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Dear Readers!

We are pleased to offer you the 10th issue of the quarterly bulletin "Small and medium business in Belarus". In this issue you will find our traditional analysis of the main macroeconomic tendencies and changes that were made in the legislation. In addition we present the results of last year's study of the attitude of SMEs to the organizations of the business environment. We also cover the attitude of business associations themselves to the work and the activities they were involved in, in 2007.

In the first part of the bulletin we provide an analysis of the wage and productivity changes in the economy of Belarus. The second part contains a survey of the main international indicators that characterize the quality of investment and business climate in Belarus and in neighboring countries. The analysis shows that on most indicators Belarus loses not only to the developed countries but also to its CIS neighbors. In the third part we summarize the main positive changes that were made in the regulatory framework in the last months of 2007 and in the beginning of 2008. Plans of the government to make further changes are also mentioned. In the fourth part of the bulletin we present the results of the study conducted by the experts of IPM Research Center and CASE (Warsaw). It deals with SMEs attitude to the organizations of business environment. The study shows that except for commercial consulting firms and business schools the number of negative evaluations of other organizations of business environment is larger than the number of positive ones. The biggest obstacle for initiating cooperation between enterprises and organizations of the business environment is the entrepreneurs' lack of knowledge about the organizations that support business. In the fifth part of the bulletin we include the materials provided by the largest Belarusian business associations in 2007. In the last part we offer to your attention some suggestions from the National Business Platform, devoted to defending property rights and developing market institutions.

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In this issue:

Wage and labor productivity in Belarus. International comparisons that characterize business (investment) climate in Belarus and in neighboring countries. Main changes in legislation that regulates entrepreneurial activities. Attitude of Belarusian SMEs to organizations of business environment. Business associations in Belarus: report on the results of their activities. National Business Platform for Belarus.

1. WAGES AND LABOR PRODUCTIVITY IN BELARUS	2
2. BUSINESS CLIMATE IN BELARUS AND ITS NEIGHBORS: INTERNATIONAL COMPARISON	3
3. CHANGES IN REGULATORY FRAMEWORK	5
3.1. Changes in registration	5
3.2. Changes in licensing	6
3.3. Changes in taxation	6
3.4. Other changes	7
3.5. Business climate improvement as a means to attract private investment	7
4. SME AND BUSINESS ENVIRONMENT ORGANIZATIONS	8
4.1. Cooperation of entrepreneurs with different organizations of business environment	8
4.2. Evaluation of the quality of functioning of business environment organizations and their services	9
4.3. Main obstacles for the cooperation between enterprises and organizations of business environment	11
5. ON ACTIVITIES OF BUSINESS ASSOCIATIONS IN 2007	11
5.1. Minsk Capital Union of Entrepreneurs and Employers (MCUEE) in 2007	11
5.2. On activities of Belarusian Union of Entrepreneurs and Employers (BUEE) in 2007	12
5.3. On activities of Belarusian Union of Entrepreneurs in 2007	13
6. NATIONAL BUSINESS PLATFORM	15

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.

1. WAGES AND LABOR PRODUCTIVITY IN BELARUS

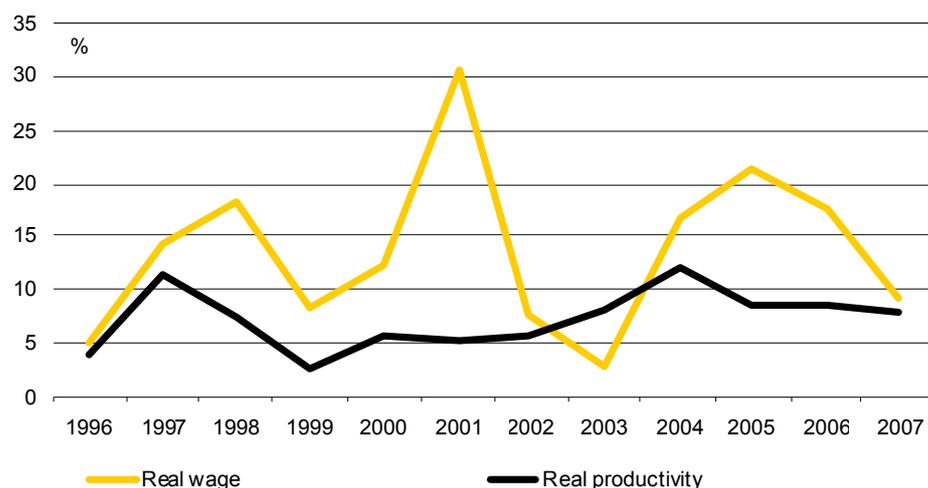
One of the main changes in the economy in 2007 is the reduction of the real wage growth rate from 17.7% in 2006 to 9.3%. It would be a logical consequence of the energy shock but the comparison of GDP change in 2006 with that of 2007 can lead to a different conclusion. In 2006 real GDP went up by 10% and in 2007 – by 8.2%. It is obvious that the growth rate of wages dropped much more than the GDP growth rate. The distribution of benefits from the economic growth in 2007 changed not in favor of employees. Nevertheless in 2007 the real wage growth rate was higher than labor productivity by more than 1.5 percentage points. This is the continuation of a tendency that started much earlier. From 1996 to 2007 it was only in 2003 that labor productivity grew faster than real wages (Figure 1). During this period real labor productivity went up by 2.3 times and real wage – by 4.6 times.

On the one hand the fact that real wages grew faster than labor productivity proved the official position on the social orientation of the Belarusian economy, i.e. redistribution in favor of the employed. On the other hand starting from 2002 the IMF in each of its reports on the state of the Belarusian economy pointed out the dangers of such growth (Box 1). Its potential dangers are decapitalization of enterprises and the loss of competitiveness in foreign markets.

However if we take wage and labor productivity in US dollar terms, we see that in 1996–2007 these two indicators increased by almost the same amount: labor productivity went up by 4.2 times, wages – by 5 times). The difference between these two indicators was observed during important political campaigns (Figure 2). It enabled some researchers to talk about the existence of a political – business cycle in Belarus.

This discrepancy between the change of real wages and labor productivity on the one hand and its almost identical pattern expressed in US dollars (nominal) can be explained by the difference in deflators that are used to calculate real indicators. Real wage calculation is based on the consumer price index (CPI). Real labor productivity calculation is based on GDP deflator. In 1993–

Figure 1: Real wages and labor productivity, growth rate



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

Box 1. IMF's position on higher growth rate of wages compared to the growth rate of labor productivity

2002: "... the transition to much more moderate and rare correction of wages depending on labor productivity .. can be an alternative to the current policy". (Republic of Belarus: Selected Issues, IMF Country Report 02/22).

2003: "Administrative wage rise in the end of 2001 damaged external competitiveness and the finance of the public and corporate sectors". (Republic of Belarus: Selected Issues, IMF Country Report 03/119).

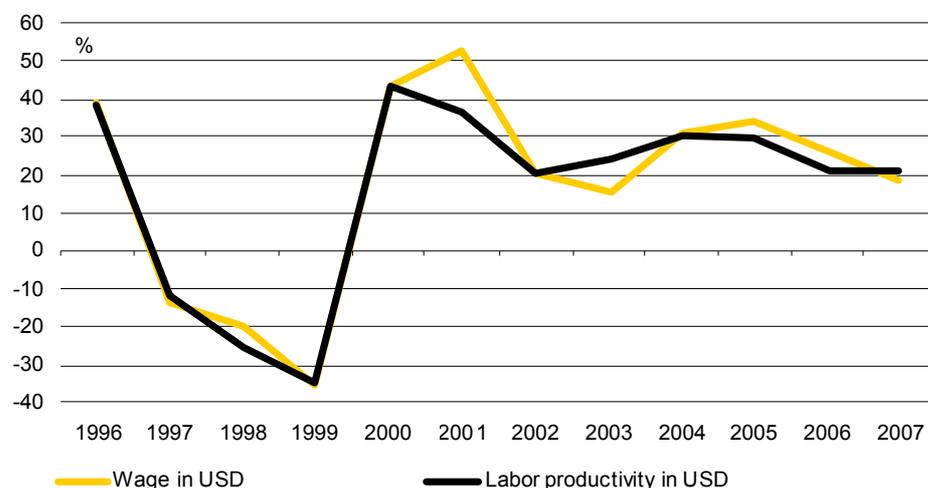
2004: "The task in the sphere of wages ... damages profitability of enterprises and public finance". (Republic of Belarus: Article IV consultations – Staff report, public statement of the staff representative. Information statement for the public on the decision of the Executive Committee; Statement of the Executive Director from the Republic of Belarus, IMF country Report 04/141).

2005: "In the future plan ... national target indicators of the wage level threaten to decapitalize enterprises and to undermine profitability and external competitiveness". (Republic of Belarus. Article IV consultations – Staff report. Information statement for the public on the decision of the Executive Council. Statement of Executive Director from the Republic of Belarus, IMF country Report 05/219).

2006: "Competitiveness can fall as real wages will grow faster than productivity". (Republic of Belarus: Article IV consultations in 2006 – Staff report. Information statement for the public on the decision of the Executive Council. Statement of Executive Director from the Republic of Belarus IMF country Report 06/314).

2007: "... real wages continue to grow. Hence the main part of the burden of adjustment to new conditions lies on enterprises at the expense of their profit squeeze. It creates the danger of washing away the capital". (Republic of Belarus. Article IV consultations in 2007. Staff report. Information statement for the public on the decision of the Executive Council. Statement of the Executive Director from the Republic of Belarus. IMF country report 07/310).

Figure 2: Wage and labor productivity in US dollars, growth rate



Source: Own calculations based on the data of the Ministry of Statistics and Analysis and National Bank of Belarus.

2007 the discrepancy reached 39%: CPI went up by 38.3 times and GDP deflator – by 53.2 times. In recent years GDP deflator was steadily higher than CPI (Figure 3). It explains almost entirely the difference between real wages and labor productivity (Figure 4).

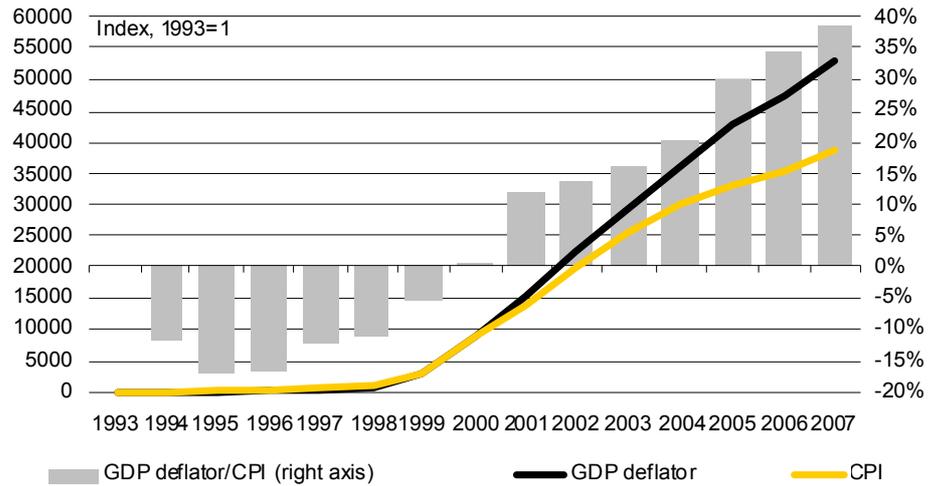
Thus neither IMF’s warnings nor the statements on the “social character” of the wage policy had sufficient evidence to substantiate them. IMF’s statements on the destructive impact of the target wage indicators on the economy were made in 2002 when wages in US dollar term grew faster than labor productivity. The subsequent wage correction that occurred in 2002–2003 went almost unnoticed. In 2005–2006 on the eve of the presidential elections in 2006 IMF recommendations became topical again. However the wage increase which exceeded the increase of labor productivity took place within the political business cycle. That is why it was in 2007 that another correction of wages took place. It is likely to last in 2008–2009.

2. BUSINESS CLIMATE IN BELARUS AND NEIGHBORING COUNTRIES: INTERNATIONAL COMPARISONS

If a country wants to attract a lot of FDI it is important for it to look good in international comparisons, to guarantee a certain level of political and economic stability, transparency and predictability of its policies. Evaluating the investment attractiveness of a country, investors often refer to ratings of well-known international organizations and foundations. Special methodologies are used to calculate these indices. They methodize the information on the political and economic environment in different countries of the world and make it comparable and generally accessible. Such indices enable investors to estimate investment risks in a country and adjust their investment decisions accordingly.

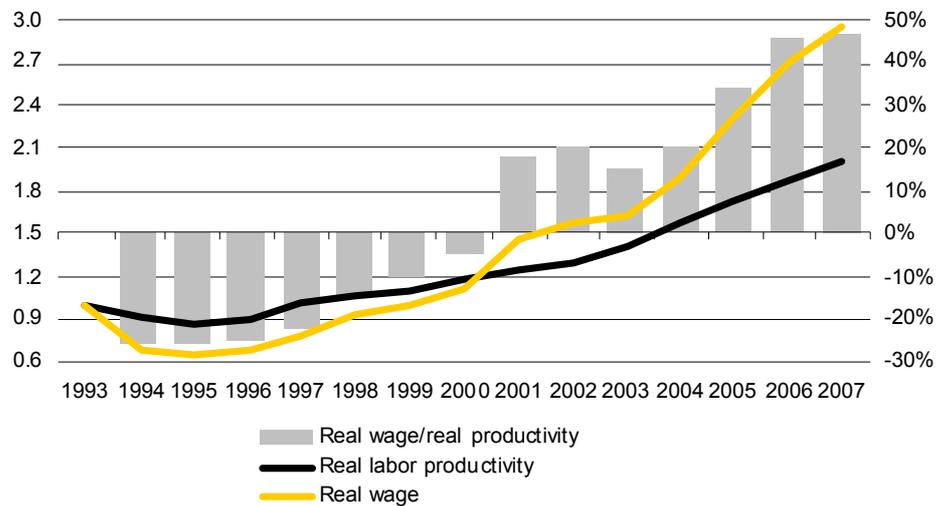
The most popular and well-known indices are worked out by such organizations as World Bank, European Bank for Reconstruction and Development, UNCTAD, Heritage Foundation/Wall Street Journal, CATO Institute and Freedom House. For example the World Bank has been making the Ease of Doing Business Index¹ for four years.

Figure 3: CPI and GDP deflator



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

Figure 4: Discrepancy between deflators is explained by the difference between real wages and labor productivity



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

The Wall Street Journal and Heritage Foundation have been calculating the Index of Economic freedom since 1995.²

¹ The Ease of Doing Business Index is calculated by the World Bank for 178 countries. The calculation of the index is based on the following factors: registration of business, licensing, difficulty of hiring, registration of property, difficulty of getting a loan, investors’ protection, transparency, taxation, freedom of foreign trade, availability of infrastructure, contract enforcement and difficulty of closing a business.

² The Index of economic freedom by the Heritage Foundation/Wall Street Journal is calculated for 162 countries. It consists of ten factors: the evaluation of the overall business regulation, trade policy, tax burden, government intervention in the economy, monetary policy, investment regulation, banking and finance, property rights, corruption and labor market parameters. Each of these factors is estimated on a scale from 0% to 100%. The higher the rating, the higher the level of economic freedom.

As world ratings show, the degree of economic freedom in the world is gradually increasing, although in most recent years its growth rate fell. For example the Heritage Foundation states that since 1995 the level of economic freedom grew on average by 2.6% and reached 60.3%. It is an average indicator for the world. The CATO Institute also reports that the level of economic freedom in the world went up from 5.1 points (on a 10 point scale) in 1980 to 6.6 points in 2005. The authors of this study believe that economic freedom contributes to economic growth, international trade development, investment, poverty reduction and the increase of prosperity.

The Heritage Foundation argues that “the highest form of economic freedom means absolute property rights, full free-

dom of labor, capital and goods mobility and no coercion beyond the necessary amount which is necessary to protect rights and freedoms of citizens". According to the Heritage Foundation index the freest countries in the world are Hong Kong, Singapore, Ireland, Australia, the USA, New Zealand and Canada. Three out of five economically freest countries are from the Asian-Pacific region. There is one transitional country in the top of the rating. It is Estonia. The most economically unfree or repressed are a few transitional economies (Belarus, Turkmenistan).³

Sometimes the level of economic freedom within regions changes. Some countries become economically freer while others lose some economic freedom. In the economically freest countries GDP per capita is much higher than in less free countries. The first quintile of the freest countries GDP per capita is twice higher than the average indicator in the second quintile of the freest countries in the rating and five times higher than in the fifth quintile. Besides employment and inflation in economically freest countries is lower too. The analysis of the data for the last 14 years showed that the faster a country becomes economically free, the higher GDP growth rate becomes.

According to the Ease of doing business index designed by the World Bank Singapore, New Zealand, USA, Hong Kong, Denmark, Great Britain, Canada and Ireland have the fewest problems in doing business. Transitional economies – Estonia, Georgia and Latvia are also among leaders on the index of Ease of doing business. At the same time Tajikistan, Ukraine and Uzbekistan have considerable institutional obstacles for doing business. In this rating Belarus holds the 110th place. The World Bank reports that Ukraine has more problems with licensing and taxation. Uzbekistan faces more problems with getting credits and foreign trade. Tajikistan has a poor protection of investors, foreign trade, licensing and registration.⁴

One of the main results of the World Bank's study this year is the conclusion on the positive correlation between economic growth on the one hand and the number of regulatory reforms and the

Table 1: Foreign direct investment and indices of economic freedom and competitiveness of a few transitional countries (CIS and Belarus' neighbors in Central and Eastern Europe)

	Net inflow of FDI per capita (EBRD), 1989–2006, USD	Net inflow of FDI per capita in (EBRD), 1989–2006, USD mln.	Index of Ease of doing business (World bank), 2008	Index of economic freedom (Heritage Foundation), 2008	FDI performance index (UNCTAD), 2005	FDI potential index (UNCTAD), 2005	Global competitiveness index (World economic forum), 2007–2008
Estonia	5048	6790	17	12	7	34	27
Latvia	2531	5807	22	38	48	42	45
Poland	2142	81665	74	83	60	44	51
Kazakhstan	1993	30694	71	76	28	49	61
Lithuania	1902	6467	26	26	67	39	38
Azerbaijan	1114	9360	96	107	1	65	66
Georgia	740	3342	18	32	16	95	90
Armenia	502	1615	39	28	37	77	93
Turkmenistan	481	3124	--	152	--	--	--
Ukraine	455	21451	139	133	35	48	73
Belarus	288	2795	110	150	117	47	--
Moldova	204	377	92	89	34	82	97
Kyrgyzstan	155	797	94	70	51	101	119
Russia	105	14879*	106	134	89	22	58
Tajikistan	93	615	153	114	33	109	117
Uzbekistan	53	1387	138	130	114	111	62

Note. * FDI net inflow to Russia turned to be quite low as in 1989–2006 there was a considerable outflow of FDI from Russia. It is not typical of other countries.

Source: EBRD (2006), World Bank (2008), Heritage Foundation (2007), UNCTAD (2006), World Economic Forum (2008).

number of newly registered companies on the other. Recently Croatia, Macedonia, Georgia and Bulgaria have become the most active reformers. For example in Georgia there are 15 registered companies per 100 persons, in the Czech Republic and Slovakia – 13, Estonia and Poland – 12.⁵ In 2006–2007 the most popular reforms were in the sphere of opening up new legal entities and taxation. Georgia managed to improve the property rights protection system which is a major step in the economic reform of the country. As a result according to the UNCTAD FDI performance index, Georgia took the 16th place in the world (Table 1). The index of foreign direct investment (FDI) performance and the FDI potential index show how effectively FDI is attracted to the economy. The FDI performance index is based on the amount of FDI attracted to the country relative to its GDP. The FDI potential index is based on the following data: macroeconomic factors (GDP per capita), infrastructure factors (number of telephone lines, R&D expenditures, tertiary education coverage, and energy efficiency) and the country's risk. FDI performance and potential indices vary much among countries. Azerbaijan, Hong Kong, Singapore, Estonia, Bulgaria, China, Croatia, Czech Republic, Kazakhstan, Latvia,

Lithuania and a few other countries are leaders in both indices.

To estimate the investment potential of the country and the performance of future investments, investors often use the Global competitiveness index designed by the World Economic Forum.⁶ The evaluation of the competitiveness of a country is important for potential investors as it also covers labor productivity in the country. Hence the higher the competitiveness, the better performance of investment an investor can expect.

In the Global competitiveness index of the World Economic Forum, the lead-

⁶ The Global competitiveness index is calculated for 131 countries. It covers official statistical data and opinion polls of directors of companies. The index of global competitiveness takes into account the quality of institutions, infrastructure, the estimations of macroeconomic stability, healthcare and education, the quality of the goods market, labor market, the maturity of the financial market, readiness to technological innovation, the size of the market, characteristics of companies, and innovation of business (more than 100 indicators). Hence the index incorporates micro and macroeconomic parameters of national competitiveness. To calculate the index the countries are divided into three groups depending on the stage of their development (basic resources stage, effectiveness stage and innovation stage). According to the state of development of countries and the importance of various competitiveness factors to them the groups of factors are given weights and the final evaluations are summed up for each country. As a result the countries are placed in the competitiveness index rating.

³ <http://www.heritage.org>.

⁴ <http://www.doingbusiness.org>.

⁵ <http://www.doingbusiness.org>.

ers are USA, Switzerland, Denmark, Sweden, Germany, Finland and Singapore. Estonia, the Czech Republic, Latvia, Lithuania perform well in this index. African countries and a few transitional economies are rated at the bottom of the index (Tajikistan, Kyrgyzstan). The global competitiveness index is not calculated for such countries as Belarus and Turkmenistan.⁷

Negative evaluations of Belarus' business climate and economic freedom are the reasons for the low inflow of foreign investment in the country. For the last decades, Belarus has been one of the outsiders among the countries of Central and Eastern Europe with regard to the volume of FDI inflow per capita. The difference is especially stark if we compare Belarus to its neighbors. According to EBRD data in 1989–2006 Latvia accumulated about USD 2,500 of FDI per capita, Estonia – about USD 5,000 and Belarus – only about USD 300. Moreover, Belarus “loses” from many CIS countries in terms of the volume of accumulated FDI. Georgia has USD 740 per capita, Azerbaijan – about USD 1,000, Kazakhstan – about USD 2,000 (Table 1). Investment that failed to be attracted means lost opportunities, uncreated jobs and enterprises and lost tax revenues.

The demand for investment in transitional economies and in Belarus in particular is high especially in the context of a lack of domestic investment. Foreign investment is needed to attract new knowledge, modernization of production and to boost economic development. Belarus' FDI potential calculated by UNCTAD is quite high. Belarus holds the 47th place of this indicator in the world. The index takes into account such factors as qualified labor, developed industrial and infrastructure base, favorable geographic location etc. However in the FDI performance index Belarus holds just the 117th place.

Other CIS countries (Georgia, Kazakhstan, and Ukraine) and Estonia having less potential are quite successful in attracting foreign investment. The limited inflow of FDI is due to features of its institutional environment, i. e. the low level of economic freedom, the difficulty of doing business etc. For example Estonia which leads in terms of FDI inflow in

the region takes the 17th place in the Index of Ease of doing business (out of 178 countries), the 12th place in the Index of economic freedom (out of 162 countries), and the 34th place in the Global competitiveness index (out of 131 countries). Latvia and Lithuania also are among regional leaders on FDI inflow. They also rate quite high in the index of economic freedom and competitiveness.

In the Economic freedom index Belarus is in the end of the list. It holds the 150th place (Heritage Foundation). It is right after Venezuela and Bangladesh but still ahead of Iran, Turkmenistan, Burma, Libya, Zimbabwe, Cuba and North Korea. In the “Doing Business 2008” report Belarus took the 110th place in the Ease of doing business index (World Bank). Belarus ranks quite low in such components of Ease of Doing Business index as registration of a business, international trade, investors' protection (119th, 137th and 98th out of 178 countries). Belarus holds the last place in the world in the quality of the taxation system. Though ratings are not the only source of business climate and the perspective of attracting investment estimate, they are taken into account in the process of investment decision making and risk evaluation.

Hence, Belarus needs reforms to improve the investment and business climate. The most important spheres of reform for attracting foreign direct investment are administrative regulation, tax regulation, customs, property rights protection, price regulation, inspections and fines and judiciary reform. Experts of the IPM Research Center, business associations, international organizations (IFC, World Bank, EBRD) and other experts emphasized many times the importance of such reforms. The government also confirms the importance and relevance of its activities in these directions.

In the beginning of 2008 the alliance of business associations and analytical centers proposed a new National Business Platform.⁸ In Section six of this quarterly survey the first part of this Platform that deals with property rights protection and market institution development is presented.

3. CHANGE IN REGULATORY FRAMEWORK

The role of SMEs in Belarusian economy is quite big but it can be much bigger. In 2007 the government under pressure of the business community and analytical centers made some changes in the legislation to improve the business climate in Belarus.

3.1. Changes in the sphere of registration

Decree 8⁹ of the President of the Republic of Belarus adopted a new version of the Procedure on state registration and liquidation of legal entities. This new Procedure on registration and liquidation is supposed to ease the conditions of opening up businesses especially against the backdrop of the previous registration procedure. The new procedure includes the following propositions:

- The time of registration has been cut from 20 days to 5 days;
- The minimal size of the authorized capital was halved;
- The size of subsidiary responsibility of the partners of companies with additional liability was halved;
- A list of the documents that are necessary for registration was halved, a few procedures became simpler and clearer. For example a private unitary enterprise was allowed to be located in an apartment. Another innovation is that not only an owner (partner) of the assets can apply for registration but also a representative who was properly authorized to represent him or them. It means that now an owner of a company should not personally present documents for registration, He can give a proxy to his representative;
- It is no longer necessary to indicate in the authorized documents types of economic activities that a legal entity is planning to be involved in except for the types of activities that are licensed. It is necessary only to indicate the planned types of activities in the application for registration

⁸ The previous version of the Procedure was valid in 2006–2007. You can get more detailed information about the Platform at www.allminsk.biz

⁹ Decree 8 as of December 17, 2007 “On changes and additions to Decree 11 as of March 16, 1999”.

⁷ <http://www.weforum.org>.

or to inform the registering and tax bodies about such activities before getting involved in them;

- The registering bodies will no longer be obliged to check documents that are provided for registration. At the same time the applicant will bear responsibility both for the validity of the information in the documents and for their correspondence to the legislation.

The liquidation procedure of legal entities has also been amended:

- On liquidation of legal entities and individual entrepreneurs the principle of one window was introduced in relations with the registering body and other state bodies. For example the registering body should inform all other state bodies that had this entity registered including the customs office about the initiation of the liquidation procedure. Within 30 working days from the receipt of this notification these organizations and not the entity which is being liquidated send to the registering body all necessary for the liquidation procedure information;
- A legal entity is committed to provide to the registering body only the documents that he keeps: the original certificate of state registration, its company's stamp, other stamps that were used by the company, liquidation balance etc. Based on these documents the registering body excludes the legal entity from the Single state register of legal entities and individual entrepreneurs;
- A simplified procedure of liquidation is introduced. It can be applied to the legal entities and individual entrepreneurs that ceased to do any economic activities long time ago. It will enable the registering body to cut a huge list of the legal entities and individual entrepreneurs that line up to be liquidated.

Of course the government failed to remove all shortcomings of the existing procedures at once. Experts state that the time for creditors to claim their interests remained the same. The procedure of activities of the liquidation committee did not change much. That is why it will be impossible to liquidate a legal entity quickly. The list of reasons of the refusals to register a legal entity remained practically unchanged. It means

that even under the new procedure an applicant can be denied registration of a legal entity just because it's founder started the procedure of liquidation of his own company and this process has not been completed. It is still not possible to register a legal entity at the address of another legal entity though it is possible according to the existing international practice. It is also prohibited to register a legal entity if a founder of the branch economic entity has liabilities overdue including unpaid loans and interest on them.

Lawyers note that there is a long list of reasons for forced liquidation of legal entities. For example the court can decide to stop activities of a legal entity if it has losses after the second and consequent financial year or it has budget or off budget funds debts more than six months in a row. Activities of an individual entrepreneur or a legal entity can be stopped and they can be liquidated by the decision of the registering body without any court decision if they do not show any economic activities for six months or if they do not pay wages for three months in a row or if they systematically seriously violated labor legislation.

Hence Decree 8 introduced some positive changes in the sphere of state registration and liquidation of SMEs. However if we compare these procedures, conditions, complexity and costs of these procedures in Belarus and abroad it becomes clear that liberalization in this sphere should be continued.

3.2. Changes in licensing

Decree 7¹⁰ which came into force on January 1, 2008 reduced the number of documents that are needed to get a license. It also introduced the declarative mode of prolonging the term of licenses. The state body is not allowed to request the documents that it can get from other state bodies. The press service of the president believes that such a mode will enhance the "one window" principle in licensing. The Decree also simplified the procedure of getting copies of licenses. In addition it is no longer necessary to apply for a new license if a legal entity is reorganized in the form of a merger or break-up. To prolong a license it suffices just to make an appli-

cation and state all necessary information. The term of the license was also extended from 5 to 10 years. Another important amendment is that the list of reasons for revoking a license became closed, i. e. without any chance of being expanded. Earlier the procedure included some references to other propositions that enabled the authorities to expand the list.

At the same time the Decree contains many propositions to be criticized. Overall it has failed to introduce any meaningful changes in licensing. It just detailed and amended some of its aspects. First and foremost it has not reduced the number of licensed kinds of economic activities. Their long list is one of the biggest administrative barriers for doing business in Belarus. Another bad proposition that was left in licensing is that the body that issued licenses can revoke it without any involvement of the court whatsoever. Hence the rights of licensees are violated. Moreover the term of a licenses suspension was increased to 6 months (it was one month before the Decree).

3.3. Changes in Taxation

The government and the Working Group chaired by A. Kobayakov¹¹ work to lower the tax burden, to simplify the methodology of calculating and paying taxes. In the near future amendments to the legislation on real estate tax (narrowing the tax base of this tax to what real estate actually is) are planned. Also, the abolition of two local taxes – infrastructure fee and transport fee – is possible. The possibility of lowering the agricultural tax (it is paid to the fund for agricultural producers' support) from 2% to 1% is being considered. The abolition of this tax may occur in 2010–2011. Representatives of the Ministry of Finance do not exclude that social security tax levied on wages might be lowered too.

In addition, representatives of the Ministry of taxes and fees note positive results of their work in simplification of tax legislation and clarification of its norms. 3–4 years ago it was quite normal when documents of the Ministry of Finance contradicted instructions issued by the

¹⁰ Decree 7 as of November 26, 2007 "On amendments and changes to Decree of the president of the Republic of Belarus 17 as of July 14, 2003".

¹¹ Working Group chaired by deputy prime minister of Belarus A. Kobayakov was set up in 2006 to improve administrative procedures and to stimulate the development of entrepreneurship in the country.

Ministry of taxes and fees. Today most of tax legislation is applied directly without any additional clarification.

For the last three years 12 tax payment categories were liquidated in Belarus. Five more tax payment categories were abolished in 2008. Since 2008 legal entities are freed from paying the road tax, the fee to the fund of construction science development (0.5% of the costs of all construction works), three local fees (for retail trade, construction and external advertisement in foreign languages). However the Working group on simplification of taxation argued that the biggest achievement is the reduction of turnover taxes. In 2008 the rate of turnover taxes went down from 3% to 2%. As a result legal entities will keep about BYR 1 trn. In 2009–2010 the fee to the Republican fund for agricultural producers support is planned to be abolished. All turnover taxes will be abolished by 2011.

The Ministry of taxes and fees noted that it worked on changing the timing of paying taxes which are not directly connected with activities of enterprises. For example the ecological tax, land and real estate taxes can now be paid on a quarterly basis. Hence some improvements in administering taxes did take place.

In addition, according to Decree 1¹² new commercial organizations that are set up in small and medium sized towns are freed from paying some fees and taxes. Since April 1, 2008 these SMEs are freed from paying corporate income tax (CIT) and the fee to the fund of agricultural producers' support if they sell the goods they manufacture themselves. These enterprises are freed from paying a few other taxes and fees. In addition new companies and the companies with foreign capital are freed from obligatory selling of a part of hard currency revenue received from selling of their own goods and services. This benefit also covers renting assets.

New SMEs in small towns will be able to buy raw materials and spare parts for their own production as they please i.e. from any suppliers and at any prices. They will be able to export their own

products at free prices and their own choice. They will not have to go through the obligatory procedure of state purchase and deliveries. These enterprises will be able to set wages for employees at their own discretion (but not less than the minimum wage set by the government). They will have the right to insure their assets and risks not with Belarusian but also with foreign insurers. The Decree does not cover gambling and lottery business, banking, exchange activities, production and selling of alcohol, tobacco, weapons, ammunition and a few other kinds of commercial activities. As a result, the new Decree created very favorable conditions for setting up new private enterprises in small towns.

Hence tax legislation is slowly and gradually changing. Of course taxes in Belarus are extremely high. The way they are administered is complex and costly. It means that the Ministry of taxes and fees, the Ministry of finance and the Working Group chaired by A. Kobayakov have a lot of work to do in order to level the tax burden of SMEs in Belarus with neighboring states. If the government set the ambitious goal of joining the Top-25 countries of the world in business climate quality more radical changes are required.

3.4. Other changes

Resolution of the Council of Ministers 1894¹³ simplified the procedure of purchasing goods (services, works) by state enterprises. The Resolution stipulates that making and approving annual plans of purchasing goods for up to 50,000 base units (USD 0.814 m) are done at the discretion of state enterprises without informing about such activities in mass media. Enterprises were given the right to independently choose suppliers (contractors) and the procedure of holding and evaluating competing proposals ignoring the preferential amendment.¹⁴ The participation in the procedure of purchasing goods (services, works) does not depend on the country of ori-

gin of the suppliers (producers). This measure will contribute to the development of some SMEs which offer foreign equipment (goods, services). It equalizes economic conditions between state and private companies.

3.5. Business climate improvement as a means of attracting private investment

In 2008 the government is planning to increase by 25% the inflow of foreign direct investment (more than USD 1 bn in 2007). However, the inflow of FDI is restricted by the cumbersome regulatory framework and the low quality of the investment climate (it is proved by various international evaluations, see the previous part). Last year chairman of the National Bank of Belarus P. Prokopovich took the initiative to improve the business climate in the country. At present the National Bank jointly with the government works out concrete proposals to improve the business climate (P. Prokopovich voiced the ambitious goal to join the Top-20 countries on Ease of Doing Business Index designed by the World Bank and presented in the annual report "Doing Business").

The government reports that at present it is working on a few normative acts. First of all it is the presidential decree "On accelerating foreign direct investment inflow". This document is to introduce a few measures to stimulate commercial organizations with foreign investments which have set up in residential areas of up to 50,000 people.

Another project is the draft of the presidential decree "On amending and adding a few decrees of the president of the Republic of Belarus on the issues of commercial activities in free economic zones" (FEZ). This document introduces the guarantees for free economic zone residents. It improves the procedure of registering enterprises in FEZs, expands the authority of FEZ administration, sets preferences on rent fees, taxes etc.

To stimulate the activities of the stock market (it is almost dead in Belarus) another decree was drafted. It introduced the reduction of the tax on bonds from 40% to 24%, simplification of the procedure of issuing and circulating of securities, issuing corporate securities in external markets. The moratorium on selling stocks that were acquired during

¹² Decree 1 as of January 28, 2008 "On stimulating production and sales of goods (services, works)". The proposition of the Decree covers residential areas with a population up to 50,000.

¹³ Resolution of the Council of Ministers as of December 29, 2007 1894 "On some issues of purchasing goods (services, works)".

¹⁴ The objective of the preferential amendment is to give advantages to the participants that offer goods (services, works) made in the Republic of Belarus. According to Decree 529 as of August 25, 2006 529 "On state purchase" the preferential amendment that is applied to the price of the auction offer is reduced by 15%.

voucher privatization is one of the most serious obstacles for stock market development. The abolition of this moratorium would mean the beginning of privatization in Belarus as many minority shareholders can take part in it (by selling and buying shares). However the government is not in a hurry to liberalize the control over the process of selling assets. At present there are no plans to remove the moratorium all together. However the government is planning to expand the list of enterprises the shares of which will be traded in the stock exchange. The government and the National Bank work in this direction but their initiatives have not been welcomed in the presidential Administration.

In order to increase the effectiveness of activities to attract foreign loans in the real sector of the economy another decree "On some measures to carry out investment projects which are financed by foreign loans" was drafted. In addition the government drafted the presidential decree according to which loss-making industrial enterprises similar to agricultural enterprises will be sold to a concrete legal entity according to a simplified scheme. This scheme presumes that investors apart from preferential prices of assets will have a few benefits in taxes and paying off debts.

4. SME AND BUSINESS ENVIRONMENT ORGANIZATIONS

4.1. Cooperation of entrepreneurs with various organizations of business environment

The results of the study¹⁵ showed that only about 10% of SMEs are members of business associations and other organizations that represent the interests of entrepreneurs (Table 2). Big companies tend to be members of business associations more often (with number of employees from 101 to 200 and more than 200 – 22% and 30% on average). Medium-sized companies (from 51 to 100 employees) express the lowest interest to business associations. Their membership is only 5%. Even the share

¹⁵ 517 directors and owners of SMEs took part in the poll (see the questionnaire and answers at <http://research.by/rus/surveys/cf8d430297c09de2.html>). For more detailed information see the analytical note by Guzhinsky, M. (2007) "Organizations of business environment in Belarus". (<http://research.by/pdf/wp2007r09.pdf>)

Table 2: Breakdown of answers to the question "Do you cooperate with organizations of business environment at present (the organizations supporting development of private business)?" (%)

	yes	Not at present, yes – in the past	No but I know that there is such possibility	No and I do not know about such organizations
Centers for support of entrepreneurship (CSE)	5.0	5.0	58.6	31.4
Incubators for small entrepreneurship (ISE)	1.2	3.9	42.4	52.5
Techno park	2.3	4.0	47.0	46.7
Fund for financial support of entrepreneurship	3.5	3.7	51.7	41.0
Sectoral business associations	4.4	3.2	44.9	47.5
Republican and regional (oblast, district, city) business unions	5.0	4.4	49.3	41.3
Private commercial and consulting companies	9.7	5.7	47.7	36.9
Business schools	7.6	5.0	55.8	31.6

Source: IPM Research Center.

of micro enterprises is bigger but it is below average – 8.5%.

The results of the study showed that there is no definite correlation between the age of the company and its propensity to joint the organizations that represent the interests of entrepreneurs. The companies that were set up between 2001 and 2003 were most likely to joint a business association. In this group the share of business association members is 15.4%. The lowest share is among the companies that were set up after 2004 (5.3% of respondents). The share of positive answers among old companies remained on the average level – about 10%. The analysis of the propensity of the companies to take part in the activities of business associations showed that almost 22% of industrial companies are members of such organizations while in construction the share is only 2%. Trade, catering companies and the legal entities that work in the sphere of household services also expressed less interest in membership. The reason can be either the lack of attractive supply from the part of business associations for legal entities or the lesser propensity of such companies to horizontal cooperation.

14% of the companies that name expansion as their main strategy stated their membership in the organizations of the business environment. At the same time the share of the companies that concentrate their efforts on keeping the current level of production and on surviving is just 5%. Membership in business associations of the companies that export their goods and services is

20% and among the organizations that sell their goods and services to foreign consumers is 14%. For example in the group of the companies that cooperate mainly with state and budget organizations the membership is just 2.3%.

Only 5% of legal entities cooperate with the organizations that represent entrepreneurs (centers for support of entrepreneurship and republican and regional business unions¹⁶ excluding sectoral business associations). About 10% of the companies have the experience of such cooperation. Old companies, i.e. the ones that were set up before 1996 tend to support the more recent cooperation with centers for support of entrepreneurship (7.8%). 13.5% of SMEs in the industrial sector support current activities of business associations. It should be noted that there are no such companies in construction. The share of medium-sized companies (the number of employed is from 51 to 200 persons) that support current activities of business associations is 12.5%, the share of the enterprises that target foreign markets and the ones that are relatively in better economic shape is 11% and 7.6% respectively.

The companies that were established before 2003 are most likely to cooperate with republican and regional business unions, from construction – about 9%, industry – more than 6%. With the number of employed from 101 to 200 persons – 22%. The oldest companies cooperate with sectoral business associations (almost 9%) as well as service

¹⁶ Regional, district, city.

sector companies and the companies that employ more than 200 persons.

The smallest number of respondents cooperate and have the experience of cooperating with techno parks (2.3% and 4% respectively), incubators of small entrepreneurship (1.2% and 3.9% respectively) and funds for support of entrepreneurship (3.5% and 3.7% respectively) i.e. with more specialized organizations of business environment. The cooperation with business incubators confirmed the companies that were set up before 2000 (mainly they were founded before 1996) from the sector of trade, catering and industry and the companies that employ from 51 to 200 persons.

The structure of the companies that cooperate with incubators of entrepreneurship (relatively big SMEs with much experience) shows that there neither entrepreneurs nor the organizations understand the essence of such an instruments. It may even suggest that we deal not with incubators (no new and small companies) but with “rented facilities” which contradicts the nature of the incubator of entrepreneurship. As for techno parks the companies from the sector of transport and communications (more than 8%) and the companies that employ from 101 to 200 persons (13.3%) are more likely to cooperate with them.

As for business incubators, techno parks and funds for financial support of entrepreneurship the share of companies that cooperated with them in the past is larger than the share of the companies that cooperate with them today (for business incubators and techno parks the difference in answers is considerable). There are two possible explanations. Firstly, it could be due to the fact that the cooperation between companies and organizations of businesses environment is successful and the companies achieve quick positive results (for example when in the case of business incubators the process of “growing” is successful). Secondly, SMEs stopped cooperating with business environment organizations due to the fact that the supply of services of business organizations does not match the needs of the company or because the quality of the services is quite low.

As for other organizations of business environment the share of companies that cooperated with them in the past is not

Table 3: Breakdown of answers to the question “Please evaluate the quality of services that you use and point out what services you would like to use if you did not use them before” (%)

Services	We did not use such services	We used such services. The mark for the quality of the services.					We did not use such services but we would like to
		1	2	3	4	5	
1. Assistance in opening up business	57.7	1.7	3.9	8.2	7.2	3.9	17.4
2. assistance in getting licenses and permissions	46.4	3.7	3.5	10.5	10.8	5.2	19.9
3. Training staff	40.0	1.8	3.2	13.7	15.1	6.9	19.2
4. Support in internationalization of activities	60.3	2.4	2.2	4.8	4.8	3.1	22.3
5. Consulting services in the sphere of finance	62.3	2.2	2.7	8.6	6.8	2.7	14.7
6. Legal services	33.8	1.9	3.8	12.4	20.2	9.6	18.3
7. Consulting services in marketing and sales	63.9	2.2	3.5	7.7	6.7	2.7	13.4
8. Assistance in attracting financial resources	56.0	2.4	2.7	6.8	5.3	3.1	23.7
9. Assistance in innovation activities	66.9	2.7	3.2	4.6	2.4	2.4	17.8
10. Assistance in international transfer of technologies	76.2	3.2	1.5	3.5	2.0	1.2	12.4
11. Assistance in the sphere of protection of copyrights and patent rights	72.1	2.7	3.7	3.5	4.0	1.0	13.1
12. Providing free aid (grants)	61.3	3.6	1.2	1.0	2.4	3.1	27.4
13. Providing credits and loans	39.4	1.7	2.9	13.5	11.6	6.9	24.0
14. Assistance in getting information about the market	48.1	2.5	2.7	11.4	8.4	3.7	23.2
15. Assistance in consulting on economic activities	40.9	2.2	5.3	15.1	12.0	5.3	19.2
16. Assistance of cooperation among members of the organization	64.5	3.2	2.0	9.0	7.8	3.2	10.3
17. Representing the interests of the company in relations with local bodies of power	59.6	2.9	1.5	9.1	6.6	2.5	17.9
18. Representing interests of the company in relations with central bodies of power	62.9	2.9	3.2	6.6	6.6	2.4	15.5
19. Assistance in searching for partners to carry out R&D	71.6	3.2	3.4	3.4	3.2	2.9	12.2
20. Exchange of experience among members of the organization	60.2	4.4	1.9	9.0	6.6	4.9	13.1

Source: IPM Research Center.

larger than the share of companies that cooperate with them at present. This may be an indication of long-term cooperation. Analyzing the data in Table 1 we can state that long-term cooperation covers primarily consulting companies and business schools. It can mean that they provide services of higher quality as they are in higher demand of entrepreneurs.

The most recognized organizations of business environment among entrepreneurs are centers for support of entrepreneurship (68.6%), business schools (68.4%) and private consulting companies (63.1%). In spite of the highest recognizability, considerably fewer enterprises cooperate with centers for support of entrepreneurship than with consulting companies and business schools. It may be evidence of the lower quality of such centers or that such services do not meet the demand of entrepreneurs compared to consulting companies and business schools.

4.2. Evaluation of the quality of functioning and services

Entrepreneurs value highest the cooperation with business schools and private consulting companies (45% and 41% correspondingly evaluated the cooperation as “good” and “very good”). Centers for support of entrepreneurship (37%) and sectoral business associations (36%) are also appreciated. The least support was expressed for techno parks (24.5% of positive answers), organizations that provide financial support (25.5%) and republican and regional business unions – 26.1% of positive answers (Table 3).

Incubators, techno parks and organizations that provide financial support received the highest share of negative opinions on the cooperation (“bad” or “very bad”) – 55%, 49% and 45% correspondingly. Private consulting companies and business schools got the fewest number of negative evaluations

(32% and 36% correspondingly). It should be noted that except for commercial consulting companies and business schools the number of negative evaluations is bigger than positive ones. It means that except for these two types of organizations entrepreneurs evaluate the quality of cooperation with organizations of business environment as negative. The fact that entrepreneurs value most the cooperation with consulting companies and business schools and least with incubators, techno parks and the organizations that provide financial support prove the proposition that neither entrepreneurs nor the organizations themselves fully understand the functions of such organizations, especially incubators and techno parks. It may also indicate the low quality of their services as to ensure high quality of services there is a need for high skilled and experienced specialists in various areas like commercialization, international transfer of technologies and investment financing.

The results of the analysis showed that the older the company the higher it evaluates the quality of cooperation almost with all kinds of organizations of business environment. This can mean that in the course of time the level of mutual understanding between enterprises and the organizations of business environment grows higher. The former learn more about the real needs of the latter and they adjust their services to the needs of enterprises.

The results of the evaluation of cooperation of SMEs of different sizes are ambiguous. As a rule small companies evaluate the cooperation worst of all. Techno parks and funds for financial support of entrepreneurship got the lowest average scores. Medium-sized companies (from 51 to 200 persons) evaluate the cooperation highest. The companies in this group evaluate highest the cooperation with business schools and private consulting companies. Small companies (51–100 employees) value much their cooperation with centers for support of entrepreneurship. They expressed the highest support in this group of companies. Big companies do not value much the cooperation with organizations of business environment. The spread of evaluations is quite big. The companies that employ more than 200 persons highly evaluate the cooperation with sectoral business

Table 4: Breakdown of answers to the question “Please point out main obstacles on the way of cooperation with organizations of business environment”

	Number of respondents	% respondents
I know too little about such organizations	269	50.8
These organizations are too weak	103	19.4
The area of activities of such organizations does not meet my demands	99	18.7
These organizations do not represent my interests	111	20.9
Services of these organizations are too expensive	86	16.2
Quality of services provided by such organizations is too low	42	7.9
I have no access to these organizations (they are located too far)	31	5.8
I would be better not to use services of such organizations due to political reasons	35	6.6
Other (please write)	9	1.7

Source: IPM research Center.

associations (average mark – 5). The average mark for the quality of cooperation with republican, regional business associations, business schools and consulting companies is 3.5 and with other organizations of business environment the average mark is 2.

Analyzing the cooperation from the point of view of sectoral activities we can conclude that service companies value most the cooperation with business environment organizations. Techno parks and funds for financial support of entrepreneurship got the highest marks. Trade and catering companies follow. They value most their cooperation with business schools. Entrepreneurs in the household service sector and in construction value their cooperation with business environment organizations lowest.

Entrepreneurs stated that most frequently they used legal assistance (48%), staff training (41%) and consulting services in operating business (legislation, taxes etc.) – 40% of respondents. Free assistance (like grants), services that were directed at innovation stimulation (assistance in international transfer of technologies, protection of copy and patent rights, innovation activities and in search partners for R&D) were least used. The share of negative answers varied from 85 to 90%.

As for areas of activities of the organizations of business environment which entrepreneurs did not use but were interested in (potential demand for services) first of all we can mention financial tools and services. Getting free assistance (for example grants) – 27.5% of respondents expressed their interest in it though they did not use this service before. Getting credit was mentioned by 24% of respondents, assistance in ac-

quiring financial resources (search of an investor) – 23.7%. Getting information about the market (23%) and support of international activities (22%) hold the second place. These facts prove that entrepreneurs primarily look for assistance to remove administrative barriers in their economic activities. There is a potential demand for financial services and for information about markets (domestic and international). At the same time there is no demand for the services that support innovation activities of enterprises. Evidently entrepreneurs do not fully realize their potential.

The results of the study show that the quality of services that are offered by the organizations of business environment are as a rule estimated as poor. The services that entrepreneurs used most were estimated highest. It refers to legal services (the average mark for these services from the entrepreneurs who used them is 3.54 out of 5) and to getting loans (3.53). The services of techno parks and the organizations that deal with the support of innovation activities were estimated lowest.

The analysis of the correlation between the quality of services and the size of the company also brought interesting results. While micro-, small- and medium-sized companies value legal services most, staff training and getting loans, bigger companies (more than 100 employees) value more internationalization of activities, consulting services in the sphere of finance, the support of cooperation in exchange of experience with members of its organization. As for the biggest companies they value legal services most, the support of internationalization activities and the representation of the interests of the company in the dispute with central bodies of power. It

means that bigger companies create demand for more specialized services.

4.3. Main obstacles for cooperation between

The study showed that the biggest obstacle for initiating cooperation between enterprises and organizations of business environment is the lack of information about such organizations: More than 50% of respondents stated that they know too little about them. The smaller and the younger the company, the less it knows about organizations of business environment (Table 4).

The second most important obstacle is the discrepancy between the supply of services provided by the organizations of business environment and the demand of entrepreneurs. 19.5% of respondents stated this obstacle (mainly the youngest and the oldest companies, with the number of employees from 101 to 200, the ones that work in the sector of services, transport and communication). Moreover about 21% of respondents stated that the organizations do not represent their interests (primarily big old companies and the companies in construction). A similar share of respondents pointed out that these organizations are too weak (primarily big companies) and 13% said that their services are too expensive.

Only 6–7% of SMEs indicated that they do not have access to such organizations (they are located too far) and that they should not use the services of such organizations due to political reasons.

5. ON ACTIVITIES IF BUSINESS UNIONS IN 2007

5.1. Minsk Capital Union of Entrepreneurs and Employers (MCUEE) in 2007

Report on the activities of MCUEE in 2007

Membership. The Minsk Capital Union of Entrepreneurs and Employers (MCUEE) was founded in 1997. It unites 580 members: owners, directors and leading specialists of stock holding, private, foreign and joint companies from Minsk and Minsk region.

Work with members of MCUEE, expansion of services. In 2007 the Union took an active part in international sectoral trade fairs (in Poznan, Moscow,

Minsk, Munich, and Karlsruhe). The Union also provided consulting services, provided information that support economic activities of companies both in Belarus and abroad, held consultations, seminars and information days on economic issues (taxation, accounting, pricing, external economic affairs, legal issues, customs regulation, certification, standardization, business planning, marketing and on information technologies for doing business).

In 2007 the Union continued to provide services in the sphere of production cooperation (search for partners for placing orders at enterprises of different forms of ownership).

The Union positions itself not just like a non-profit organization but also as a business network. It is active in expanding the club system. The Capital business club of directors, Club of accountants, International Trading Club, and Club of business women are active in their activities. The Union started to create a Press Club and a Club of young entrepreneurs.

Advocacy. Advocacy is protection and representation of the interests of entrepreneurs. In 2007 MCUEE carried out the following activities within its advocacy campaign.

1. Individual work in which members of the Union and heads of partner organizations received concrete assistance:

- Legal consultation;
- Assistance in finding necessary documents;
- Assistance in writing claims;
- Assistance in court cases.

2. Participation of MCUEE in legislative activities in order to create optimal legal, financial and organizational conditions for the development of private initiative in the country.

The main method of activities in this area of advocacy is to ensure business interaction with state bodies of power. They receive topical information about the problems of Belarusian entrepreneurship. The Union makes concrete proposals aimed at ensuring positive changes in the business climate of the country. In 2007 the Union continued the cooperation with the Ministries of Economy, Industry, Foreign Affairs, Jus-

tice, Trade, Finance, and Statistics and Analysis, with deputies of the Chamber of Representatives and the Council of the Republic of the National Assembly of the Republic of Belarus. The Union continued its cooperation with the Republican Labor Arbitrage, the State Committee for Standards, the National Center of legislative activities at the President of the Republic of Belarus, local bodies of power and other structures that define the form and the content of legislative activities in Belarus.

3. Promotion and carrying out the National Business Platform-2007, Drafting Platform-2008.

The National Business Platform of Belarus is the main landmark for the Union. It defined the areas and guidelines for advocacy in 2007. Carrying out and promotion of the Platform-2007 and drafting Platform-2008 became the most important parts of advocacy, its main ideological foundation.

In the beginning of the year, "Platform-2007" was sent to all ministries and state bodies including all structures of legislative and executive powers. Responses of various structures on the Platform were published in a few issues of the newspaper "Mezhdunarodny Club". More than 40 proposals out of 76 in the Platform were used to change legislative norms. For example the government reacted to Section "Inspections, fines and punishment". It ordered the Ministry of Economy of the Republic of Belarus to consider the propositions of the Platform. Decree of the president №7 as of November 26, 2007 took into account the proposals from Section "Licensing and permission system" of the Platform.

In the beginning of 2008 a new variant of the Platform was drafted. It took into account the changes that took place in the business climate of the country.

International activities. Strengthening ties with representatives of foreign business circles is having a positive effect on the development of private sector in Belarus. In 2007 representatives of the Union met the members of more than 30 delegations of foreign countries. The cooperation with the long-term partners International Finance Corporation, the Center for International Private Entrepreneurship (CIPE), the UN Office in Belarus continued to be fruitful. Busi-

ness cooperation with the Italian association "Cooperation and development Italy – Belarus" developed quite dynamically. Business contacts were established with the women's business association from Germany "Entrepreneurs plus", with the "Association of food products exporters" (Turkey), the consulting group "PUM – experienced experts" (The Netherlands), and the national association of business angels from Russia.

In 2007 the Union held 15 foreign trips to such countries as Germany, Lithuania, Belgium, Luxemburg, Poland, Russia, Turkey, Sweden and the USA. Ties and contacts with the Russian Union of industrialists and entrepreneurs, the Moscow confederation of industrialists and entrepreneurs, and the Interregional center of industrial subcontracting and partnership strengthened. Members of MCUEE took part in international training programs in Sweden and the United States of America.

Evaluation of changes in the business climate. Chairman of MCUEE V. Karyagin believes that the National Business Platform gave an impulse to the improvement of the administrative system in Belarus. The government supported the idea of improving administrative procedures. In fact they were covered in all six sections of the Platform. In June 2007, the Working Group chaired by Deputy Prime Minister A. Kobayakov was formed. It invited business associations of the country to cooperate with it. MCUEE experts worked out and passed to the Working Group more than 200 proposals to simplify administrative procedures. Since December 1, 2007 the Resolution of the Council of Ministers came into force. It introduced a list of administrative procedures that ministries abide by.

The Decree on licensing also made some changes in this procedure. It excludes the option of the refusal to issue a license based on the reason of inexpediency of this kind of economic activity. The Decree introduced more precise definitions in licensing and the measures that ensure the implementation of the principle of "one window" in licensing. The norm that the license expires when a legal entity is reorganized was abolished.

Decree of the president 8 as of December 17 reduced the time of registration

of legal entities and introduced a few other major changes to improve business climate of the country. Platform-2007 contained the propositions that were taken into account by Decree 8.

According to presidential Decree №685 "On additional conditions of carrying out entrepreneurial activities" the time of changing the status from the individual entrepreneur to a private unitary enterprise was prolonged until March 1, 2008. The size of fines for administrative violations which can be committed by unitary enterprises was halved until December 31, 2009. At the same time the decree did not make any changes in the way individual entrepreneurs (IEs) can hire personnel. The position of MCUEE remains unchanged. It is not possible to deal with interests of IEs in isolation to the problems of other legal entities. We insist on providing a transitional period for IEs. They will be able to adjust to new conditions in the easiest possible way. The Union stated on many occasions that it is necessary to prolong Decrees 302 and 760 to avoid the conflict that arose from the transition of IEs to unitary enterprises. Foreseeing such situation the Union jointly with regional business associations from Brest, Vitebsk, Gomel, Mogilyov proposed to hold the third parliamentary open hearings on the topic "Conditions of development of entrepreneurship". V. Karyagin expressed his certainty that Belarus needs the law on development of entrepreneurship. Experts of the Union work on this draft and will send it to the legislative bodies of power in 2008.

MCUEE supports the efforts and determination of the government to simplify administrative barriers and to improve business climate in Belarus. However this work should be intensified and cover such areas as taxation, fines and punishment, pricing and property rights protection.

Participation in the unifying movement of business associations of the country. The Union took an active part in joint activities of the Belarusian entrepreneurial community to form the biggest business association in the country – Republican Confederation of Entrepreneurship (RCE). Taking part in setting up the RCE the Union acted like a unifying force of various business associations. This work began within the joint project of International Finance

Corporation in Belarus. It was further supported by the European confederation of associations of small and medium enterprises CEA-PME (Brussels) and also the Center for International Private Enterprise (CIPE) of the US Chamber of Commerce.

5.2. On activities of Business Union of Entrepreneurs and Employers named after Kounyavsky in 2007

Areas of activities. The main goal of the Business Union of Entrepreneurs and Employers (BUEE) named after professor Kounyavsky is to coordinate entrepreneurial activities and to protect the interests of members of the Union. During the year BUEE carried out its activities in the following directions:

Functional Councils were set up

- On improvement of tax and pricing legislation;
- On competitiveness, development of external economic ties and to promote export;
- On regional development, investment and innovation activities of organizations, attracting foreign investment;
- On improvement of labor and social relations, development of social partnership and insurance;
- On simplification of administrative procedures, legislation and ensuring equal economic conditions for private and state sectors, reducing economic sanctions and administrative fines;
- On development of cooperation, partnerships among members of the union;
- On cooperation with mass media, formation of a positive public image of BUEE and its members;
- On organizational matters, internal procedures and ethics;
- On problems of small and medium-size entrepreneurship development including women's business;

These Councils interacted with intersectoral commissions and Working Groups at the Council of Ministers such as

- Working group on working out proposals to lower the tax burden and to simplify the tax system;

- Intersectoral Council to promote export;
- Consultative Council for foreign investment;
- National Council for labor and social issues;
- Expert Council to improve social and labor legislation;
- Intersectoral Commission to support and develop small entrepreneurship;
- Working Group to prepare proposals to lower fines and sanctions;
- Intersectoral Working Group to simplify administrative procedures.

Proposals on the issues that are discussed by the Councils are sent to corresponding state bodies that are authorized to deal with them.

One of the forms BUEE activities takes is the Republican Club of Directors (RCD). This is a place where the members of the Union can enter a dialogue with the government and representatives of state bodies on various important and topical issues. In 2007 the following topics were discussed:

- Social insurance in a socially oriented economy: practical solutions and development guidelines;
- Energy efficiency as a factor of competitiveness of the Republic of Belarus;
- Belarusian economy in 2007.

Analytical papers were prepared on the most topical issues that were discussed at the RCD sessions. They were sent to the government. In addition, BUEE carried out various educational and training programs.

Activities of BUEE to improve business climate in Belarus. There many problems and obstacles for development of entrepreneurship in Belarus. Administrative intervention into the activities of enterprises and unstable and low quality legislation are among these obstacles. BUEE lobbies the interests of entrepreneurs by making proposals on the improvement of legislation in the sphere of taxation, registration of legal entities, pricing, removing administrative barriers etc.

In September 2007 BUEE jointly with the Council for development of entre-

preneurship in the Republic of Belarus held the Round Table "The Tax system and its development". The Head of the Main Economic Department of the presidential Administration of the Republic of Belarus N. Medvedeva, deputy Minister of Finance I. Shunko, deputy Minister of Economy T. Starchenko, deputy Minister of Taxes and Fees L. Kondratova, members of the parliament and other experts took part in this round table summit.

During the discussion representatives of business made a few well-grounded proposals to improve the tax system. Unfortunately not all of them have been taken into account. A few of them were introduced in the tax legislation.

BUEE contributed much to the work on the change of state registration procedures. It was conducted jointly with the International Finance Corporation and other business associations. As a result amendments were made to the decree of the president 11 as of March 16, 1999. The declarative principle of registration was introduced.

The success of BUEE in the sphere of improvement of the legislation was appreciated by the parliament. Presidium of the Council of the Republic of the National Assembly of the Republic of Belarus passed Resolution 626-PCR3 as of August 28, 2007 and awarded Nina Kirillovna Naumovich, deputy director of BUEE, with a Diploma of Honor of the National Assembly of the Republic of Belarus for her contribution in development of the legislation of the Republic of Belarus.

BUEE decided to solve various sectoral tasks of its members by setting up internal associations. As a result the following structures were created:

- Association of tourist organizations;
- Association of construction organizations;
- Association of wood processing and furniture organizations;
- Association of the organizations of SME infrastructure.

BUEE's participation in activities of the following structures also helps the Union solve its tasks:

- Consulting Council for foreign investment;

- Intersectoral Council for export development;
- Working Group on lowering the tax burden and simplification of the tax system;
- Working Group on preparing proposals on lowering the size of fines and sanctions for violating tax and customs legislation;
- Intersectoral Working Group on simplification of administrative procedures;
- Intersectoral commission for support and development of small entrepreneurship;
- National Council for labor and social issues;
- Expert Council for the improvement of social and labor legislation.

Recognizing the fact that only joint efforts of all interested parties can lead to the improvement of business and the investment climate in the country, BUEE openly informs about its activities via various means including its web site www.bspn.nsys.by We are sure that meeting this goal will contribute to the increase of welfare of the Belarusian people. BUEE invites all interested individuals and organizations for cooperation.

5.3. On activities of Belarusian Union of entrepreneurs in 2007

Belarusian Union of entrepreneurs (BUE) is a republican non-government organization that represents big, medium and small business. It was set up on June 15, 1991. The Union consists of leaders of republican organizations, directors of corporations and individual entrepreneurs. The Union cooperates with economists, lawyers, journalists who take an active part in the programs of development of entrepreneurship.

BUE set up and coordinates activities of specialized and regional Councils:

- Council for small business and trade that represents the interests of individual entrepreneurs;
- Council for enterprises – exporters of wild growing plants;
- Council for manufacturing business;
- Republican sectoral Council of so-larism owners;

- Council for gambling and others.

The main task of these councils is to assist in carrying out corresponding state programs.

The goals of the Union are:

- To ensure the protection of rights and valid interests of entrepreneurs in state and other bodies and international organizations;
- To assist economic reforms that are aimed at increasing the effectiveness of manufacturing, ensuring sustainable economic development, stimulating economic initiative of citizens and also developing international contacts and cooperation in the sphere of entrepreneurial and economic activities.

The Belarusian Union of Entrepreneurs has been working to improve the business climate in Belarus for many years. The Union uses the following grounds for the dialogue:

- Council for development of entrepreneurship in the Republic of Belarus;
- Intersectoral commission to support and develop small entrepreneurship;
- National Council for labor and social issues;
- Coordinating consulting conference of business communities;
- Republican labor arbitration;
- Consulting Council at the Ministry for taxes and fees of the Republic of Belarus.

In 2007 representatives of BUE took an active part in the activities of the following Working Groups and commissions that were set up at the Council of Ministers.

- Working Group on simplification of administrative procedures;
- Working Group to prepare proposals to simplify the tax system in Belarus;
- Working Group to work out and adopt necessary measures to regulate problems in entrepreneurial environment;
- Working Group to prepare proposals to improve approaches to determine the size of fines for entrepreneurial activities;

- Working Group to prepare proposals to solve problematic issues of activities of individual entrepreneurs.

The most difficult issues that BUE worked on were the following: simplification of administrative procedures, the tax system and the definition of the size of fines. The BUE believes that the activities to simplify administrative measures should continue and become one of the main spheres of activities of state bodies to improve the business climate. In connection with this, the BUE thinks it is necessary to give the Working Group that was set up by the decision of the prime-minister as of November 30, 2006 135p the status of a standing Working Group. The BUE believes that one of the main areas of activities in improving administrative procedures is to reduce their number. The Union argues that it is reasonable to reconsider the criteria of making such procedures. Alongside with the criteria that are set by the Resolution of the Council of Ministers 1102 as of August 27, 2007 we propose to include the following criterion: if the government body does not provide an adequate explanation of the necessity to introduce a given administrative procedure, it should be abolished all together. All the work on the improvement of administrative procedures should result in the dominance of the principle of “one window” that ensures smooth interaction with different state bodies. The existing practice is far from being perfect. Many economic entities refuse to go through the existing procedures. They prefer to solve the issues independently.

The BUE believes it is reasonable to recommend the government, the Ministry of Economy, the Ministry of Justice, and the National Center for drafting laws at the presidential administration and other interested bodies working out the draft law “On foundations of administrative procedures”. This draft law should be proposed for public consideration with the participation of business associations.

As for the simplification of the tax system the Union proposes to carry out the Panel of experts of non-government organizations which are participants of Consulting coordinating conference of business communities in the end of March 2008.

To improve the procedures to define the size of fines and sanctions the Union believes it is necessary to concentrate the attention of the Working Group on working out the methodology of defining the nature of the violation and adequate sanctions. Also, measures to prevent violations of legislation should be worked out. It would contribute to a considerable decrease of not only fines but to the number of cases of law breaking and sanctions for major violations in the process of entrepreneurial activities as well.

Hence in 2007 the Union was active on almost twenty places where a common ground for dialogue exists. In many cases the dialogue resulted in passing useful legal acts for business. In particular the declarative principle of state registration was introduced by Decree 8. The propositions that became parts of Decree 9 as of December 20, 2007 (business received benefits not only in agricultural towns but other rural residential areas as well), favorable conditions for setting up and functioning of private unitary enterprises, the simplified taxation system, simplification of administrative procedures were formulated at these dialogue foundations.

In 2007 BUE experts prepared and sent to government bodies the propositions and amendments to 42 draft legislative acts. Today the government realizes the necessity of giving up the practice of excessive intervention into the economy, especially in the form of supporting ineffective enterprises. The reduction of budget expenditures will enable the government to reduce the tax burden.

In order to improve the business climate, BUE took and keeps taking many legislative initiatives in 2008. The Union believes that the process of liberalizing entrepreneurial initiatives from excessive government regulation should be steady and mutually beneficial both for the state and for business.¹⁷

¹⁷ One of the benchmarks for BUE in improving business climate in Belarus the report of the ex-Chairman of the Union Alexander Potupa “Development of entrepreneurship in the Republic of Belarus: constructive proposals”. It was presented at the meeting in the presidential administration of the government and business associations on February 14, 2007 (<http://bae.iatp.by/files/2007/4apr07/rep.html>).

6. NATIONAL BUSINESS PLATFORM - SUGGESTIONS ON DEFENDING PROPERTY RIGHTS AND DEVELOPING MARKET INSTITUTIONS

National Business Platform was designed by Belarusian expert and entrepreneurial society in order to promote and encourage SME development in Belarus. It outlines the following prior directions of business climate improvement:

- Defending property rights and developing market institutions;
- Taxes and tax administration;
- Licensing, certification, and permits;
- Audits, fines and penalties;
- Starting and closing a business;
- Access to information and government transparency.

In this issue of our quarter review we offer to your suggestion the first section of the Platforma.

Defending Property Rights and Developing Market Institutions

Protecting property rights of individuals and businesses remains the most important issue in the economic life of Belarus. The majority of the proposals made in 2007 Platform remained, unfortunately, unnoticed by the government. The most important positive step in this area was abolishing the institute of "golden share" on March 4, 2008.

The government created a series of incentives in the re-registration process. However, despite of this, the new procedures that were adopted threaten to eliminate tens of thousands of jobs.

- Banning the confiscation of property and goods without a court order. Transferring all business-related cases (including administrative customs violations) to the business courts. Adopting laws and regulations that restrict the scope of judicial decisions in confiscation cases heard in the general courts. Training judges in the general courts on business law and improving the quality of their decisions in this area.
- Adopting systemic legal measures to restore the protection of property owners, eliminating the mandatory

registration and declaration of prices, eliminating restrictions on maximum retail margins and profitability for companies of which the government is not a shareholder and that are not monopolies.

Development of Market Institutions:

- Adapting the tax and administrative burden to the size of the business. Minimizing government regulation, paperwork, and the tax burden for the smallest businesses. The burden on a large business should not squelch entrepreneurial activity or economic growth.
- Stimulating the development of a self-regulating market. Involving business associations in establishing rules and standards for market participants and in drafting legislation and rules regulating economic activity.
- Creating conditions to expand privatization and encourage domestic businesses to participate. Despite the complexity of the process of transforming property ownership, there is no alternative. An economy based on private property and private initiative produces the maximum results.
- Accelerating the development of a secondary market for corporate securities. Developing financial tools to reduce the cost of loan capital and investment risks for businesses. Adopting laws and regulations that allow commercial banks to appraise and accept commercial real estate in the form of land as collateral to secure the repayment of loans.
- Creating a system to fully integrate representatives of business and entrepreneurial associations into discussions on and implementation of state economic development programs and decisions concerning the economic development of industries, cities, regions and the country as a whole.
- Creating the conditions to develop alternative dispute resolution methods to handle disputes between businesses (arbitration panels in business associations, etc.).
- Eliminating planned targets for state agencies on fine collection, the num-

ber of citations issued, and the volume of confiscated goods.

- Adopting rules requiring that all payments for administrative procedures performed by governmental and other organizations go directly to the state budget.
- Eliminating the institution of the "golden share" and using it only if state sovereignty and national security are endangered.
- Creating an independent government body to regulate monopolies effectively and be subordinate directly to the President of Belarus;
- Make it possible to use the public's savings in a legal system of private capital (credit unions, trust funds, and other financial institutions and mechanisms).
- Repealing the ban on travel abroad for people who have indebtedness to the state in business-related administrative cases. No citizen should have his or her freedom of movement restricted except by lawful court order.
- Creating a real estate appraisal system based on international appraisal standards as an essential means of protecting property rights and attracting foreign investment.