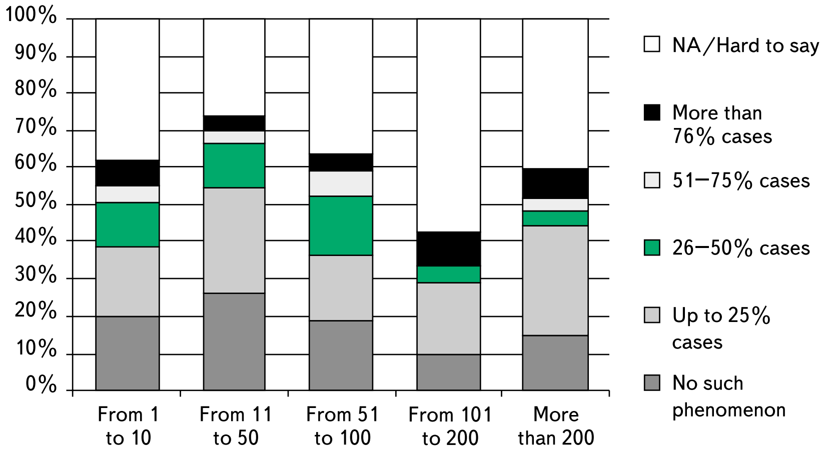
According to the survey the most frequent cases of bribing occur in the process of tendering, sanitary and fire control as well as while obtaining land and other permits from local authorities (Table 3.5). At the same time it should be noted that cases of bribing occur extremely rare in price regulation sphere, which allows conclude about the positive impact of liberalization measures taken by the government. Besides progress in tax payments control could be mentioned, where half of the respondents reported extremely rare cases of bribing.

Table 3.7. Answers to the question: "How is such a phenomenon as 'kickbacks' in return for profitable contracts widespread in Belarus?", %

	No phenomenon	Up to 25%	26–50%	51–75%	More than 76%	NA
Trade	20.2	21.7	14.7	4.7	6.2	32.6
Food services	44.4	11.1	11.1	–	5.6	27.8
Industry (manufacturing)	14.3	31.0	10.7	2.4	3.6	38.1
Construction	31.1	26.2	6.6	1.6	4.9	29.5
Transport and communication	22.2	11.1	14.8	3.7	11.1	37.0
Consumer services	22.7	22.7	–	4.5	4.5	45.5
Consulting services	–	20.0	40.0	20.0	–	20.0
Education	33.3	–	33.3	–	33.3	–
IT services	14.3	14.3	–	21.4	7.1	42.9
Tourism	33.3	8.3	8.3	8.3	–	41.7
Advertising	20.0	40.0	–	–	20.0	20.0
Polygraphy/Publishers	–	25.0	–	–	12.5	62.5
Real estate	–	33.3	16.7	–	–	50.0

Source: IPM Research Center.

Figure 3.7. Responses' distribution to the question: "How is such a phenomenon as 'kickbacks' in return for profitable contracts widespread in Belarus?"



Source: IPM Research Center.

Table 3.8. Answers to the question: "What is the share of shadow turnover (unreported deals) in the total turnover of private companies?", %

	2000	2002	2005	2007	2010	2011
Up to 10%	14.4	17.5	25.0	23.2	12.4	28.5
10–25%	28.5	19.0	26.5	19.3	16.6	
26–50%	16.8	3.4	15.0	13.2	14.0	15.0
51–75%	18.2	3.4	3.8	6.1	2.6	2.9
Above 75%	–	3.2	1.3	1.5	1.1	3.2
No answer	15.1	36.0	7.0	3.4	20.8	20.9
There is no such phenomenon	6.9	17.5	21.5	33.4	32.5	29.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: IPM Research Center.

3.3. 'Kickbacks' and payments in cash

The research showed that such corruption phenomenon as "kickback"[4] like in previous years is still largely presented in the economy (Table 3.7). Thus every 10th of private companies is working under the "kickback" system in more than 50% of cases. The number of those who denies the existence of such phenomenon in their practice remained practically unchanged in results of the 2011 survey in comparison to the previous years. That answer was provided by 21.1% of respondents answered (24.1% in 2010), which is a slight change and doesn't allow identifying whatsoever trend. The number of those who refused to answer that question is similar (34.4% in 2011, 36.3% in 2010). The positive moment at the same time is that the number of kickbacks has reduced over time (Table 3.6). However, we must emphasize again that the number of those who refused or wasn't able to answer increased significantly.

[4] Kickback – type of bribe to company's official, who is a decision-maker about this company monetary funds' expenditure; is payable depending on the expended funds amount.

The prevalence of "kickbacks" almost does not depend on the sphere of activities (Table 3.7). We should pay attention here just to the line "transport and communications", where unusually large number of respondents claimed that they had to give "kickbacks" in more than 75% of cases. Apparently this is due to high presence of state monopoly companies in these markets, which stimulates the development of such corruption phenomenon. The rarest cases of "kickbacks" are observed in food services and construction. The authors see here the necessity to stress once again that SMEs representatives took part in the survey, which probably resulted in the low frequency of "kickbacks" for example in construction.

The largest number of "kickbacks" is observed in large companies with the number of workers from 101 to 200 (Figure 3.7). It could be noted that the small firms with number of workers from 1 to 10 and from 11 to 50 more often report the absence of such a phenomenon in practice. Obviously that is primarily due to the limited capacities of such companies to take part in different tenders, competitions, public procurement.

3.4. Shadow turnover

There is a slow negative trend in the area of Belarusian shadow turnover. Thus, there is a decrease in number of respondents reporting the absence of shadow turnover in comparison

Table 3.9. Answers to the question: "What is the share of shadow turnover (unreported deals) in the total turnover of private companies?", %

	There is no such phenome non	Up to 25%	26–50%	51–75%	More than 75%	Refused to answer
Branch of economy						
Trade	28.7	32.6	16.3	3.9	3.1	15.5
Food services	27.8	33.3	5.6	11.1	5.6	16.7
Industry (manufacturing)	29.8	26.2	14.3	0.0	0.0	29.8
Construction	37.7	21.3	11.5	0.0	6.6	23.0
Transport and communication	29.6	25.9	18.5	3.7	0.0	22.2
Consumer services	40.9	22.7	13.6	4.5	0.0	18.2
Consulting services	0.0	40.0	20.0	20.0	0.0	20.0
Education	33.3	33.3	0.0	0.0	33.3	0.0
IT services	21.4	14.3	21.4	7.1	7.1	28.6
Tourism	41.7	33.3	0.0	8.3	0.0	16.7
Advertising	20.0	60.0	0.0	0.0	0.0	20.0
Polygraphy/Publishers	12.5	25.0	25.0	0.0	12.5	25.0
Real estate	16.7	66.7	16.7	0.0	0.0	0.0
Number of workers						
From 1 to 10	28.0	37.8	12.8	2.4	2.4	16.5
From 11 to 50	34.4	21.9	16.6	2.0	3.3	21.9
From 51 to 100	25.0	29.5	15.9	6.8	2.3	20.5
From 101 to 200	9.5	19.0	14.3	4.8	4.8	47.6
Above 200	33.3	14.8	18.5	3.7	7.4	22.2

Source: IPM Research Center.

with previous survey results (Table 3.8). It is noteworthy that this issue had a positive trend during the several years before crisis 2008. Apparently the economic crisis and the absence of proper state support as well as increasing competition from the subsidized SOEs forced SMEs to conduct such a practice. However, the number of shadow turnover cases increased in 2011.

The most widely spread shadow turnover was observed in such spheres as trade, food services and construction (Table 3.9). So, the existence of such phenomenon in more that 75% of cases was mentioned by 3.1%, 5.6% and 6.6% respectively. As it was mentioned in the paragraph above, these branches of economy were the most affected by the economic crisis and increasing competition from SOEs, which led to shadow turnover practice implementation.

Like in the cases of bribing and "kickbacks", shadow turnover is most frequently observed in large enterprises with number of workers from 101 to 200 and over 200 (cases of shadow turnover in more than 75% of cases were reported by 4.8% and 7.4% of SMEs representatives). It is noteworthy that just 9.5% representatives of the companies with number of workers from 101 to 200 claimed the absence of such a phenomenon in their practice.

Thus, we can say that the situation with corruption in Belarus despite the measures taken by government remains highly controversial. Even though several improvements in legislation simplification and positive signals in business responses had certain positive impact on current situation, they don't allow talking about irreversibility of this trend. Moreover, in the light of deteriorated macroeconomic conditions in early 2011 the authors expect further growth of "grey schemes" operating SMEs. All this suggests the issues of bribing and shadow turnover to be still relevant. This brings us to the conclusion about the importance of systematic and large-scale economy liberalization and economic activity equal conditions creation, which will contribute to further corruption situation improvement in the Belarusian economy.

4. THE IMPACT OF 2011 CURRENCY CRISIS ON SMES

4.1. Introduction

Currency crisis, which is growing gradually since March 2011, is a demonstration of aggravated imbalances in the economy. The country faced two challenges – need in urgent stabilization of financial sector situation and pressing need in further economy liberalization and large-scale structural reforms implementation, the realization of which was hardly delayed starting from the early 90s. These macroeconomic imbalances were the results of chosen economic development model, based on Soviet control methods (detailed, mandatory assignments to enterprises) and state ownership (about 70% of GDP is produced by the public sector). Despite the Plan of top-priority doing business conditions' liberalization measures adopted in January 2009, which was aimed at business environment improvement, removal of unnecessary administrative barriers to business development and tax legislation simplification, Belarus still has one of the highest levels of state intervention into the economy. The SMEs survey, conducted by the IPM Research Center in March-April 2011 allowed revealing, first, in what way the company was affected by the currency crisis and which consequences it can lead to and, second, evaluating from companies' side the efficiency of economy liberalization measures implemented by the government.

4.2. Growth sources in the previous years and economic situation in 2010–2011

Due to the fact that Belarus is a small open economy, heavily dependant on state of foreign trade[5], the favorable external environment, in particular preferential access to the Russian market and an economic boom observed in the country since early 2000s, led to a significant demand increase on Belarusian goods and contributed to economic growth. It is also important that the prices, much lower than the world ones, at which Belarus bought oil and gas from Russia during a long period of time also contributed significantly to the Belarusian economy growth. For example, according to IMF estimations Belarus benefited in the amount of 11.6% of GDP in 2000 and 6.1% of GDP in 2005 because of Russian gas at the preferential prices imports[6]. Similar situation was observed with the oil supply, the purchase price of which for Belarus was almost twice lower than the world, assuming that oil refineries processed out of it in Belarusian plants were sold out to the markets outside CIS at the world prices. According to IMF estimations the total amount of energy imports subsidies was equal around USD 5.9 bln in 2007, while it reached USD 8.2 bln in 2008. These subsidies volume was approximately equal to 13% of GDP both in 2007 and 2008.[7] Such situation allowed carrying large-scale state programs out and maintaining economic growth high rates through significant investment. In addition the state actively provided population with subsidized housing loans. An important factor of economic growth was households' consumption that was stimulated by the state through wage rise, which, however, left the labor productivity growth significantly behind. It should be noted that the increase of internal (enterprises' consumption and investment activity) and external demand favored SMEs activity. During 2007–2010 the number of enterprises of this sector grew by 54.8%, their production volume – almost twice, investments in fixed assets increased by 2.4 times. The financial performance also improved, net profit, in particular, grew by 2.1 times, small enterprises' profitability grew from 11.7% in 2007 to 15.7% in 2010. Moreover, if the profitability of a small business was the same as in the whole Belarus in 2007, in 2010 it was substantially above the national average, equaling to 9.6%.

However, these factors of economic growth largely sputtered out in 2010:

- Terms of energy carriers' trade with Russia deteriorated significantly, in 2010 Russia introduced export duties on oil supplied to Belarus and continued transition to gas prices with equal profitability to Western Europe deliveries. That led to a sharp deterioration of negative trade balance and current account respectively, which reached 15.6% of GDP in 2010. In turn chronic and increasing trade deficit led to significant external debt growth.
- While trying to achieve the GDP growth target Belarusian authorities conducted economy's emission financing in 2010. Thus, in IV quarter of 2010 the investments'

[5] For example, according to National Statistic Committee 64.6% of produced machinery and equipment, 60.3% of metallurgic product, 55.2% of plastic and rubber products, 51.5% of electrical, electronic and optical equipment, 46.8% of machinery and equipment were exported in 1H2011.

[6] IMF (2005) Republic of Belarus: Selected Issues, Country Report № 05/217, Washington, D.C.

[7] IMF (2010) Republic of Belarus: Selected Issues, Country Report № 10/16, Washington, D.C.

volume grew by 35.5% yoy with regard to the same period of the previous year. The government also decided to increase public sector employees' wages substantially in late 2010. As a result in November 2010 nominal wages grew by 46.1% yoy to the same period of the previous year, in December – by 41% yoy (real wages grew by 32.9% and 27.8% respectively). That made the current account situation worse as imports growth was stimulated by business and population.

All that led to accumulated macro-economic imbalances strengthening. As a result in I quarter 2011 current account deficit grew to a record 27.6% of GDP, gold and foreign currency reserves declined by 25% to USD 3.8 bn. After unsuccessful attempts of imports restrictions' introduction on May 24 the Government and National Bank were forced to conduct one-step devaluation of Belarusian ruble vs. currency basket (USD, Euro, Russian ruble) and vs. Euro by 64.4% in particular. However this devaluation was not enough due to accumulated substantial pent-up demand on currency, loss of confidence in Belarusian ruble and delay in transition to tight monetary policy. Neither population nor enterprises were able to buy foreign currency freely, cash and non-cash "black" market appeared and started to spin up.

This introduced significant distortions in enterprises' activity, as those of them (public sector) who were able to buy foreign currency at the official exchange rate turned out in obviously more advantageous position. Since most of the Belarusian companies carry out export-import operations at some extent, the situation in the currency market had to affect their activity. Thus, in the 1 half of 2011 the number of Belarusian companies balancing on the verge of bankruptcy or unprofitableness (return from 0 to 5%) equaled to 48.6%, over the same period of time the sum of net losses or unprofitable organizations grew by 1.6 times in comparison to January-July 2010. Belarusian companies' indebtedness towards their foreign suppliers grew by 2.6 times in comparison to August 1, 2010; past-due indebtedness grew by 2.2 times. There was a significant increase of overdue payment on credits and loans (it grew by 2 times from January to August). Trying to reduce costs the companies transferred their workers on a part-time working day (because of Belarusian ruble collapse number of part-time workers grew by 40% yoy in May) and send on unpaid vacations (number of those who had to go on unpaid vacation on employer's initiative increased by 2 times). In addition the uncontrolled price growth (the inflation rate was 60.7% in August 2011 in comparison to the same period of the previous year) had a negative effect both on population, dramatically diminishing its' purchasing power, and on business activity.

As the SMEs survey results show the share of those who evaluated their economic situation as "bad or below average" increased from 19.9% in 2010 to 25.9% in 2011 (Table 4.1). The proportions of those who evaluated economic situation as "stable" or "good or above average" fell by 8.3% and 7.7% respectively.

Obviously that is a result of currency crisis observed in Belarus, which, as was noted above, not just caused the sharp inflation growth and purchasing power deterioration but also significantly impeded enterprises' access to currency and affected their export-import activities.

4.3. SMEs foreign trade activity

According to National Statistic Committee SMEs made substantial contribution to Belarusian foreign trade turnover. The share of small and medium size enterprises in goods exports grew from 22.2% in 2007 to 37.9% in 2010 and from 5.1 in 2007 to 6% in 2010 respectively. Share of small and medium-size enterprises in goods imports in 2010 was 30% and 7.4% respectively. The share of small enterprises in comparison to 2007 decreased, while share of medium-size companies grew up.

However, in our opinion these numbers do not fully reflect the real situation with SMEs involvement into foreign trade and their share, especially small ones, in exports as well as in imports is overestimated. This is due to the fact that a number of small businesses are actively involved in the oil products and potash fertilizers trade schemes, as a result these groups of goods occupy in total more than 80% (62.2% and 20% respectively) of exports commodity structure. In order to evaluate SMEs real involvement in foreign trade turnover weight adjusted small and medium-size enterprises volume of exports, that means cleaned out from oil products and potash fertilizers to total Belarusian exports minus goods mentioned above, was estimated. As a result the share of small enterprises in exports equaled to 9.2% and grew by 2 percentage points in comparison to 2007, as for medium-size enterprises this indicator showed an upward trend as well and reached 6.2% in 2010. Nevertheless it is lower than Belstat official numbers SMEs are still playing a significant role in country's exports.

As Table 4.2 shows the greatest share of small enterprises' exports belongs to food industry (23.7% in

Table 4.1. Distribution of answers to the question: "What is the current economic situation in your enterprise?"

	2010		2011	
	Amount	%	Amount	%
Bad	22	5.6	34	8.4
Below average	56	14.3	112	27.5
Stable	220	56.5	196	48.2
Good of above average	92	23.6	65	15.9
Всего	389	100.0	407	100.0

Source: IPM Research Center.

Table 4.2. Exports commodity structure of SMEs (minus oil products and potash fertilizers), %

	small		medium	
	2009	2010	2009	2010
Total	100.0	100.0	100.0	100.0
machinery, equipment and transport vehicles	23.1	22.1	23.6	25.7
Mineral products	–	–	1.0	3.2
Ferrous, non-ferrous metals and products from them	10.1	7.2	3.6	5.0
Chemical products, caoutchouc (including chemical fibers and man-made yarn)	13.6	14.5	16.7	21.4
Wood and pulp and paper products	15.0	15.4	6.7	6.2
Textile and textile goods (not including chemical fibers and man-made yarn)	7.8	6.8	6.1	7.4
Rawstock, fur and goods from it	0.6	0.4	1.2	2.2
Food industry products and raw materials for its' production	19.8	23.7	26.9	15.2
Other	10.0	9.9	14.1	13.7

Source: BELSTAT (2011). Small and medium enterprises in Belarus.

Table 4.3. SMEs imports commodity structure (excluding oil)

	Small		Medium	
	2009	2010	2009	2010
Total	100.0	100.0	100.0	100.0
machinery, equipment and transport vehicles	33.3	35.5	36.1	27.6
Mineral products	–	–	0.8	0.8
Ferrous, non-ferrous metals and products from them	14.3	15.3	10.7	13.6
Chemical products, caoutchouc (including chemical fibers and man-made yarn)	26.5	25.3	21.7	20.8
Wood and pulp and paper products	5.2	4.7	3.8	3.4
Textile and textile goods (not including chemical fibers and man-made yarn)	2.5	2.4	2.5	2.5
Rawstock, fur and goods from it	0.3	0.3	0.6	0.5
Food industry products and raw materials for its' production	12.0	10.8	18.9	12.0
Other	5.9	5.6	4.9	4.2

Source: BELSTAT (2011). Small and medium enterprises in Belarus.

2010) and the importance of this group of products increases. Machinery, equipment and transport vehicles are in the second place (22.1% in 2010) and woodworking products are in the third place (15.4% in 2010). Chemical products play an important role in small enterprises' exports' structure (14.5% in 2010). At the same time the role of textile and textile products the traditional Belarusian exports goods decreases.

Machinery, equipment and transport vehicles (25.7% in 2010), chemical products (21.4% in 2010) and food products (15.2% in 2010) have the main share in exports' structure of medium-size enterprises. Thus we can say that SMEs exports have an industrial character and have large growth potential. However this potential realization is not possible without its development supportive foreign trade and currency policies implementation. There is no doubt that currency crisis, which is observed starting from March 2011 affected SMEs exports performance, especially of private sector, as they were forced to sale 30% of foreign currency revenue at the official rate and had to buy foreign currency necessary for materials and spare parts' purchase at a market rate.

SMEs are also active importers and their share in total imports volume (excluding oil) in 2010 equaled to 29% and 9.2% respectively.

The largest share of SMEs imports belongs to investment goods like machinery, equipment and transport vehicles (35.5% and 27.6% respectively). That corresponds to SMEs high investment activity: Small companies' investments in fixed assets grew by 2.9 times during 2007–2010 and amounted to 27% of total Belarusian investment volume. Medium-size enterprises' investments had slightly lower growth rate (grew by 1.9 times) and their share in total investment volume decreased from 14.7% to 12.7%. To be fair it should be noted that partly that is due to the fact that small enterprises are often large companies' intermediaries in equipment purchase or operate like representatives of foreign producers.

It should be noted that this group of goods was hit first by the currency crisis as the joint Resolution of the Council of Ministers and National Bank "On certain groups of goods imports' calculation" from February 25, 2011 № 240/5 imposed limitations till March 1, 2012 on importers' payments to non-residents under foreign trade contracts, the total sum of which is above EUR 50,000 in equivalent. Limitations primarily related import equipment, which according to that Resolution could be imported only at the expense of importers' revenue in foreign currency or foreign currency received by importer as a equity contributions, foreign grant assistance, dividends or other investment income, and foreign currency received on loan contracts for period of not less than a year. This Resolution obviously negatively affected SMEs investment activity and their development perspectives. This Resolution was canceled out at the end of September 2011 after an additional session introduction at Belarusian Currency and Stock exchange and appearance of possibility to buy foreign currency at a market rate.

Products of chemical industry (in 2010 25.3% and 20.8% respectively) and metallurgy (in 2010 15.3% and 13.6% respectively) along with machinery and equipment have a high share in SMEs imports structure. Food products also have a large share in imports, but their role was gradually decreasing especially in medium-size enterprises (from 18.9% in 2009 to 12% in 2010).

In general SMEs which specialized in supply of investment, intermediate

Table 4.4. Distribution of answers to the question: "What negative external changes is your company the most sensitive to?"

	Amount	Frequency
Fell of population's purchasing power within the country	283	69.5
Restrictions in the currency market	233	57.2
Delays (non-payments) in delivered products' payments	205	50.4
Customers' reorientation towards cheaper suppliers	136	33.4
Limitation to banks' financial resources	134	32.9
Decrease of demand from SOEs	102	25.1
Investment projects' freeze	40	9.8
Decrease of demand from authorities (public procurement)	36	8.8
Decrease of demand on company's products in Russia	25	6.1
Decrease of demand on company's products in other external markets	18	4.4
Other	11	2.7
NA/Refuse to answer	4	1.0
Total	407	100.0

Note. No more than 5 answers were possible.
Source: IPM Research Center.

Table 4.5. The most significant doing business obstacles in Belarus

	The biggest problem	Insignificant problem
Inflation	41.8	11.1
Currency market regulation	36.4	9.8
Access to financial resources	20.6	7.4
Crime and theft	18.7	8.4
Unstable policy	17.9	6.4
Tax rates	17.9	5.9
Ineffective governance	17.7	8.6

Source: IPM Research Center.

and consumer goods were more affected by foreign currency crisis consequences. Number of them had to suspend their activity, send employees on unpaid vacation or start self-liquidation/bankruptcy process.

We can assume that not just SMEs import but also export activities may be severely limited in the short and medium term. The economic situation that has been forming during 2011 in Belarus is very unfavorable in terms of SMEs development as phenomena which are observed in the country according to survey are those, to which the companies of this sector are the most sensitive.

As the Table 4.4 shows fell of population's purchasing power together with restrictions in the currency market are the most negative factors influencing on SMEs activity. SMEs are very sensitive to delays in payments for delivered goods, customers' reorientation on cheaper suppliers and limiting access to banks' financial resources. SMEs are under great influence of all mentioned above factors today. Despite additional session introduction in September 2011 and appearance of possibility to purchase foreign currency, Belarusian ruble exchange rate was unreasonably overestimated for many SMEs, devaluation caused high inflation rates causing refinance rate growth and therefore growth of cost of credits that substantially limited access to banks' credit resources. In addition devaluation as well as rapid consumer prices growth caused sharp fell of population's purchasing power and led to delays in payments.

This is confirmed by survey results (Table 4.5) according to which SMEs considered inflation, currency market restrictions and access to financial resources as the most significant doing business problems. For instance, 41.8% of the respondents named inflation as the biggest problem, 36.4% – currency market restrictions, 20.6% – access to financial resources. Unstable policy, tax rates and ineffective governance were named as other significant doing business obstacles. It should be added that the survey was conducted in March-April 2011, when the currency crisis just began and its manifestations were not as explicit as in May-August.

There is no doubt that state support is needed in order to mitigate crisis consequences for SMEs, including business environment liberalization acceleration.

4.4. SMEs evaluation of business environment liberalization

SMEs responses to the question regarding measures on business environment liberalization taken by authorities are presented in Table 4.6. It is noteworthy that around half of the respondents claimed no change almost in all spheres except for pricing, credits' accessibility and control. 33.2% of enterprises mentioned positive changes in price liberalization, 31.9% – their absence, 35% reported situation worsening at that one third evaluated it as significant (grades from –5 to –3). In many respects these results are due to the fact that Belarusian government announced a transition to market prices except for minimum number of goods and services starting from March 2011. Positive changes connected with the decrease of number of check-ups were mentioned by 39.4% of respondents, even though the majority considers them as slight. Taking into account that 36.9% of respondents reported no changes, the number of those who reported situation worsening was just 23.7%. At the same time the situation with credits' accessibility is opposite, just 23% considered that situation even though slightly but is improving, 77% reported no changes or worsening, the latter was mentioned by 42.1%. Given the fact that this problem is one of the three SMEs are most sensitive to, NBB besides inflation restriction could temporarily recommend banks to follow flexible interest rate policy and develop set of measures for SMEs credit burden decrease as it was done for individuals. Microfinance and credit cooperation legal framework creation is also extremely important.

Table 4.6. Distribution of answers to question: "How business environment liberalization measures reflected on you business activity?"

	Situation worsening				No changes			Situation improvement			
	–5	–4	–3	–2	–1	0	1	2	3	4	5
Business registration	0.0	0.5	0.5	1.2	0.7	56.0	5.9	6.1	8.1	9.8	11.1
Different permits obtainment	1.0	0.7	3.4	2.5	4.9	45.5	8.6	12.0	10.8	6.4	4.2
Administrative procedures	1.5	1.2	3.9	4.7	3.9	45.7	8.4	11.8	10.6	5.2	3.2
Number of check-ups	1.5	1.7	3.9	5.9	10.8	36.9	11.1	8.1	10.6	7.4	2.2
Fine's amount	5.9	2.7	8.6	12.0	10.3	42.3	4.9	4.9	4.7	2.5	1.2
Rent payment	5.2	3.2	6.6	9.8	9.1	44.7	8.4	5.2	3.9	2.2	1.7
Pricing	8.4	4.2	8.4	6.4	7.6	31.9	5.4	7.6	8.1	4.7	7.4
Tax burden	4.2	4.2	4.9	7.1	9.1	44.0	10.6	6.1	5.4	2.2	2.2
Time required for taxes' calculation and payment	4.2	2.7	4.2	7.1	8.1	46.9	7.9	7.9	6.1	3.2	1.7
Credit accessibility	9.6	6.1	11.1	8.8	6.4	34.9	7.6	4.9	5.9	3.4	1.2
Easiness of foreign trade implementation	11.8	7.6	7.4	5.9	5.4	48.6	3.9	2.9	2.0	2.7	1.7
Wages' calculation	1.5	1.2	2.2	4.9	5.2	60.2	9.3	6.1	4.9	3.7	0.7
Cost and complexity of auctions' and tenders' realization	2.9	2.0	2.0	3.2	4.4	73.2	4.4	2.7	2.9	1.2	1.0
Property rights protection	2.2	2.5	3.2	2.2	2.7	64.6	10.3	4.4	4.4	2.2	1.2

Source: IPM Research Center.

Like in previous year significant number of respondents (41%) reported positive changes in business registration procedure simplification, 42% mentioned that it became easier to obtain different permits and 39.2% noted administrative procedures reduction.

At the same time according to SMEs opinion there was no significant rent payment decrease, 33.9% of respondents reported situation worsening. Tax burden and tax payment time still rouse censure: 44% of respondents didn't observe tax burden reduction and 29.5% noted its increase. Same situation is with time required for taxes' calculation and payment. 46.9% didn't report improvements in this sphere and 29.5% said that they began to spend even more time on it, i.e. just 23.6% reported progress existence. It should be noted that the government is permanently decreasing tax burden. For example in 2011 tax on services, local tax on territories' development were revoked as well as number of payments was excluded from ecological tax, except for that advance payments in value added tax (VAT) and excise taxes payment were abolished. However, according to SMEs, these measures can not compensate the VAT raise to 20% conducted in 2010. At the same time the government announced further steps in tax burden reduction and profit tax rate reduction in particular, which undoubtedly will have a positive impact on doing business and Belarusian SMEs competitiveness and foreign investments attractiveness.

Given sufficiently high degree of SMEs involvement in foreign trade relations, special attention is given to their evaluation of easiness of foreign trade realization. SMEs believe that foreign trade operations realization remained the same (48.6%) or became more complicated (38.1%) while 28.6% think that significantly more complicated (rate from –5 to –3).

As a positive fact it could be noted that the number of respondents that mentioned situation improvement with a property rights protection (24.3%) was more than twice larger than number of those who though that it became worse (11.1%). Although in general the fact that 64.4% of respondents didn't see any changes in this sphere indicates the importance of further governmental actions in this direction.

4.5. Conclusions

Current situation requires immediate currency market, current account[8] and economy in general stabilization measures. Unfortunately the government and National Bank haven't proclaimed any complex crisis recovery plan[9], although such plan's presence is the preliminary condition for beginning of discussions with IMF of the possibility of second loan provision, which Belarus would like to receive from the international organization for 3–5 years (the Belarusian side requested amount of USD 3.5 to 7 bn). Further emissive crediting of state programs reduction (Ministry of Finance, which withdrew deposits from banks and directed them for economy's crediting, took National Bank's place that stopped state programs emissive crediting), interest policy tightening, rejection of Belarusian ruble fixation to currency basket and transition to floating exchange rate should undoubtedly be priority measures. The authorities announced their intention in monetary emission limitation to 3% of GDP in 2012, Belarusian rubble support to a level that provides sustained foreign trade deficit reduction and social protection provision for the most vulnerable groups.

In addition to Belarusian stabilization measures program further economic

[8] According to forecasts the current account deficit will amount to 8.1% of GDP in 2011.

[9] Actions' matrix, developed by Belarusian authorities for Anti-crisis fund credit from EvrAzES obtainment according to many experts' opinion including international organizations is not enough for accumulated economic problems solution.

liberalization and structural market-oriented reforms aimed at government intervention in the economy reduction are necessary. This should include financial sector reform, entrepreneurship and investment support, establishment rejection of binding quantitative targets at the macro-economic level and in all types of ownership enterprises, large-scale transparent privatization program realization. Belarus also needs to increase utility services tariffs, bringing them to cost recovery level[10] and to reform social protection system as the changes occurring in the economy can lead to the “extra” workers’ release and unemployment growth. It should be kept in mind that small and medium business in case of its supporting activities’ conduction is able to absorb redundant workers and smooth the unemployment problem.

[10] The level of state costs’ reimbursement by population on utility services is equal to around 25% in Belarus.

5. PRIVATIZATION IN BELARUS AND SMES PARTICIPATION IN ITS CONDUCTION

5.1. Current situation with state assets' privatization

Despite the importance of national economy modernization, state authorities are regularly facing certain financial problems. The significant budget share was spent on fulfillment of state's social obligations to population during a long period of time, which allowed maintenance of its' wealth growth, economic stability and consequently political stable situation in the country. Budget expenditures reallocation towards innovations' financing and new technologies introduction would indicate significant reduction of social "subsidies". This is why a decision about the pointed privatization conduction in the country was taken. It was viewed as a way of monetary funds to national treasury attraction on the one hand and on the other arrival of foreign investors able to finance modernization and to provide new technologies implementation.

First steps related to state assets' privatization were made in late 90s – early 2000s, but relatively soon Belarusian authorities decided to preserve state property ownership of almost all state enterprises from small and medium-size to large city-forming guided by point of view that state is not worse owner than individuals and is able to manage and dispose assets at least as effectively. However, changed in the middle of first decade of XXI century doing business conditions connected with resources appreciation (including energy) together with lagged behind the global trends state companies' management views oriented primarily on estimated figures of goods production/services provision implementation sharply raised the issue of domestic enterprises' competitiveness. One of the results was enterprises' real incomes' decline connected with gradual decrease in domestic products' demand in traditional Russian market, which caused so-called "producing to stock". All these as well as continuing need in wages' raise faster than inflation didn't allow state enterprises to accumulate funds sufficient for modernization and fixed assets reconstruction. These circumstances in the back of foreign currency reserves decline for the first time raised the question to state authorities about the necessity of state assets sale for macroeconomic stability maintenance.

During the next five years the Belarusian authorities focused their attention on so-called "pointed" privatization of large SOEs. As it is shown in Table 5.1. Belarusian budget attracted significant sum of funds because of number of domestic companies' sale during a denoted period. Among them we can mention 50% sale of "Beltransgaz" to Russian "Gazprom", mobile operators "Velcom" and "BeST" (renamed to "life :)"), Belarusian banks "BPS-bank" and "Belvneshekonombank". The estimated value of TOP-5 sold assets amounted to around USD 4 bn, allowed to increase foreign currency reserves and became a serious Belarusian budget support.

However it should be noted that conducted privatization was a forced measure, connected with negative growing foreign trade balance payment necessity and attempts to obtain more favorable terms of energy supply in comparison to neighboring countries, rather than a authorities' desire to make companies privately owned with a more effective management.

At the same time first serious disagreements appeared between the state as an owner and potential buyers, connected with the Belarusian governance desire to sell enterprise at a maximum price. That resulted in a fact that the announced price rather often was not consistent with neither any investors' financial capacities nor their desire to take a bank loan for such transaction completion. Belarusian side first of all during the state assets sale insisted on their market value including the unprofitable companies' sale. In the near future also because of financial crisis 2008–2009 when the assets' market value dropped worldwide it was proposed to sell state assets at their book value, i.e. current value of all enterprise's assets. Private investors (state and private) in return oriented on expected revenues and on during what period of time the company will manage to cover the funds spent on its' acquisition and invested in equipment modernization.

As it was mentioned above, the Belarusian enterprises in 2000s

Table 5.1. TOP-5 state assets, sold out in 2006–2010 , USD m

Name of the asset	Value
50% «Beltransgaz»	2500
51% «Velcom»	500–800
100% «BeST»	500
93.27% «Belpromstoybank»	281
53.56% «Belvneshekonombank»	24

Source: IPM Research Center.

differed from leading Western countries and many CIS-members countries by its' low products' competitiveness. That is why the potential private buyers had to not just pay the requested by Belarusian governance sum of money, but also invest the significant sum in production modernization. In addition during the SOEs sale a number of additional conditions and requirements were provided to private investor in a form of workforce and wages preservation during the next few years, nearby infrastructure maintenance etc. All that moved assets payback period so much that made the purchase itself in practically all cases irrational. And if in case of large SOEs sale the authorities and potential investor found the possibilities of deal closure through mutual concessions and compromises, SMEs sale to private investors was practically absent.

Initially SMEs sale activation was included into Belarus and the International Monetary Fund (IMF) cooperation program. On the back of 2008–2009 financial crisis some macroeconomic situation destabilization was observed in Belarus against a drop in foreign trade background. Devaluation of national currency as a one of the IMF stand-by program points was carried out in order to strengthen domestic economy competitiveness. The domestic companies' privatization was also specified among the other things. However, the Belarusian privatization process specifics allowed to authorities to continue delay in transition from state ownership to private.

Traditionally the privatization process in Belarus goes as follows. First, state enterprise transforms from unitary (state-owned) to open joint stock company (OJSC). Initially all 100% of shares are still owned by the state, but after corporatization the possibility to sell a part or the whole asset to private investor arises. At the same time in most cases corporatization process as a first step towards privatization is just a "cosmetic" change and it takes several years to perform a transition from corporatization to assets' sale.

Thus during 2008–2010 646 SOEs were reformed and 489 JSC (including 180 OJSC created in 2010) appeared. Among other JSCs were the largest country's industrial enterprises – *MAZ*, *BelAZ*, *BelOMO*, *Integral*, *Belaruskali*. However, as it was stated above, all 100% shares of OJSC are in state property.

155 OJSC were included into the list of JSCs, shares of which are planned to be sold in 2008–2010. However, during these three years it was decided to sell the shares of just 16 OJSCs. Shares of four JSCs were sold during the auctions on the first try, shares of 12 JSCs several times were put up for auctions and shares of two OJSCs were put up with a 20% price discount. As a result during the 34 auctions conducted in 3 year period the shares of just seven (!) JSCs were sold out. In 2010 shares of five JSCs were sold for BYR 10.8 bn. It should be noted that the majority of companies sold in this way are SMEs.

Another factor that complicates open and transparent privatization process in Belarus is the institutions multiplicity responsible for state assets sale. Initially, State Property Committee (SPC), Ministry of Economy, National Investment and Privatization Agency (established in 2010), other investment agents and various local authorities take part in the privatization negotiations. However, in Belarus, all the state property sales amounting to more than 10 000 basic units are approved directly by President. So there is often a situation, when after long negotiations on all levels between the authorities and the potential buyer the new institution – President's Administration – steps up into negotiations with a list of additional conditions. And if large companies (usually foreign) can afford to pay for such long negotiations, small and medium potential buyers both domestic and foreign at some point come out of the negotiation process and reject the deal.

So during the last few years the privatization process pace, which was supposed to increase after the significant deterioration in doing business conditions because of domestic products' demand decrease on the back of resources appreciation, didn't meet the expectations. The authorities in 2006–2010 continued to maintain "pointed" privatization in the form of state assets sale to strategic investors at a maximum price. The result of this was a number of large privatization deals, however, the SMEs privatization was carried out very slowly. In addition state assets' privatization is one of the sources of foreign direct investments (FDI) attraction and revenues from its' conduction in 2007–2009 amounted to around half of FDI attracted into the country (Table 5.2). However, the percentage ratio of FDI and privatization revenues to GDP remained at a very low level during these years.

However, state assets' privatization is gradually gaining support in the highest branches of power, which is reflected in local level activization. Despite several remaining difficulties in privatization deals closure, some work connected with simplification of certain state assets transfer to private ownership was done.

For instance, presidential Decree of February 27, 2007 provided the opportunity to sell unused state republican property, located in rural areas and small towns for one base unit. Around 12.5 thousands of immovable property objects not used in economic turnover presented at the time of Decree signing in Belarus, 70% of that property was located in rural councils, urban-type villages, towns under regional jurisdiction. This Decree was aimed at entrepreneurship stimulation especially among SMEs.

An opportunity to sell an enterprise as a property complex for one basic unit appeared in case the number of workers is less than 100, its' financial liabilities' indebtness is equal to active part of the balance or exceed it. At the same time the company's

Table 5.2. Privatization revenues and FDI volume in 2007–2010, USD bn

Period	GDP	Privatization	% of GDP	FDI	% of GDP
q1				0.15	
q2				0.77	
q3				0.41	
q4				0.47	
2007	45.3	1.2	2.6	1.8	3.99
q1				0.91	
q2				0.32	
q3				0.82	
q4				0.14	
2008	60.8	0.9	1.5	2.2	3.59
q1				1.00	
q2				0.11	
q3				0.09	
q4				0.66	
2009	49.2	1.0	2.0	1.88	3.83
q1				1.10	
q2				0.09	
q3				0.11	
q4				0.06	
2010	54.6	*	*	1.35	2.47

Note. *No data.
Source: IPM Research Center.

Table 5.3. Distribution of answers to the question: "In case the privatization process will recommence in Belarus, which way you think is the most attractive?"

Options of answer	Number of enterprises	%
Privatization objects should be sold to domestic investors without restriction (open transparent tender) with restrictions' introduction on foreign capital	126	31.0
The advantage should be given to leasers in privatization	98	24.1
Privatization objects should be sold to any buyer (both domestic and foreign) without restrictions in an open transparent tender	127	31.2
Privatization objects should be sold to domestic investor without restrictions with restrictions' introduction to Russian capital	34	8.4
I'm against privatization	17	4.2
No answer / Hard to say	5	1.2
Total	407	100.0

Source: IPM Research Center.

sale deal is also burdened by a number of additional commitments from potential buyers. So in case of company's purchase through tender with the initial price of one basic unit the new owner is obliged to repay its' debts, to maintain certain number of workers as well as to comply with all sale's terms and conditions.

However, at this stage although the implemented measures provide large opportunities for closure of privatization deals this is still not enough to make the process irreversible. At the same time the need for privatization and SMEs in particular is becoming a burning issue nowadays.

Macroeconomic situation continued its' destabilization in late 2010 – early 2011. Increasing social security public expenditures, sharp rise in public sector wages as well as rapidly decreasing foreign currency reserves led to sharp currency deficit in early 2011. This event had particularly strong effect on number of domestic SMEs, the work of which is based on import products or on their usage in goods and services production. Thus it became much more difficult for domestic SMEs to compete with foreign investors in the markets and state assets' purchase.

State authorities' activization on privatization issues is reflected in the planned cooperation between National Investment and Privatization Agency and the World Bank. However, such cooperation is primarily aimed at foreign investors' attraction, while the state should be interested in assets' sale to domestic buyers as well. As for the unused and unprofitable state enterprises, they are usually not interesting for foreign buyers, while the Belarusian private SMEs can be interested in them in case of favorable assets' acquisition conditions provision.

Thus, due to continuing high potential of SMEs broad privatization conduction on mutually beneficial to the authorities and private investor conditions, the authors consider it relevant to analyze such issues as ways of private companies' attraction to the privatization process and to study domestic SMEs interest in state assets' purchase.

5.2. Domestic SMEs participation in privatization

Thus, the Belarusian SMEs can potentially become active participants in national enterprises' privatization. On the one hand the global financial crisis affected doing business conditions significantly (it was described in previous chapters), which greatly limited the possibilities of Belarusian private capital to compete with foreign companies in national assets' purchase. The results of the survey conducted in April 2011[11] show how private SMEs representatives are looking at the perspective of broad privatization conduction in Belarus (Table 5.3).

According to the survey SMEs representatives' opinions are divided. Around one third (31%) considers the privatization objects should be sold to domestic investors without restrictions with restrictions' introduction for foreign capital in an open transparent tender, i. e. suggests priority right in national business purchase for domestic businesses. Approximately the same number of representatives (31.2%) thinks the privatization objects should be sold to any buyer

[11] The heads of Belarusian SMEs took part in the survey. 407 domestic SMEs from different sectors of economy were questioned in total.

both domestic and foreign without any limitations in an open and transparent tender. About a quarter (24.1%) believes that leasers should obtain privileges in privatization. It is noteworthy that just 8.4% of domestic SMEs representatives claimed the restrictions introduction for Russian capital together with their absence for domestic capital. We can conclude from here that in contrast to state authorities Belarusian SMEs do not see such a significant threat in Russian capital attraction through SMEs privatization for the national economy. As for privatization opponents, there are just 4.2% of the total amount of surveyed.

Thus respondents' opinions were divided equally into three most popular responses. In this regard it seems reasonable to follow respondents' preferences depending on the sphere of activity. Survey results of four branches of economy, where SMEs presence is the most noticeable are presented in Table 5.4.

As can be seen the majority of respondents from trade and food services (34.1% and 44.4% respectively) are sure about necessity of benefits provision to domestic investors with restrictions introduction to foreign capital in privatization process. Apparently this explains relatively strong positions of Belarusian SMEs in internal market in these spheres nowadays, good relations with domestic products' suppliers and unwillingness to allow new competitors' entry.

Importance of foreign capital arrival is mentioned by 38.1% industrial SMEs representatives. Obviously this is due to need in not just capital but technologies' attraction, as Belarusian manufacturing has been lagging behind its' foreign competitors in products' quality and is in urgent modernization need. Domestic SMEs capabilities of modernization implementation through their own resources are very limited (even though 34.5% of respondents still insist on the necessity of benefits' introduction to domestic investors in the privatization process). It is noteworthy that industrial SMEs representatives do not see any significant difference between foreign or Russian capital attraction and therefore need in additional restrictions' introduction towards Russian capital was mentioned just by 3.6% of respondents.

As for construction sector, despite the fact that over a third of respondents (36.1%) supported the absence of any restrictions both for domestic and foreign capital and just 23% claimed the necessity of restrictions for foreign capital (which is relatively low) 23% of SMEs representatives supported the restrictions introduction in privatization process for Russian capital. This is probably because of high competition between domestic construction SMEs and Russian ones. At the same time the existence of broad resource base provides Belarusian enterprises with quite good competitive advantages of further development prospects, which they prefer no to share with Customs Union market competitors.

At the same time despite the low percentage of privatization opponents among SMEs significant part of the respondents according to survey results is not ready to take part in state assets' privatization (Table 5.5).

The most popular answer in 2010 was disinterestedness in state assets' privatization (49.6%). For comparison that number was just 34.3% in 2009. The frequency of answers "Yes, s. t. transparent and fair privatization process" decreased significantly (from 32.2% in 2009 to 24.8% in 2010) and

Table 5.4. Distribution of answers to the question: "In case the privatization process will recommence in Belarus, which way you think is the most attractive?" – depending on sphere of activity, %

Options of answer	Trade	Food services	Industry (Manufacturing)	Construction
Privatization objects should be sold to domestic investors without restriction (open transparent tender) with restrictions' introduction on foreign capital	34.1	44.4	34.5	23.0
The advantage should be given to leasers in privatization	23.3	27.8	20.2	16.4
Privatization objects should be sold to any buyer (both domestic and foreign) without restrictions in an open transparent tender	27.9	22.2	38.1	36.1
Privatization objects should be sold to domestic investor without restrictions with restrictions' introduction to Russian capital	8.5	5.6	3.6	23.0
I'm against privatization	3.9	–	3.6	1.6
No answer / Hard to say	2.3	–	–	–
Total	100.0	100.0	100.0	100.0

Source: IPM Research Center.

Table 5.5. Distribution of answers to the question: "Are you or your company interested to take part in Belarusian state assets' privatization?", 2009–2010, %

	2009	2010
No	34.3	49.6
Yes, s. t. transparent and fair privatization process	32.2	24.8
Yes, s. t. guarantee of its' results further permanence	27.4	24.6
Yes, s. t. reasonable (not speculative) prices	26.8	18.4
Yes, s. t. access provision to necessary financial resources (f. e., credit) or privatization schemes application (leasing, installments), which make participation in privatization easier	17.8	13.0
Yes, s. t. land private ownership introduction	11.9	6.9
Yes, s. t. state privileges provision (support) in state assets' acquisition	10.7	3.4
Yes, s. t. restrictions for foreign (Russian) capital introduction	2.0	2.0

Note. No more than 3 answers.
Source: IPM Research Center.

Table 5.6. Distribution of answers to the question: "Are you or your company interested to take part in Belarusian state assets' privatization?" – depending on sphere of activity, %

	Trade	Food services	Industry (Manufacturing)	Construction
No	45.0	50.0	44.0	52.5
Yes, s. t. transparent and fair privatization process	27.9	27.8	29.8	21.3
Yes, s. t. guarantee of its' results further permanence	24.0	16.7	28.6	24.6
Yes, s. t. reasonable (not speculative) prices	20.2	11.1	16.7	16.4
Yes, s. t. access provision to necessary financial resources (f. e., credit) or privatization schemes application (leasing, installments), which make participation in privatization easier	14.0	5.6	14.3	13.1
Yes, s. t. land private ownership introduction	6.2	50.0	2.4	4.9
Yes, s. t. state privileges provision (support) in state assets' acquisition	3.9	5.6	4.8	1.6

Source: IPM Research Center.

Table 5.7. Distribution of answers to the question: "How soon are you ready to take part in privatization (in case of your conditions fulfillment)?"

	Amount	%
During a year	39	9.6
In the nearest 3 years	77	18.9
In long-run perspective	82	20.1
No answer / Hard to say	7	1.7
Always ready	205	50.4
Not ready	202	49.6
Total	407	100.0

Source: IPM Research Center.

"Yes, s. t. guarantee of its' results further permanence" (from 27.4% to 24.6% respectively). However, the biggest drop in choice frequency was fixed in agreement to participate in privatization, s. t. reasonable (not speculative) prices (from 26.8% to 18.4%). This suggests that even if the state asset's price is adequate, the lack of own funds and complexity to obtain bank's loan on acceptable terms make SMEs participation in privatization almost impossible.

Similar results were obtained in that question's answers analysis depending on the enterprise's sphere of activity (Table 5.6). It can be mentioned that the highest frequency of answer "Yes, s. t. land private ownership introduction" was recorded in food services. Apparently we are talking primarily about motorway service, creation of which requires significant investments, especially in the first stage of infrastructure development. That is why domestic SMEs are willing to have a guarantee that money invested into the construction and infrastructure will not be lost because of land away taking and forcing to leave.

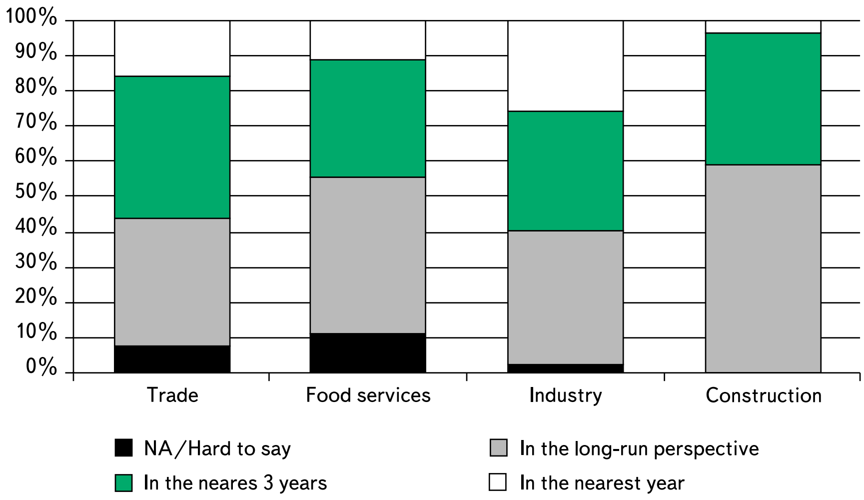
Domestic SMEs unavailability to take part in privatization process and equally compete with foreign enterprises is reflected in the answers to the question "How soon are you ready to take part in privatization (in case of your conditions fulfillment)?" (Table 5.7).

Despite the fact that almost half of the respondents expressed a desire to participate in Belarusian SOEe' privatization, less than 10% of them are willing to do that during the next year. Almost 19% preferred to participate in privatization in a period from 1 to 3 years, while more than 20% considered their participation in privatization from a long-run perspective.

The largest SMEs percentage, which expressed a desire to take part in state assets' privatization, is observed in the industrial sector – 25.5% (Figure 5.1). Obviously this is due to the fact that industrial enterprises, many of which are exporting their products and have revenues in foreign currency, have greater resources for state assets' purchase in comparison to other branches of the economy. For example the number of domestic SMEs representatives in trade and food services, which are ready to purchase additional assets in the nearest year is lower – 15.5% and 11.1% respectively. The lowest number is observed in construction sector (3.4%), which seems an interesting fact. Quite possible that this is connected not just with slightly lower foreign currency revenues of domestic SMEs in construction sector in comparison to manufacturing, but also with the fact that SOEs in construction sector are usually medium or large. Besides such companies are usually profitable, meaning that state authorities will announce very high price for their sale, which is impossible for domestic construction SMEs.

Thus we can conclude that even though issue of SOEs privatization by Belarusian SMEs is discussed today (interest was expressed by more than half of the respondents), it is not among the priorities. Because of unstable macroeconomic situation, significantly more complicated Belarusian doing business conditions, new assets' acquisition is not their priority. Nevertheless more than half of the respondents claimed that privatization implementation should be followed with some preferences provision to domestic business, which indicates Belarusian SMEs are ready to be actively involved in the privatization deals discussion with state authorities in case of macroeconomic situation stabilization together with resources availability. The authorities also need to provide some domestic business support, show readiness not just to impose conditions but also to promote domestic SMEs growth and profitability

Figure 5.1. Distribution of answers to the question: "How soon are you ready to take part in privatization (in case of your conditions fulfillment)?" – depending on sphere of activity



Source: IPM Research Center.

through the privatization procedures simplification.

5.3. Conclusions and recommendations

As it was mentioned above current economic situation in Belarus makes authorities' possibilities of financial support provision (including grants and subsidies) to SOEs very limited. That is why large privatization under open market conditions with domestic and foreign investors' participation becomes very important.

At the same time today's possibility of Belarusian SMEs participation in state assets' privatization is very limited. In this regard state authorities should think about mitigation of conditions, which are set during the privatization negotiations for the number of domestic private SMEs. In particular sale of several unprofitable state SMEs without fulfillment of conditions, like 100% workplaces preservation, acquired company's debt repayment, could be allowed. Of course the authorities should be driven by the ongoing social-oriented policy during the assets' sale, but a compromise between the state as an owner and private person as an investor or buyer must become a result of any negotiations process.

In addition state assets' privatization question is very bureaucratic. In particular sale of business, which is worth more than 10,000 basic units, is approved personally by the President, sale of assets, which are worth from 5,000 to 10,000 basic units, is approved by Belarusian authorities. The authors think that privatization transactions adoption bars in such a high level should be slightly increased. In addition it seems reasonable to vest with more authority the National Investment and Privatization Agency and allow it to carry out privatization deals with SPC approval without long additional consultations.

Finally the Belarusian authorities should be more flexible in terms of state assets' price valuation. Some positive dynamics should be noted here, which reflected in possibility of several state and other assets' purchase for one base unit. However, in this regard additional work should be done aiming at greater possibility of initial price changes, which will stimulate privatization deals' closure growth.

6. SMEs SUPPORT INFRASTRUCTURE

6.1. SMEs and business-unions cooperation

Experience, gained by Western European as well as US and Japanese business-communities during the last decade showed high importance of business-unions as a consolidation resource of different entrepreneurs' circles' opinions as well as a business and authorities' coordination method. This experience was especially relevant during the overcoming of global financial crisis 2008 consequences and its' influence on economy in practically all countries of the world. In Western Europe and North America, where private SMEs are the economy's foundation, mechanism of business and authorities' coordination through business-unions fine-tuned over the years allowed promptly implementing necessary measures of private initiative further stimulation.

In many countries in transition business-unions formation is a recent tendency. However some progress in that process in a number of Eastern European countries can be noted in contrast to CIS countries' processes, where SMEs are still playing smaller role in the national economy in comparison to SOEs.

In Belarusian economy, which is still in the transition process from administrative management activities to market one and in which the share of SOEs and companies under state control is extremely high, private SMEs unions' formation for their rights' protection is very essential. Especially relevant it became in early 2011, when the currency crisis had a significant impact on Belarusian SMEs activity. The desire of social obligations' fulfillment before 2010 elections as well as state authorities' orientation on export-oriented SOEs primary support led to the results that domestic SMEs problems during a long period of time were not analyzed and remained unsolved. Exactly in these moments an urgent need in domestic business efforts coordination appears in order to report their interests to the authorities and be more actively involved in legislative activities. Thus in 2010–2011 except for favorable macroeconomic and institutional conditions creation the more important role for business development in Belarus is playing developed infrastructure of its' support, presence of professionally-strong and reputable business-unions as well as business collective participation in its' rights protection.

In this analysis of the SMEs survey results the IPM Research Center tried to evaluate functioning and coordination quality of businesses and entrepreneurs. For example in the countries with a market economy effective business-unions, except for educational services and platform for domestic and international SMEs provision, allow business community to take collective part in country's economic life, try to establish a sustained dialogue between state authorities and businesses, implement promoting and its' members rights protecting policy.

There is a certain number of business-unions in Belarus both in Minsk and the regions. Even though the number of their members is still small, this number grew by more than 2 times during the last year (Table 6.1). Thus according to the survey results if in 2009–2010 just 7% of SMEs were members of business-unions, this number grew to 15.5% in 2011. This indicated growing interest of Belarusian SMEs in organizations' participation, an increasing number of SMEs reported their efficiency and render assistance ability in the economic and legal spheres.

Participation in business-unions is connected with the sphere of activity. Traditionally in recent years the highest proportion of business-unions members is observed in industry and construction – 21.4% and 23% respectively (Table 6.2). Apparently this is connected with the fact that domestic SMEs in these spheres have the highest possibilities to compete with SOEs in the market and therefore need their rights' collective protection. Another indication of that is the fact the number of business-unions' belongings more than doubled during the last year – it was 8.8% in industry and 9.1% in construction year before. Similar trends are observed in such sectors as trade and transport and communications. The share of business-union members in trade according to the last survey amounted to 13.2% (6.8% – year before). Plus companies from transport and telecommunications sector emerged in business-unions (11%), although there were none year before. The opposite situation is observed in the consumer services sector. Obviously extremely high competition with SOEs in this sphere does not allow domestic SMEs developing till the level needed for business-union formation.

As for the enterprise's level of development needed for the necessity emergence to participate in business-union foundation and activity, the relationship between SMEs size and membership was observed (Figure 6.1). The most active business-union members are medium enterprises with a number of workers from 51 to 100. Remarkably they also

Table 6.1. Distribution of answers to the question: "Are you a member of business union?"

	2010		2011	
	Number of enterprises	%	Number of enterprises	%
Yes	28	7.2	63	15.5
No	362	92.8	344	84.5
Total	389	100.0	407	100.0

Source: IPM Research Center.

Table 6.2. Distribution of answers to the question: "Are you a member of business union?" – depending on several factors

	Yes		No		Total
	Amount	%	%	Amount	
Business legal structure					
UE	16	10.0	90.0	144	100.0
LLC	33	22.1	77.9	116	100.0
ALC	1	2.0	98.0	50	100.0
OJSC	9	32.1	67.9	19	100.0
CJSC	1	16.7	83.3	5	100.0
General partnership	1	33.3	66.7	2	100.0
Production cooperative	1	50.0	50.0	1	100.0
Other	1	12.5	87.5	7	100.0
Total	63	15.5	84.5	344	100.0
Number of workers					
From 1 to 10	15	9.1	90.9	149	100.0
From 11 to 50	18	11.9	88.1	133	100.0
From 51 to 100	16	36.4	63.6	28	100.0
From 101 to 200	4	19.0	81.0	17	100.0
Above 200	10	37.0	63.0	17	100.0
Total	63	15.5	84.5	344	100.0
Branch of economy					
Trade	17	13.2	86.8	112	100.0
Food services	1	5.6	94.4	17	100.0
Industry (manufacturing)	18	21.4	78.6	66	100.0
Construction	14	23.0	77.0	47	100.0
Trade and telecommunication	3	11.1	88.9	24	100.0
Consumer services	0	0.0	100.0	22	100.0
Year of enterprise's foundation					
Before 1996	20	29.9	70.1	47	100.0
1997–2004	25	18.8	81.2	108	100.0
2005–2007	11	11.3	88.7	86	100.0
2008–2010	7	6.4	93.6	103	100.0
Gender					
Male	36	17.2	82.8	173	100.0
Female	27	13.6	86.4	171	100.0

Note. UE – Unitary Enterprise; LLC – Limited Liability Company; ALC – Additional Liability Company; OAO – Open Joint-Stock Company; CJSC – Closed Joint-Stock Company.
Source: IPM Research Center.

showed the highest growth in comparison to the year before – from 3.9% to 36.4%. The growth of business-union members among enterprises with the number of workers from 101 to 200 and above 200 is also noticeable (from 9.5% to 19% and from 6.7% to 37% respectively). In contrast small firms rarely become business-unions members. Thus among Belarusian SMEs with a number of workers from 1 to 10 and from 11 to 500 just around 10% were members of business-unions in 2011. Probably small businesses do not see a lot of benefits from membership in these unions and therefore further popularization activity intensification is needed for their attraction.

The relationship between Belarusian SMEs membership and business legal structure slightly changed (Figure 6.2). Thus if in 2010 the largest share of members were from CJSCs, in 2011 OJSCs became the leader – 32% (more than 6 times growth). Business-union members also appeared for the first time among general partnerships and production cooperatives. The percentage of members among ALCs and CJSCs slightly decreased – from 5.7% to 2% and from 17.6% to 16.7%.

Membership in business-unions is weakly connected with a regional aspect, even though there are regions where business-unions activity is represented worse. Best of all situation with business-union membership is in Mogilev, Grodno, Vitebsk as well as in Mogilev and Gomel regions (Table 6.3). In general business-union membership figures grew by 1.5–2 times in most cases, the average grew from 7.2% to 15.5% during the last year.

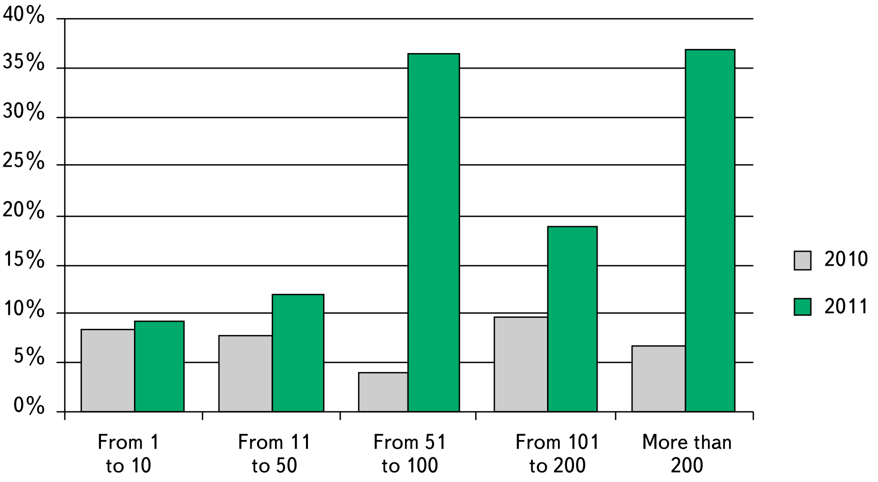
If we look at the total number of enterprises – business-union members in 2011 we will see that their largest number is concentrated in Minsk and Minsk region – exactly one third. Mogilev and Grodno with the surrounding regions are the next – 17.4% and 17.5% respectively. The smallest number of business-union members is observed in Brest and Brest region – less than 8% (moreover none of the enterprises in Brest was a business-union member according to survey).

Thus we can make a rough portrait of business-union member: it is most likely LLC or UE with a number of workers less than 100 established before 2005 and functioning in the sphere of trade, industry or construction. In 2010–2011 companies started to pay more attention on business-unions as organizations, which protect their interests. At the same time question of new members attraction still has a high potential and this why it is appropriate to analyze what domestic SMEs expect from business-union entry and how they contribute Belarusian SMEs development today.

6.2. Belarusian SMEs business-unions entry: benefits and obstacles

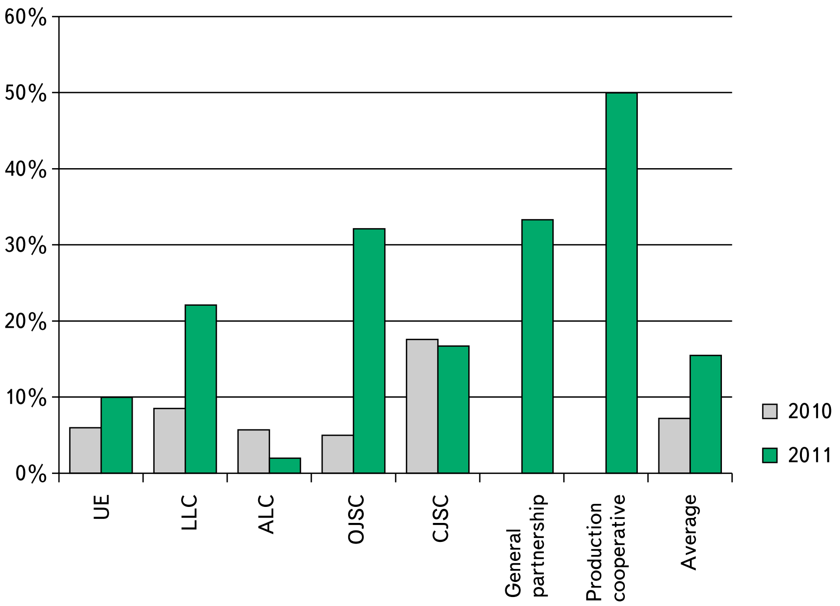
While entering business-unions Belarusian SMEs primarily orient on these or other benefits they can receive from that membership. We

Figure. 6.1. Comparison of business union members' share in 2010 and 2011 depending on firm's size



Source: IPM Research Center.

Figure 6.2. Comparison of business union members' share in 2010 and 2011 depending on business legal structure



Source: IPM Research Center.

Table 6.3. Distribution of answers to the question: "Are you a member of business union?" – depending on region in 2010 and 2011, %

	2010	2011
Minsk	6.3	13.8
Minsk region	9.3	11.9
Brest	3.2	–
Brest region	11.1	16.1
Grodno	11.1	29.6
Grodno region	–	10.7
Vitebsk	14.3	20.0
Vitebsk region	4.2	14.3
Gomel	20.8	4.2
Gomel region	–	21.9
Mogilev	–	20.0
Mogilev region	–	26.3
Average	7.2	15.5

Source: IPM Research Center.

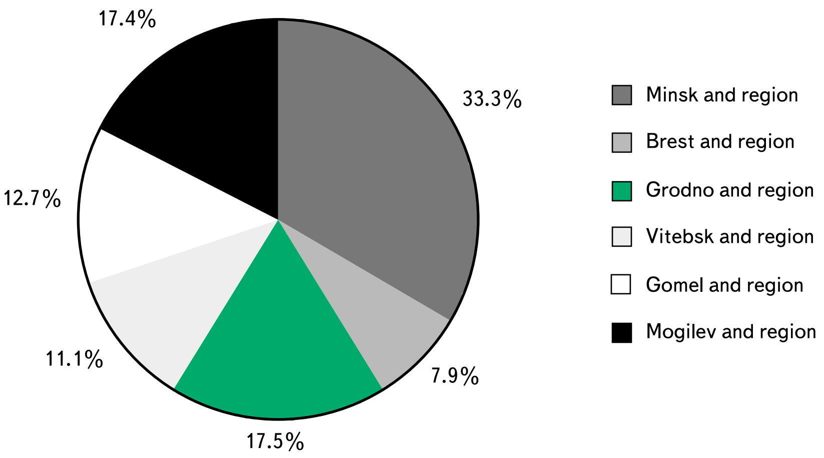
are talking about specific number of services, experience exchange and collective SMEs interests' protection.

The survey results showed among Belarusian SMEs after their business-union entry the most popular services are legal ones and possibility of experience exchange among organization members (Table 6.4). 50.8% and 44.4% of respondents respectively gave such answers. "Assistance in business operation" and "Representation of firm's interests in the face of central authorities" are in slightly lower demand.

It is noteworthy that survey results indirectly confirmed previous findings regarding the controversial economic situation of Belarusian SMEs and its' primary focus on survival and macroeconomic stabilization but not on expansion and innovation. Also, in terms of SMEs opinion given the current resource capabilities, the question of personnel qualification development is secondary. Its relevance together with financial resources attraction was mentioned by less than 28% of respondents.

At the same time it should be noted that certain services' provision by business-unions depends not just on their popularity among such organizations' members but also directly on business communities – on what possibilities and connections they have at the moment. Obviously that the business-unions possibilities to provide financial (investment) support as well stimulate the external markets' expansion and introduce innovations in the production at the national level are extremely limited. However this does not mean that these services will be irrelevant for Belarusian SMEs. Quite the contrary in terms of macroeconomic instability and foreign currency restrictions, in which Belarusian SMEs have been operating since spring 2011, exterior financing attraction and further enterprise's development (innovations' introduction, search for new markets) is the supreme goal of business-unions and the source of survival for Belarusian SMEs as a part

Figure 6.3. Comparison of business union members' share in 2011 depending on the region



Source: IPM Research Center.

Table 6.4. Distribution of answers to the question: "What services does the business-union provide to you?"

	Amount	Frequency, %	
		All SMEs	Unions' members
Personnel qualification development	11	2.7	17.5
Support in activity's internationalization	16	3.9	25.4
Legal services	32	7.9	50.8
Assistance in financial resources attraction (investors' search)	11	2.7	17.5
Assistance in business operation	25	6.1	39.7
Representation of firm's interests in the face of central authorities	23	5.7	36.5
Business climate improvement in the country	20	4.9	31.7
Experience exchange among organization members	28	6.9	44.4
Other	2	0.5	3.2
Total	407	–	–

Source: IPM Research Center.

Table 6.5. Distribution of answers to the question: "Why don't you join the business-union?"

	Amount	Frequency, %	
		All SMEs	Except for business-union members
High membership fees	2	0.5	0.6
Business-unions are helpless in my problems solving	149	36.6	43.3
Better not to use services of such organizations for political reasons	23	5.7	6.7
Lack of information about their activity	154	37.8	44.8
Hope to solve problems independently	116	28.5	33.7
Unsatisfactory services' quality	18	4.4	5.2
No answer / Hard to say	7	1.7	2.0
Total	407	–	–

Source: IPM Research Center.

of economy. That is why further functioning activization of these areas should be continued.

Nevertheless even though there is a number of benefits, obtained by enterprises after the business-union entry, the majority of domestic SMEs are still cautious and prefer to wait. As it was mentioned above, 85% of the respondents answered negative to the question about membership and therefore it seems reasonable to analyze the reasons of why Belarusian SMEs are not in a hurry in joining such communities.

About half (44.8%) of SMEs representatives said that they do not join business communities because of lack of information about their activity (Table 6.5). This is another signal to business-unions about the need in popularization activization and more active information spread. There is also a large share of those, who consider that business-unions will not be able to assist and contribute in problem solving (43.3% of respondents). At the same time Belarusian SMEs do not consider the financial component of business-union membership as an obstacle – less than 1% of respondents mentioned it as a reason for entry refusal.

Thus the main reason not to join business-union according to Belarusian SMEs opinion is the lack of information about their activity. Even though the significant work was done here (about 2 time increase of business-union members during the last year) it is necessary to take new measures in order to deliver the benefits from business-union membership to Belarusian business. In current situation, when SMEs activity as well as its' further development perspectives are extremely limited and hardly predictable, the role of business-unions is increasing, which managed to recommend themselves from their best side and keep supporting Belarusian business at all levels.

6.3. SMEs knowledge of the National Platform for Business in Belarus

According to MCEEU, as one of the founders of National Platform for Business in Belarus (NPBB)[12], this

[12] In March 2011 the fifth National Platform for Business in Belarus was presented to public. The National Platform for Business in Belarus project's authors are republic business community representatives, more than 30 regional and sectoral business-unions, other business associations, Analytical Center "Strategy", the IPM Research Center.

Table 6.6. Distribution of answers to the question: "Do you know about National Platform for Business in Belarus creation?" – depending on the geographical location, %

	Know	Don't know, hear for the first time
Minsk	37.1	62.9
Minsk region	9.5	90.5
Brest	88.2	11.8
Brest region	35.5	64.5
Grodno	18.5	81.5
Grodno region	28.6	71.4
Vitebsk	10.0	90.0
Vitebsk region	4.8	95.2
Gomel	29.2	70.8
Gomel region	50.0	50.0
Mogilev	16.7	83.3
Mogilev region	31.6	68.4
Average	30.2	69.8

Source: IPM Research Center.

Table 6.7. Distribution of answers to the question: "Do you know about National Platform for Business in Belarus creation?" – depending on company's size, %

	Know	Don't know, hear for the first time
From 1 to 10	28.7	71.3
From 11 to 50	27.2	72.8
From 51 to 100	45.5	54.5
From 101 to 200	33.3	66.7
Above 200	29.6	70.4
Total	30.2	69.8

Source: IPM Research Center.

Table 6.8. Distribution of answers to the question: "If you know about NPBB, then do you support its main ideas?" – depending on company size, % of those who know

	2010	2011		
	% from those who know about NPBB	% from those who know about NPBB	% from total amount	Amount
Totally support	17.9	20.3	6.1	25
More likely support	67.9	59.3	17.9	73
More likely don't support	11.5	13.0	3.9	16
Don't support	2.6	1.6	0.5	2
No answer/Hard to say	–	5.7	1.7	7
Total	100.0	100.0	30.2	123
Don't know about NPBB	–	–	69.8	284
Total	–	–	100.0	407

Source: IPM Research Center.

Table 6.9. Distribution of answers to the question: "If you know about NPBB, then do you support its main ideas?" – depending on belonging to business-union

	Are you a business-union member?							
	Yes				No			
	Amount	%	Amount	%	%	Amount	%	Amount
Totally support	13	52.0	31	31.6	68.4	67	48.0	12
More likely support	18	24.7					75.3	55
More likely don't support	1	6.2	1	5.6	94.4	17	93.8	15
Don't support	0	0.0					100.0	2
No answer/Hard to say	3	42.9	3	42.9	57.1	4	57.1	4
Total	35	28.5	35	28.5	71.5	88	71.5	88

Source: IPM Research Center.

document is "the main reference point, which shows the direction of entrepreneurs rights' protection and interests' representation throughout the year". Thus, in National Platform for Business in Belarus 2010 the reforming priority guidelines were property rights implementation, market institutions development, private initiative space expansion, business and state competitiveness increase, partnership and trust between business and authorities, tax burden reduce and accounting reform, state openness, qualitative information and knowledge access facilitation.

According to the survey more than 305 of managers and SMEs representatives know about business and country's expert community annual initiative for creation, presentation to all interested parties and NPBB massive promotion (just 20% of respondents knew about this initiative last year). Like in the case of business-unions general activity the share of those who knows is high in Minsk as well as in Brest, Breast and Gomel regions. At the same time there is practically no relationship between the company's size and knowledge about Platform creation (Tables 6.6–6.7).

According to the survey the majority of respondents support the basic ideas of NPBB (Table 6.8). Over the last year the number of SMEs representatives who answered "More likely support" decreased but at the same time the share of those who chose "Totally support" NPBB ideas increased from 17.9% in 2010 to 20.3% in 2011. Simultaneously decreased and remained at the low level the share of those who do not support that document – 1.6% (2.6% year before).

The analysis revealed the following trend (Table 6.9). Almost 70% of those who support NPBB ideas in this or that way are not business-unions' members. This figure reaches almost 95% if we talk about those, who don't support NPBB. At the same time almost 90% of different kinds of

Table 6.10. Distribution of answers to the question: "If you know about NPBB, then do you support its main ideas?" – depending on number of factors

	Support				Don't support				No answer/ Hard to say	Total	Share of those who know about NPBB, %
	Totally	More likely	Total	%	%	Total	More likely	Totally			
Business legal structure											
UE	6	19	25	67.6	16.2	6	5	1	6	37	30.1
LLC	12	35	47	85.5	12.7	7	7	0	1	55	44.7
ALC	3	6	9	81.8	18.2	2	1	1	0	11	8.9
OJSC	3	10	13	100.0	0.0	0	0	0	0	13	10.6
CJSC	1	1	2	100.0	0.0	0	0	0	0	2	1.6
General partnership	0	1	1	50.0	50.0	1	1	0	0	2	1.6
Production cooperative	0	1	1	100.0	0.0	0	0	0	0	1	0.8
Other	0	0	0	0.0	100.0	2	2	0	0	2	1.6
Total	25	73	98	79.7	14.6	18	16	2	7	123	100.0
Number of workers											
From 1 to 10	5	30	35	74.5	17.0	8	7	1	4	47	38.2
From 11 to 50	9	21	30	73.2	24.4	10	9	1	1	41	33.3
From 51 to 100	8	12	20	100.0	0.0	0	0	0	0	20	16.3
From 101 to 200	2	4	6	85.7	0.0	0	0	0	1	7	5.7
Above 200	1	6	7	87.5	0.0	0	0	0	1	8	6.5
Total	25	73	98	79.7	14.6	18	16	2	7	123	100.0
Branch of economy											
Trade	9	21	30	75.0	20.0	8	7	1	2	40	32.5
Industry	3	14	17	81.0	19.0	4	4	0	0	21	17.1
Construction	6	17	23	95.8	0.0	0	0	0	1	24	19.5
Transport and telecom.	0	5	5	62.5	25.0	2	2	0	1	8	6.5
IT services	1	4	5	100.0	0.0	0	0	0	0	5	4.1
Tourism	1	3	4	80.0	0.0	0	0	0	1	5	4.1
Total	25	73	98	79.7	14.6	18	16	2	7	123	100.0
Year of enterprise's foundation											
Before 1996	5	11	16	76.2	14.3	3	2	1	2	21	17.1
1997 – 2004	12	32	44	89.8	8.2	4	3	1	1	49	39.8
2005 – 2007	5	12	17	63.0	22.2	6	6	0	4	27	22.0
2008 – 2010	3	18	21	80.8	19.2	5	5	0	0	26	21.1
Before 1996	25	73	98	79.7	14.6	18	16	2	7	123	100.0
Gender											
Male	17	49	66	84.6	11.5	9	8	1	3	78	63.4
Female	8	24	32	71.1	20.0	9	8	1	4	45	36.6
Total	25	73	98	79.7	14.6	18	16	2	7	123	100.0

Source: IPM Research Center.

business-unions members support NPBB and the vast majority (31 out of 35 asked) totally support.

Also on the basis of the survey results' we can make a portrait of SMEs representative that supports NPBB's main ideas (Table 6.10). In general it is a representative of UE or LLC (rarer OJSC or ALC) in most cases with a number of workers of less than 51. This SME is most likely functioning in trade, industry or construction and was founded during the last 20 years. Men are dominate among those who know about NPBB and they are also more active supporters of it.

The greatest skepticism in NPBB's support is expressed by the smallest SMEs with a number of workers from 1 to 10 and from 11 to 50 (Table 6.11). At the same time the absence of those, who do not support NPBB's ideas among the firms with a number of workers more than 50 should be noted. Similar situation is observed in answers to the question "If you do know about NPBB, what is its role in business community consolidation on interests protection and business climate liberalization?" Despite the fact that there is a share of enterprises with a number of workers more than 50 that reported no significant role of NPBB in that question, in numerical terms just one company gave such answer in each gradation.

6.4. Work on NPBB promotion and dialogue setting between the state and business

One of the most famous and influential organizations, specializing in Belarusian SMEs interests' protection is public association "Minsk Capital Entrepreneurs and Employers Union" (MCEEU), which was founded in 1997 and by the end of 2010 united more than 800 founders, directors and key specialists of private, foreign, joint and stock companies of Minsk and Minsk region. In 2010 56 presidents of the companies became the members, 53 partnership agreements with legal entities were signed. It also should be noted that not just companies with solid work experience keep

Table 6.11. Distribution of answers to the question: "If you know about NPBB, do you support its main ideas?" – depending on company's size, %

	1–10	11–50	51–100	101–200	Above 200
Totally support	10.6	22.0	40.0	28.6	12.5
More likely support	63.8	51.2	60.0	57.1	75.0
More likely don't support	14.9	22.0	0.0	0.0	0.0
Don't support	2.1	2.4	0.0	0.0	0.0
No answer/Hard to say	8.5	2.4	0.0	14.3	12.5

Source: IPM Research Center.

Table 6.12. Distribution of answers to the question: "If you know about NPBB, what is its role in business community consolidation on interests' protection and business-climate liberalization?"

	Amount	%
Significant role	48	11.8
Insignificant role	59	14.5
No role	11	2.7
No answer / Hard to say	5	1.2
Amount of those who know about NPBB	123	30.2
Don't know about NPBB	284	69.8
Total	407	100.0

Source: IPM Research Center.

Table 6.13. Distribution of answers to the question: "If you know about NPBB, what is its role in business community consolidation on interests' protection and business-climate liberalization?" – depending on company's size, %

	1–10	11–50	51–100	101–200	Above 200
Significant role	19.1	46.3	65.0	28.6	62.5
Insignificant role	66.0	41.5	30.0	42.9	25.0
No role	8.5	9.8	5.0	14.3	12.5
No answer / Hard to say	6.4	2.4	0.0	14.3	0.0

Source: IPM Research Center.

joining the Union, but also business entities that have registered their activities recently. In 2010 MCEEU provided the partner companies with various assistance in goods and services promotion according to mapped program. Information materials of Union's members and partner companies were presented in international sectoral exhibitions in Poznan, Moscow, Minsk and other cities, their business proposals were placed in world trade centers' network and other databases.

As it was mentioned above, one of the most actual components for Belarusian SMEs is business-stuff qualification improvement. Because of that improvement of targeted distribution of business information system, consultations, seminars and information days on economic issues (taxes, accounting, pricing, foreign trade), law, customs regulations, certification, standardization, business planning, marketing and doing business information technologies was continued in 2010.

Besides, services provision in the sphere of industrial cooperation continued in 2010. Local fund of entrepreneurs' support and solidarity, established by the Union in close collaboration with Interregional Center of Industrial Subcontracting and Partnership (Moscow) on the basis of Regional Industrial Center of Belarus, was looking for partners for orders placement at enterprises of different ownership. In the framework of local producers' public support program together with Moscow NGO "Cooperation with Belarus Promotion" work on interstate information database "Goods and Services Supply and Demand" was continued. As a result of MCEEU team-work with Moscow partners private and public enterprises expanded possibility to place information about themselves, their goods and services on the website *www.ssrb.ru* for free.

Work on republic private initiative development conditions creation continued in 2010. During this work MCEEU actively participated in legislative activity, the coordinator of which was Committee on Entrepreneurs Legal Protection. The main method of this issue direction fulfillment – advocacy (business interaction with state agencies, during which actual information on Belarusian entrepreneurship problems was provided to the authorities, concrete proposals focused on Belarusian business climate positive changes were made).

Business collaboration of Union with Ministries of Economy, Industry, Law, Foreign Affairs, Trade, Finance, Statistics and Analysis, with House of Representatives and Council of Republic of Belarus deputies continued in 2010, cooperation with Republican Labor Arbitration, National Standardization Committee, National Center of Legislative Activities of the President of Belarus as well as other structures, which determine form and content of Belarusian legislative sphere preserved.

Nevertheless in spite of ongoing new initiatives, the NPBB realization in life is one of the main directions of Belarusian SMEs interests' protection, as this is the comprehensive document, which includes domestic SMEs representatives' wishes and leading economic experts' recommendations. NPBB is one of the main components of economic policy implementation, which is consistent with Belarusian SMEs interests. A lot of Platform points, which were discussed at various conferences and other events, presented during the meetings with authorities' representatives, were included into legislative and regulatory documents. For example almost half of NPBB 2010 points were reflected in the Presidential Decree № 4, adopted by the President December 31, 2010.

The extended meeting of the Council of Ministers with business representatives' participation, which happened October 4, 2011, is a logical continuation of a dialogue between business-unions and state authorities. The Belarusian Prime Minister announced that business will receive equal access to state support new mechanism. The positive fact is that the Head of the Government is going to arrange such kind of meetings on a regular basis.

In conclusion it is necessary to emphasize again that the main result of conducted work is not just vital business-unions' creation, which protect their members' rights and propose legal initiatives, but also gradual establishment of a regular dialogue between business and authorities. This progress is especially noticeable on the background of 2009–2010 economic crisis and 2011 currency crisis, when the state admitted the increasing importance of SMEs for the national economy and specified readiness to join efforts on national legislation liberalization aimed at creation of equal doing business conditions for all market participants, which allows to expect with a moderate optimism further working conditions improvement for Belarusian SMEs.

APPENDIX
ANSWERS TO THE QUESTIONNAIRE "DEVELOPMENT OF SMALL AND MEDIUM-SIZED ENTERPRISES IN BELARUS-2011"

SECTION 1. GENERAL INFORMATION ABOUT THE COMPANY AND THE RESPONDENT

1. What is your sphere of activity?

	Number of SMEs	%
Trade	129	31.7
Food services	18	4.4
Industry (manufacturing)	84	20.6
Construction	61	15.0
Transport and communication	27	6.6
Consumer services	22	5.4
Consulting services	5	1.2
Education	3	0.7
IT services	14	3.4
Tourism	12	2.9
Advertising	5	1.2
Polygraphy/Publishers	8	2.0
Real estate	6	1.5
Other	13	3.2
Total	407	100.0

2. What is business legal structure?

	Number of SMEs	%
UE (Unitary Enterprise)	160	39.3
LLC (Limited Liability Company)	149	36.6
ALC (Additional Liability Company)	51	12.5
OJSC (Open Joint-Stock Company)	28	6.9
CJSC (Closed Joint-Stock Company)	6	1.5
General partnership	3	0.7
Production cooperative	2	0.5
Other	8	2.0
Total	407	100.0

3. What is the number of workers?

	Number of SMEs	%
1–10	164	40.3
11–50	151	37.1
51–100	44	10.8
101–200	21	5.2
Above 200	27	6.6
Total	407	100.0

4. What is the year of foundation?

	Number of SMEs	%
Before 1996	67	16.5
1997–2004	133	32.7
2005–2007	97	23.8
2008–2010	110	27.0
Total	407	100.0

5. Region

	Number of SMEs	%
Minsk	116	28.5
Minsk region	42	10.3
Brest	17	4.2
Brest region	31	7.6
Grodno	27	6.6
Grodno region	28	6.9
Vitebsk	20	4.9
Vitebsk region	21	5.2
Gomel	24	5.9
Gomel region	32	7.9
Mogilev	30	7.4
Mogilev region	19	4.7
Total	407	100.0

6. Respondent's gender

	Number of SMEs	%
Male	209	51.4
Female	198	48.6
Total	407	100.0

7. Respondent's position

	Number of SMEs	%
Principal	179	44.0
Vice-principal	66	16.2
Chief Accountant	68	16.7
Head of department	47	11.5
Other	47	11.5
Total	407	100.0

SECTION 2. ECONOMIC SITUATION IN THE COMPANY

8. What is the current economic situation in your company?

	Number of SMEs	%
Bad	34	8.4
Below average	112	27.5
Stable	196	48.2
Above average	38	9.3
Good	27	6.6
Total	407	100.0

9. How did the competition in the market change in the last three years?

	Number of SMEs	%
Competition increased	251	61.7
Competition is the same	138	33.9
Competition decreased	18	4.4
Total	407	100.0

10. How much these goals are important for your company now?

	Grades					Total
	1	2	3	4	5	
Expansion, business development	3.7	5.7	19.4	23.8	47.4	100.0
Achieved level preservation	2.9	2.7	17.7	24.8	51.8	100.0
Survival	12.8	15.5	23.8	13.0	34.9	100.0

Note. "1" – does not matter, "5" – very important.

11. What internal factors help you in doing business?

	Grades											Total
	–5	–4	–3	–2	–1	0	1	2	3	4	5	
Team availability/absence	3.2	0.5	0.7	2.0	1.7	5.9	2.5	2.2	7.4	11.5	62.4	100.0
Management professional level	1.2	0.2	0.5	1.2	1.2	9.3	2.2	4.9	8.1	15.0	56.0	100.0
Presence/absence of delegation of authority from top management to lower-level management practice, reduction of centralization in decision-making	2.2	0.0	1.0	2.7	2.5	35.9	3.9	4.2	13.5	12.5	21.6	100.0
Market knowledge, ability to predict market conditions	0.7	0.0	0.0	0.7	0.7	7.6	4.4	4.7	12.0	15.5	53.6	100.0
Ability to produce competitive product	1.2	0.0	0.2	0.5	0.5	17.4	2.9	3.9	7.9	13.8	51.6	100.0
Relations with authorities and influential people	2.0	1.0	0.2	1.5	1.5	23.3	7.9	7.9	13.0	11.5	30.2	100.0
Level of legislation knowledge, ability to defend the rightness	0.2	0.5	0.5	0.2	1.2	9.1	7.4	7.4	12.3	13.3	47.9	100.0

Note. “–5” – complicates extremely; “0” – doesn’t matter; “5” – very helpful.

12. What external factors impede your successful doing business?

	Grades											Total
	–5	–4	–3	–2	–1	0	1	2	3	4	5	
Level of competitiveness in the market	17.0	7.1	12.0	8.4	5.7	12.8	3.2	4.9	11.5	4.4	13.0	100.0
Presence of state support	4.4	1.5	2.2	2.5	2.5	34.6	7.4	10.8	13.3	9.3	11.5	100.0
Business environment in comparison to public sector	7.1	2.2	4.7	6.9	6.9	39.8	6.1	6.9	7.6	5.4	6.4	100.0
Level of property rights and private business interests protection	5.7	1.2	5.9	2.9	5.4	32.2	9.3	8.8	7.1	6.9	14.5	100.0
Corruption level	11.1	3.2	8.6	8.1	6.6	48.9	3.7	2.9	2.2	1.5	3.2	100.0
Foreign exchange regulation	33.9	5.2	7.1	4.4	3.9	23.6	2.2	2.0	4.2	3.7	9.8	100.0
Tax regulation and tax rates	11.8	5.7	10.3	10.3	9.1	22.6	5.9	5.9	6.9	3.2	8.4	100.0
Rent rates	10.1	5.7	10.6	11.1	9.1	29.0	4.7	5.2	5.4	4.9	4.4	100.0
System of control and penalties	13.3	6.6	13.8	13.0	11.3	21.9	3.7	2.9	4.4	2.9	6.1	100.0
Rates on banks’ and other institutions’ loans	16.7	7.1	8.6	9.8	7.4	32.2	2.7	2.9	3.7	3.7	5.2	100.0
Economic policy of other countries	5.7	1.7	2.7	5.2	5.2	61.9	4.7	4.9	3.9	2.0	2.2	100.0

Note. “–5” – complicates extremely; “0” – doesn’t matter; “5” – very helpful.

13. What are the most significant doing business obstacles in Belarus?

	Grades					No answer/ hard to say	Total
	1	2	3	4	5		
Access to financial resources	20.6	13.8	16.0	11.3	7.4	31.0	100.0
Ineffective state administration	17.7	18.9	16.0	11.3	8.6	27.5	100.0
Activity restricting labor market regulation	12.0	10.8	20.1	11.1	7.1	38.8	100.0
Tax rates	17.9	15.2	18.7	12.8	5.9	29.5	100.0
Tax regulation	15.0	13.8	18.9	13.5	8.1	30.7	100.0
Corruption	14.0	12.5	14.5	6.9	8.4	43.7	100.0
Low labor force ethics level	12.0	12.8	14.0	14.0	7.6	39.6	100.0
Inadequate infrastructure	10.3	8.4	17.2	11.8	7.4	45.0	100.0
Inadequate labor force education	10.1	8.4	17.2	12.8	7.9	43.7	100.0
Unstable policy	17.9	16.2	16.2	8.4	6.4	34.9	100.0
Authorities’ instability	16.2	13.5	14.5	7.6	5.4	42.8	100.0
Inflation	41.8	11.8	12.3	8.1	11.1	15.0	100.0
Crime and theft	18.7	7.4	10.1	8.4	8.4	47.2	100.0
Currency market regulation	36.4	14.3	12.8	8.4	9.8	18.4	100.0
Low level of healthcare	17.2	5.7	9.1	7.6	10.6	49.9	100.0

Note. “1” – doesn’t matter; “5” – very important.

14. What are the main strengths and shortcomings of tax legislation?

	Grades											Total
	–5	–4	–3	–2	–1	0	1	2	3	4	5	
Number of taxes and dues	15.2	4.7	11.8	8.6	9.8	22.6	8.6	5.7	6.1	3.7	3.2	100.0
Total sum of taxes (tax liabilities)	17.4	9.3	12.8	10.6	8.6	19.2	8.1	5.9	3.7	2.2	2.2	100.0
Frequency of changes in tax legislation	28.0	14.0	13.0	10.1	7.1	14.0	5.7	2.7	2.0	1.7	1.7	100.0
Regularity of filing and taxes and dues payments	2.7	5.9	7.9	6.1	10.1	41.0	6.4	3.9	5.2	5.4	5.4	100.0
Time and efforts spent on tax payments	10.1	7.1	11.3	8.4	12.3	30.5	5.9	3.4	5.9	2.5	2.7	100.0
Open access to tax information	2.5	2.5	6.4	4.4	3.9	25.8	3.7	9.8	15.2	9.1	16.7	100.0

Note. "–5" – complicates extremely; "0" – doesn't matter; "5" – very helpful.

15. What are the main strengths and shortcomings of fines' and control system?

	Grades											Total
	–5	–4	–3	–2	–1	0	1	2	3	4	5	
Fine's amount	23.8	7.6	11.8	14.0	10.8	18.2	3.4	4.9	3.4	0.7	1.2	100.0
Violation and punishment correlation	23.1	10.3	14.3	11.3	11.5	17.7	3.2	2.7	3.7	1.0	1.2	100.0
Number of check-ups	8.4	4.9	10.3	12.0	11.5	25.8	6.6	8.4	7.1	2.7	2.2	100.0
Information openness on rules and regulations	4.2	2.5	6.4	3.7	5.9	16.7	7.1	11.5	14.3	10.1	17.7	100.0
Time required for taxes' calculation and payment	19.9	7.4	12.3	11.8	10.6	21.9	4.7	2.9	4.2	2.5	2.0	100.0

Note. "–5" – complicates extremely; "0" – doesn't matter; "5" – very helpful.

SECTION 3. CORRUPTION AND SHADOW ECONOMY

16. What share of private companies' turnover is not reflected in accounting reports?

	Number of SMEs	%
No such phenomenon	120	29.5
Infrequently (up to 25% cases)	116	28.5
In 26–50% cases	61	15.0
In 51–75% cases	12	2.9
In more than 76% cases	13	3.2
No answer/Hard to say	85	20.9
Total	407	100.0

17. How often executives of private companies are forced to bribe (in any way) administrative agents?

	Number of SMEs	%
No such phenomenon	135	33.2
Infrequently (up to 25% cases)	96	23.6
In 26–50% cases	42	10.3
In 51–75% cases	8	2.0
In more than 76% cases	8	2.0
No answer/Hard to say	118	29.0
Total	407	100.0

18. How is such a phenomenon as 'kickbacks' in return for profitable state orders is widespread in Belarus?

	Number of SMEs	%
No such phenomenon	86	21.1
Infrequently (up to 25% cases)	93	22.9
In 26–50% cases	47	11.5
In 51–75% cases	16	3.9
In more than 76% cases	25	6.1
No answer/Hard to say	140	34.4
Total	407	100.0

19. In your opinion, in what areas/business regulatory authorities there is the largest number of bribing and corruption?

	Grades					NA	Total
	1	2	3	4	5		
Price regulation	49.6	19.2	17.0	2.5	3.2	8.6	100.0
Licenses	43.2	19.4	18.2	8.1	5.9	5.2	100.0
Hygienic registration and certification	32.9	17.7	19.9	11.8	11.5	6.1	100.0
Sanitation	28.3	19.9	18.4	13.3	15.0	5.2	100.0
Fire supervision	26.5	15.2	20.6	19.4	13.3	4.9	100.0
Tax payment	56.3	17.7	11.8	5.7	3.4	5.2	100.0
Tax audits	41.3	21.6	17.4	9.6	4.7	5.4	100.0
Customs clearance	39.1	18.4	16.2	7.9	10.3	8.1	100.0
Permits for land	27.3	16.5	18.7	13.0	14.7	9.8	100.0
Obtaining various permissions in local authorities	28.5	17.2	20.1	13.5	14.0	6.6	100.0
Lease	39.3	17.0	18.2	11.8	7.9	5.9	100.0
Tenders	29.5	9.3	18.2	12.3	23.6	7.1	100.0
Other	0.0	0.7	0.0	0.0	0.5	98.8	100.0

20. In your opinion measures taken by authorities on situation with corruption led to situation:

	Number of SMEs	%
Improvement	121	29.7
Worsening	39	9.6
No changes	245	60.2
NA/Hard to say	2	0.5
Total	407	100.0

SECTION 4. LIBERALIZATION AND DOING BUSINESS CONDITIONS

21. How did your company's economic situation change over the last year?

	Number of SMEs	%
Significantly deteriorated	42	10.3
Slightly deteriorated	99	24.3
No changes	130	31.9
Slightly improved	105	25.8
Significantly improved	23	5.7
NA/Hard to say	8	2.0
Total	407	100.0

22. Evaluate, how did the following indicators change in 2010? What is your forecast for 2011?

	Company's results of activity				2011forecast			
	Increased	Were stable	Decreased	NA	Increased	Were stable	Decreased	NA
Turnover (sales volume)	38.3	41.8	17.7	2.2	35.9	24.3	36.4	3.4
Profit	33.2	39.3	26.3	1.2	29.7	25.8	41.3	3.2
Employment	20.1	64.1	13.8	2.0	21.6	47.9	27.3	3.2
Investments	11.5	51.1	21.4	16.0	15.2	37.8	30.5	16.5

23. What negative external changes is your company the most sensitive to?

	Number of SMEs	%
Fell of population's purchasing power within the country	283	69.5
Delays (non-payments) in delivered products' payments	205	50.4
Decrease of demand from SOEs	102	25.1
Customers' reorientation towards cheaper suppliers	136	33.4
Limitation to banks' financial resources	134	32.9
Decrease of demand on company's products in Russia	25	6.1
Investment projects' freeze	40	9.8
Restrictions in the currency market	233	57.2
Decrease of demand on company's products in other external markets	18	4.4
Decrease of demand from authorities (public procurement)	36	8.8
Other	11	2.7
NA/Refuse to answer	4	1.0

Note. No more than 5 answers were possible.

24. What are the opportunities for your business in 2011?

	Number of SMEs	%
More rational approach to financial resources usage	204	50.1
Search for the business models/solutions, more prompt actions	259	63.6
Qualified labor force hire at a lower cost	99	24.3
Withdrawal from the competitors market	120	29.5
Production facilities modernization	103	25.3
Usage growth of give and take schemes and subcontracts	32	7.9
Access simplification to financial resources	102	25.1
Other	17	4.2
NA/Refuse to answer	4	1.0

Note. No more than 5 answers.

25. In case the privatization process will recommence in Belarus, which way you think is the most attractive?

	Number of SMEs	%
Privatization objects should be sold to domestic investors without restriction (open transparent tender) with restrictions' introduction on foreign capital	126	31.0
The advantage should be given to leasers in privatization	98	24.1
Privatization objects should be sold to any buyer (both domestic and foreign) without restrictions in an open transparent tender	127	31.2
Privatization objects should be sold to domestic investor without restrictions with restrictions' introduction to Russian capital	34	8.4
I'm against privatization	17	4.2
No answer / Hard to say	5	1.2
Total	407	100.0

26. Are you or your company interested to take part in Belarusian state assets' privatization?

	Number of SMEs	%
No	202	49.6
Yes, s. t. transparent and fair privatization process	101	24.8
Yes, s. t. guarantee of its' results further permanence	100	24.6
Yes, s. t. reasonable (not speculative) prices	75	18.4
Yes, s. t. access provision to necessary financial resources (f. e. credit) or privatization schemes application (leasing, installments), which make participation in privatization easier	53	13.0
Yes, s. t. land private ownership introduction	28	6.9
Yes, s. t. state privileges provision (support) in state assets' acquisition	14	3.4
Yes, s. t. restrictions for foreign (Russian) capital introduction	8	2.0
No answer/Hard to say	4	1.0
Total	407	100.0

27. How soon are you ready to take part in privatization (in case of your conditions fulfillment)?

	Number of SMEs	%
During a year	39	9.6
In the nearest 3 years	77	18.9
In long-run perspective	82	20.1
No answer / Hard to say	7	1.7
Always ready	205	50.4
Not ready	202	49.6
Total	407	100.0

28. How, in your opinion, did the doing business conditions change during the last year?

	Number of SMEs	%
Business conditions significantly improved	23	5.7
Business conditions slightly improved	111	27.3
Business conditions are the same	149	36.6
Business conditions slightly deteriorated	60	14.7
Business conditions deteriorated significantly	41	10.1
No answer / Hard to say	23	5.7
Total	407	100.0

29. How did business environment liberalization measures reflect on you business activity?

	Grades											Total
	–5	–4	–3	–2	–1	0	1	2	3	4	5	
Business registration	0.0	0.5	0.5	1.2	0.7	56.0	5.9	6.1	8.1	9.8	11.1	100.0
Different permits obtainment	1.0	0.7	3.4	2.5	4.9	45.5	8.6	12.0	10.8	6.4	4.2	100.0
Administrative procedures	1.5	1.2	3.9	4.7	3.9	45.7	8.4	11.8	10.6	5.2	3.2	100.0
Number of check-ups	1.5	1.7	3.9	5.9	10.8	36.9	11.1	8.1	10.6	7.4	2.2	100.0
Fine’s amount	5.9	2.7	8.6	12.0	10.3	42.3	4.9	4.9	4.7	2.5	1.2	100.0
Rent payment	5.2	3.2	6.6	9.8	9.1	44.7	8.4	5.2	3.9	2.2	1.7	100.0
Pricing	8.4	4.2	8.4	6.4	7.6	31.9	5.4	7.6	8.1	4.7	7.4	100.0
Tax burden	4.2	4.2	4.9	7.1	9.1	44.0	10.6	6.1	5.4	2.2	2.2	100.0
Time required for taxes’ calculation and payment	4.2	2.7	4.2	7.1	8.1	46.9	7.9	7.9	6.1	3.2	1.7	100.0
Credit accessibility	9.6	6.1	11.1	8.8	6.4	34.9	7.6	4.9	5.9	3.4	1.2	100.0
Easiness of foreign trade implementation	11.8	7.6	7.4	5.9	5.4	48.6	3.9	2.9	2.0	2.7	1.7	100.0
Wages’ calculation	1.5	1.2	2.2	4.9	5.2	60.2	9.3	6.1	4.9	3.7	0.7	100.0
Cost and complexity of auctions’ and tenders’ realization	2.9	2.0	2.0	3.2	4.4	73.2	4.4	2.7	2.9	1.2	1.0	100.0
Property rights protection	2.2	2.5	3.2	2.2	2.7	64.6	10.3	4.4	4.4	2.2	1.2	100.0

Note. “–5” – complicates extremely; “0” – doesn’t matter; “5” – very helpful.

30. How did the changed in rent payment influence on your doing business activity in 2010?

	Number of SMEs	%
Positively	66	16.2
No influence	229	56.3
Negatively	88	21.6
NA/Hard to say	24	5.9
Total	407	100.0

31. Do you think the country will improve its’ Doing Business rating in the current year?

	Number of SMEs	%
Yes	77	18.9
No	267	65.6
NA/Hard to say	63	15.5
Total	407	100.0

32. In what spheres in your opinion the entrepreneurs feel unequal doing business conditions in comparison with public sector?

	Number of SMEs	%
Taxation	85	20.9
Attitude of regulatory bodies	179	44.0
Rent rates	113	27.8
Commodity prices	70	17.2
Conditions of permits and licenses obtaining	79	19.4
Access to credit resources	148	36.4
Local authorities’ attitude	156	38.3
Judiciary’s attitude	43	10.6
Other	6	1.5
It is the same	9	2.2
NA/Hard to say	12	2.9

Note. No more than 3 answers.

SECTION 5. PUBLIC ACTIVITY, NATIONAL PLATFORM FOR BUSINESS

33. Are you a member of business union?

	Number of SMEs	%
Yes	63	15.5
No	344	84.5
Total	407	100.0

34. What services does the business-union provide to you?

	Number of SMEs	%
Personnel qualification development	11	2.7
Support in activity's internationalization	16	3.9
Legal services	32	7.9
Assistance in financial resources attraction (investors' search)	11	2.7
Assistance in business operation	25	6.1
Representation of firm's interests in the face of central authorities	23	5.7
Business climate improvement in the country	20	4.9
Experience exchange among organization members	28	6.9
Other	2	0.5

Note. All possible answers.

35. Why don't you join the business-union?

	Number of SMEs	%
High membership fees	2	0.5
Business-unions are helpless in my problems solving	149	36.6
Better not to use services of such organizations for political reasons	23	5.7
Lack of information about their activity	154	37.8
Hope to solve problems independently	116	28.5
Unsatisfactory services' quality	18	4.4
NA/Hard to say	7	1.7

Note. No more than 3 answers.

36. Do you know about National Platform for Business in Belarus creation?

	Number of SMEs	%
Know	123	30.2
Don't know, hear for the first time	284	69.8
Total	407	100.0

37. If you know about NPBB, then do you support its main ideas?

	Number of SMEs	%
Totally support	25	6.1
More likely support	73	17.9
More likely don't support	16	3.9
Don't support	2	0.5
No answer/Hard to say	7	1.7
Total	123	30.2
Don't know about NPBB	284	69.8

38. Range National Platform for Business in Belarus goals' importance in 2011?

	Average rank
Conditions' creation for fair competition and equal economic conditions	3.2
Property rights' protection strengthening and private sector growth	3.1
Tax system and accounting simplification	3.2
De-bureaucratization and liberalization	3.7
Access to finance improvement and innovative development stimulation	3.4
Partnership expansion and business confidence in authorities growth	4.5

39. If you know about NPBB, what is its role in business community consolidation on interests' protection and business-climate liberalization?

	Number of SMEs	%
Significant role	48	11.8
Insignificant role	59	14.5
No role	11	2.7
No answer / Hard to say	5	1.2
Total	123	30.2
Don't know about NPBB	284	69.8
Total	407	100.0

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