

In this issue:

The consequences of growing prices for gas and oil for the Belarusian economy and new challenges for the government; changes in legislation regulating entrepreneurial activity; business environment in Belarus: major trends, factors of competitiveness, estimates of shadow economy, corruption and consequences of energy price hike

IPM Research Center
76 Zahkarova St., 220088, Minsk, Belarus
Tel./fax +375 (17) 210 0105
research@research.by, <http://research.by/>



Dear Readers!

This issue of 'Small and Medium Business in Belarus' contains our traditional sections: the analysis of macroeconomic trends and institutional environment, and also some data taken from the recent survey of small and medium-sized enterprises of Belarus.

At the beginning of 2007, Belarus has been confronted with changing terms of trade with Russia. In particular, prices for imported gas has been increased by more than twice, while the terms and conditions of supply of oil and oil products have been redefined. Following this, prices for electric energy and heating have gone up, and the scope of provision of preferences in supply of oil products to the domestic market has been narrowed down. As a result of growing costs, the opportunities to increase enterprise investment have been limited. Accordingly, the government has been facing a number of challenges. The response would require the revision of current economy policies and even 'the economic model' as such. However, our analysis of the decisions made so far and the efforts made by the government reveal that the latter is still operating within the framework of the established developmental paradigm prioritizing state ownership and administrative regulation.

The survey of the business environment of Belarus has indicated that high taxes and unstable economic situation in the country remain to be the major factors hindering the development of private companies. Nevertheless, despite the significant administrative barriers to entrepreneurship, the vast majority of small and medium businesses managed either to increase or to maintain their sales, profits, employment, and investment. Against the background of a relatively economically favorable 2006, the majority of small and medium-sized companies plan to expand their activity in the current year. If the government would opt for a policy to promote these ambitious plans, small business could become the 'crisis-proof' engine in case of a crisis.

Editors

Materials of this issue are prepared by experts of the IPM Research Center. The experts' opinions reflected in these materials may not necessarily coincide with the position of the IPM Research Center.

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Editors:

Elena Rakova, Alexander Chubrik

1. ECONOMIC CONSEQUENCES OF THE CHANGING TERMS AND CONDITIONS OF ENERGY SUPPLY

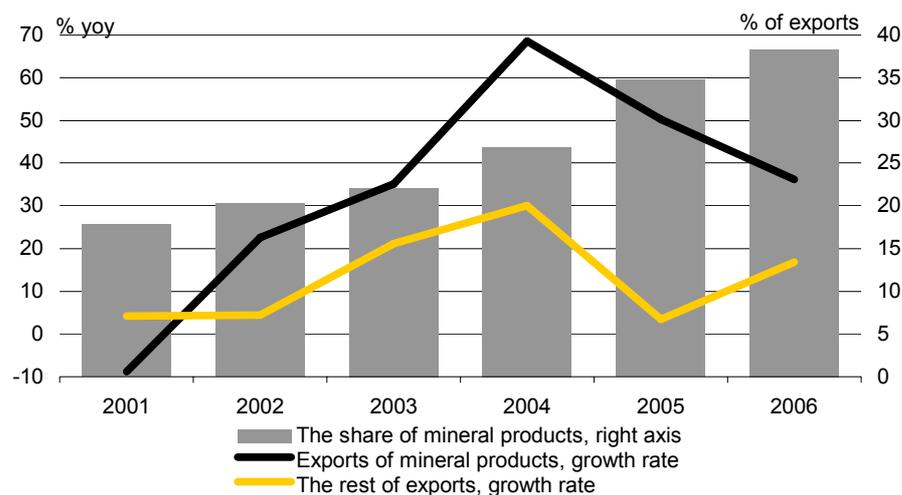
Since 2007, the terms and conditions of oil supply to Belarus have been changed substantially. First, the price of Russian gas for Belarus has been increased from USD 46.67 to USD 100 per 1,000 cubic meters. Second, Russia has imposed a duty on its crude oil supplied to Belarus (at the level of 29.3% of the duty established in Russia). Third, Belarus has assumed an obligation to collect duties from exports of oil products at the level as they are set in Russia. However, in the near future, the terms and conditions of supply of gas and crude oil would deteriorate. In particular, in 2011, the price of gas for Belarus would be set at the level of the average European price, while the duty paid for Russia's crude oil by 2009 would amount to 35.6% of the duty established in Russia. Apparently, these changes would adversely impact the dynamics of the economic development in Belarus and demand from the government to adjust economic policy accordingly.

1.1. The dependency of the Belarusian economy on gas and oil supply

Over the last several years Belarus has displayed rather high rates of GDP growth. According to the official data, in 2004–2006 GDP had been growing on average at 10.2% per annum. However, at the heart of these decent rates of growth were preferential terms and conditions of supply of energy from Russia and the existence of a formal trade union agreement between two countries. In particular, in 2006 Belarus imported from Russia 21 billion cubic meters of gas, paying USD 46.68 per 1,000 cubic meters. For comparison, the price paid by Ukraine was USD 95, Moldova – USD 160, and Germany – USD 250. It follows that if Belarus were paying Germany's price, additional costs would amount to 10% of GDP, while Ukraine's price – 3% of GDP. Apparently, such a 'subsidy' granted by Russia has been important for the development of the Belarusian economy.

Another essential source of economic growth has been trade with oil products. Due to a considerable increase of world prices for oil and oil products and duty-free oil imports from Russia, Belarus

Figure 1: The Role of Oil Products in Belarusian Exports



Source: calculations made on the basis of the Ministry of Statistics and Analysis data.

was capable to reach a sizeable trade surplus with the non-CIS countries. In 2006, the share of oil products in the total volume of Belarusian exports approached 40% (while in 2002 it was not higher than 18%, see Figure 1). According to some estimates, budget revenues from trading with oil products were about USD 3 billion. As a result, the government was able to raise incomes of the population and to subsidize enterprises without making substantial economic reforms.

Preferential conditions of energy supply to a considerable extent smoothed the influence of a number of adverse trends on the domestic economy down, namely:

- 1) Worsening competitive positions of the Belarusian goods at the Russian and the domestic markets. In particular, the 2004 figure of Belarus' exports to Russia has never been reached, while the imports of consumer and investment goods to Belarus have been growing rapidly. This has led to mounting merchandise trade deficit, with the limited possibilities for its financing;
- 2) Growing dependency of Belarusian exports on the external market conditions. The basis of Belarusian exports has been the revenues from exports of oil products and chemical and petrochemical products (about 50% of total volume of exports). However, prices for these goods are usually subject to market fluctuations. Accordingly, falling ex-

ternal prices (or increasing costs of exporters) would lead to an appreciable decline in currency revenues.

1.2. New arrangement for gas and oil supply and their consequences

The final arrangements on the supply of gas and oil are compromise ones. Accordingly, the shift to new terms and conditions appear to be less painful in contrast to original propositions made by the Russian government. Specifically, Gazprom offered to increase price for gas imported by Belarus since 2007 to USD 200 per 1,000 cubic meters. In contrast, the final agreement stipulates that price would be increased gradually in order to reach the European average level only by 2011. However, Belarus is supposed to sell 50% of the holding of Beltransgaz stock for USD 2.5 billion. Gazprom would pay this amount of money by 2010. In addition, Belarus has been able to raise its gas transit fee.

Concerning the terms and conditions of oil supply, Russia insisted on the imposing of export duties at the levels set in Russia and transferring of 85% of these revenues to the Russian budget. According to the final agreements, Belarus has assumed an obligation to collect duties on oil products at the rates set and in the same way as it is practiced in the Russian Federation. However, revenues should be transferred to the Belarus' budget at a full scale. In order to obtain its share, Russia has introduced a duty on crude oil supplied to Belarus and scheduled its gradual increase until 2009.

Table 1: New Terms and Conditions of Gas and Oil Supply

	2006	2007
Imports of gas, billion cubic meters	21.0	21.0
Price of gas, USD per 1,000 cubic meters	46.7	100.0
Volume of transit (via Beltransgaz network), billion cubic meters	14.0	14.0
Transit fee per 100 kilometers (charged by Beltransgaz), USD per 1,000 cubic meters	0.75	1.45
Volume of transit (via Yamal-Europe), billion cubic meters	27.0	27.0
Transit fee per 100 kilometers (via Yamal-Europe), USD per 1,000 cubic meters	0.36	0.43
Volume of oil imports, million tons of crude oil	20.9	20.9
Export duty on crude oil charged in Russia, USD per 1 ton	197.0	180.0
Correction ratio applied for Belarus	0.000	0.293
Contract price of oil, USD per 1 ton (including export duty, but without VAT)	227.0	316.0
Volume of exports of oil products, million tons	14.8	14.8
Export duty on oil products, USD per 1 ton	57.0	154.0

Therefore, new terms and conditions of energy supply (Table 1) would impact the economy already in 2007. Specifically, the budget and external sector would be affected first.

The dynamics of budget revenues could be estimated with a good degree of precision. In particular, growing gas prices would provide about USD 200 million for the budget (due to higher VAT revenues), while the sale of 12.5% of the holding of Beltransgaz stock would allow to collect another USD 625 million. Additional revenues of the Belarusian budget would flow from the growth of export duties, but the volume of revenues would be somewhat dampened by VAT refunds to exporters as well as lower income and excise tax revenues. The net result is that the budget revenues from oil business are expected to reach, according to our estimates, the level of USD 640 million. At the same time, the Russian budget would gain more than USD 1 billion following the introduction of the export duty on crude oil supplied to Belarus. As a result, Belarusian oil companies would be deprived about USD 2 billion of their gross revenues. This would lead to a sharp decline of profitability of oil processing and require the adoption of policy measures to improve financial situation at the Belarusian oil refineries.

Clearly, the budget expenditures would be affected no less than the revenues. First, direct expenditures of the budget-funded organizations for gas, heating and electricity would become higher. Second, additional funds would be required to subsidize sectors of the Belarusian economy, particularly agriculture, public utilities, and power engineering. Third, tax preferences could be

expanded, and that is equivalent to a decline of revenues. Overall, given that in 2007 the budget deficit is planned to be at 1.5% of GDP, this most likely implies that:

- Additional revenues would be distributed in full (about USD 1.4 billion);
- The funds accumulated at the deposit accounts held by the government at the end of 2006, would be also spent;
- The government should attract about USD 0.7 billion to finance the deficit. In case the government would not spend its deposits, additional funds would be required.

All these factors would not only change the structure of budget revenues and expenditures, but also demand the revision of fiscal policy.

As for foreign trade, the following factors are expected to play their role. First, higher gas prices increase costs of its imports by USD 1.1 billion. These expenditures could be partially offset – by USD 0.1 billion – thanks to new gas transit fee. At the same time, if 12.5% of holding of Beltransgaz stock is to be sold, there would be inflow of USD 625 million on the capital account of the balance of payments. In the end, Belarus would lose about USD 0.4 billion as a result of new terms and conditions of gas supply.

The imposition of export duty by Russia on crude oil supplied to Belarus would deteriorate its merchandise trade balance by USD 0.8 billion. Besides that, inflow of FDI could be smaller because oil business has traditionally been an active investor into the Belaru-

sian economy. In this regard, the overall deterioration of the balance of payments could be USD 1 billion. The net impact of outflow of funds (following the changes in oil and gas sectors) on the balance of payments could amount to USD 2.2 billion. Given that the volume of official gold and foreign currency reserves is currently about USD 1.5 billion, such a sizeable outflow of funds would require the search for new source of financing balance of payments deficits in order to ensure stability of Belarusian currency.

At the beginning of this year, the NBB has shown its commitment to exchange rate stability, when the population exerted pressure on the currency market. Agiotage demand for currency that emerged against the background of difficulties in the relationship with Russia and rumors about denomination and devaluation, have forced the NBB to sell a fraction of its foreign currency reserves. However, their volume has soon been restored, this time by purchasing foreign currency from commercial banks. Besides that, the NBB has limited the rate of growth of money supply. In response, commercial banks have limited loan provision to enterprises and households.

In order to address the problem of maintaining stability of exchange rate, the NBB and the Ministry of Finance has been working hard to attract resources from external markets. It has been announced officially that there is an activity underway to obtain a loan of USD 1.5 billion from the government of Russia, of USD 1 billion – from China, and to get USD 1 billion with the assistance of Austrian Raiffeisen Bank, while stirring up the efforts on obtaining country's credit rating. The latter allows the country to borrow abroad by, among other means, issuing and placing Eurobonds. Given the availability of these opportunities for foreign borrowing by the government and commercial banks, it appears that the volume of foreign currency reserves would most likely exceed the prospective deficit at the domestic currency market.

In addition to borrowing options, the government could adopt some measures to limit population's demand for foreign currency. In particular, by the end of 2007 it is planned that the monthly average wage would reach the level of USD 340. This means that the dol-

lar-denominated wage would grow over the year by only 9.3% (in contrast, in 2006 it grew by 27%). Given the stable exchange rate and annual inflation rate of 8%, this implies that annual real wage would increase not more than 1.5% (18% in 2006). Such a sharp deceleration of income growth would allow to bring the tensions at the currency market down. However, it would lead to a slower pace of household consumption growth, and, consequently, lower GDP growth rates.

1.3. Major challenges for the economy in the new situation

One of the key problems of the Belarusian economy is a high intensity of power consumption. Measured in kilograms of oil equivalent per USD 1,000 of PPP GDP, it is about 0.46 kilos in Belarus in contrast to 0.17 kilos in Germany. This gap allows the government to invest resources into the implementation of the most obvious measures to enhance the efficiency of the Belarusian energy sector and obtain high returns on these investments.

These returns could be reaped off over the medium to the long run. At the same time, growing costs of output produced by Belarusian enterprises amplify problems they face at the Russian market. The growth of the Russian economy and the consequent household income growth in Russia both lead to changing character of competition at this market. The growing incomes inform demand shift to more expensive and better-quality consumer goods, while the Belarusian goods occupy a specific niche 'for the poor' of the Russian market. In order to hold their ground at the Russian market, Belarusian companies should relocate their output by supplying to a more prosperous (in terms of incomes) consumption segment. Usually, it is difficult for state-owned enterprises to implement these activities in practice.

In investment goods sector similar problems have been taking shape. Russian enterprises increase their demand for investment goods produced abroad and upgrade their technological base. In 2002 Belarusian investment goods occupied 1.5% of investment in Russia, and in 2006 their share dropped to less than 1%. In order to keep their presence at the Russian market, Belarusian producers of investment goods (first of all, machine-building enterprises) would

be forced to considerably enhance their competitiveness. This is also hard to realize given the current ownership structure and the economic policies of the government.

Expansions of the Russian market would imply heightened competitiveness both due to the emergence of new domestic producers (directly competing with the Belarusian ones) as well as the entry of large transnational companies. The need to enhance competitiveness of the Belarusian companies is also related to the unacceptable dependency on the Russian market. This dependency has become more salient in the course of the energy conflict with Russia and the necessity to increase the volume of Belarusian exports to countries other than Russia.

All above-mentioned issues could potentially ignite economic reforms in Belarus. If such a way is selected, then some inconsistent economic liberalization policy measures by the government could be expected in the near future. Most likely, these are measures aimed at attracting foreign capital (by allowing some liberalization of economic conditions for new private sector) along with privatization of large enterprises. These measures would likely help to attract capital and to make investment into enterprises, to carry out their restructuring and modernization, and to collect additional budget revenues in order to finance social expenditures.

2. INVESTMENT CLIMATE

2.1. The government discusses the guidelines of new economic policy

In 2005–2006, administrative management and regulation of the economy have deepened. Instead of privatization, nationalization has been intensified by using the scheme 'stock in exchange for debts'. In other words, the government has restructured debts of joint-stock companies by increasing the size of statutory funds of these companies as well as the value of state-owned holding of stock by the amount of debts wrote off. In 2006, the share of the state in the statutory funds of such joint-stock companies as Belsolod, Minsk Bearing Plant, Gomel Adipose Plant, Krasnoselsk and Gomel Building Materials enterprises, sugar plants of Gorodeya, Skidel and Zhabinka, and a range of other large industrial companies, has

been increased almost to 100%. According to the government regulation, the scheme allowing to obtain almost 100% of holding of stock, could soon be used in relation to another 82 joint-stock companies¹.

The sharp deterioration of foreign trade balance (following gas price hike and changes in terms and conditions of supply of crude oil for processing) has made the discussion on the possible directions of changes in the economic policies of the country more urgent. The government has developed 'The Action Plan for Stabilization of Situation at the Domestic Market for Foreign Exchange and Achievement of Merchandise Trade Surplus in 2007'. According to this plan, the possibility of considerable changes in privatization policy has been discussed.

According to information published in some media, the Ministry of Economy has prepared a list of enterprises that could be offered for sale to investors. This list includes Belshina, Grodno-Azot, Grodno-Himvolokno, Mogilev Himvolokno, Mozyr Refinery, Naftan, Polimir, Minsk Plant of Sparkling Wines, Gomel Adipose Plant, Skidel Sugar Plant, Gorodeya Sugar Plant, Szabinka Sugar Plant, Krinitza Brewery, Belsolod, and others. It has also been suggested to turn such companies as Minsk Automobile Plant, Belarus Concrete Plant, Beltelekom, Svetlogorsk Himvolokno, and State Tobacco Factory 'Neman' into joint-stock ones and then to sell the government's share to outside investors.

The possibility of sale of individual enterprises can be related to the task of achieving merchandise trade surplus in 2007. In 2006, commodity and services trade deficit exceeded USD 1.5 billion. Due to higher gas prices and the imposition of oil duty on crude oil imported from Russia, in 2007 deficit could grow by USD 2 billion. Since it is very unlikely it could be offset by growth of exports of services, the government in reality has several options: to restrict imports, to attract foreign investment (both portfolio and direct ones), and to foster exports. Import substitution poli-

¹ The Regulation of the Council of Ministers No. 1495 issued on November 9, 2006 'On Some Issues of the Application of the President's Edict No. 538 adopted on August 28, 2006'.

cies in Belarus could hardly be efficient because merchandise trade deficit primarily arise from imports of intermediate goods, while export growth (given higher costs and real exchange rate appreciation) is unlikely to be sufficient to reduce trade deficit. It appears that the real sources of solving the problem are foreign borrowing and attraction of foreign direct investment.

In order to borrow externally, Belarus should obtain country's credit rating. According to the Ministry of Finance, this could happen in already 2007. In order to induce inflow of foreign direct investment, economic liberalization measures and substantial changes in existing legislation would be required. However, consistent policy measures are unlikely to be expected from the government. Moreover, they are even not discussed today. Most likely, at the first stage the government would opt for foreign borrowing and 'case-by-case' privatization.

Besides that, attractiveness of Belarusian enterprises and privatization are doubtful within the framework of existing legislation (this has been mentioned by the Deputy Minister of Economy, Mr. O. Melnikov). The institution of 'golden share' is still an obstacle to investors. In addition, in 2005–2006 the National Development Fund has been set up, to where the most profitable enterprises are obliged to transfer administratively-defined fractions of their profits². The case of the Mozyr Refinery is a rather illustrative one: 42.5% of holding of stocks are owned by the Russian oil and gas company 'Slavneft'. But instead of paying the dividends to stockholders, the Belarusian government decided to transfer as much as BYR 229 billion to the National Development Fund.

² The Fund has been created in December 28, 2005 following the President's order. According to the document, the Budgetary National Development Funds is the financial basis for the implementation of the most important social and economic projects for the state. The major source of funds is the profits of the most profitable enterprises. The list of such enterprises as well as the profits shares and the way to transfer them are established by the government annually after conferring with the President. Initially, there were 37 enterprises in the list, but in 2006 it was expanded several times, while the volume of compulsory contributions grew from BYR 61 billion to BYR 1280 billion, or by more than 20 times. For some enterprises, compulsory contributions were increased by dozens of times over the year.

The creation of Belarus-Russia gas transport company highlights possible problems with privatization in Belarus. The joint venture with Gazprom J.S.C. on the basis of Beltransgaz is not yet created, but the parties display considerable controversies about functioning of this enterprise in the future. In order to cut gas prices for its industry, Belarus plans to reduce mark-up of Beltransgaz J.S.C. by USD 18. This step makes the enterprise loss-making, and the Russian partner expresses strong disagreement with it. Instead, Gazprom insists on the market evaluation of Beltransgaz on the basis of the profit-making functioning of the company and preservation of mark-up at the rate of USD 18. In its turn, the Belarusian party disagrees with the plans for utilization of transit capacities of Beltransgaz (currently more than 60% of the Russian gas is transported via the Russian part of 'Yamal-Europe' pipeline). However, the Russian party emphasizes that the volume of gas transportation via Beltransgaz network are not provided in the existing agreement. In general, both parties have not yet made an agreement on the issue of setting up the joint venture.

In accordance with the agreement with Gazprom, Belarus currently pays a fraction gas price, namely 55%. Gazprom has made such a concession to allow Belarusian companies to adjust smoothly and gradually shift to new conditions. But for the majority of consumers, gas price is set at the level of USD 120–180 per 1,000 cubic meters. Nevertheless, the accounts of Beltransgaz are not filled with consumers' money. This means that a part of consumers is incapable of paying new prices for gas (indeed, the public utilities sector has increased its indebtedness by USD 140 million since the beginning of this year). At the same time, Beltransgaz plans to pay a full price for the Russian gas and also to repay debts accumulated since the beginning of this year (about USD 450 million) since July 1, 2007. Nevertheless, the sources of funds are not clear. This is because USD 625 million for 12.5% of Beltransgaz's shares would be paid by Gazprom to the account of the Ministry of Finance: the agreement on selling of 50% of holding of Beltransgaz stock does not envisage any off-setting schemes in relation to gas supply to Belarus³.

In any case, the government is intended to foster investment policy. Large-scale investment programs have been launched at a range of enterprises, and these programs need to be completed. Investment program of Mozyr Refinery costs USD 510 million, of Naftan – USD 590 million. Two investment programs are currently implemented by Polimir; their costs are USD 411 million and USD 850 million, respectively. Some enterprises need large-scale modernization due to growing costs that deteriorate price competitiveness, while some companies – given relatively open borders – require outside investors (for instance, breweries, food companies, and construction companies).

Currently, the government acts within the framework of opportunities available and the old development paradigm based on administrative regulation. For instance, reacting to piling up inventories, the government has adopted a quarterly schedule of their reduction in manufacturing. According to new regulation, by the end of 2007 the volume of inventories in industry should not exceed 58% of average monthly output (51.9% by the end of 2005 and 53.4% by the end of 2006). This regulation also establishes acceptable ratios of inventories to average monthly output for individual enterprises. In particular, for the companies controlled by the Ministry of Industry, this figure is set at the level of 80% by the end of the year (95% over January–March); as for other branches, the Ministry of Construction and Architecture has to ensure reduction of inventories from 91 to 63%, Bellesbumprom concern – from 84 to 71%, Bellegprom concern – from 130 to 120%, and Belgospischeprom concern – from 175 to 125%. As for enterprises belonging to state concern Belbiofarm, they are allowed to pile inventories up from 105% in the 1st quarter to 120%

³ In accordance with Belarus-Russia agreements, Gazprom would become the owner of 50% of holding of Beltransgaz's stock by paying USD 625 million annually (12.5% per year). The agreement on the terms and conditions of purchasing of 50% of shares of Beltransgaz J.S.C. has been made on December 31, 2006. The market value of Beltransgaz is estimated at the level of USD 5 billion. It is then established that until the end of the first quarter of 2007 Gazprom has to buy out 12.5% of shares of Beltransgaz. Payment would be transferred to the Belarusian budget. The Russian party would become the owner and execute its corporate governance rights only after paying for 50% of shares of Beltransgaz.

by the end of the first half of the year; however, this figure has to be decreased to 105% again. The controls for the implementation of this regulation are given to the Ministry of Economy.

President's Edict No. 136 issued on March 26 approves the State Program for Innovation Development of the Republic of Belarus for 2007–2010. The major goal of this program is to shift the national economy to a mode of intensive development of innovation within the framework of the so-called 'Belarusian economic model'. In the course of program implementation, it is planned to create 100 new enterprises and crucial industrial capacities and to open 386 new production facilities at the currently existing enterprises, and to modernize 609 chief industrial enterprises by applying 888 leading-edge technologies. By 2010, the share of the major 'pro-innovation' companies has to reach 25% in the total number of enterprises. In order to implement this program, as much as BYR 6113.2 billion would be spent. It appears that the government plans to foster innovation development of the economy and state-owned enterprises by applying administrative measures and using for this purpose budgetary funds.

It has to be noted that initial export guidelines adopted by the government in December 2006 has been corrected upwards in accordance with the demand for currency, but irrespective of the real capacities of Belarusian enterprises. For instance, companies controlled by the Ministry of Industry are supposed to additionally export output by USD 200 million, the Ministry of Transport – by USD 117 million, the Ministry of Agriculture and Food – by USD 30 million, and so on.

Besides that, the government of Belarus has introduced a 'golden share' at the Sinyava Furniture Factory J.S.C. for one year. The decision has been adopted by the Council of Ministers on March 3, 2007 (Regulation No. 273). Prior to that, the government has owned 19% of stock of this enterprise, while 40% has been owned by Russian investors, and the rest of stock belongs to individual stockholders. Despite that the very institution of 'golden share' is treated by foreign investors as one of the major obstacles to investing in the country, the government still applies this regulatory instrument.

2.2. Stock market and voucher privatization

The conditions for stock market development as one of the necessary elements of market privatization and attracting foreign investment are unfavorable in Belarus. The stock market is dominated by government bonds and bonds issued by commercial banks for the population. Trading volume in the bond market in 2006 amounted to BYR 0.6 billion, while the number of registered transactions was only 47.

The government has nevertheless planned that since January 1, 2007, to adopt a procedure of alienation of stock purchased by minority stockholders for vouchers. Still, the circulation of shares purchased by workers in exchange for vouchers is postponed. The possibility for partial abolishment of this moratorium is envisaged by the President's Decree No. 9 issued on June 12, 2006. However, this mainly concerns some purely technical cases (exchange of shares in statutory funds in the course of reorganization, gift of shares to relatives, passing of property rights after death of stockholder, etc.). Among the principal changes is the annual preparation of lists of joint-stock companies whose shares could be used regardless of the moratorium. The list has to be necessarily agreed with the President.

At the same time, the regulation on the partial abolishment of the moratorium⁴ is currently developed in the Presidential Administration. The project contains the list of 125 joint-stock companies. These are mainly small enterprises located in services sector, trade and catering, where usually up to 100 people are employed. These companies do not have state debts, while their statutory funds have either no share of the state or a very small one.

The future of voucher privatization is also unclear. At the beginning, 4.9 million of Belarusian citizens have acquired 427.65 million vouchers. So far only 245 million vouchers have been used (i.e. invested into shares of enterprises or sold). The absence of the very possi-

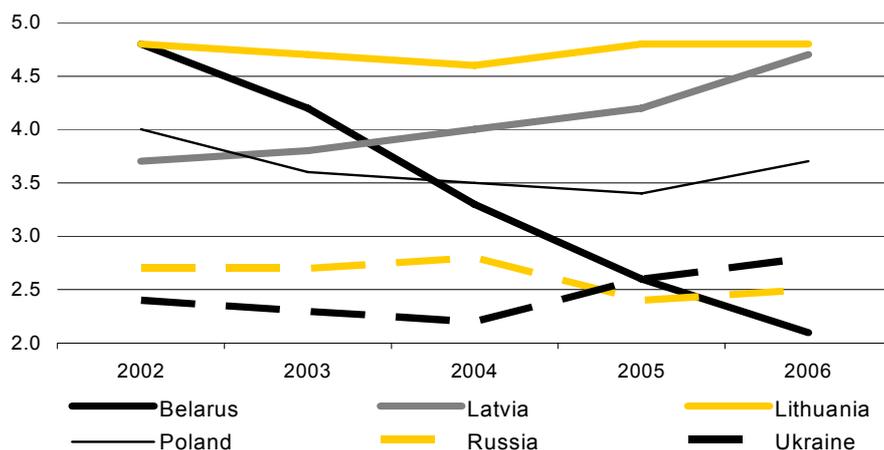
⁴ The moratorium on the circulation of stock, i.e. prohibition of its sales, is established by the President's Decree No. 3 issued on March 3, 1998. As a result of this decree, thousands of employees who purchased shares in the course of voucher privatization are unable to use them in the course of last ten years.

bility to sell shares of enterprises and creation of joint-stock companies on the basis of mainly low-profitable or even loss-making enterprises, along with the dominance of state ownership in the newly created companies, all have defined a feeble activity of citizens in using privatization vouchers. At the same time, there is a monetary compensation provided for unused privatization vouchers. According to the estimate made by the Ministry of Finance, the total volume of compensation is about BYR 821 billion. This is substantial amount that explains why voucher privatization in Belarus has been prolonged five times (currently the period of voucher circulation ends on June 30, 2007). At the sitting of the Permanent Commission on Housing Policy, Construction, Trade, and Privatization held on February 13, the government has offered members of the Parliament to extend voucher privatization to December 31, 2009. After that date, vouchers would be automatically invalidated. Deputies have expressed different opinions on that, but the experts do not exclude the possibility that this (sixth, in fact) time, the propositions of the Council of Ministers on finishing voucher privatization in Belarus could be approved.

2.3. Corruption

On January 29, 2007 a new Law 'On Measures for Combating Corruption' has been adopted. Its core tasks are preventive maintenance and direct prevention of corruption. Besides that, the Chief Prosecutor of Belarus, Mr. P. Miklashevich stated that the work on the development of State program on Combating Corruption for 2007–2010 would soon be over.

All corruption crimes in the country have been classified into four groups: corruption in services sector with small amount of bribes, but the public significance are high (i.e. education, healthcare, etc.); business corruption, where bribes could reach millions USD (in case of land privatization deals, renting arrangements); corruption in law-enforcement bodies and, finally, corruption in public administration bodies. According to the data provided by the Office of Public Prosecutor, in 2006 about 4,000 corruption cases have been registered. However, this is by 18.6% less than in 2005. The most 'corrupted' sectors are agriculture and forestry. Some criminal cases have been opened by the Ministry of Interior.

Figure 2: The dynamics of Corruption Perception Index (CPI)

Note. CPI denotes the perception of the level of corruption by entrepreneurs and experts according to the 10-point scale (10 – almost no corruption, 0 – very high level of corruption).

Source: Transparency International Corruption Perception Index, www.transparency.org.

Table 2: Answers to the question: 'How often are managers of private companies forced to bribe the representatives of public administration bodies?'

	% of the respondents		
	2002	2005	2007
Infrequently	40.7	57.0	45.4
Permanently	39.4	20.3	22.7
There is no such phenomenon	18.5	18.8	28.8
Refuse to answer	1.4	4.0	3.2
Total	100.0	100.0	100.0

Source: IPM Research Center.

Table 3: Answers to the question: 'How often are managers of private companies forced to bribe representatives of public administration bodies?'

	There is no such phenomenon	Infrequently	Permanently
Sphere of company's activity			
Trade	30.3	46.1	20.0
Catering	21.7	52.2	26.1
Consumer services	24.4	51.2	14.6
Production (manufacturing)	39.2	33.8	27.0
Construction	23.9	50.0	21.7
Transport and communications	31.8	45.5	22.7
Consultancy	0.0	100.0	0.0
Education	25.0	25.0	50.0
Computer services	18.2	36.4	45.5
Other	13.6	54.5	27.3
Number of employees			
From 1 to 10	38.3	41.4	20.3
From 11 to 50	23.5	52.0	24.6
From 51 to 100	31.1	45.9	23.0
From 101 to 200	31.6	42.1	26.3
Above 200	0.0	40.0	60.0
Region			
Minsk	26.1	51.3	22.6
Minsk region	30.0	32.5	37.5
Brest and Brest region	32.1	46.4	21.4
Grodno and Grodno region	36.7	56.7	6.6
Vitebsk and Vitebsk region	35.0	27.5	37.5
Gomel and Gomel region	17.6	55.9	26.5
Mogilev and Mogilev region	53.9	42.3	3.8
Established in			
Before 1996	23.7	45.4	25.8
Between 1997 and 2004	28.7	46.4	22.6
2005 and after	38.5	40.4	17.3

Source: IPM Research Center.

Despite the official evidence on improving the situation with corruption, the data provided by international investigation allow to arrive at a rather different conclusion. According to report made by the Transparency International, the world-famous international organization estimating corruption levels across the world, the situation with corruption in Belarus has worsened drastically over the last years. In 2002, by corruption perception index Belarus occupied 36th place among the countries analyzed, in 2005 it moved to 107th, and in 2006 – rolled down to 151st. Such downfall is striking when compared to a more or less stable or even improved situation in the neighboring countries (Figure 2). In particular, Russia has shifted from 126th place to 121st place, while Ukraine – from 107th to 99th. In 2006, Belarus occupied 151st place and 'shared' its position with such CIS countries as Tajikistan, Uzbekistan, and Kyrgyzstan. At the bottom of the list, there are such countries as Haiti, Burma, Iraq, Guinea, and Sudan.

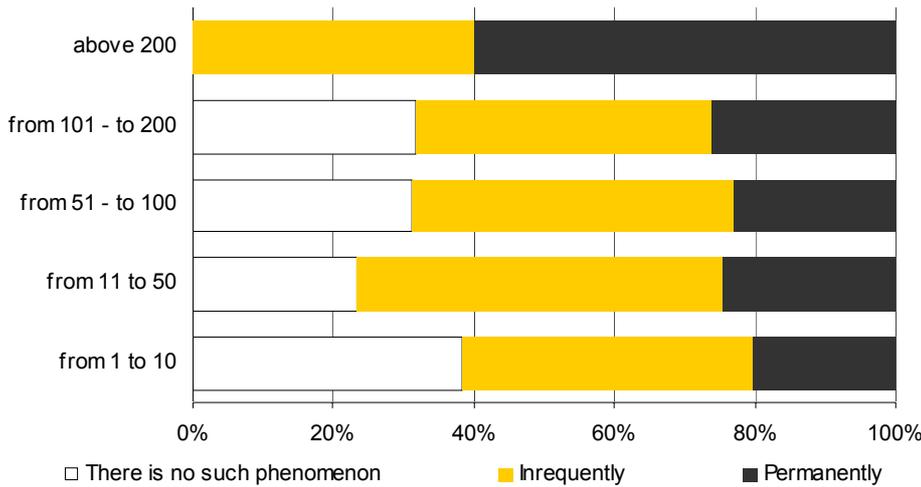
Bribes: According to the results of the survey of Belarusian small and medium-sized enterprises (SMEs) conducted by the IPM Research Center⁵, the substantial part of the respondents bribe officials either permanently or periodically (Tables 2–3). This indicator – about 70%⁶ – remains virtually unchanged over the last several years. This figure provides an indirect support to the conclusions made by the Transparency International about a high level of corruption in the Belarusian public administration bodies.

The number of bribes depends on company size (Figure 3). Large firms admit that 60% of them bribe on a permanent basis, while about 38% of small firms claim that there is no corruption. Most likely, this could be partially explained by the fact that there is either no one to bribe (since this requires special connections and personal contacts) or no

⁵ The survey has been conducted by 'Novak' laboratory by request of the IPM Research Center. Owners and top managers of as much as 410 SMEs of the country have been interviewed (representative sampling). Sampling error is 3%.

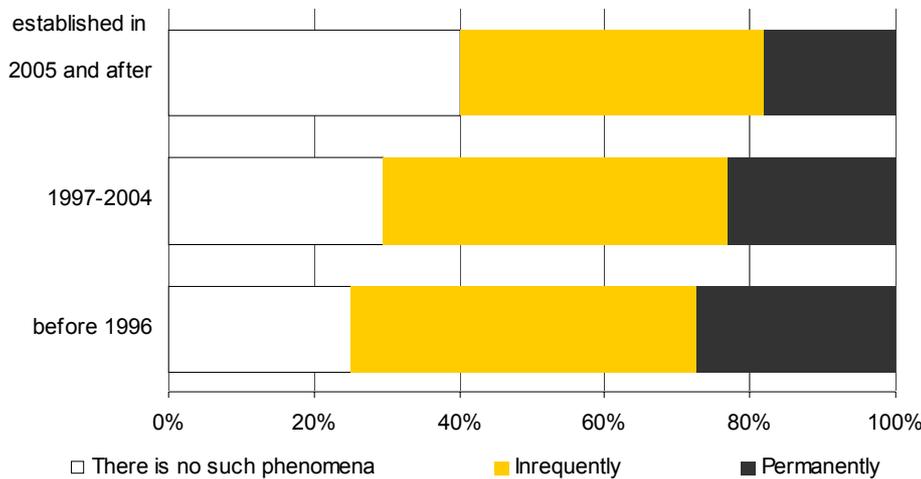
⁶ In reality, data could be even higher since the part of the respondents does not believe in the anonymity of the survey and does not trust interviewers. Accordingly, such respondents choose options 'refuse to answer' or 'there is no such phenomenon'.

Figure 3: The Interdependence between Company Size and Frequency of Bribing



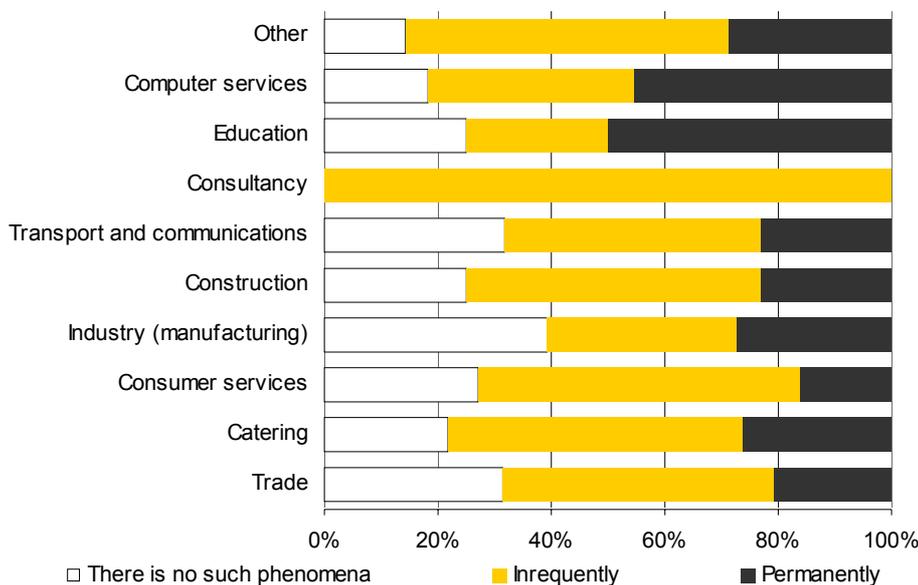
Source: IPM Research Center.

Figure 4: The Interdependence between Company Age and the Frequency of Bribing



Source: IPM Research Center.

Figure 5: The Interdependence between Sphere of Company's Activity and the Frequency of Bribing



Source: IPM Research Center.

reason for that (since company's turnover is insufficient to bear risks associated with bribery).

This conclusion could be confirmed by looking at company age. The survey reveals that 40% of firms established after 2005 claim that there is no such phenomenon as bribery in Belarus, while only 25% of 'oldbies' (i.e. opened prior to 1996) agree with this statement (Figure 4). 'Older' firms also bribe less frequently (48 and 42%) and less permanently (27 and 18%).

The representatives of such sectors as catering, trade, and construction bribe most of all (Figure 5). Clearly, these sectors are the most vulnerable to numerous inspections in comparison with those carrying out production activity or providing nonmaterial services (i.e. computer, legal, consultancy, etc.). The results of other research projects and private communication with entrepreneurs reveal that the most corrupted public bodies are not tax inspection or state controls, but sanitary and fire inspections and other organizations that grant permits.

On a regional scale, the situation with corruption appears to be the best in Mogilev region. It could be observed from the share of the respondents who said that 'there is no such phenomenon as corruption' and that there is a need to bribe permanently (table 3). Probably, experimentation with simplification of permission system and liberalization of conditions for conducting business in the region performed by Mogilev Regional Executive Committee has indeed led to some positive outcomes⁷.

'Kickbacks' and monetary rewards: Almost one-third of private companies (27%) use the so-called 'kickbacks' (i.e. monetary reward for a transaction made, an order favorably placed, and so on) every third deal. The number of kickbacks has not reduced with the course of time (Tables 4–5).

The quantity of kickbacks also depends on company size. It has been established that 40% of companies employing more than 200 people use 'kickbacks'

⁷ Mogilev Regional Executive Committee is currently jointly working with the International Finance Corporation to improve the business climate in the region.

Table 6: Answers to the question: 'How big is the share of shadow turnover among private companies?'

	% of the respondents			
	2000	2002	2005	2007
Below 10%	14.4	17.5	25.0	23.2
10–25%	28.5	19.0	26.5	19.3
26–50%	16.8	3.4	15.0	13.2
51–75%	18.2	3.4	3.8	6.1
Above 75%	-	3.2	1.3	1.5
No answer	15.1	36.0	7.0	3.4
There is no such phenomenon	6.9	17.5	21.5	33.4
Total	100.0	100.0	100.0	100.0

Source: IPM Research Center.

Table 7: Answers to the question: 'How big is the share of shadow turnover among private companies?'

	There is no such phenomena	Below 10%	10–25%	26–50%	51–75%	Above 75%
Sphere of Company's Activity						
Trade	37.3	24.1	16.5	13.9	6.3	1.9
Catering	26.1	30.4	21.7	13.0	8.7	
Consumer services	28.2	28.2	25.6	12.8		5.1
Production (manufacturing)	45.8	13.9	19.4	6.9	12.5	1.4
Construction	29.5	29.5	18.2	18.2	4.5	0.0
Transport and communications	38.1	19.0	28.6	9.5	4.8	0.0
Consultancy	0.0	50.0	50.0	0.0	0.0	0.0
Education	50.0	0.0	25.0	25.0	0.0	0.0
Computer services		36.4	27.3	36.4	0.0	0.0
Other	22.7	31.8	22.7	18.2	4.5	0.0
Number of Employees						
From 1 to 10	42.6	19.4	17.1	12.4	6.2	2.3
From 11 to 50	31.5	26.0	21.0	13.8	6.6	1.1
From 51 to 100	30.6	27.4	22.6	14.5	4.8	0.0
From 101 to 200	26.3	26.3	26.3	15.8	0.0	5.3
Above 200	20.0	20.0	0.0	20.0	40.0	0.0
Region						
Minsk	29.3	30.8	21.2	14.1	3.5	1.0
Minsk region	39.0	19.5	22.0	14.6	4.9	0.0
Brest	51.9	11.1	14.8	18.5	3.7	0.0
Grodno	24.2	30.3	12.1	18.2	12.1	3.0
Vitebsk	45.0	7.5	5.0	10.0	25.0	7.5
Gomel	26.5	17.6	41.2	11.8	2.9	0.0
Mogilev	60.9	17.4	17.4	4.3	0.0	0.0
Established in						
Prior to 1996	39.1	26.1	15.2	15.2	3.3	1.1
Between 1997 and 2004	30.9	23.8	22.3	12.9	8.2	2.0
2005 and after	45.8	20.8	16.7	14.6	2.1	0.0

Source: IPM Research Center.

quotas, importation of goods via temporary storage facilities, etc.) and to refrain from the introduction of the similar restrictions in the future and in relation to other categories of commodities. According to estimates made by the Ministry of Trade and Economic Development of Russia, there are 146 restrictions in Belarus in relation to importation of goods from Russia. It has been agreed that all direct restrictive measures would be abolished in the course of 2007. For instance, since March 1, all restrictions on imports of beer have been abolished, while the same applies to fish since July, 1, and to tobacco and tobacco products – since October, 1. Belarus has also agreed to voluntarily

restrict sugar supplies to the Russian market. Besides that, Belarus should treat Russian companies as national ones in the course of public procurement tenders. It appears that these measures are positive for SMEs supplying Russian goods to Belarus. Domestic companies could increase their turnover and reduce costs.

Among the negative trends is the Regulation of Council of Ministers No. 182 adopted on February 12, 2007. This regulation retroactively increases the level of minimum wage since January 1, 2007. Some entrepreneurs indeed pay minimum wages to their employees. By the date of the adoption of this regula-

tion January wage had not only been charged, but also paid, along with all necessary wage-related payments to the budget and the Social Protection Fund. Accordingly, entrepreneurs now have to recalculate wages and urgently make additional payments to the budget since incorrect cost and price calculation is penalized with heavy fines.

In general, major changes widely discussed in the government, business associations, and among businessmen primarily concern the activity of individual entrepreneurs (IEs). In the early 2006, there had been some signs that the government plans to substantially reduce the number of IEs in the country and to make the complicate the conditions of their activity. For instance, since April 1, IEs are not allowed to import perfumery and cosmetics and other non-food products containing spirits⁹.

At the end of the last year, the President has issued an Edict No. 760¹⁰ establishing that the majority of IEs have to re-register their businesses by turning them into micro-enterprises or any other legal-corporate form. The order stipulates that IEs are allowed to continue their activity since January 1, 2007 as soon as only family members or close relatives are employed. The maximum number of employees is three. It follows that the vast majority of IEs (there are 180,000 IEs registered in Belarus) has to register micro-enterprise (or turn their business into any other legal-corporate form) or dismiss their employees leaving close relatives only. The Order however contains some preferences and also permits legal succession of licenses and permits obtained before the adoption of this regulation. However, both experts and entrepreneurs claim that, on the one hand, one year is not a sufficient term to turn IEs into new legal forms in Belarus. On the other hand, the Order violates the Constitution of Belarus that proclaims the right to conduct entrepreneurial activity.

On February 14, 2007 an extended sitting of the Council for Entrepreneurship

⁹ According to the President's Decree No. 20 adopted on December 26, 2006, IEs are allowed to conduct retail trade with these goods in case a package does not exceed 1 kilogram (1 liter). Any non-food products containing spirits are to be imported by corporate persons (companies).

¹⁰ Edict No. 760 adopted on December 31, 2006 'On Some Measures on Regulation of Entrepreneurial Activity'.

Development under the auspices of the President of the Republic of Belarus has been held. At this meeting, the representatives of the government, Presidential Administration, business associations, and local authorities discussed a range of issues related to the development of entrepreneurship in Belarus. The Deputy Minister of the Economy, Mr. A. Tur admitted that 'it is unrealistic that well-being of small and medium towns and cities could be raised at the expense of the budget'. At the same time, he said that about 180,000 IEs as market traders are buying foreign goods for foreign currency and selling them in Belarus, while light industry of Belarus is in a deep crisis. According to him, the state has to intervene and regulate these processes. So it is very likely that the government would adopt measures to foster the development of private business, but only in such forms as legal-corporate entities, micro-enterprises, but not IEs. Production and services are to be supported, but not trade.

The development of micro-enterprises is also envisaged by the President's Edict No. 119¹¹. This regulation extends the list of small economic units allowed to apply the simplified tax system at the expense of increase the upper limits of employees from 15 to 100 people and of the volume of annual average turnover to BYR 2 billion (USD 930 million).

The order also abolishes the system of patent determination and payment, and also the mechanism of advance tax payment. Instead, monthly payments to budget are connected to the actual volume of monthly revenue. The tax rate has been left intact (i.e. 10%). Economic units that use the simplified tax system are allowed to pay VAT in general way, but in this case tax rate goes down to 8%. The possibility to use simplified tax system is granted since the beginning of calendar year. The exception is made for the newly created economic units and those switching to it in 2007.

In order to create the ground for fostering of entrepreneurial activity in countryside and small localities, the Order allows organizations and individual entrepreneurs to pay taxes at lower rates. This possibility is provided for economic units registered and carrying out their

Table 8: Answers to the question: 'How do you evaluate the current economic performance of your company?'

	Number of SMEs	%
Very good	6	1.5
Good	153	37.3
Neither good, nor bad	215	52.4
Bad	22	5.4
Very bad	4	1.0
Hard to answer	10	2.4
Total	410	100.0

Source: IPM Research Center.

Table 9: Answers to the question: 'Please, estimate how have the following indicators of company's performance changed in the course of 2006. What is your forecast for 2007?'

Indicator	The results of company's activity			Forecast for 2007		
	Increase	Stable	Decrease	Increase	Stable	Decrease
Turnover (volume of sales)	41.7	47.5	10.8	47.5	40.2	12.3
Profit	33.1	48.6	18.3	39.8	44.6	15.5
Employment	29.1	61.6	9.3	26.8	63.1	10.1
Investment	19.3	59.7	21.0	23.9	57.5	18.5

Source: IPM Research Center.

Table 10: Answers to the question: 'What is the volume of profits/losses of your company in 2006?', %

	High profit	Low profit	Neither profits, nor losses	Small losses	Big losses
In 2006	13.9	65.3	13.9	5.2	1.7
In 2005	13.4	57.5	20.1	7.7	1.3

Source: IPM Research Center.

activity in rural places, urban villages and regional towns with a population less than 50,000 people. In these localities, if the simplified taxation system is used, tax rates are set at the level of 5% (instead of 10%) without VAT payment, and 3% (instead of 8%) in case of VAT payment.

All these measures are directed to simplify and to foster the process of conversion of individual entrepreneurs into legal-corporate persons. Therefore, despite a range of positive measures that make taxation of small business less complex and burdensome, this does not abolish the application of another President's Edict No. 760. The latter prohibits the use of hired labor by individual entrepreneurs since 2008 (unless up to three close relatives are employed). At the same time, the turn of many IEs into legal-corporate persons would inflict increase in the number and quantity of taxes paid as well as costs of doing their business, regardless of the application of the simplified tax arrangements. That is why many IEs insist on leaving conditions for doing business unchanged in 2008. Many of IEs and public associations of

entrepreneurs continue their struggle for the abolishment of the President's Edict No. 760.

4. MAJOR TRENDS IN SMES DEVELOPMENT

4.1. Economic situation and financial performance

The survey conducted also allows to estimate financial performance of companies. A half of the respondents give a modest estimate of the economic situation of their firms, while more than one-third see it as good (Table 8).

At the same time, a half of SMEs denote the improvement of such indicators such sales and profits, while 30% of the respondents point to increase of employment, and 20% - increase of investment (Table 9). Roughly the same share of the respondents see the development of their company in 2007 as it was in 2006. At the same time, despite the optimistic plans for growth and development, respondents are reluctant to provide an answer to the question about profit. The majority only mentions that its size is small (Table 10).

¹¹ President's Edict No. 119 adopted on March 3, 2007 'On the Simplified Tax System'.

Table 11: Answers to the question: 'Why are you not a member of business associations?', %

	2005 г.	2007 г.
Business associations are incapable to solve my problems	31.8	39.3
Their assistance and services are not needed by my business	24.3	23.5
There is no information about the activities of these associations	20.3	37.8
I hope to solve any emerging problems independently	17.3	25.8
It is politically disadvantageous	8.8	8.3
High membership fees	2.8	4.0
Other	1.5	0.9

Source: IPM Research Center.

Table 12: Answers to the question: 'How are you personally inclined to promote improvement of business climate in the country?'

Answers	2005	2007
Not willing to act	43.5	47.2
Ready to provide material support (or by other means) for business associations, in case issues of my personal concern are addressed	30.5	12.1
Ready to participate in the preparation of documentation and similar events to improve business climate in the country	11.5	27.6
Ready to provide material support (or by other means) for any efforts aimed at improving the business climate in the country	8.0	11.5
No answer	5.3	--
Other	1.3	1.6
Total	100.0	100.0

Source: IPM Research Center.

4.2. Internal and external factors of competitiveness

Despite the unfriendly institutional framework for development of private business, the latter is evolving successfully in Belarus. The research conducted earlier by the IPM Research Center has revealed that taxation problems, inspections and fines, excessive paperwork, licensing, permits provision, and price regulation are the major barriers to SMEs development¹².

Unfavorable external environment makes professional experience of staff and company age the factors of success. In this regard, the average age of Belarusian company is more than 7 years, while the number of SMEs in the country over the last five years has not been changing, being at the level of 33,000. In per capita terms, the indicator of 3 SMEs is one of the lowest in the region.

External factors remain to be the most serious impediment towards the development of business in Belarus. Of 17 barriers offered for the respondents to evaluate, tax system (72% of the respondents estimated its importance as 'big' and 'very big'), complicated system of taxation and other compulsory payments (68%), very tough market competition (51%), and unstable economic situation (48%) have been treated as

the most complex ones. As for other barriers, these are high costs of raw materials and intermediary goods (36%), the lack of own funds for development of company (37%), and complexities in obtaining loans (32%). At the same time, a number of internal factors of competitiveness and development have been evaluated as having no importance or a low one. These are the lack of necessary managerial skills for running a company, the absence of qualified employees, the fear of making an incorrect decision, the lack of proper ideas on how to conduct business.

Further, it has been emphasized by 75% of the respondents that despite the fact that their companies already have many competitors, market competition has become more intense over the last year. Accordingly, the possible opening of respective markets for foreign (or Russian) companies, implementation of liberalization measures and simplification of start-ups, could make competition more intense in the future. Accordingly, in the future managers of SMEs would need to focus more on the internal factors of competitiveness, i.e. changes in marketing, management, sales, controlling, etc. The indirect consequence of intensified competition would be the development of market for professional business education.

The survey conducted reveals that the major competitive advantages of SMEs are skilled staff (61%), knowledge of the market and the ability to foresee mar-

ket fluctuations, and capacity to produce competitive goods (37%). Three years ago the knowledge of legislation had been mentioned as a competitive advantage by the every fourth respondent. In contrast, the new data show that this factor is now appreciated by only the every sixth respondent. Contacts with public administration and the existence of personalized ties have been noted as a factor of competitiveness by only 11% of the respondents.

At the same time, it is only 15% of the respondents who admit the need to obtain MBA for themselves or for their employees, while 34% of the respondents are not aware of such an opportunity at all. A half of the people working for SMEs' are practicing 'self-education', not using the business education services provided by specialized companies, or simply not upgrading their skills.

4.3. Membership in associations

The vast majority of SMEs (90%) are not the members of any business associations. Two groups of factors can explain such an attitude. The first is that there is no trust to the power of these associations. The second is the absence of information about the activities of such organizations (Table 11).

At the same time, 47% of the respondents are not ready to make any actions towards improvement of the business climate in the country. However, in comparison with 2005, there is an increase in the number of those entrepreneurs who are ready to take part in the preparation and development of documentation to improve existing legislation. But the number of those who are ready to support associations of entrepreneurs financially is smaller (Table 12).

In 2005–2006, the experts of the Analytical Center 'Strategy', of the Minsk Capital Association of Entrepreneurs and Employers, and of the IPM Research Center have developed the National Business Platform¹³. The provisions made in this platform are known only by 40% of the respondents, while there is a split in the opinions between those who support and otherwise the propositions made in this documents (Table 13).

¹² Please visit <http://research.by/rus/wp/2006/e7b48c713c735dc3.html> for further information.

¹³ More information about the Platform can be found at the web-page of the Minsk Capital Association of Entrepreneurs and <http://allminsk.biz/content/blogsection/8/74/> or the Scientific Research Mises Center at <http://liberty-belarus.info/>.

Table 13: Answers to the question: 'Are you aware of the National Business Platform and supportive of its key provisions?'

	Number of SMEs	%
Aware and fully supportive	9	2.2
Aware and rather supportive	74	18.0
Aware, but rather unsupportive	51	12.4
Aware, but unsupportive	15	3.7
Not aware, hear about it for the first time	250	61.0
Other	6	1.5
No answer	5	1.2
Total	410	100.0

Source: IPM Research Center.

Table 14: Answers to the question: 'How do you estimate the efforts made by the government to protect the national interests of Belarus in the energy conflict with Russia', regional distribution of answers, %

	Minsk	Minsk region	Brest	Grodno	Vitebsk	Gomel	Mogilev
Fully supportive	26.3	42.1	27.8	20.0	29.4	14.3	26.1
Rather supportive than unsupportive	50.0	31.6	55.6	48.0	58.8	75.0	56.5
Rather unsupportive than supportive	15.8	23.7	16.7	28.0	11.8	10.7	17.4
Not supportive at all	7.9	2.6	--	4.0	--	--	--
Total	100.0	100.0	100.0	100.0%	100.0%	100.0%	100.0

Note. Regional centers (for instance, Brest) include not only region's capital, but also regional cities and towns.

Source: IPM Research Center.

Table 15: What are the most likely consequences of gas price hike for your business? (please, provide 3 options maximum), %

	%
Considerable cost increase following tariff increase on electricity, heating, and gas	42.7
Insignificant cost increase following tariff increase on electricity, heating, and gas	33.7
Business would become unprofitable following tariff increase on electricity, heating, and gas	9.0
Considerable contraction of consumer demand	12.2
Insignificant contraction of consumer demand	15.6
Other	2.4
No consequences	2.7
Do not know/No answer	3.1

Source: IPM Research Center.

4.4. Energy crisis

Our survey displays that the question 'How do you estimate the efforts made by the government to protect the national interests of Belarus in the energy conflict with Russia?' has been answered in the following way: 21% of the respondents fully support these efforts, another 40% - rather support, than do not support; 13.2% - do not support rather than support, 3.4% - do not support, and, finally, 22.4% of the respondents have a difficulty with providing an answer. The regional distribution of answers do not suggest any substantial differences, although regions there are relatively more respondents in Minsk and Grodno who do not support the efforts deployed by the government (Table 14).

Among the most significant consequences of gas price hike, managers and directors of private SMEs denote

cost increase and small demand contraction (Table 15). At the same time, while the respondents tend to support and even to favor the efforts made by the Belarusian government to protect the national interests in the energy conflict with Russia, the vast majority express pessimistic expectations on the extension of economic and commercial cooperation between two countries. Specifically, they expect that there would be difficulties with selling Belarusian goods in Russia, and vice versa (Table 16).

Importantly, the value of having an independent state is not questioned at all. In particular, 65% of the respondents believe that Belarus should be a sovereign state and build partnership relationships with the Russian Federation, while 32% propose to create a Union of independent states of Belarus and Russia, connected politically and economically.

Finally, it is only 3% of the respondents who think that Belarus should become a region of the Russian Federation.

At the same time, the idea of European integration is supported more thoroughly: 69% of the respondents claim that Belarus should aspire for membership in the European Union, while 31% of the respondents express the opposite view. However, pro-integrationist opinions vary cross-regionally (specifically, Minsk region – 88%, Mogilev region – 81%, Grodno and Vitebsk regions – 74%, and Minsk – 67%).

It could however be expected that as soon as intra-EU conflicts are over (related to the adoption of the European constitution, further efforts on the opening of new markets, and, first of all, national labor markets, closer integration of the new members states, etc.), the attractiveness of the 'European dimension' would turn to be higher for the private sector of Belarus.

The values expressed by management of private companies are also shared by their employees. The latter collectively occupy 20% of total number of working population in the Belarusian economy. The results of another research project conducted by the IPM Research Center show that private sector workers are the most pro-market and pro-reform ones. At the same time, it is only 30% of the Belarusian population share the values of private property and the necessity to implement reforms in order to shift to a fully-fledged market economy (such as privatization, liberalization of prices and foreign trade, the opening of national banking sector and infrastructure, etc.). In contrast, 60% of employees in the private sector support that¹⁴.

It could be expected the inevitable expansion of the private sector would unleash pro-European, pro-market, and pro-reform attitudes in Belarus. The Parliament, the Ministry of Foreign Affairs, and the Presidential Administration could slow down or foster this process. But none of these bodies are capable of stopping it.

¹⁴ See policy papers of the IPM Research Center 'Public Attitudes towards the Market Economy Values in Belarus' at <http://research.by/pdf/WP2006r06.pdf>, and 'Perception of Market Economy Values by the Belarusian Population', available at <http://research.by/pdf/WP2006r07.pdf>.