BUSINESS IN BELARUS 2012

STATUS TRIENDS PERSPECTIVES



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Business in Belarus 2012: Status, Trends, Perspectives

Business in Belarus 2012: Status, Trends, Perspectives. The report discusses the economic situation of small and medium-sized enterprises (SMEs), and perspectives for their development in 2012. In particular, the report analyzes the impact of integration agreements with Russia and Kazakhstan on SMEs activities. It also focuses on how actively SMEs participate in the shadow economy, and on the role of SMEs support infrastructure. The *Appendix* contains the results of the survey on the issues connected to SMEs development in Belarus.

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1. INTRODUCTION

The potential for economic growth in Belarus has substantially decreased in recent years, as concluded by the authors of a number of recent studies carried out by international organizations (the World Bank, the IMF) and independent analytical research centers (e.g. the IPM Research Center). While the growth rate of potential GDP in the mid-2000s was 8% and even 10% per year, at the moment, according to the estimates made on the basis of different approaches, it does not exceed 4-4.5% and continues its gradual decline. The reasons for this lie in the economic policy that has been pursued since the early 2000s and has intensified in the last five years.

In simple terms, this policy can be described as follows. First, in 2003, after fixing the exchange rate of the Belarusian ruble against the U.S. dollar, and also allowing a relatively high (for such an exchange rate regime) inflation at the same time, the economic authorities condemned the national currency for a gradual strengthening in real terms. This definitely had a negative impact on the export potential, which immediately affected the rate of the economic growth.

Second, after setting a number of implicit and explicit targets (an average wage in dollars, putting new housing in operation, etc.), the economic authorities stimulated the demand for the corresponding imports through the necessary increase in wages and investment.

Third, to ensure orders for stateowned enterprises, the government actively procured manufactured products under a number of government programs, thereby not only stimulating imports of raw materials, but also undermining export incentives for state-owned enterprises. As a result of this policy, the contribution of exports to GDP sharply decreased, while of imports – increased. Moreover, the country began to accumulate external economic imbalances and finance them through external borrowing and the sale of some enterprises to foreign companies.

Ultimately, all this led to a currency crisis in 2011, which manifested itself in a sharp devaluation of the national currency (after a period of multiple exchange rates), the acceleration of inflation to three-digit figures and falling standards of living.

After the crisis, the economy began to recover gradually, but the growth rate was low, despite the significant subsidies in the form of low energy prices, access to the Russian market, as well as positive effects on exports of the devaluation of the national currency.

However, within the time elapsed since the unification of rates, the economic policy has remained almost unchanged. The only difference from the economic policies of previous years is a severe restriction of directed crediting for the economy, which contributed to a reduction in the domestic demand and, therefore, in imports.

As a result of these factors, the economic authorities managed to stabilize the foreign exchange market and to reduce inflation. However, the sources of growth, apparently, have not been reconsidered. It is planned to reach the level of precrisis housing construction and to significantly upgrade state-owned enterprises financed through the modified directed loans in 2013.

The answer to the question, whether the lesson learned from the last year's crisis was enough not to repeat past mistakes, is obvious: given the role of the state in the economy and the public sector share in it. the economy cannot generate growth sufficient for the catching-up development of the country. Meanwhile, in order to find "new" sources of growth, it is enough to turn to the example of the countries that have experienced economic transformation from a planned to market economy. Here, the private businesses, in general, and small and mediumsized enterprises, in particular, play a much greater role in the economy and, in fact, are the main drivers of growth, creating labor demand and providing a rising standard of living in the country.

A recent World Bank study found that the private sector in Belarus is significantly more efficient than the public sector, demonstrating higher levels of profitability and productivity. However, conditions for doing business, despite the improvements in recent years, remain difficult, slowing its progress. In addition, there are new difficulties arising: increased competition with Russian and Kazakhstan businesses, macroeconomic instability, a high cost of borrowings and other factors, which have recently appeared. Obviously, to unlock a full potential of small and medium-sized enterprises (SMEs) the economic authorities should step up efforts to improve the business environment, pursue predictable macroeconomic policies and to support businesses in this sector.

The development of new small businesses is of particular relevance, because it is associated with labor market adjustment to changing

economic conditions. Regardless of whether reforms will be initiated in Belarus or not, we should expect a release of the labor force in the public sector (in fact, this has already been the case for over a year). As the experience of neighboring countries and Belarus itself shows (mid-1990s), it is these businesses that become major recipients of workers from the public sector, allowing a more efficient use of available human resources.

An alternative to the employment in the new private sector is unemployment and labor migration. The first leads to poverty, while the latter is in a position to overcome it, but it undermines a long-term potential of the country and increases its vulnerability to external shocks. Therefore, the development of the private sector, including the SME sector, is not only a growth factor, but also a guarantee of the solution of social problems arising from restructuring or the lack of reform.

This edition of the annual report "Business in Belarus: Status, Trends and Perspectives" touches upon the issues of conditions and performance of small and medium-sized enterprises in Belarus in 2011–2012. It has the following structure. The second section analyzes the situation of SMEs in 2011 and prospects for their development in 2012. The third section is devoted to the prospects of SMEs in the integration of Belarus into the Customs Union and the Common Economic Space. The fourth section describes the relationship between businesses and the corruption and shadow sector in Belarus. The fifth section presents an analysis of the effectiveness of the infrastructure to support small and medium businesses in Belarus in 2011.

The report is prepared by I. Pelipas, A. Skriba, A. Chubrik, and G. Shymanovich. The authors would like to thank each and all, who took part in the research and round tables, facilitating constructive discussion on the Belarusian entrepreneurship

development and promotion issues. The gratitude is expressed to the Laboratory of axiometrical research laboratory NOVAK for holding the survey of small and medium-sized enterprises. The authors are particularly grateful to Yaroslav Romanchuk, Head of the Scientific Research Mises Center, and Vladimir Karyagin, Chairman of Minsk Capital Union of Entrepreneurs and Employers. Special thanks also go to Elena Suhir (the Eastern Europe and Eurasia/Central Asia Program Manager, Center for International Private Enterprise (CIPE), USA) for her invaluable contribution to the free entrepreneurship development in Belarus.



2. ECONOMIC SITUATION OF SMALL **AND MEDIUM-SIZED ENTERPRISES IN 2011**

In 2011, small and medium businesses in Belarus experienced a number of economic difficulties caused by external factors beyond their control. In particular, this applies to the inflation, which amounted to 108.7% at the end of 2011, and the devaluation of the national currency. For example, while the official exchange rate of the Belarusian ruble to the U.S. dollar was 3,000 in 2010 (average per annum – 2,978). by the end of 2011, this figure reached 8,350 (average per annum - 4,623).

These events, in spite of some positive effect on export-oriented enterprises, were accompanied by a significant reduction in the demand in the domestic market, the decreased purchasing power of the population and the scarcity of foreign exchange. Raising the refinancing rate to 45% at the end of 2011 marked unfavorable conditions for access to crediting for companies, which resulted in reduced opportunities for their actual development.

This led to the development of extremely unfavorable conditions for doing business in 2011, which was declared the "Year of Entrepreneurship"1. This section

¹ In accordance with the Decree of the Presi-

dent of the Republic of Belarus of February

held among Belarusian small and medium-sized enterprises (SMEs) on the conditions of doing business, their financial position in the last period, and the response to the events in the economic life of the country.

2.1. Small and medium-sized enterprises in the economy of Belarus

Small and medium businesses are defined in accordance with a number of the criteria as specified by the Law of the Republic of Belarus of July 1, 2010, No. 148-3 "On the Support to Small and Medium businesses":

- small businesses comprise individual entrepreneurs registered in the Republic of Belarus;
- microbusinesses are enterprises. registered in the Republic of Belarus, with an average number of employees of up to and including 15 in a calendar year;
- small organizations are enterprises, registered in the Republic of Belarus, with an average number of employees 16 to 100 in a calendar year;
- medium businesses refer to enterprises, registered in the Republic of Belarus, with an average number of employees from 101 to 250 including in a calendar year.

According to the National Statistical Committee of the Republic of Belarus, the trend towards the increasing number of small and medium businesses continued in 2011, and their total number reached 91,277, hav-

6% - catering and consumer services, 4.5% computer services sector, 3.8% - tourism, 9.2% - other sectors.

ing increased compared with 2010. The number of micro- and small enterprises increased by 5.36% (of which the number of those operating in 2011 increased by 4.5%), while the number of medium-sized enterprises decreased slightly and reached 94.6% compared to 2010. The number of individual entrepreneurs (IE) also decreased. As of January 1, 2012, there were 219,285 IEs in the Republic of Belarus (in 2011 - 231,834, having decreased by 5.4%).

In 2011, the share of Belarusian SMEs in the GDP increased again and reached 22.9% (in 2010 -19.8%). Micro-enterprises account for 4.9% in the national GDP (an increase of 1.2 percentage points compared with the results in 2010), small enterprises - 8% (growth of 0.9 percentage points), mediumsized enterprises - 9.7% (growth of 0.1 percentage points). The Ministry of Economy of the Republic of Belarus sees an increase in this index as one of the objectives for the next few years, suggesting that it will be at least 30% by 2015.

Traditionally Belarusian small and medium businesses are located primarily in Minsk (22.8%) and in the Minsk region (17.5%), with the fewest number of Belarusian SMEs located in the Grodno region (8.1%). Individual entrepreneurs have a similar trend: the greatest number of them is located in Minsk (25%), while the fewest number of entrepreneurs is located in the Mogilev region (9.7%). The Decree "On Stimulation of Entrepreneurial Activity in Medium-Sized and Small Towns, and Rural Areas" drafted in 2011 and adopted on May 7, 2012, is aimed at the adjustment of the situation, providing certain tax benefits

presents the results of the survey2

² The survey was held by the Laboratory of axiometrical research laboratory NOVAK in April 2012, 400 small and medium-sized enterprises of the Republic of Belarus were surveyed on the aspects of the economic situation of enterprises, the business environment in Belarus, the effects of the financial crisis, the attitude to Belarus' accession to the Customs Union, corruption and business associations. Distribution of SMEs by fields of activity was the following: 29% - trade, 17.8% - industry, 14.5% - construction, 9.2% - transport and communications, and

to entrepreneurs operating outside of urban areas.

The greatest number of micro- and small enterprises focus on trade, repair of vehicles, household goods and personal goods, followed by manufacturing, real estate, renting and services to consumers, construction, transport and communications. Distribution of medium-sized enterprises by sectors of the Belarusian economy is more balanced and shows a slightly different picture. Most of these enterprises operate in agriculture, hunting and forestry, followed by manufacturing, construction, trade, repair of motor vehicles, household and personal goods, real estate, renting and consumer services (Table 2.1).

According to the survey, Belarusian SMEs are distributed by the following types: trade, catering, manufacture, construction, transport and communications, consumer services, consulting services, education, it services, tourism, advertising, publishing, real estate, etc. (Table 2.2).

Unitary enterprises make the largest number of the respondents, while closed joint stock companies and cooperatives – the fewest number. Other statistics on the legal form of small and medium businesses, as well as distribution of companies according to the year of foundation and the number of employees, are given in Table 2.3.

The second trend in 2011 marked the decreased purchasing power in the domestic market due to the financial crisis and the devaluation of the national currency, which resulted in the three-digit inflation, increased macroeconomic instability, raised refinancing rate and etc. The decreased purchasing power of the population amid the growing number of small and medium businesses led to a further increase in the level of competition. This is supported by the results of the survey (Table 2.4), proving an increasing competition in the small and medium-sized business environment.

Table 2.1. Share of Belarusian SMEs by types of economic activity, 2010-2011

	Micro a	and small	Mediu	m-sized
	enterp	rises, %	enterp	rises, %
	2010	2011	2010	2011
Agriculture, hunting and forestry	3.0	3.4	28.7	29.1
Manufacturing	15.3	15.5	22.5	22.6
Construction	8.8	9.3	16.4	15.7
Trade; repair of motor vehicles and household and personal goods	43.0	41.5	11.1	11.1
Transport and communications	9.4	9.2	5.4	4.9
Real estate, rental, leasing and business services	11.7	12.3	8.1	8.4
Utility, social and personal services Others	4.4 4.4	4.3 4.5	3.0 4.8	3.3 4.9
Total	100.0	100.0	100.0	100.0

Source: National Statistical Committee of the Republic of Belarus.

Table 2.2. Belarusian SMEs distribution by types of activity, 2011

	Number	%
Trade	116	29.0
Catering	24	6.0
Manufacturing	71	17.8
Construction	58	14.5
Transport and communications	37	9.2
Consumer services	24	6.0
Consulting services	2	0.5
Education	2	0.5
IT services	18	4.5
Tourism	15	3.8
Advertising	9	2.2
Publishing	7	1.8
Real estate	12	3.0
Others	5	1.2
Total	400	100.0

Source: IPM Research Center.

Table 2.3. Distribution of SMEs in Belarus by the legal structure, number of employees and the year of company's foundation

Dunitary enterprise (UE) 160 40.0		Number	%
Unitary enterprise (UE) 160 40.0 Limited liability company (LLC) 93 23.2 Additional liability company (ALC) 63 15.8 Open joint-stock company (OJSC) 56 14.0 Closed joint-stock company (CJSC) 10 2.5 Production cooperative (PC) 3 0.8 Other 15 3.8 Total 400 100.0 Number of employees From 1 to 10 125 31.2 From 11 to 50 132 33.0 From 51 to 100 54 13.5 From 101 to 200 37 9.2 Over 200 52 13.0 Total 400 100.0 Year of foundation Before 1996 110 27.5 1997–2004 112 28.0 2005–2007 72 18.0 2008–2010 87 21.8 2011 14 3.5	Business legal structure		
Limited liability company (LLC) 93 23.2 Additional liability company (ALC) 63 15.8 Open joint-stock company (OJSC) 56 14.0 Closed joint-stock company (CJSC) 10 2.5 Production cooperative (PC) 3 0.8 Other 15 3.8 Total 400 100.0 Number of employees From 1 to 10 125 31.2 From 11 to 50 132 33.0 From 51 to 100 54 13.5 From 101 to 200 37 9.2 Over 200 52 13.0 Total 400 100.0 Year of foundation Before 1996 110 27.5 1997–2004 112 28.0 2005–2007 72 18.0 2008–2010 87 21.8 2011 14 3.5			40.0
Open joint-stock company (OJSC) 56 14.0 Closed joint-stock company (CJSC) 10 2.5 Production cooperative (PC) 3 0.8 Other 15 3.8 Total 400 100.0 Number of employees From 1 to 10 125 31.2 From 11 to 50 132 33.0 From 51 to 100 54 13.5 From 101 to 200 37 9.2 Over 200 52 13.0 Total 400 100.0 Year of foundation Before 1996 110 27.5 1997–2004 112 28.0 2005–2007 72 18.0 2008–2010 87 21.8 2011 14 3.5		93	23.2
Closed joint-stock company (CJSC) 10 2.5 Production cooperative (PC) 3 0.8 Other 15 3.8 Total 400 100.0 Number of employees From 1 to 10 125 31.2 From 11 to 50 132 33.0 From 51 to 100 54 13.5 From 101 to 200 37 9.2 Over 200 52 13.0 Total 400 100.0 Year of foundation Before 1996 110 27.5 1997–2004 112 28.0 2005–2007 72 18.0 2008–2010 87 21.8 2011 14 3.5	Additional liability company (ALC)	63	15.8
Production cooperative (PĆ) 3 0.8 Other 15 3.8 Total 400 100.0 Number of employees From 1 to 10 125 31.2 From 11 to 50 132 33.0 From 51 to 100 54 13.5 From 101 to 200 37 9.2 Over 200 52 13.0 Total 400 100.0 Year of foundation Before 1996 110 27.5 1997–2004 112 28.0 2005–2007 72 18.0 2008–2010 87 21.8 2011 14 3.5	Open joint-stock company (OJSC)	56	14.0
Other Total 15 400 3.8 400 Number of employees From 1 to 10 125 31.2 From 11 to 50 132 33.0 From 51 to 100 54 13.5 From 101 to 200 37 9.2 Over 200 52 13.0 Total 400 100.0 Year of foundation Before 1996 110 27.5 1997–2004 112 28.0 2005–2007 72 18.0 2008–2010 87 21.8 2011 14 3.5	Closed joint-stock company (CJSC)	10	2.5
Total 400 100.0 Number of employees From 1 to 10 125 31.2 From 11 to 50 132 33.0 From 51 to 100 54 13.5 From 101 to 200 37 9.2 Over 200 52 13.0 Total 400 100.0 Year of foundation Before 1996 110 27.5 1997–2004 112 28.0 2005–2007 72 18.0 2008–2010 87 21.8 2011 14 3.5	Production cooperative (PC)	3	8.0
Number of employees 125 31.2	Other	15	3.8
From 1 to 10 125 31.2 From 11 to 50 132 33.0 From 51 to 100 54 13.5 From 101 to 200 37 9.2 Over 200 52 13.0 Total 400 100.0 Year of foundation Before 1996 110 27.5 1997–2004 112 28.0 2005–2007 72 18.0 2008–2010 87 21.8 2011 14 3.5	Total	400	100.0
From 11 to 50 132 33.0 From 51 to 100 54 13.5 From 101 to 200 37 9.2 Over 200 52 13.0 Total 400 100.0 Year of foundation Before 1996 110 27.5 1997–2004 112 28.0 2005–2007 72 18.0 2008–2010 87 21.8 2011 14 3.5	Number of employees		
From 51 to 100 54 13.5 From 101 to 200 37 9.2 Over 200 52 13.0 Total 400 100.0		125	31.2
From 101 to 200 37 9.2 Over 200 52 13.0 Total 400 100.0	From 11 to 50	132	33.0
Over 200 52 13.0 Total 400 100.0 Year of foundation Before 1996 110 27.5 1997–2004 112 28.0 2005–2007 72 18.0 2008–2010 87 21.8 2011 14 3.5	From 51 to 100	54	13.5
Total 400 100.0 Year of foundation Before 1996 110 27.5 1997–2004 112 28.0 2005–2007 72 18.0 2008–2010 87 21.8 2011 14 3.5	From 101 to 200	37	9.2
Year of foundation Before 1996 110 27.5 1997–2004 112 28.0 2005–2007 72 18.0 2008–2010 87 21.8 2011 14 3.5	Over 200	52	13.0
Before 1996 110 27.5 1997–2004 112 28.0 2005–2007 72 18.0 2008–2010 87 21.8 2011 14 3.5		400	100.0
1997–2004 112 28.0 2005–2007 72 18.0 2008–2010 87 21.8 2011 14 3.5	Year of foundation		
2005–2007 72 18.0 2008–2010 87 21.8 2011 14 3.5		110	27.5
2008–2010 87 21.8 2011 14 3.5		112	
2011 14 3.5	2005–2007	72	18.0
		87	21.8
Total 400 100.0			
	Total	400	100.0

Source: IPM Research Center.

Table 2.4. Distribution of responses to the question "How did the competition in the market change in the last three years?"

	Number	%
Increased	268	67
Remained the same	108	27
Decreased	24	6
Total	400	100

Source: IPM Research Center.



Table 2.5. Distribution of responses to the question "How did changes in the business environment affect your business activity over the last year?", %

	Significant worsening			N	No changes			Significant improvement			NA NA	
	-5	-4	-3	-2	-1	0	1	2	3	4	5	INA
Business registration	0.0	1.2	2.0	4.8	5.8	35.8	2.5	4.5	4.5	1.8	4.5	32.8
Obtaining various permits	8.0	2.2	6.0	9.0	7.8	29.5	8.0	5.8	4.2	3.0	2.8	21.0
Administrative procedures	1.0	1.8	6.2	10.8	9.8	29.0	7.5	5.8	3.5	3.5	1.2	20.0
Number of inspections	2.0	1.5	8.0	11.8	9.5	34.8	7.0	8.0	2.8	1.2	2.0	11.5
Penalties amount	5.8	6.8	10.5	13.5	12.2	26.5	3.8	3.2	1.5	1.0	8.0	14.5
Rent payment	17.0	10.2	16.5	11.0	7.2	20.8	3.2	3.0	1.0	0.5	1.0	8.5
Pricing	9.0	7.8	12.5	13.5	11.0	21.2	4.2	3.5	3.2	2.2	1.5	10.2
Tax burden	4.0	6.8	11.0	16.5	12.2	25.8	5.2	5.2	1.5	0.5	0.5	10.8
Time required for tax calculation and payment	1.8	2.2	5.0	8.8	13.2	38.2	7.5	3.5	3.8	1.5	8.0	13.8
Credit accessibility	16.2	7.2	7.5	5.2	6.5	26.2	5.0	3.0	2.2	0.8	2.0	18.0
Ease of foreign trade operations	4.5	3.2	7.2	7.8	3.8	31.5	5.2	4.8	1.5	1.0	0.5	29.0
Wage calculation	0.0	8.0	5.0	4.2	6.5	48.5	9.0	7.2	5.0	2.8	8.0	10.2
Cost and complexity of auction and tender processes	2.8	0.5	4.2	6.8	5.0	35.5	4.5	3.5	1.8	0.5	0.5	34.5
Property rights protection	1.5	1.5	2.8	5.0	5.0	44.0	6.2	5.0	1.0	0.2	0.2	27.5

Note. "-5" - the situation deteriorated significantly; "0" - remained the same; "5" - improved significantly.

Source: IPM Research Center.

Table 2.6. Distribution of responses to the question "Please assess your company's performance in 2011."

	Decreased	%	Remained the same	%	Increased	%
Turnover (sales volume)	177	44.2	139	34.8	73	18.2
Profit	192	48.0	135	33.8	65	16.2
Employment	122	30.5	222	55.5	44	11.0
Investments	131	32.8	156	39.0	36	9.0

Source: IPM Research Center.

Thus, by the end of 2011, the increased competition among Belarusian SMEs led to the growth in the number of small and medium businesses in Belarus and the destabilization of the macroeconomic situation in general and the financial sector in particular.

2.2. Changes in the business environment and performance of Belarusian SMEs in 2011

The main negative changes in the business environment in 2011 included "rent payment", "pricing", "tax burden", and "credit accessibility" (Table 2.5). Excluding the option "NA/don't know", the worsening of the situation was confirmed by 67.7%, 60%, 56.6% and 52.1% of the respondents, respectively, while the improvement of the situation was confirmed by 9.5%, 16.3%, 14.5% and 15.9% of the respondents who answered this question.

The results showed that the adjusted business conditions in the Republic of Belarus in 2011 had a negative effect on the turnover (sales) of businesses, their profits, employment and investment. On the whole. that year saw a decrease in most of domestic SMEs' parameters, with the exception of employment, which remained stable in more than half of the cases (Table 2.6). First of all, we should point out a significant drop in turnover and profits (in 44.2% and 48% of cases, respectively). The growth of these parameters was reported by less than 20% respondents.

It is noteworthy that, despite a relatively good economic situation of SMEs operating in trade and public catering, these sectors have the highest reduction in turnover and profits – in 53.4% and 58.6% of cases, respectively (Figure 2.1–2.2). The lowest number of the respondents who noted the increase in these parameters includes those operating in construction (8.6%).

2.3. Economic situation of Belarusian SMEs

The above results of the performance of domestic SMEs in 2011 influenced the current economic situation of the Belarusian representatives of small and medium businesses, which rated it as mostly "steady" (56.2%) or "below the average" (29%) (Table 2.7). Overall, 35% of the respondents noted negative trends of the economic situation at their enterprises and only 8.8% mentioned some positive features.

Broken down by the company's type of activity of enterprises, the steadiest SMEs were those operating in transport and communications, trade and public catering (Figure 2.3). Here, the share of enterprises whose economic situation was marked as "bad" or "below average" was 27%, 32.7% and 25%, respectively. In the construction sector, on the one hand, the economic situation was stated as "bad" in one way or another by 41.3% of the respondents. On the other hand, 6.9% of the representatives of Belarusian SMEs in this sector pointed out a "good" economic situation of enterprises, which is slightly above the average. However, in general, the differences in all these sectors can be characterized as minor.

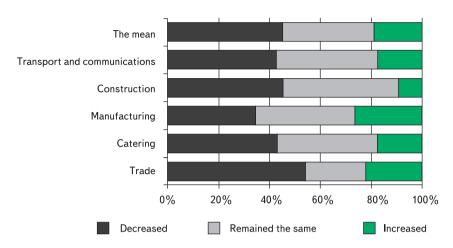
The smallest firms (micro-enterprises) with the number of employees of up to 10 people considered the situation of their enterprises as the most difficult (Figure 2.4), describing it as "poor" in 11.2% of cases (with the mean of 6%). Most often, the economic situation of SMEs was defined as "good" by respondents from companies emploving between 51 and 100 people and from 101 to 200 people - in 11.1% and 10.8% of cases (with the average for the country -5%). The analysis of the economic situation of the company in terms of the company's foundation year did not allow identifying some clear trends Figure 2.5.). It can only be noted that none of the companies established in 2011 described their economic situation as "bad".

Overall, more than a half of the surveyed small and medium businesses reported the deteriorating economic situation of their companies according to the results of their performance in 2011 (Table 2.8). A significant deterioration of the situation was noted by 14.5% of the respondents, while a significant improvement – by only 1.8% (5.7% - in 2010). Compared with the results of 2010, the number of the respondents, who stated the economic improvement of their business, reduced almost by twice by the beginning of 2012. 31.5% of the respondents reported no change, which matched well the data in 2010 - 31.9%.

As before, the most significant deterioration of the economic situation of businesses was registered in the construction sector, where the negative trend was noted by 62% of the representatives of Belarusian SMEs (Figure 2.6). For comparison, such trends in transport and communications were identified by 43.2% of the respondents. A significant improvement in the economic situation was stated only by the representatives of some individual firms in trade.

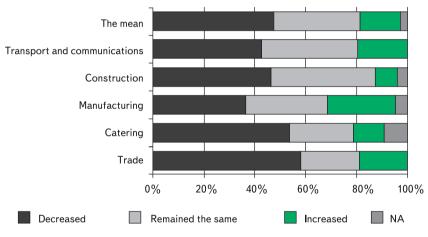
Based on the above, we can conclude that small and medium businesses

Figure 2.1. Distribution of responses to the question "Please assess your company's performance in 2011" by the parameter *Turnover* (sales *volume*) broken down by the company's type of activity.



Source: IPM Research Center.

Figure 2.2. Distribution of responses to the question "Please assesses your company's performance in 2011" by the parameter *Profit* broken down by the company's type of activity.



Source: IPM Research Center.

Table 2.7. Distribution of responses to the question "What is the current economic situation in your company?"

	Number	%
Bad	24	6.0
Below average	116	29.0
Steady	225	56.2
Above average	15	3.8
Good	20	5.0
Total	400	100.0

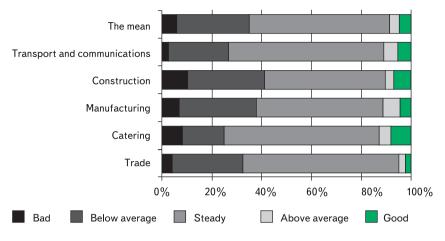
Source: IPM Research Center.

Table 2.8. Distribution of responses to the question "How did the economic situation in your company change over the last year?"

	Number	%
Significantly worsened	58	14.5
Slightly worsened	147	36.8
Remained the same	126	31.5
Slightly improved	60	15.0
Significantly improved	7	1.8
NA/don't know	2	0.5
Total	400	100.0

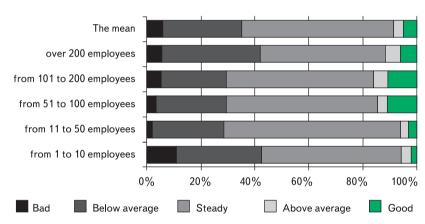
Source: IPM Research Center.

Figure 2.3. Distribution of responses to the question "What is the current economic situation in your company?" broken down by the company's type of activity



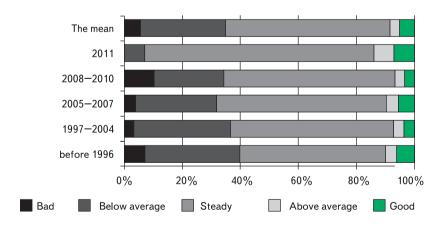
Source: IPM Research Center.

Figure 2.4. Distribution of responses to the question "What is the current economic situation in your company?" broken down by the number of employees in the company



Source: IPM Research Center.

Figure 2.5. Distribution of responses to the question "What is the current economic situation in your company?" broken down by the company's foundation date



Source: IPM Research Center.

in all sectors of the economy keep experiencing certain difficulties arising from the events in 2011. Overall, it can be noted that a comparatively better situation of Belarusian SMEs was observed in trade and catering. The most unfavorable situation was in the construction sector.

2.4. Factors for successful business

Success factors for doing business can be divided into *internal* (dependent on the company itself, its current economic performance and internal organization) and *external* (dependent on the current legislation, the state of the market and independent of the company circumstances).

The *internal factors* include the following: the presence / absence of the team, the level of professionalism of managers, the presence / absence of the practice of delegating authority by senior managers to lower-level managers / staff, reducing centralization in decision-making, market knowledge, the ability to anticipate market conditions, the ability to produce competitive products, relations with the authorities and opinion leaders, the level of knowledge of the legislation and the ability to defend their case.

In some studies, these factors are also referred to as *internal factors* of competitiveness. As pointed out by Elena Artemenko in the study "Internal Factors of Competitiveness in Belarusian Business", the results of focus groups with representatives of Belarusian companies on the significance of these factors for their businesses show some differences compared with the results of the study "Private Business in Belarus: the External and Internal Factors of Development" published in 2007³.

For instance, while the 2007 study reveals financial difficulties (lack of funds for development, lack of working capital, high costs) as the

³ See E.Artemenko [Артеменко, Е. (2012). Внутренние факторы конкуренто-способности белорусского бизнеса, Исследовательский центр ИПМ, дискуссионный материал, PDP/12/03] (http://www.research.by/webroot/delivery/files/pdp2012г03.pdf); Р. Коzarzhevskiy, Е. Rakova [Козаржевский, П., Ракова, Е. (2007). Частный бизнес Беларуси: внешние и внутренние факторы развития, Минск, Исследовательский центр ИПМ]. (http://www.research.by/webroot/delivery/files/books/businessby2007r.pdf).

main internal impediments, these factors are not identified as significant in the study conducted by Elena Artemenko. "To date, among the main factors for the development of SMEs, the less important are those identified as most important by the results of the previous study: longterm customer relationships, and personal approach to customers. Employers also do not count on the team and staff qualifications. However, other factors, i.e. efficient management, comprehensive customer service, market knowledge, ability to anticipate market conditions, the ability to produce competitive products, organized system of sales, a high professional level of managers and availability of technology, are determined as significant based on the results of both studies. Overall, this suggests that entrepreneurs see the increasing role of external and structural factors that are beyond their control."

In other words, in the context of the economic imbalances in 2011 that affected the business environment, the impact of internal factors on the activities of domestic small and medium-sized enterprises was insignificant amid the external factors, which included the following: the level of competition in the market, the availability of support from the state, the conditions of activities compared with the public sector, the level of protection of property rights and interests of private business;

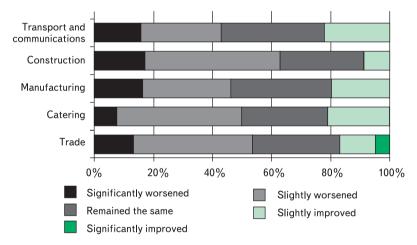
the level of corruption, currency regulation, tax regulation and tax rates, rental rates, the system of inspections and penalties, the cost of borrowing, and the economic policies of other countries.

In the survey of the IPM Research Center conducted in April 2012, the representatives of domestic small and medium businesses were asked to identify which external (beyond the company's control) factors contribute to successful business and to what extent (Table 2.9). A positive impact on the business is made by the state support (average indicator – 1.02) and the level of protection of property rights and interests of the private sector (0.52). However,

in terms of the domestic financial crisis, despite the openness of the Belarusian economy, such factors as "economic policies of other countries" had little impact on the business environment in comparison with other factors.

An adverse impact on successful doing business in 2011 was made by the following factors: the level of competition in the market (average indicator –0.75), the level of corruption (–0.91), foreign exchange regulation (–0.91), tax regulations and tax rates (–0.77), a system of inspections and penalties (–1.31), rates on loans of banks and other financial institutions (–1.43). The negative impact on the business was

Figure 2.6. Distribution of responses to the question "How did the economic situation in your company change over the last year?" broken down by the company's type of activity



Source: IPM Research Center.

Table 2.9. Distribution of responses to the question "What external factors (not dependent on your company) affect your successful doing business?"

	-5	-4	-3	-2	-1	0	1	2	3	4	5	Mean
Level of competition in the market	17.0	8.8	12.2	10.2	6.2	13.5	2.8	6.0	6.2	4.8	11.2	-0.75
State support	3.2	0.2	3.5	4.0	4.8	36.2	7.2	12.8	8.5	5.8	12.2	1.02
Business environment in comparison to public sector	4.8	3.0	5.2	8.2	7.0	40.8	5.2	10.5	6.5	4.8	3.5	0.07
Level of property rights and private business interests protection	3.5	1.0	4.8	5.2	6.8	38.5	10.5	7.8	7.5	5.2	7.2	0.52
Corruption level	7.0	3.8	11.8	14.2	6.5	41.8	6.0	2.5	2.5	0.2	2.0	-0.91
Foreign exchange regulation	13.8	6.2	8.8	10.0	7.8	31.5	5.5	3.8	4.0	3.0	4.0	-0.91
Tax regulation and tax rates	7.0	7.2	10.2	17.0	10.5	23.5	6.2	5.5	4.8	2.0	4.5	-0.77
Rent rates	21.5	8.2	13.2	13.2	5.0	22.5	2.0	4.2	3.5	2.0	3.2	-1.67
System of inspections and penalties	12.0	7.8	13.0	15.5	12.0	24.0	3.8	3.0	2.5	3.8	2.0	-1.31
Rates on banks' and other financial institutions' loans	17.8	10.2	8.0	11.0	6.8	30.5	3.8	4.2	3.2	1.0	2.8	-1.43
Economic policy of other countries	2.8	1.0	4.0	7.8	7.0	58.8	5.0	4.5	3.0	1.5	3.2	-0.08

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

Source: IPM Research Center.



Table 2.10. Distribution of responses to the question "How important are the following goals for your company at the moment?", %

	1	2	3	4	5	NA	Total
Expansion, business development	5.8	4.8	16.8	18.8	48.0	6.0	100.0
Preservation of the level achieved	1.5	5.0	10.8	18.8	59.2	4.8	100.0
Survival	18.5	6.8	18.2	11.8	35.2	9.5	100.0

Note. "1" - of no importance, "5" - very important.

Source: IPM Research Center.

Table 2.11. Distribution of responses to the question "What are the opportunities for your business development in 2012?"

	Number	%
A more rational approach to the use of financial resources	221	55.2
Search for new business models/solutions, taking bolder solutions	247	61.8
Qualified labor force hired at a lower cost	110	27.5
Withdrawal of competitors from the market	123	30.8
Modernization of production facilities	132	33.0
Increased use of give and take schemes and subcontracts	30	7.5
Access simplification to financial resources	84	21.0
Other	5	1.2
NA/don't know	4	1.0

Note. It was offered to choose not more than five options.

Source: IPM Research Center.

also made by rents (-1.67). The latter is due to the fact that the private sector rental rate is "pegged" to a foreign currency; therefore, it significantly increased after the devaluation of the Belarusian ruble in 2011. The results of the survey were also affected negatively by the increase of the base value of BYR 35,000 to 100,000 on April 1, 2012, which served as a baseline for the rental rate for state-owned premises.

2.5. Prospects for development of Belarusian SMEs in 2012

Economic hardships and worsened performance of small and medium businesses raised the issue about the prospects for development of Belarusian small and medium-sized enterprises in 2012. On the one hand, these prospects will continue to be under the influence of the events of 2011 (a high rate of inflation, the decline in the purchasing power of the population, high rates of bank loans, etc.). On the other hand, the growth of the Belarusian economy in the first months of 2012 shows a gradual improvement in the macroeconomic situation, which will have a positive impact on the situation of Belarusian SMEs and the business environment.

Rates of the purchasing power recovery will continue to limit the ability to buy imported goods, but it will increase the sales of domestic products. The latter will also have a different impact on the economic development of companies in various sectors, facilitating the growth of turnover of manufacturers and restraining the economic development of import-oriented companies. In case of a rapid increase in the domestic purchasing power, it can accelerate the growth and economic performance of enterprises in trade, as well as in other industries focused on meeting domestic demand.

In the course of the survey, the representatives of SMEs identified preservation of their achieved level of business development as the most urgent goal (Table 2.10). The fact that this goal is very important was confirmed by 59.2% of the respondents. For comparison, the importance of expansion and business development was stated by 48% of the respondents. It must be noted that more than a third of small and medium businesses mentioned

their survival as a top-priority goal for their businesses in 2012.

As for the options for the development of small and medium businesses in 2012, as given in the survey, the representatives of Belarusian SMEs most often mentioned "the search for new business models, and taking bolder solutions" (Table 2.11). This option was chosen by 61.8% of the respondents. It is noteworthy that the option "the search for new business models", among other things, can mean either a withdrawal from the market of Belarus (termination of activities), or re-registration of the company in the member of the Customs Union and the Common Economic Space (Russia or Kazakhstan) and the continuation of the business activity.

More than a half of the respondents mentioned such a source of development as "a more rational approach to the use of financial resources" (55.2%). Almost a third of the respondents (30.8%) saw an opportunity to develop their businesses provided their competitors withdraw from the Belarusian market. In addition, 21% of the respondents expect better conditions of doing business, in general, and easier access to financial resources, in particular.

Representatives of small and medium-sized enterprises operating in the field of trade, catering, transport and communications, saw "the search for new business models and taking bolder solutions" as the main potential for development in 2012 (Table 2.12). Equally important to the trade and mainly for the manufacturing and construction is a more rational approach to the use of financial resources. An opportunity to modernize production facilities appears to be the main opportunity for business development in manufacturing in 2012.

The choice of this or that opportunity for potential development of small and medium businesses in 2012 also depends on the size of the enterprise, i.e. on the number of employees in the company. For

Table 2.12. Distribution of responses to the question "What are the opportunities for your business development in 2012?" broken down by the company's type of activity, %

	Trade	Catering	Manufacturing	Construction	Transport and communications
A more rational approach to the use of financial resources	58.6	50.0	59.2	65.5	37.8
Search for new business models/solutions, taking bolder solutions	65.5	50.0	56.3	51.7	51.4
Qualified labor force hired at a lower cost	27.6	45.8	18.3	41.4	35.1
Withdrawal of competitors from the market	33.6	41.7	23.9	31.0	29.7
Modernization of production facilities	22.4	33.3	59.2	36.2	40.5
Increased use of give and take schemes and subcontracts	9.5	8.3	14.1	6.9	2.7
Access simplification to financial resources	21.6	25.0	19.7	19.0	35.1

Note. It was offered to choose not more than five options.

Source: IPM Research Center.

Table 2.13. Distribution of responses to the question "What are the opportunities for your business development in 2012?" broken down by the number of employees in the company, %

	From 1 to 10	From 11 to 50	From 51 to 100	From 101 to 200	Over 200
A more rational approach to the use of financial resources	52.8	50.8	55.6	67.6	63.5
Search for new business models/solutions, taking bolder solutions	70.4	62.9	50.0	48.6	59.6
Qualified labor force hired at a lower cost	25.6	28.8	37.0	18.9	25.0
Withdrawal of competitors from the market	35.2	32.6	33.3	29.7	13.5
Modernization of production facilities	18.4	33.3	40.7	40.5	53.8
Increased use of give and take schemes and subcontracts	1.6	6.8	7.4	13.5	19.2
Access simplification to financial resources	21.6	27.3	14.8	16.2	13.5

Note. It was offered to choose not more than five options.

Source: IPM Research Center.

Table 2.14. Distribution of responses to the question "What is your forecast for your company's performance in 2012?"

	Will decrease	%	Will remain steady	%	Will increase	%	NA	%
Turnover (sales volume)	69	17.2	178	44.5	123	30.8	30	7.5
Profit	73	18.2	167	41.8	130	32.5	30	7.5
Employment	53	13.2	231	57.8	83	20.8	33	8.2
Investments	69	17.2	155	38.8	78	19.5	98	24.5

Source: IPM Research Center.

instance, small firms (with a workforce of 1 to 10 people and from 11 to 50 people) see the search for new business models and adoption of bolder solutions as the main way of development (Table 2.13). The withdrawal of competitors from the market is also important for the respondents of these companies; the need for this for the sake of their business further development was stated by 35.2% and 32.6% of the respondents, respectively. In turn, representatives of larger companies (employing more than 50 people) see a more rational approach to the use of financial resources as the main factor of their business development.

The forecasts regarding the performance of their companies in 2012,

as provided by the Belarusian representatives of small and medium businesses, can be described as cautiously optimistic. The results of the survey showed that in respect of the turnover, profits, employment and investment the respondents more often assume their growth, rather than their decline (Table 2.14). However, at the same time, many respondents found it difficult to predict their future activities. Moreover, about a quarter of the respondents were unable to answer the question relating to investment.

2.6. Key findings

The presented results of the survey suggest a serious negative impact of the economic situation in the country

on the financial condition of domestic SMEs in 2011. These circumstances, in particular, were the reason for the decline of some economic indicators of Belarusian companies (in terms of the turnover and profit) and resulted in their unenthusiastic forecasts for their business development trends in 2012. These events had the greatest impact on the small firms with a workforce of less than 50 people, and also on the companies operating in the construction sector.

Financial instability and deterioration in the business environment (external factors of competitiveness of enterprises) reduced the economic potential of many Belarusian SMEs, while the competition in the domestic market of Belarus continued to increase. As a result, Belarusian



small and medium businesses see the search for new business models, at the same time relying on the withdrawal from the market of their competitors, as the key for their further development. This conclusion mainly concerns SMEs with fewer than 50 people in the workforce, while larger companies see a more rational approach to the use of financial resources as the main opportunity for their development. At the same time, if the first are more likely to focus on facilitation of access to financial resources, the latter focus on the increased use of give and take schemes and subcontracts.

In general, the events of 2011 had a controversial effect on the forecasts for the development of Belarusian SMEs in 2012. On the one hand, there remains certain skepticism about the business environment and prospects for companies amid continuing economic risks associated with both the internal causes (at the enterprise level) and external circumstances (economic policy of the country, integration processes, etc.). On the other hand, the statistical data reflecting the growth of the Belarusian economy suggest that the 2011 crisis effects have hit the "bottom", and, therefore, a further decline in the performance of small and medium businesses in 2012 seems to be unlikely.

3. PROSPECTS FOR INTEGRATION IN THE FRAMEWORK OF THE CUSTOMS UNION AND THE COMMON ECONOMIC SPACE AS ASSESSED BY SMES

3.1. Integration agreements

The Customs Code of the Customs Union (CU) of Belarus, Kazakhstan and Russia came into force on July 6, 2010. From 1 January 2011, the Code has been governing the rules of collection of customs duties from legal entities and from July 1, 2011 – from all business entities, including individuals (and also individual entrepreneurs).

In 2011, the transport controls were cancelled on the border between Belarus and Russia, and on July 1, 2011, they were moved to the outer border of the three members of the Customs Union of the Eurasian Economic Community (EurAsEC). On September 1, 2010, the convention on the establishment and application in the Customs Union of the procedure for the transfer and distribution of import customs duties became effective. At present, their distribution between national budgets is performed according to the following ratio: Belarus - 4.7%, Kazakhstan -7.33%, Russia – 87.97% of the total amount of import duties.

Late 2010 marked the next phase of the economic integration: the creation of the Common Economic Space (CES) of Belarus, Kazakhstan and Russia, providing for, among other things, the introduction of coordinated macroeconomic policies of the members of the Union, common principles for the regulation of natural monopolies, access to services of natural monopolies, common principles and rules of technical regulation, etc. In December 2010, Russia, Kazakhstan and Belarus signed seventeen documents to create CES that were ratified by Belarus (the first of the three countries) on December 21-22, 2010.

In November of the following year, the presidents of the three countries signed the following documents of the next stage of integration: the Declaration on Eurasian Economic Integration, the Treaty on the Eurasian Economic Commission and the Regulations of the Eurasian Economic Commission.

Although participation of Belarus in these integration unions was largely driven by a high level of dependence of its economy on the Russian market and the concessional terms for supply of Russian raw materials (participation in the Customs Union and the Common Economic Space serves as a condition for their provision) and the absence of politically acceptable integration alternatives in the European region, the process of integration itself was accompanied by periodic conflicts between economic entities of Belarus and Russia (in some cases they were settled only at the level of Heads of State and Government⁴). Most of these conflicts are still present today. although they manifest themselves in a milder form.

In addition, the integration of the Belarusian economy with the economies of Kazakhstan and Russia seems very contradictory. On the one hand, in this case, the economies of these countries become complementary: Russia and Kazakhstan focus on the production and export of raw materials, while Belarus – on their processing and sale of finished products (primarily, in the fields of oil production and refining). On the other hand,

the economies of these countries vary widely in the degree of state participation, which often causes conflicts, reduces the intensity of integration, as such, and the ability to quickly reach a compromise on the contentious issues, which are often highly sensitive for integrating economies.

Thus, participation of Belarus in the economic integration unions is inconsistent in the terms of benefits to domestic businesses and is accompanied by new risks arising for Belarusian enterprises. This section provides an analysis of the current position, interests and prospects of Belarusian small and medium businesses in the Customs Union and the CES based on the survey of small and medium-sized enterprises.5 It revealed the opinions of domestic private small and medium businesses on ongoing foreign policies and the prospects of doing business in these integration unions, as well as helped to determine the attitude of SMEs to the integration steps of the Belarusian government.

3.2. Benefits and risks of the economic integration for Belarus

Preservation of concessional terms for access to the Russian raw materials market is given as one of the main benefits of the integration of Belarus into the Customs Union and the Common Economic Space. Primarily, it concerns the oil to be processed at domestic refineries for export and domestic sales, and natural gas to be used to generate electricity that are both strategically important for the Belarusian economy.

⁴ "Milk War" (2009) and the balance of supplies of Belarusian dairy products to the Russian market, energy conflicts on the cost of Russian natural gas for Belarus and its transit to be paid for by Russia in 2010.

⁵ See: footnote 2 on p. 7.



However, there have been significant differences in the value of energy products for small and medium businesses, on the one hand, and for the public and a number of state enterprises, on the other hand, over the recent years. For example, the cost of natural gas increased by more than three times over the past five years. However, while the growth rates of tariffs for organizations matched that, the tariffs for the population grew more slowly, resulting in a significant reduction of the cost recovery. As a result, in 2010, the rate of return for the supply of gas to households. according to the World Bank, was only 45.3%. In 2011, this figure declined significantly due to the devaluation of the national currency, moderate growth rates of tariffs for national businesses and the need to pay for imports in foreign currency.

Another problem for the budget is posed by benefit recipients. In 2009, industrial consumers received subsidies in the form of the sale of power at preferential rates of 0.3% of GDP. Of these, about 130 organizations used concessional tariffs for electricity, heat and gas set below the level of cost recovery in line with the decisions of the Ministry of Economy. In general, the costs of Belarus on energy supply at concessional tariffs are estimated by the World Bank at 2% of GDP6, which are reimbursed largely by domestic businesses paying at rates higher than those set for the public.

Despite the expected increase in tariffs for the public and a number of state-owned enterprises, as well as the elimination of cross-subsidies, the measures taken can hardly lead to the reduction of tariffs for Belarusian SMEs. The prospects of making the domestic energy sector self-sufficient in the coming years seem questionable: a low tariff policy in respect of the population is traditional for the

country's government, while the relatively high tariffs for businesses will be maintained.

In addition, Russia (from which Belarus imports 100% of its natural gas and oil today) is also planning a gradual transition to equal profitability of domestic and foreign energy markets in the coming years. This means a further increase in the cost of energy resources for the Republic of Belarus, which will primarily affect their cost for the private sector of the economy.

Another important benefit of Belarus' accession to the Customs Union and the Common Economic Space includes market expansion and creation of a single body, governing a free movement of goods and services. It is assumed that, provided there are no administrative restrictions set by other members of the Customs Union, the products made in Belarus will be in high demand. From this perspective, the government of the country sees a double benefit for the national economy: a free access for Belarusian goods to the single market of the three countries, and greatly increasing opportunities for foreign investment promotion.

In previous years, the presence on the Belarusian market was not seen as a top-priority for foreign capital. The Belarusian consumer market is too small to create new enterprises focused on the domestic market of Belarus, while agreements with Russia on the unhindered access of domestic products to the Russian market always depend on the political dialogue between the governments of the two countries, which has been rather unpredictable in recent years. As for the privatization of existing enterprises, the conditions of such transactions7 are in many

ways not acceptable for potential foreign buyers.

The new conditions for the Belarusian economy have significantly increased the attractiveness of creation in Belarus of foreign companies with export-oriented products and/or services for the market of the Customs Union. Despite the fact that investors come mainly to the countries with large domestic markets, even within the framework of various economic associations (thereby insuring themselves against any risk of disintegration, even a hypothetical one), Belarus has several advantages (relatively low labor costs, geographical location, favorable tax treatment for foreign enterprises) that may potentially help to attract foreign capital.

Many state-owned enterprises, traditionally focused on export to Russia, are also gaining certain benefits. At the moment, exports of state-owned enterprises have a definite competitive advantage in the market of the Customs Union, mainly due to the relatively low labor costs (also after the devaluation of the national currency in 2011) and subsidies directed to these enterprises operating in a number of sectors of the economy. They include exports of food products, engineering and tractor products.

Small and medium businesses in the common market of Belarus. Kazakhstan and Russia seem to be more controversial. At the time when the economies of Belarusian partners keep to a market-based approach, Russian and Kazakh small and medium businesses are far ahead of Belarusian competitors in their capabilities. This applies, in particular, to the possibility of investing in their own development, or expansion to foreign markets, or attraction of credit resources on more favorable conditions rather than those offered by Belarusian banks. In addition, higher tax rates in Belarus also affect the competitiveness of small and medium businesses (Table 3.1).

⁷ See more on conditions for privatization: Kirchner, R., Giucci, R., Skriba, A. (2010). Privatization in Belarus: Improving the Implementation Framework. [Какулучшить процесс приватизации в Беларуси, Аналитическая записка Исследовательского центра ИПМ PP/10/03] (http://www.research.by/webroot/delivery/files/pp2010r03.pdf).

⁶ See: http://www.neg.by/publication/ 2011_11_18_15384.html?print=1.

Table 3.1. Rates of main taxes of members of the Customs Union

Type of tax	Belarus	Kazakhstan	Russia
VAT, %	20 (10; 0)	12 (0)	18 (10; 0)
Profits tax, %	24	20 (15; 10)	20
Income tax, %	12	Graduated rate 5; 10	13
Social tax, %	34	Graduated rate 11 (4.5–20)	34
Description	Graduated rate	Graduated rate	Graduated rate
Property tax	0.1–2	0.05-1.5	≤ 2.2

Source: the Analytic Note⁸ of the Ministry of Taxes and Duties of the Republic of Belarus.

The activities of Belarusian enterprises will also be affected by the accession of Russia to the World Trade Organization (WTO) in 2012. For instance, as pointed out by Irina Tochitskaya in her paper "The Consequences of Russia's Accession to WTO for Belarus and its Branches", Russia's accession to the WTO will have an impact on the Belarusian foreign trade in two ways. First. Belarus will have to undertake commitments of Russia to ensure access of goods to the market and to undertake, to some extent, "forced" trade liberalization, which will lead to a change in the volume of imports and the impact on the domestic market. Second, Russia's membership in the WTO will lead to the increased competition in the Russian market due to the reduction in tariffs for a range of goods. Despite some positive effects of these processes for consumers and producers in Belarus (for example, due to the expansion of possibilities to use cheaper and high quality products), a number of industries may face some problems in the long run due to the increased competition.9

Thus, even today, the position of Belarus in the Customs Union and the Common Economic Space can be called rather vulnerable on several fronts. The preferential treatment received in the energy sector is short-term as it will be leveled

up over time after Russian energy companies set equal selling prices of raw materials in the domestic and foreign markets.

A low level of competitiveness of Belarusian enterprises, compared to their counterparts in Russia and Kazakhstan, affected by the financial crisis of 2011 and Russia's accession to the WTO, is also a disadvantage. And while large state-owned enterprises can be supported by concessional investment loans in order to be competitive at an acceptable level, the resources of private small and medium businesses in these terms are more limited, and, therefore, the latter cannot confidently state their readiness to successfully compete within such economic unions.

3.3. Attitude of business associations to the Customs Union and the Common Economic Space

Representatives of business associations also point out a low level of competitiveness of Belarusian SMEs in the framework of the Customs Union and the Common Economic Space. For example, Victor Margelov, Co-chairman of the Republican Confederation of Entrepreneurship, among the main problems of the domestic business. also mentions a loss of markets and reduced competitiveness of Belarusian goods in the conditions of open borders, linking these issues with a lower potential of the Belarusian economy to support the competitiveness of firms, compared with Russia and Kazakhstan. "In fact, in the framework of the CES

capitalist market economies of Russia and Kazakhstan will unite with a clumsy socialist economy of Belarus, strengthening the influence of the Russian economy, primarily, on Belarus in January 2012. This will manifest itself in the expansion of Russian goods, and increased competition for a market share between our and Russian producers. And this fight will be won by more agile and aggressive producers". 10

The level of the tax burden, which is higher in Belarus than in Russia, represents another factor that has a negative impact on the competitiveness of Belarusian products. Initially, Belarusian businesses are put at a disadvantage due to the fact that the government has not completely abandoned the regulation of prices. As Victor Margelov concludes, "for instance, the government is still governing the prices of milk. Therefore, one of the capital's milk plants, for example, produces milk packed in film with the efficiency of minus 30%. but exports it with the efficiency over 50%. However, this imbalance leads to the decreased competitiveness of our plant in comparison with the Russian one. Indeed, it does not gain what the Russian plant gains in one of the segments. This means that our plant will have fewer opportunities to increase wages, accumulate profits and to implement further modernization to expand markets".11

Georgiy Badey, Chairman of the Business Union of Entrepreneurs and Employers named after Professor Kunyavsky, focuses on the prospects of sale of Belarusian private businesses to the Russian owner. "Absorption of Belarusian business by Russian business is possible because Belarusian business is weak, and the weaker is always absorbed by the stronger in this world. Another thing is that they absorb to make a profit, or to win markets. However, if our business is unable to pay

⁸ See: www.nalog.gov.by/docs/obzor-95776. doc.

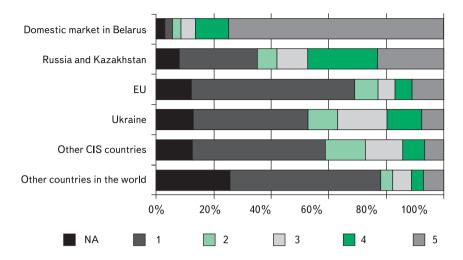
⁹ See Irina Tochitskaya [Точицкая, И. (2012). Последствия вступления России в ВТО для торговли Беларуси и ее отраслей, Аналитическая записка Исследовательского центра ИПМ PP/01/12] (http://www.research.by/webroot/delivery/files/pp2012r01.pdf).

See: http://naviny.by/rubrics/economic/2011/11/03/ic_articles_ 113_ 175700/.

¹¹ Ibid.



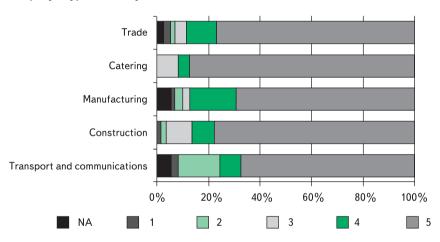
Figure 3.1. Distribution of responses to the question "Which markets are most important for your company?"



Note. "1" - it doesn't matter, "5" - it's very important.

Source: IPM Research Center.

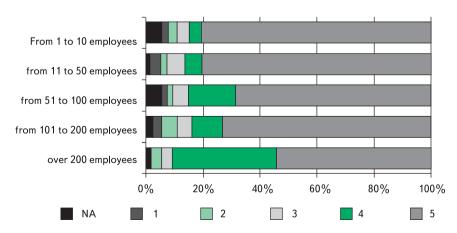
Figure 3.2. Priority of the domestic market of Belarus for SMEs broken down by the company's type of activity



Note. "1" - it doesn't matter, "5" - it is very important.

Source: IPM Research Center.

Figure 3.3. Priority of the domestic market of Belarus for SMEs broken down by the number of employees in the company



Note. "1" – it doesn't matter, "5" – it is very important.

Source: IPM Research Center.

dividends, then why would Russian business need it?"12

Alexander Shyets, Head of the Belarusian Scientific and Industrial Association, drew attention to a number of serious risks arising for the Belarusian business in the CES. In his view, some of these risks are related to failures to successfully manage Belarusian state-owned enterprises. In this regard, he said about the need to improve the management system of state-owned enterprises and legal support for the business activity. Alexander Shvets also noted the problem of migration of Belarusian business at a time when opportunities to operate in a single economic space outside Belarus are opening up. "If our tax burden is less attractive than in Russia, private business (which is very "free flowing") will migrate to Bryansk, or Smolensk regions and will be working for Belarus from these regions. These risks are very real".13

3.4. Priority markets for Belarusian businesses

The results of the survey of SMEs help to identify priority foreign markets for SMEs, to analyze the attitude of SMEs to Belarus' accession to the Customs Union and the Common Economic Space, as well as to provide an estimate made by SMEs of their competitiveness in the common market of the three countries and the opportunities for further economic development.

First of all, the survey results showed that Belarusian SMEs see the domestic market as a priority market (Figure 3.1). Almost three-quarters of the respondents said that the domestic market in Belarus is very important to them. For comparison, the markets of Russia and Kazakhstan are considered "very important" only by 23.2% of the SMEs representatives. Next, in the order

¹² http://www.zautra.by/art.php?sn_nid=9679&sn_cat=22.

http://www.belarus.regnum.ru/news/belarus/1471314.html.

of importance, follow the markets of the European Union (11.2%), Ukraine (8%) and other countries in the world (7.2%) and other CIS countries (6.8%).

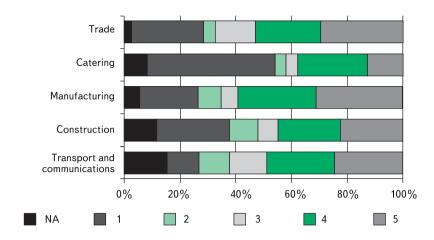
The internal market in Belarus is of the highest priority for small and medium-sized enterprises in catering (87.5% of the respondents stated that the Belarusian market is "very important"), as well as in trade and construction (76.7% and 77.6%, respectively). As for the size of the enterprise, small businesses employing less than 50 people are a bit more oriented to the domestic market. It was indicated by 80% of these companies (Figure 3.2 and 3.3).

In the survey, the greatest interest in the Russian and Kazakhstan markets was shown by the representatives of Belarusian small and medium businesses operating in manufacturing and trade (31% and 29.3% of the respondents, respectively, noted a higher importance of these markets, see Figure 3.4). It is noteworthy that while small businesses mainly focus on the Belarusian market, the markets of Russia and Kazakhstan attract more companies with the staff from 51 to 100 (25.9% of the respondents reported them as a priority. Figure 3.5), from 101 to 200 people (24.3%) and more than 200 people (38.5%). Thus, average domestic enterprises can operate in countries that are members of economic associations together with Belarus and compete with local companies there.

Belarusian small and medium businesses are somewhat less interested in the European market than in the markets of the countries of the Customs Union (Figure 3.6). As in the case with the Russian and Kazakh markets, the greatest interest among domestic SMEs is observed in trade (10.3% of the respondents affirmed the importance of the EU market), manufacturing (12.7%), transport and communications (18.9%).

The size of SMEs also affects their interest in the European market

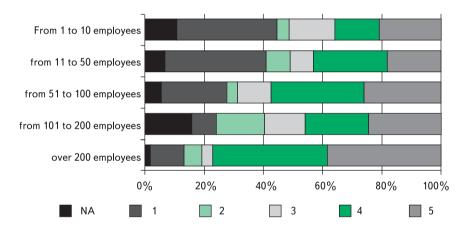
Figure 3.4. Priority of markets in Kazakhstan and Russia for SMEs broken down by the company's type of activity



Note. "1" - it doesn't matter, "5" - it is very important.

Source: IPM Research Center.

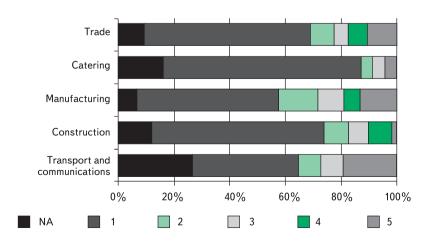
Figure 3.5. Priority of markets in Kazakhstan and Russia for SMEs broken down by the number of employees in the company



Note. "1" - it doesn't matter, "5" - it is very important.

Source: IPM Research Center.

Figure 3.6. Priority of the EU market for SMEs broken down by the company's type of activity

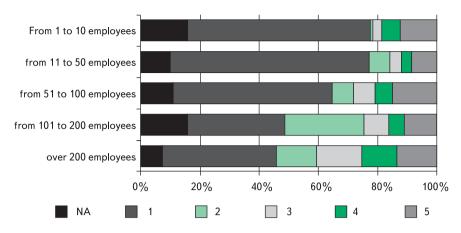


Note. "1" - it doesn't matter, "5" - it is very important.

Source: IPM Research Center.



Figure 3.7. Priority of the EU market for SMEs broken down by the number of employees in the company



Note. "1" - it doesn't matter, "5" - it is very important.

Source: IPM Research Center.

Table 3.2. Distribution of responses to the question "In your opinion, how will joining the Customs Union affect businesses in Belarus?"

	Number	%
Positively	246	61.5
Negatively	39	9.8
Will not affect	65	16.2
NA/don't know	50	12.5
Total	400	100.0

Source: IPM Research Center.

Table 3.3. Distribution of responses to the question "Can your company compete successfully in the market of the Customs Union?"

	Number	%
Yes	156	39.0
No	174	43.5
NA/don't know	70	17.5
Total	400	100.0

Source: IPM Research Center.

(Figure 3.7.). For example, in the survey the representatives of small and medium businesses (employing more than 50 people) more often pointed out the importance of this market for them (scores of 3 to 5), while small firms (employing up to 50 people.) stated that the market of the European Union is of nearly no importance for them (scores from 1 to 2).

Thus, small and medium-sized enterprises of Belarus focus primarily on the domestic market, the popularity of which is much higher than, for example, of the markets of the European Union, Ukraine and other CIS countries outside the Customs Union. The importance of markets in Russia and Kazakhstan is somewhat

higher for them, but it is considerably inferior to their own market in Belarus.

In addition, Russian and Kazakh markets are not equally important for all sectors of the Belarusian economy. Here, we can highlight their importance primarily for the sectors of trade, manufacturing, transport and communications. Mediumsized enterprises (employing over 100 people) show a relatively high level of interest in these markets. The companies that do not consider foreign markets important for their business may not only fail to see any clear benefit from their participation of Belarus in the Customs Union and the Common Economic Space, but also fear for their own competitiveness and position in the domestic market in the new economic envi-

3.5. Attitude of SME to accession of Belarus to the Customs Union

Despite the lack of clear advantages for the Belarusian SMEs to join the Customs Union, the results of the survey held in April 2012 showed that, in general, the representatives of domestic SMEs are positive about Belarus' participation in this integration union and its impact on the Belarusian business (Table 3.2).

Almost two thirds of the respondents (61.5%) believe that the country's accession to the Customs Union will positively affect the Belarusian business, 16.2% think that it will have no effect, and 9.8% of the representatives of SMEs stated that the impact will be negative. During the survey the respondents were not asked the question regarding the impact of the Common Economic Space on the Belarusian business, since this stage of integration is not yet fully operational.

However, in spite of the positive responses to the question of the impact of the Customs Union on the Belarusian business, many of domestic SMEs doubt their own ability to compete in the single market of the three countries (Table 3.3). A relative majority of the respondents (43.5%) said about their own lack of competitiveness within the Customs Union. Slightly fewer respondents (39%) believe that their company can still effectively compete in the single market, while 17.5% of the respondents couldn't answer this question.

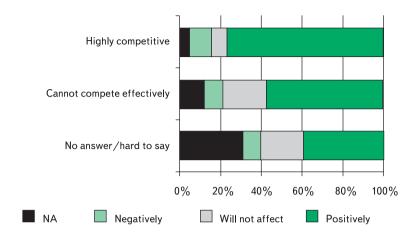
This divergence between the opinion of the respondents about the effects of the country's accession to the Customs Union for Belarusian business and their assessment of their own competitiveness in this integration union suggests that domestic businesses do not have a clear idea of how exactly the

entry to the Customs Union will affect the Belarusian economy, in general, and the Belarusian small and medium business, in particular. However, there is a logical relationship observed here: the respondents confident in the competitiveness of their businesses are more likely (76.3%) to give positive opinions about the effect of participation of Belarus in the Customs Union than. for example, those who doubt the ability of their companies to compete effectively in the single market of the three countries (57.5 %) or who were undecided (38.6%). Those members of the Belarusian SMEs who could not respond to the question about their own competitiveness, almost in a third of cases (31.4%) also failed to answer the question about the impact of Belarus' accession to the Customs Union on the domestic business.

Representatives of small and medium-sized enterprises operating in the field of transport and communications most often talk about the potential of their businesses to compete effectively in the market of the Customs Union - in 48.6% of cases (Table 3.4). A little behind them by this indicator are enterprises in manufacturing, construction and trade - 43.7, 41.4 and 39.7%, respectively (with an average indicator of 39%). Thus, companies that are already interested in the markets of Russia and Kazakhstan more than any other companies (see Figure 3.4) are more competitive in comparison with enterprises operating in other sectors.

We were unable to trace a stable relationship between the number of staff working at the company, and its competitiveness, but, in general, larger companies more often talk about the possibility to compete effectively in the Customs Union. There is no explicit relationship in the assessment of competitiveness based on the year of the enterprise. Here, we can only note that the lowest figure is recorded among the companies established in the crisis years of 2008–2010 (Table 3.4).

Figure 3.8. Distribution of responses to the question "In your opinion, how will joining the Customs Union affect businesses in Belarus?" broken down by the level of the company's competitiveness in the single market of Belarus, Kazakhstan and Russia



Source: IPM Research Center.

Table 3.4. Distribution of responses to the question "Can your company compete successfully in the market of the Customs Union?" broken down by the company's type of activity, number of employees and the year of foundation

	No	NA	Yes
	Type of activity		
Tourism	46.7	33.3	20.0
Catering	41.7	25.0	33.3
IT services	38.9	27.8	33.3
Trade	44.0	16.4	39.7
Construction	46.6	12.1	41.4
Manufacturing	46.5	9.9	43.7
Transport and communications	35.1	16.2	48.6
Mean	43.5	17.5	39.0
Nu	imber of employees		
Over 200	38.5	13.5	48.1
From 101 to 200	43.2	21.6	35.1
From 51 to 100	37.0	9.3	53.7
From 11 to 50	41.7	19.7	38.6
From 1 to 10	50.4	19.2	30.4
	Year of foundation		
2011	35.7	21.4	42.9
2008–2010	47.1	19.5	33.3
2005–2007	45.8	11.1	43.1
1997–2004	41.1	19.6	39.3
Before 1996	40.9	18.2	40.9

Source: IPM Research Center.

Table 3.5. Distribution of responses to the question "Otherwise, why is your company unable to compete successfully in the Customs Union?"

	Number	%
High cost of production	27	14.3
Lack of own funds for product production (advertising and PR)	65	34.4
Low product quality in comparison with other members of the Customs Union Administrative barriers to market access by members of the Customs Union	17	9.0
	29	15.3
NA/don't know	51	27.0
Total	189	100.0

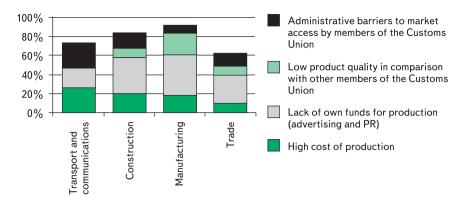
Source: IPM Research Center.

The main obstacles for Belarusian enterprises to effectively compete in the market of the Customs Union are presented in Table 3.5. Representatives of Belarusian SMEs

most often mention the lack of their own funds to promote the product (34.4%), and administrative barriers to enter the markets of the countries of the Customs Union

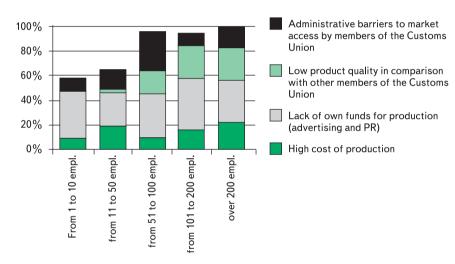


Figure 3.9. Distribution of responses to the question "Otherwise, why is your company unable to compete successfully in the Customs Union?" broken down by the company's type of activity (excluding the option "NA/don't know")



Source: IPM Research Center.

Figure 3.10. Distribution of responses to the question "Otherwise, why is your company unable to compete successfully in the Customs Union?" broken down by the number of employees in the company (excluding the option "NA/don't know")



Source: IPM Research Center.

Table 3.6. Distribution of responses to the question "What are the opportunities for your company development in 2012 under the regime of the Customs Union?"

	Frequency of the answer given	%
Simplified access to raw materials, finance and components	128	32.0
Search for new business models/solutions, taking bolder solutions, mobilization of own resources	184	46.0
Qualified labor force hired at a lower cost	78	19.5
Foreign direct investment promotion	71	17.8
Modernization of production facilities	115	28.8
Increased use of give and take schemes and subcontracts	27	6.8
More active presence in the markets of Russia and Kazakhstan	81	20.2
Other	4	1.0
NA/don't know	27	6.8

Note. It was offered to choose not more than five options.

Source: IPM Research Center.

(15.3%) as reasons for their noncompetitiveness. In the first case, there is a need for significant investments (in particular for advertising and PR) when the company enters new markets.

As for administrative barriers to enter the markets of the Customs Union, the Belarusian companies have experienced this difficulty for several years already. For example, exports of certain groups of Belarusian goods to Russia have been regulated by trade balances in the framework of the Union State of Belarus and Russia in the last years. It is assumed that these protectionist barriers will be eliminated over time together with the development and deepening of the economic integration within the Common Economic Space, which provides, just as in the case of creation of the European Union, for the principle of the four fundamental freedoms: freedom of trade in goods, trade in services, freedom, freedom of movement of financial capital and freedom of movement of human capital.

When analyzing the responses to the question of why the company cannot effectively compete in the market of the Customs Union broken down by the company's type of the company's activity and number of employees (with no option "NA / don't know"), we identified the following relationship. Most often enterprises in trade, industry and construction experience a lack of own funds for the promotion of products in the sectors with a focus on the Customs Union (Figure 3.9). These companies also occasionally have problems with the quality of goods (services), which was not observed in the case of enterprises operating in transport and communications. The last major factors of low competitiveness are administrative barriers to enter the markets set by the countries of the Customs Union and high production costs.

It can be concluded that the smaller a company is, the more likely it is to face a shortage of funds for product promotion (Figure 3.10). High production costs and administrative barriers to enter the markets set by the countries of the Customs Union as factors of low competitiveness

of Belarusian SMEs are mentioned by all enterprises, regardless of their size, while the problem of low-quality goods is often faced by enterprises employing over 50 people.

Thus, the estimates given by the representatives of Belarusian SMEs regarding the country's accession to the Customs Union appear largely inconsistent. On the one hand, the majority of the respondents believe that the participation of Belarus in this integration union will have a positive impact on the domestic business. At the same time, many companies also note a low level of competitiveness of their businesses in Russia and Kazakhstan.

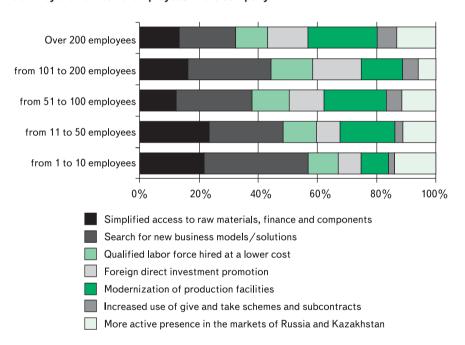
In this context, we can also point out the following relationship: the respondents confident in the competitiveness of their businesses are more likely to give a positive assessment of the influence of Belarus' participation in the Customs Union. The main reasons for the low competitiveness of SMEs mentioned include the following: a lack of own funds for product promotion. administrative barriers to enter the markets of the countries of the Customs Union, and also a high cost of production (despite the reduction of prices for some resources, including energy resources, for Belarus after it joins this union).

3.6. Prospects of Belarusian SMEs in the Customs Union

In the new conditions of business environment many Belarusian SMEs face the task of finding new opportunities for development and more efficient operation of the company in the face of increasing competition within the Customs Union. The results of the survey showed which opportunities representatives of domestic SMEs focus on in the first place (Table 3.6).

First and foremost, Belarusian small and medium businesses focus on the search for new business models (solutions) and mobilization of their own funds. This means that, on the one hand, the competition in the domestic market of Belarus is lower than in Kazakhstan and Russia, and, on the other hand, it is necessary to take new, original and innovative measures to promote goods to foreign markets or to maintain the current position with the arrival of foreign businessmen to Belarus. In this process, many small and me-

Figure 3.11. Distribution of responses to the question "What are the opportunities for your company development in 2012 under the regime of the Customs Union?" broken down by the number of employees in the company



Source: IPM Research Center.

Table 3.7. Distribution of responses to the question "In case the privatization process recommences in Belarus, which way you think is the most preferred for the economy?", 2010–2011

	201	0	201	1
	Number of enterprises	%	Number of enterprises	%
Entities subject to privatization should be sold to domestic				
investors without any restrictions (through an open and transparent tender), with restrictions on the foreign capital in	126	31.0	109	27.2
place				
The advantage in privatization should be given to leasers Entities subject to privatization should be sold to any buyers, both	98	24.1	121	30.2
domestic and foreign, through an open and transparent tender without any restrictions	127	31.2	100	25.0
Entities subject to privatization should be sold to domestic				
investors without any restrictions, with restrictions on the Russian capital in place	34	8.4	25	6.2
I'm against privatization	17	4.2	44	11.0
NA/don't know	5	1.2	1	0.2
Total	407	100.0	400	100.0

Source: IPM Research Center.



dium businesses do not count on the government support of the, and more than a half of them do not focus on the economic benefits of joining the Customs Union.

The benefits of joining the Customs Union as an opportunity to develop the company in 2012 were pointed out by 32% of the Belarusian SMEs. They also include benefits connected with facilitation of access to raw materials (cost reduction, equal access for all participants in the Customs Union), financial resources (for example, Russian and Kazakh financial institutions currently provide loans on much more favorable terms than their Belarusian counterparts) and accessories.

The need for modernization as a means of increasing the competitiveness of enterprises was mentioned by 28.8% of the respondents. It is followed by such opportunities of enterprise development in 2012 (that is, within the Customs Union), as a more active presence in the markets of Russia and Kazakhstan (20.2%), recruitment of qualified staff at a lower cost (19.5%), and foreign direct investment promotion (17.8%).

Modernization of production facilities and foreign investment promotion are more relevant for small and medium-sized enterprises with a greater number of employees (the frequency of the choice by the largest SMEs of these options among those offered is 23.3% and 13.3%, respectively), while smaller SMEs see an easier access to raw materials, the financial resources and components, as well as search for new business models/solutions among their priority development opportunities (Figure 3.11). More active presence in the markets of Russia and Kazakhstan is equally important regardless of the size of the enterprise.

One of the consequences of the participation of Belarusian state-owned enterprises in the Customs Union, where their competitiveness mainly remains at low levels, can entail their

full or partial privatization. However, the crisis of 2011 significantly affected the business environment and financial performance of the Belarusian SMEs and hindered the ability of the Belarusian private capital to compete on equal terms with foreign companies, including those from Kazakhstan and Russia, when buying national assets.

This is reflected in the survey of small and medium-sized enterprises, whose representatives, just as in 2010, did not give a uniform answer to the question regarding the preferred method of privatization (Table 3.7). In 2011, the largest number of the respondents believed that the advantage in the privatization should be given to tenants (30.2% respondents; 24.1% - in 2010). Over a guarter of the respondents (27%) believe that entities subject to privatization should be sold to domestic investors without restrictions (through an open transparent tender) with restrictions on foreign capital (31% - in the previous year). 25% of small and medium businesses said that entities subject to privatization should be sold to buyers, both domestic and foreign, without any restrictions through an open transparent tender (31.2% – in 2010).

Overall, the survey results have changed very little in comparison to previous years. We should point out only a rise in the number of privatization opponents (from 4.2% in 2010 to 11% in 2011), which, as noted above, is connected with significantly reduced the ability of Belarusian SMEs to compete with foreign companies on equal terms when buying state-owned assets.

3.7. Key findings

Accession of the Republic of Belarus to the Customs Union and the Common Economic Space entails certain benefits to large state-owned enterprises and the Belarusian economy as a whole. The representatives of small and medium businesses agree

with that. However, the activities of the latter mostly focus on the domestic market, and, therefore, they will not be able to fully enjoy the benefits of the country's participation in economic integration processes.

The Customs Union, providing a single commodity market, and the Common Economic Space ensuring free movement of capital, goods, services and labor, pose a number of challenges for Belarusian SMEs, who, according to the survey, believe their competitiveness is lower in comparison with companies from Kazakhstan and Russia. Many Belarusian enterprises state that they are unable to effectively compete in the common market of the three countries.

Despite conflicting implications for domestic SMEs of Belarus participation in the Customs Union and the Common Economic Space, their representatives are not going to give up their own business and are looking for new opportunities to work and their own competitiveness. The state, for its part, could support SMEs through increased liberalization of the business climate and creation of a more favorable business environment for small and mediumsized enterprises in comparison with Russia and Kazakhstan.

4. CORRUPTION AND SHADOW ECONOMY AS REFLECTED IN THE ESTIMATES OF SMALL AND MEDIUM BUSINESSES IN BELARUS

4.1. Position of Belarus in the rating of countries by the Corruption Perceptions Index (CPI)

Assessment of the corruption situation in the country is most often based on the Corruption Perceptions Index (CPI) published annually by Transparency International.¹⁴ The CPI data suggest that in the 2000s the place of Belarus in the international ranking was steadily declining, reaching the lowest level in 2006, when Belarus ranked the 151st place out of 180 possible (Belarus ranked 36 among the countries analyzed in 2002, and held the 107th place in 2005). This drop is particularly noticeable when compared with the relatively stable or even improving situation in the neighboring countries. Russia moved from the 126th to 121st place, Ukraine - from 107th to 99th place. Belarus shared the 151st place with the CIS countries, such as Tajikistan, Uzbekistan and Kyrgyzstan, and kept it until the global economic crisis of 2008. After the adoption of a number of measures facilitating a more open way of doing business in both economic and legal terms due to the need to liberalize the economy, the country managed to slightly improve its position in the world rankings.

In 2009, Belarus moved 12 positions up in the ranking of *Transparency International* – from the 151st to 139th place with 2.4 points out of 10. In

2010, the positive trend continued, and the country with 2.5 points already held 127th position. However, in general, in the first decade of the 2000s, the position of the Republic of Belarus in this ranking was low and its figures suggest maintaining a rather high level of perceived corruption in the national economy as compared to some other European countries. Not only did this situation continue in 2011, but there was also observed a negative change in the dynamics of the estimated parameters for the first time in recent years.

In 2011, Belarus dropped from the 127th to 143rd place, despite the fact that the index of Belarus decreased slightly and was 2.4 points compared to 2.5 points in 2010. The score given to Belarus in 2011 was significantly lower than the one given to the rating leaders—New Zealand (9.5), Denmark and Finland (9.4). Now the country shares 143rd place with such countries as Azerbaijan, Mauritania, Nigeria, Russia, Timor, Togo, and Uganda.

The top ten countries with the lowest perception of corruption include the following: New Zealand – the 1st place, Finland and Denmark – the 2–3rd places, followed by Sweden, Singapore, Norway, the Netherlands, Australia, Switzerland and Canada closing the top ten. The 11th place is held by Luxembourg, the 12th – by Hong Kong. Myanmar and Afghanistan are the most susceptible to corruption countries in the world holding 176th place (1.5 points), and Somalia and North Korea are at the bottom of the list holding 182nd place with 1 point.

The highest position among the countries of the former Soviet Union and neighboring countries, just as in previous years, is held by Estonia – the 26th place (6.4 points). It

is followed by Poland (41st place), Lithuania (50th place) and Latvia (61st place) (see Table 4.1). It is noteworthy that the member countries of the European Union traditionally hold higher places than the CIS countries, as well as Georgia, which left the Commonwealth in 2009. As for the CIS countries, the highest position is held by Moldova (112th place with 2.9 points), followed by Kazakhstan (120th place), Armenia (129th place), Belarus, Azerbaijan and Russia (143rd place), Ukraine and Tajikistan (152nd place), Kyrgyzstan (164th place), Turkmenistan and Uzbekistan (177th place).

In 2011, only three CIS countries managed to increase their ranking positions. The best result was achieved by Russia (it increased the number of points from 2.1 to 2.4), which also appeared to be the only CIS country to improve its position in the ranking (by 11 positions). The positions of Armenia, Azerbaijan and Moldova remained unchanged, while they decreased in case of the rest of the CIS countries. The results show that the growth of the index does not guarantee the improvement of the position (Poland, Kyrgyzstan), while no changes in it may generally lead to a lower place in the ranking (Moldova, Armenia, Azerbaijan).

Persistent unequal conditions for doing business for private and public enterprises can be considered as one of the causes of corruption in Belarus. In 2011, small and medium-sized enterprises (SMEs) still stated the presence of unequal conditions of doing business compared to the public sector.

Belarusian SMEs most often talked about unequal conditions for doing business in connection with rental

¹⁴ Corruption Perception Index (CPI) shows the perceived levels of public sector corruption in a given country and is a composite index based on a survey conducted among experts and the business community (*thirteen* different surveys of experts and representatives of the business). The CPI 2011 ranks 183 countries on a scale from 0 to 10, where "0" denotes the highest level of perceived corruption and "10" - its lowest level.



Table 4.1. Comparison of former USSR countries by the Corruption Perceptions Index (CPI), 2010–2011

Ranking in 2010	Ranking in 2011	Country	Rating in 2010	Rating 2011	
26	29	Estonia	6.5	6.4↓	
46	50	Lithuania	5.0	4.8↓	
59	61	Latvia	4.3	4.2↓	
68	64	Georgia	3.8	4.1↑	
105	112	Moldova	2.9	2.9	
105	120	Kazakhstan	2.9	2.7↓	
123	129	Armenia	2.6	2.6	
127	143	Belarus	2.5	2.4↓	
134	143	Azerbaijan	2.4	2.4	
154	143	Russia	2.1	2.4↑	
134	152	Ukraine	2.4	2.3↓	
154	152	Tajikistan	2.1	2.3↑	
164	164	Kyrgyzstan	2.0	2.1↑	
172	177	Turkmenistan	1.6	1.5↓	
172	177	Uzbekistan	1.6	1.5	

Note. Lowering of the ranking position indicated by \downarrow , improvement by \uparrow .

Source: Transparency International.

Table 4.2. Distribution of responses to the question "In what spheres, in your opinion, the entrepreneurs experience unequal conditions for doing business in comparison with the public sector?"

	Number of	Frequency of the
	respondents	answer given
Taxation	123	30.8
Attitude of supervisory bodies	172	43.0
Rent rates	197	49.3
Commodity prices	111	27.8
Conditions for obtaining permits and licenses	100	25.0
Access to credit resources	117	29.3
Local authorities' attitude	116	29.0
Judiciary bodies' attitude	22	5.5
Other	5	1.3
It is the same	8	2.0

Note. It was offered to choose not more than three options.

Source: IPM Research Center.

Table 4.3. Distribution of responses to the question "In your opinion, did the measures taken by authorities in relation to the situation led to the situation...", 2010–2011

	2010		2011		
	Number of respondents	%	Number of respondents	%	
Improvement	121	29.7	102	25.5	
Worsening	39	9.6	59	14.8	
Remaining the same	245	60.2	235	58.8	
NA/don't know	2	0.5	4	1.0	
Total	407	100.0	400	100.0	

Source: IPM Research Center.

rates and attitude of supervisory authorities (Table 4.2) followed by taxation, access to credit, and the attitude of local authorities. However, this became more pressing: the representatives of SMEs more often than in the previous year noted the unequal economic conditions in most sectors. For instance, the number of the respondents who indicated unequal economic conditions for the "rent rates" increased by 21.5 percentage points (from 27.8% in 2010 to 49.3% in 2011), for "commodity prices" —

by more than 20 percentage points (from 17.2 to 27.8%), "taxation" and "conditions for obtaining permits and licenses" – by almost 20 percentage points (from 20.9 to 30.8%).

4.2. Corruption in Belarus

Decree No. 485 of September 23, 2010, which approved the state program to combat crime and corruption for 2010–2012, is the basic document to combat corruption. In March

2012, the Prosecutor General of the Republic of Belarus held a national coordination meeting to combat crime and corruption, which, among other things, emphasized that "the comprehensive anti-corruption measures implemented in 2011 strengthened the preventive component to combat corruption, and the analysis of corrupt crimes attests to the continuing downward trend in the number of registered crimes of the named category". For instance, in 2011, law enforcement authorities identified 2,416 corruption cases (5.6% less than in 2010). The members of the meeting stated the necessity to strengthen control over the income of civil servants, as well as the officials of the categories, a list of which is established by the legislation.

However, despite the measures taken and some positive trends in the identification of corruption, international ratings continue to show a relatively high degree of *perceived* corruption in Belarus. This means that the conditions for corruption are still present, which, in turn, is also supported by the results of the survey of small and medium-sized enterprises conducted in April 2012.

In general, according to the survey, more than a half of the representatives of Belarusian SMEs are of the opinion that the measures taken at the national level to improve the situation of corruption in the country, have not led to any significant changes. Almost 60% of the respondents stated that in 2011 the situation remained unchanged, which matches the results in 2010 (Table 4.3). However, if in 2010 only 9.6% of the respondents stated some worsening of the situation of corruption in the country, their number was already 14.8% in 2011. At the same time, the number of those who reported the improvement of this situation rather decreased from 29.7% in 2010 to 25.5% in 2011.

As for the corruption phenomena, the surveyed representatives of small and medium businesses most

frequently indicate the prevalence of the practice of "kickbacks" in obtaining lucrative government contracts (Table 4.4). For instance, 10.3% of the respondents reported the presence of this type of corrupt activities in more than 50% of cases. For comparison, a similar factor in the shadow turnover and frequency of bribing was 4.5% and 7.2%, respectively. The figures of the "occurrence of kickbacks" in 2011 somewhat declined compared to 2010, while the figures of the "shadow turnover" and "frequency of bribing" showed a slight improvement.

More than a half of the surveyed Belarusian SMEs see government authorities as initiators of corruption of (Table 4.5). Only 18.2% said that this initiative comes from the business representatives. As in the previous table, there is still a high number of those who refused to answer these questions or found them difficult to answer.

At the same time, there is a relationship between the size of the enterprise and determination of the initiator of corruption. As Table 4.6 shows, the larger the enterprise is, the more often the initiative in this matter belongs to business representatives. So, if small businesses believe that corrupt practices in 12.8% of cases are initiated by business representatives and in 56% of cases by the authorities, for companies employing over 200 persons, the figures are now 36.5% and 42.3%, respectively.

Apparently, with the expansion of businesses in order to achieve their growth, the management of large enterprises faces challenges that require the use of unconventional measures. In these conditions businesses are more likely to initiate corruption. In addition, most companies employing more than 200 people were established before 1996, when business was often built on personal relationships. ¹⁵ In small companies,

¹⁵ See: E.Artemenko [Артеменко, Е. (2012).

Table 4.4. The share of shadow turnover, frequency of bribing and "kickbacks" in exchange for profitable state orders, 2011

	Shadow	Frequency	Occurrence
	turnover, %	of bribing, %	of "kickbacks", %
Never happens	26.8	24.8	25.2
Up to 25%	33.8	29.8	24.2
26–50%	14.5	13.8	12.8
51–75%	3.0	4.2	5.8
In more than 76% cases	1.5	3.0	4.5
NA	20.5	24.5	27.5
Total	100.0	100.0	100.0

Source: IPM Research Center.

Table 4.5. Distribution of responses to the question "In your opinion, who more often initiates corrupt activities?"

	Number of	%	
	respondents	70	
Businesses	73	18.2	
Authorities	216	54.0	
NA/don't know	111	27.8	
Total	400	100.0	

Source: IPM Research Center.

Table 4.6. Distribution of responses to the question "In your opinion, who more often initiates corrupt activities?" broken down by the number of employees in the company, %

	1–10	11–50	51–100	101–200	Over 200
	employees	employees	employees	employees	employees
Businesses	12.8	15.9	18.5	18.9	36.5
Authorities	56.0	59.1	50.0	51.4	42.3
NA/don't know	31.2	25.0	31.5	29.7	21.2
Total	100.0	100.0	100.0	100.0	100.0

Source: IPM Research Center.

Table 4.7. Distribution of responses to the question "In your opinion, what areas/ business regulatory authorities have the largest number of bribing and corruption?"

	1	2	3	4	5	NA
Price regulation	29.8	21.0	17.0	11.5	6.8	14.0
Obtaining licenses	23.5	16.5	23.2	13.2	12.8	10.8
Hygienic registration and certification	22.8	15.8	18.0	17.2	15.2	11.0
Sanitary inspection	17.2	11.8	18.8	19.2	24.2	8.8
Fire inspection	18.8	11.2	18.2	17.2	26.0	8.5
Tax payment	35.5	23.8	17.8	7.0	2.8	13.2
Tax audits	29.2	21.0	20.2	11.8	5.5	12.2
Customs clearance	26.8	16.2	22.8	11.5	7.2	15.5
Obtaining permits for land	17.5	12.0	18.2	19.2	19.2	13.8
Obtaining various permits with local authorities	16.2	13.2	21.5	19.0	16.5	13.5
Lease	24.5	16.5	22.5	14.2	8.0	14.2
Tenders	18.5	12.5	24.5	18.8	12.0	13.8

Note. "1" - very rare, "5" - frequent corrupt practices.

Source: IPM Research Center.

on the contrary, a more rapid solution of the current challenges can often involve some traditional "services", which are initiated by representatives of the authorities.

This conclusion is to some extent

Внутренние факторы конкурентоспособности белорусского бизнеса, Исспедовательский центр ИПМ, дискуссионный материал, PDP/12/03]. supported by the distribution of responses to the question "In your opinion, what areas/business regulatory authorities have the largest number of bribing and corruption?" The cases of corruption are most common in areas such as "fire inspection" and "sanitary inspection" (that most domestic SMEs, regardless of the number of their employees, have to go through them), fol-



Table 4.8. Distribution of responses to the question "How often are executives of private companies forced to bribe representatives of the authorities?"

		% of respondents						
	2001	2004	2006	2009	2010	2011		
Infrequently (up to 25% cases)	40.7	57.0	45.4	46.1	23.6	24.8		
Often (25–100%)	39.4	20.3	22.7	13.5	14.3	29.8		
Never happens	18.5	18.8	28.8	23.1	33.2	21.0		
NA/don't know	1.4	4.0	3.2	17.3	29.0	24.5		
Total	100.0	100.0	100.0	100.0	100.0	100.0		

Source: IPM Research Center.

Table 4.9. Distribution of responses to the question Distribution of responses to the question "How often are executives of private companies forced to bribe (in any form) representatives of the authorities?", 2010–2011

	2010		2011		
	Number of	%	Number of	%	
	respondents	/0	respondents	/0	
Never happens	135	33.2	99	24.8	
Infrequently (up to 25% cases)	96	23.6	119	29.8	
In 26-50% cases	42	10.3	55	13.8	
In 51-75% cases	8	2.0	17	4.2	
In more than 76% cases	8	2.0	12	3.0	
NA/don't know	118	29.0	98	24.5	
Total	407	100.0	400	100.0	

Source: IPM Research Center.

lowed by "obtaining permits to land" and "permits with local authorities" (Table 4.7).

Thus, despite the measures taken and a formally announced positive trend in the area of corruption, representatives of domestic small and medium businesses believe that the corruption situation in Belarus remains generally unchanged.

4.3. Bribery

According to the study, most of the respondents (more than a half) believe that managers of SMEs have to give occasional bribes to the government authorities (Table 4.8). This figure was about 80% ten

Table 4.10. Distribution of responses to the question "How often are executives of private companies forced to bribe (in any form) representatives of the authorities?" broken down by a number of factors

	% of respon- dents*	Never hap- pens	Infrequently (up to 25% cases)	In 26–50% cases	In 51–75% cases	In more than 76% cases	NA
				any's type of a			
Trade	29.0	14.7	31.0	18.1	6.0	3.4	26.7
Catering	6.0	16.7	29.2	12.5		4.2	37.5
Manufacturing	17.8	28.2	36.6	9.9	4.2	4.2	16.9
Construction	14.5	41.4	34.5	6.9	1.7	1.7	13.8
Transport and communications	9.3	35.1	29.7	10.8	2.7	2.7	18.9
Consumer services	6.0	16.7	16.7	20.8	8.3	4.2	33.3
Consulting services	0.5	_	_	_	_	_	100.0
Education	0.5	50.0	_	_	_	_	50.0
IT services	4.5	22.2	27.8	22.2	_	_	27.8
Real estate	3.8	20.0	33.3	20.0	_	_	26.7
Tourism	2.3	44.4	33.3	_	11.1	_	11.1
Advertising	1.8	14.3	_	57.1	_	_	28.6
Publishing	3.0	25.0	8.3	_	8.3	8.3	50.0
Other	1.3	20.0	20.0	_	20.0	_	40.0
				of company's e	mployees		
From 1 to 10	31.3	18.4	27.2	12.8	5.6	2.4	33.6
From 11 to 50	33.0	22.0	31.1	18.9	3.8	1.5	22.7
From 51 to 100	13.5	25.9	27.8	14.8	7.4	3.7	20.4
From 101 to 200	9.3	40.5	40.5	5.4	_	5.4	8.1
Over 200	13.0	34.6	26.9	7.7	1.9	5.8	23.1
				Region			
Minsk	27.8	17.1	25.2	17.1	4.5	3.6	32.4
Minsk region	12.3	18.4	30.6	14.3	6.1	4.1	26.5
Brest	4.8	57.9	15.8	5.3	_	_	21.1
Brest region	7.8	9.7	32.3	19.4	3.2	3.2	32.3
Grodno	5.8	30.4	60.9	4.3	_	_	4.3
Grodno region	6.3	52.0	16.0	16.0	4.0	_	12.0
Vitebsk	5.8	13.0	73.9	13.0	_	_	_
Vitebsk region	6.5	42.3	30.8	7.7	3.8	3.8	11.5
Gomel	6.0	25.0	37.5	4.2	_	_	33.3
Gomel region	7.8	22.6	16.1	19.4	9.7	12.9	19.4
Mogilev	7.5	20.0	20.0	10.0	6.7	_	43.3
Mogilev region	2.0	50.0	_	25.0	12.5	_	12.5
			Year of th	ne company's fo	oundation		
Before 1996	27.5	30.9	32.7	9.1	1.8	3.6	21.8
1997–2004	28.0	23.2	23.2	12.5	4.5	4.5	32.1
2005–2007	18.0	18.1	34.7	13.9	11.1	2.8	19.4
2008–2010	21.8	25.3	26.4	21.8	1.1	1.1	24.1
2011	3.5	28.6	35.7	7.1	7.1		21.4

^{*}The total number of the respondents is 400.

Source: IPM Research Center.

years ago and remained almost unchanged for several years. Positive dynamics were observed since 2006. However, as early as in 2009, the number of the respondents, who refused to answer this question or found it difficult to answer, significantly increased.

The number of the respondents who believed there is no bribery in Belarus reached its maximum in 2010 (33%), and it dropped to 25% in 2011, while the number of the respondents, who believed that bribes are common, increased (15 to 30%). A more detailed analysis of the changes in 2011 is given in Table 4.9. These adverse changes may have occurred in relation to the crisis of 2011, when many businesses could use corruption as a way of survival in the face of deteriorating market conditions and problems in the foreign exchange market.

Table 4.10 shows the distribution of assessments of the situation with bribes depending on the company's type of activity, number of employees, year of foundation of the company and the region in which it is registered. The results showed that the respondents' assessment of the frequency of bribery depends on the number of employees in the company (as factor giving an indirect indication of the size of the firm). However, in 2011, when Belarusian small and medium-sized companies faced sharply increasing economic difficulties associated with access to the foreign currency and the shrinking demand in the domestic market, the cases of bribery were more common, according to the representatives of companies with a relatively small number of employees.

Small and medium-sized firms employing from 11 to 50 people and from 51 to 100 people (55.3% and 53.7%, respectively) most frequently stated the actual presence of the phenomenon of bribery. At the same time, there is still a high proportion of SMEs employing from 1 to 10 people and from 11 to 50 people that refused to answer the question about

the frequency of bribery or found it difficult to answer. In contrast, large companies (with over 100 employees) more often state the absence of this phenomenon in their practice. Obviously, the SMEs that were the smallest by the number of employees appeared to be most vulnerable to the effects of the financial crisis in 2011, and as a result they had to resort to such methods of solving arising problems.

The analysis of the results of the study of the relationship between the perception of corruption and the year of the company's foundation, as well as based on the surveys held in previous years, has not revealed a clear pattern. On average, just over a half of the respondents, regardless of the "age" of the company, reported the cases of bribery, while about a quarter of the respondents said that there was no such a thing in their practice, while about 20% of representatives found it difficult to answer this question.

In the course of the study of the relationship between the frequency of bribery and the type of company's activity we selected domestic SMEs operating in the sectors with the highest number of respondents as the most representative ones: trade, catering, industry, construction, transport and communications, and consumer services. According to the results of the analysis, the fewest number of bribes is observed in the construction, and also in transport and communications (in consumer services in 2010).

For instance, 41.4% of the interviewed representatives of SMEs operating in the field of construction and 35.1% of the operators in transport and communications said bribery never occurred there. In addition, these areas had the lowest percentage of those who found it difficult to answer the question or refused to answer it – 13.8% and 18.9%, respectively, (with the mean of 24.5%) and the lowest percentage of the frequency of bribery – in 51–75% of cases – 1.7 and 2.7%, respec-

tively, for the construction, transport and communications, as well as the corresponding figures in "in more than 75% of the cases". In particular, we should note the construction industry, which experienced the largest number of bribes back in 2009, but by the end of 2010, this industry took a third place in the same comparison study of industries. In the case of construction, this may be associated with a significant reduction in government programs.

The analysis of the prevalence of this phenomenon suggests that the greatest number of bribes in 2011 was observed in trade, industry and consumer services. The latter has a particularly high percentage of the options "in 26-50% of cases" and "in 51-75% of cases" - 20.8% and 8.3%, respectively. All these areas are more focused on the domestic market of Belarus, which supports the above argument on the use of bribery by companies as a means to solve their own economic problems and to respond to the financial crisis. The figures on the number of bribes are not so high in catering - 45.8%, with a relatively high proportion of the rarest cases of bribery (less than in 25% of cases). However, due to the fact that 37.5% of representatives of SMEs in this area found it difficult to answer the question or refused to answer it, it seems early to attribute catering to the areas with the fewest number of bribes.

Regionally, the situation seems to be better in Brest, Grodno, Vitebsk and Mogilev regions. The absence of bribes as such in these regions was stated by 57.9%, 52.0%, 42.3% and 50.0% of the respondents, respectively, with the mean of 24.8%. At the same time, the percentage of the representatives who found it difficult to answer the question or refused to answer it is relatively low in these three areas: from 11.5% to 12.5% (with the mean for the country of 24.5%).

Notably, in 2010, the fewest number of bribes was also recorded in Brest and Vitebsk region, while the position



Table 4.11. Distribution of responses to the question "How often do 'kickbacks' in exchange for profitable state orders occur in Belarus?", 2010–2011

	2010		2011	
	Number of	Number of %		%
	respondents	70	respondents	70
Never	86	21.1	101	25.2
Up to 25% cases)	93	22.9	97	24.2
In 26-50% cases	47	11.5	51	12.8
In 51-75% cases	16	3.9	23	5.8
In more than 76% cases	25	6.1	18	4.5
NA/don't know	140	34.4	110	27.5
Total	407	100.0	400	100.0

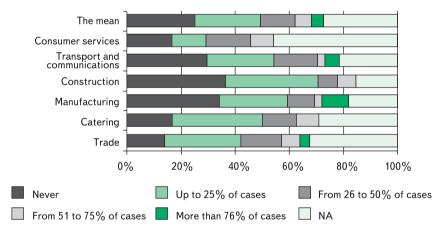
Source: IPM Research Center.

Table 4.12. Distribution of responses to the question "How often do 'kickbacks' in exchange for profitable state orders occur in Belarus?", 2001–2009

	% of respondents			
	2001	2004	2006	2009
Occurs in every tenth transaction	11.6	20.5	17.6	12.3
Occurs in every fifth transaction	18.8	21.3	17.6	11.6
Occurs in every third transaction	14.3	15.5	13.7	8.1
Occurs in every second transaction	10.6	8.8	9.5	4.5
Occurs in every transaction	12.7	1.5	3.7	3.1
Never	25.9	25.5	33.4	24.1
NA	6.1	7.0	4.6	36.3
Total	100.0	100.0	100.0	100.0

Source: IPM Research Center.

Figure 4.1. Relationship between the type of activity of the company and frequency of "kickbacks" and cash rewards to obtain lucrative state orders



Source: IPM Research Center.

of Mogilev deteriorated significantly due to the decrease in percentage of the option "never happens" and a substantial increase in the number of the respondents who answered "no answer/don 't know", and reached 43.3% (the highest figure). There is also a high number of those who did not answer the question about bribery in Minsk, while only 17.1% of the respondents stated the absence of this phenomenon. Bribery was observed most frequently in the Gomel region, where 12.9% of the respondents said about the presence of

such a phenomenon in their practice in more than 75% of cases.

4.4. "Kickbacks" and cash rewards

There has been a trend of a gradual reduction of "kickbacks" in business practices for the last two years (Table 4.11). Back in 2009, only 12.3% of the interviewed representatives of small and medium-sized enterprises of Belarus said there was no such phenomenon (Table 4.12),

while in 2010 this figure was already 21.1%, and 25.2% in 2011. At the same time, the number of those who refused to answer the question or could not answer it decreased from 34.4% in 2010 to 27.5% in 2011.

Such a moderately positive trend in 2010–2011 can be explained mainly by two factors. *First*, it is obvious that the measures taken at the national level to combat the practice of "kickbacks" or cash rewards with the cooperation of private enterprises and public institutions have a positive impact. This is supported, in particular, by the fact that the number of the respondents stating such practices in more than 75% of cases, though slightly, but decreased.

Second, a clear impact on reducing the number of cases of "kickbacks" and cash rewards to obtain lucrative government contracts was made by the financial crisis of 2011. As a result of the three-time devaluation of the Belarusian ruble amid the inflation, more than 100% state budget revenues sharply decreased in dollar terms compared to previous years. This led to the suspension and freezing of many government programs, therefore resulting in the reduction of opportunities for the private sector to participate in them.

In general, the situation of "kickbacks" and cash rewards is as follows. Despite a slight increase in the proportion of those who deny the existence of these phenomena in their own practice, there is a slight increase in the number of the respondents who claim to have them. Most often, these phenomena are observed in less than 25% of cases. less often - in more than 75% of cases. However, there is still a high proportion of those who refused to answer this question, and some of them may be those who used "kickbacks" and cash rewards in process of cooperation with state agencies. This conclusion can be supported by the fact that in case of the absence of such phenomena in their practice, the respondents would

probably have chosen the option "never happens".

"Kickbacks" and cash rewards are mostly widespread in trade and public catering - more than 50% of cases with the mean of 47.3% (Figure 4.1). We can state with a certain confidence that there is a high proportion of these phenomena in practice in the area of consumer services as well, despite a low percentage of those respondents who reported their presence in this area, as the largest number of the respondents who refused to answer this question or found it difficult to answer is in this area. "Kickbacks" and cash rewards are mostly found in manufacturing - almost 10% of the interviewed representatives of SMEs reported their presence in more than 75% of cases. The anticipated low number of these corruption phenomena was identified in construction. As noted above, the financial crisis significantly reduced the rate of construction of many objects financed from the central and local budgets, resulting in 36.2% of the respondents who stated that there were no "kickbacks" and cash rewards.

In 2011, the number of "kickbacks" and cash rewards greatly depended on the number of employees at the enterprise (Figure 4.2). Although in absolute terms the largest number of "kickbacks" takes place in relatively small companies, employing from 11 to 50 and from 51 to 100 people (50.8 and 57.4%, respectively, with the mean of 47.3%), the representatives of such companies often found it difficult to answer the question or refused to answer it (30.3% and 20.4%, respectively), as well as the representatives of the smallest firms with up to 10 employees (37.6%).

At the same time, the larger private companies have the opposite trend. First of all, there is a significantly higher number of those who deny the existence of "kickbacks" and cash rewards to obtain lucrative government contracts in their practice. In 2011, this figure in companies with a num-

Figure 4.2. Relationship between the size of the company and frequency of "kickbacks" and cash rewards to obtain lucrative state orders



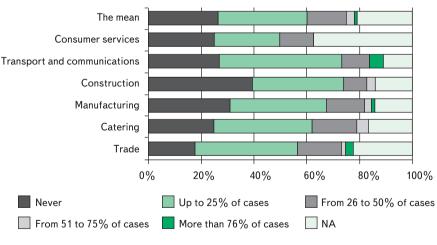
Source: IPM Research Center.

Table 4.13. Distribution of responses to the question "What share of private companies' turnover is not reflected in accounting reports (shadow turnover)?", 1999–2011

	% of respondents								
	1999	2001	2004	2006	2009	2010	2011		
Up to 10%	14.4	17.5	25.0	23.2	12.4	28.5	33.8		
10-25%	28.5	19.0	26.5	19.3	16.6	20.5	33.0		
26-50%	16.8	3.4	15.0	13.2	14.0	15.0	14.5		
51-75%	18.2	3.4	3.8	6.1	2.6	2.9	3.0		
Over 75%	_	3.2	1.3	1.5	1.1	3.2	1.5		
NA	15.1	36.0	7.0	3.4	20.8	20.9	20.5		
Never happens	6.9	17.5	21.5	33.4	32.5	29.5	26.8		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
51–75% Over 75% NA Never happens	18.2 - 15.1 6.9	3.4 3.2 36.0 17.5	3.8 1.3 7.0 21.5	6.1 1.5 3.4 33.4	2.6 1.1 20.8 32.5	2.9 3.2 20.9 29.5	4		

Source: IPM Research Center.

Figure 4.3. Relationship between the company's type of activity and shadow turnover



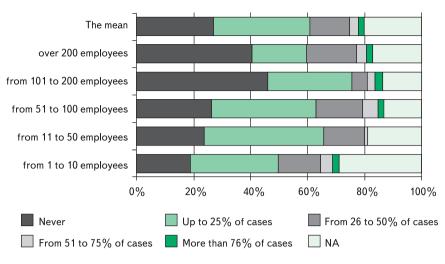
Source: IPM Research Center.

ber of employees from 101 to 200 people was 45.9%, and in companies with more than 200 employees – 46.2% (the mean – 25.2%). However, while the number of those who refused to answer is still relatively high in the latter companies (17.3%), it was only 8.1% – in the first.

Apparently, the dependence of the frequency of "kickbacks" and cash rewards on the size of the company occurs due to the fact that these costs in small companies will also be relatively low, making it difficult to monitor them for the investigating authorities, while the larger cases



Figure 4.4. Relationship between the size of the company and its shadow turnover



Source: IPM Research Center.

of cooperation of the private business and the state are monitored more carefully. Partially, it can be explained by the fact that the smallest firms (employing up to 10 people) have the greatest number of the respondents who refused to answer the question of the presence in their practice of these corruption phenomena.

4.5. Shadow turnover

Based on the results of 2011, it is also early to talk about a significant reduction in the shadow turnover of private enterprises. Only about a quarter of the respondents reported not having a practice of passing documents unrecorded in financial statements (29.5% in 2010). Moreover, after 2006 there was a slow decline in the number of those who denied the presence of the shadow turnover in their practice – from 33.4 to 26.8% in 2011 (Table 4.13).

It is noteworthy that the decrease in the number of the respondents who stated the presence of the shadow turnover in SMEs activities was observed within a number of years prior to the crisis period of 2008–2009. Apparently, it was the economic crisis and the lack of support from the state, as well as the growing competition, that forced the small

and medium businesses to have this practice.

The shadow turnover was most widespread in such areas as trade. catering (just as in 2010), and also in transport and communications: 59.5%, 58.3% and 62.2%, respectively (Figure 4.3). At the same time, contrary to the results of the last year, the lowest percentage of the shadow economy was noted in the construction industry: 39.7% of the respondents stated the absence of this phenomenon (with the mean of 26.8%). As in the case of "kickbacks" and cash rewards, the most controversial was the area of consumer services characterized by a relatively low overall percentage of shadow turnover (25%) with a high percentage of the respondents who found it difficult or refused to answer the question (37.5%).

As in the case with bribery and "kick-backs", shadow turnover is most often observed in small-sized enterprises employing up to 50 people (Figure 4.4). These businesses also have a high percentage of those who did not answer the question. Shadow turnover is least likely to occur at enterprises employing from 101 to 200 people, which was confirmed by 45.9% of the interviewed representatives of Belarusian SMEs stating that there is no such phenomenon there.

4.6. Key findings

Based on the study of the conducted survey of 400 representatives of small and medium-sized enterprises in Belarus, we can conclude that these representatives estimate the corruption situation in the country as a rather complex one. First of all, it concerns a relatively high level of the use in their practices of corruption phenomena such as bribes, cash rewards or shadow turnover. At the same time, a large number of the respondents found it difficult or refused to answer some questions, allowing a certain degree of certainty in most cases to classify them to those who use the above methods of corruption in their practices, as it is unlikely that respondents would conceal the absence of such phenomena.

We cannot but note the effect of the financial crisis of 2011 on the corruption situation in the country. On the positive side it should be emphasized that, despite the greatly complicated conditions of doing business for Belarusian SMEs, this did not lead to a significant increase in the use of corruption phenomena, although it affected the dependence of the frequency and number of bribes, cash rewards and the use of shadow turnover on such factors. as the company's size (number of employees) and the scope of its activities.

As for the initiators of corrupt practices, we can conclude that, according to the respondents, corrupt activities are mostly initiated by representatives of government agencies. In some cases, they are initiated by the companies themselves (especially by the largest SMEs), which may indicate the presence of sustainable practices of their "engagement" with the government authorities.

In general it can be stated that the corruption situation in Belarus in 2011 did not undergo major changes, although there was a deviation to the worst and the best in some aspects and in some areas. Nevertheless, the team of the *Transparency International* reported an increase in



the degree of perception of corruption in Belarus.

Obviously, measures to counter the corruption situation undertaken at the state level are mostly of a warning character, or aimed at the prosecution, while the identification of the causes of corruption in a given area and the subsequent liberalization and reduction of unnecessary bureaucracy stemming from corresponding procedures are still at the initial stage. However, we believe it is the latter that should be used as a basis for the development of measures to combat corruption in the Belarusian economy.



5. SMALL AND MEDIUM BUSINESS SUPPORT INFRASTRUCTURE IN BELARUS IN 2011

5.1. Role of business associations in the economy

The main task of a business community in competition-based market economies is to consolidate various circles of businessmen while playing the role of the mediator between the business as a major economic entity and the government as a law making practitioner. In other words, a business community is one of the pressures on the government in order to create favorable conditions for doing business and lobby the collective interests of the community. Activities of business associations are also reflected in the improvement of the institutions of power, and fight against administrative barriers and corruption. The business community takes steps to reduce the tax burden on businesses. promote the provision of accessible infrastructure and resources and is involved in the development of effective business support instruments.

For many countries in transition the establishment and operation of permanent business associations is a recent trend resulting from the transformations of these economies on the way to the market and free competition. Particularly relevant is the process of joining small and medium-sized enterprises (SMEs) into business associations in Central and Eastern Europe (CEE), where the small and medium businesses eventually began to play an important role in the economies of these countries, creating a larger share of GDP.

The transition from a command economy to market mechanisms

in CIS countries has been more prolonged, and, in most cases, is still far from being complete. Despite the possibility of private initiative, the role of the public sector in the economies of these countries is still dominating, and, therefore, the authorities see the fulfillment of social obligations as a top priority instead of the ongoing improvement of the legislation in order to create a favorable business environment for private economic agents, in general, and for small and medium businesses, in particular.

Belarus also faces the need to protect the interests of SMEs. In the early 2000s, the Belarusian government successfully put into practice the idea of a sociallyoriented economy in which a significant share in the GDP was held by public enterprises. Revenues of such enterprises were redistributed among employees in the public sector of the economy. With the success of the Belarusian economic model the dialogue between public authorities and the business community was carried out primarily with large enterprises, while domestic SMEs did not have the necessary resources to communicate to the government and to lobby their interests.

After changing the external economic environment, 16 which coincided with an increase in the number of individual entrepreneurs in Belarus, there arose a need to establish a more active dialogue between the government and business. First of all, the practice

showed that private SMEs were

more flexible and expeditious

In 2011, the business environment for the Belarusian SMEs remained difficult. The attempts to fulfill social obligations before the presidential elections in 2010 led to a significant deterioration in the economic situation in the Republic of Belarus in 2011 (devaluation of the national currency, the growth of the refinancing rate, inflation, etc.).

At the same time, the Belarusian government has taken the decision to join in a number of economic integration associations, whose influence on the domestic small and medium businesses is also controversial. In that connection, there is an objective need for consolidation of the business community in Belarus and formation of a unified position among SMEs in order to protect their interests. It is assumed that existing Belarusian business associations will take a direct part in the formation of this position and holding a dialogue with government authorities.

This section presents the results of the survey among Belarusian SME in relation to business communities in Belarus, the prospects of participation in these associations,

in decision-making and easier adapted to constantly changing conditions, both within the country and abroad. At the same time the number of small and medium-sized enterprises increased, and therefore the number of people involved in their activities increased as well. It was a prerequisite for enhancing the interest in the challenges and difficulties of small and medium businesses at the state level.

¹⁶ Trade barriers of Russia and the European Union led to the worsening of the economic situation in the Republic of Belarus.

their initiatives and opportunities to help address the problems of the domestic business.

5.2. Difficulties of Belarusian SMEs in 2011

In 2011, major negative changes in the business environment in Belarus included the "rent", "pricing", "tax burden" and "access to credit" (see section 2.2). In comparison with the results of the survey in 2010, the estimate of Belarusian SMEs of the changes in these aspects of doing business somewhat deteriorated (Figure 5.1-5.4). In the first place, this applies to the changes associated with the rent. For instance, the number of entrepreneurs who reported a significant deterioration of the situation increased dramatically (the share of SMEs that selected the options of "-3", "-4" and "-5" grew by more than 30 percentage points - from 15 to 47.8%). The least significant deterioration of the situation in 2011 compared to 2010 was observed in the "access to credit" (with the growth of the corresponding figure of 11 percentage points).

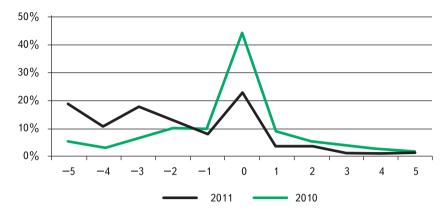
The lack of positive changes in these aspects is accompanied by persistent unequal business conditions for private SMEs and public sector enterprises (Table 5.1). Primarily, this situation is common for rental rates, supervisory authorities, taxation, access to credit and local authorities.

Thus, the issues connected with taxation and rent rates can be described as the main negative aspects of doing business in Belarus in 2011.

5.2.1. Taxation

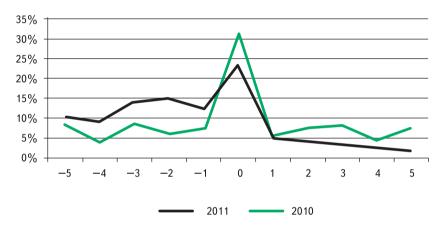
The main negative aspects of the Belarusian tax system, according to representatives of small and medium businesses, is the number of taxes and dues, the total amount of taxes and the frequency of changes in the tax legislation (Table 5.2).

Figure 5.1 Comparison of estimates of small and medium businesses of the changes of the business environment in rent payments, 2010–2011



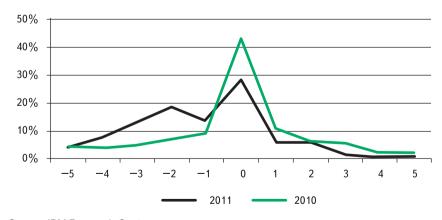
Source: IPM Research Center.

Figure 5.2. Comparison of estimates of small and medium businesses of the changes of the business environment in pricing, 2010–2011



Source: IPM Research Center.

Figure 5.3. Comparison of estimates of small and medium businesses of the changes of the business environment in tax burden, 2010–2011



Source: IPM Research Center.

Excluding the option "no answer/don't know", the deteriorating situation for these indicators was noted by 57.8%, 67.9% and 64.7% of the respondents, respectively, while the improvement was noted by

21.8%, 14.9% and 13.4% of the respondents who answered the question. For comparison, 18.3% of the respondents noted deterioration in relation to the "open access to tax information", while 51.8% of the



respondents stated the improvement of the situation.

In 2011, the negative perception of the frequency of changes in the tax legislation slightly decreased compared to 2010 (Figure 5.5). For instance, the proportion of those who reported a significant deterioration in this area (the options "-3", "-4" and "-5") decreased by almost 20 percentage points – from 55% to 35.5%. For comparison, in the ar-

eas of taxes and dues and the total amount of taxes the corresponding figure declined by 0.7 and 3.3 percentage points respectively (Figure 5.6–5.7).

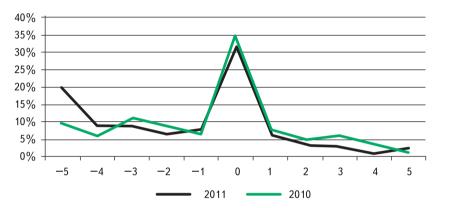
5.2.2. Rent payments

In 2011, the negative impact of changes in rent payments was reported by almost a half of the interviewed representatives of Belarusian SMEs (44.8%), while the same number of the representatives stated the absence of any effect of these changes on doing business (Table 5.3).

Most often the negative effects of changes in rent payments were reported by the representatives of SMEs in the field of consumer services, while the positive effects – by those engaged in construction (Figure 5.8); and the absence of any influence was most often noted by SMEs operating in manufacturing. Depending on the size of the company (number of employees), we can say that the changes in rent payments often have a negative impact in the case of SMEs with fewer employees (Figure 5.9).

In 2011, the difficulties faced by the Belarusian small and medium business were accompanied by a significant deterioration in the economic situation (a three-time currency devaluation, the inflation of 108.7%. a decreased purchasing power in the domestic market), and uncertainty about the prospects of Belarus' participation in a number of economic integration projects with Russia and Kazakhstan (the Customs Union, and the Common Economic Space). In such circumstances, the need for state support of small and medium businesses in Belarus became more significant.

Figure 5.4. Comparison of estimates of small and medium businesses of the changes of the business environment in access to credit, 2010–2011



Source: IPM Research Center.

Table 5.1. Distribution of responses to the question "In what spheres, in your opinion, the entrepreneurs experience unequal conditions for doing business in comparison with the public sector?"

	Number	Frequency of the answer given
Taxation	123	30.8
Attitude of supervisory bodies	172	43.0
Rent rates	197	49.3
Commodity prices	111	27.8
Conditions for obtaining permits and licenses	100	25.0
Access to credit resources	117	29.3
Local authorities' attitude	116	29.0
Judiciary bodies' attitude	22	5.5
Other	5	1.3
It is the same	8	2.0

Note. It was offered to choose not more than three options.

Source: IPM Research Center.

5.3. 2011 as the "Year of Entrepreneurship"

According to the Presidential Decree adopted on February 3, 2011, the year of 2011, which, among other

Table 5.2. Distribution of responses to the question "In your opinion, what are the main strengths and shortcomings of tax legislation?"

	Sig	Significant worsening			N	o chang	es	Significant improvement				NA NA
	-5	-4	-3	-2	-1	0	1	2	3	4	5	INA
Number of taxes and dues	9.8	7.5	10.8	14.8	14.2	20.2	8.2	5.0	5.5	1.0	1.8	1.2
Total amount of taxes (tax liabilities)	12.0	8.8	17.0	17.2	11.2	16.8	6.5	4.0	1.5	1.5	1.0	2.5
Frequency of changes in the tax legislation	14.0	7.0	13.8	13.5	15.2	21.5	5.8	4.0	2.8	0.5	0.0	2.0
Regularity of filing and taxes and dues payments	1.8	1.2	6.8	12.2	10.2	40.0	7.5	9.5	6.0	2.5	1.5	8.0
Time and efforts spent on tax payments	4.0	5.5	6.5	10.0	13.2	38.0	7.0	7.0	4.5	2.5	0.5	1.2
Open access to tax information	2.8	2.0	3.5	4.0	5.8	29.5	11.5	14	9.2	9	7.5	1.2

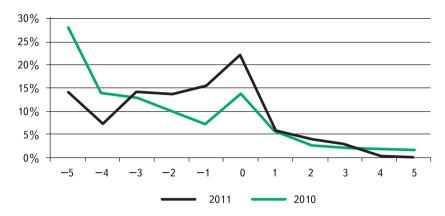
Note. "-5" – the situation deteriorated significantly; "0" – remained the same; "5" – improved significantly. Source: IPM Research Center.

things, was the first year of a new five-year plan, was also declared the "Year of Entrepreneurship". 17 The press service of the Belarusian President stated that "... the year is designed to give a new impetus to the development of the country. While in the previous stages of the modern Belarusian society the main aim was the revival and preservation of the economic potential of Belarus, now the community has a much more ambitious goal of making a breakthrough in all sectors and areas of activity to reach the level of advanced European countries. The main driving force behind this breakthrough is entrepreneurship, energetic action and initiative"18.

In order to support small and medium-sized enterprises of the Republic of Belarus, as well as to create conditions for the expansion and intensification of their activities, Directive No.4 of the President of the Republic of Belarus "On the Development of Entrepreneurship and Stimulating Business Activity in Belarus" was adopted on December 31, 2010. This regulation declared "the competition - wherever possible, and government regulation - wherever necessary" as the main principle of the national social and economic development. It identified the following main objectives to be reached in this area.

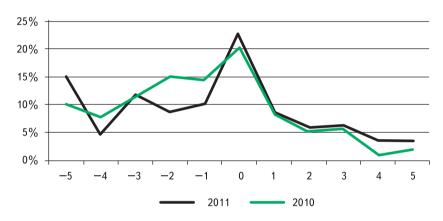
- To ensure further development of fair competition between businesses regardless of the form of ownership.
- To take the most serious measures for the protection and development of private property. To create conditions for the smooth implementation of business activities.
- To eliminate unnecessary administrative barriers in the col-

Figure 5.5. Comparison of estimates of small and medium businesses of the changes of the business environment in tax legislation, 2010–2011



Source: IPM Research Center.

Figure 5.6. Comparison of estimates of small and medium businesses of the number of taxes and dues, 2010–2011



Source: IPM Research Center

Figure 5.7. Comparison of estimates of small and medium businesses of the total amount of taxes, 2010–2011



Source: IPM Research Center.

laboration between government authorities, legal entities and citizens.

 To complete the harmonization of the tax system of the Republic of Belarus with the current tax systems in European countries. To ensure the tax legislation stimulates bona fide fulfillment of tax obligations and business initiative. To extend the application in the Republic of Belarus of international

¹⁷ Edict No.43 of the President of the Republic of Belarus dated February 3, 2011; See: http://www.pravo.bv.

¹⁸ "2011 is declared the Year of Entrepreneurship in Belarus"; See: http://www.belta.by/ru/all_news/president/2011-god-v-Belarusi-objavlen-Godom-predpriimchivosti_i_541586. html.

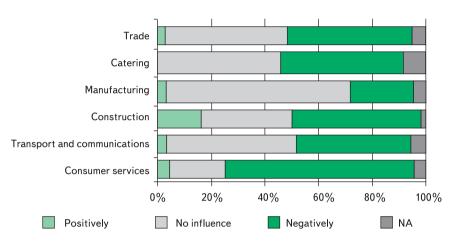


Table 5.3. Distribution of responses to the question "How did the changes in rent payment influence your business activity in 2011?"

	Number	%
Positively	20	5.0
No influence	179	44.8
Negatively	179	44.8
NA/don't know	22	5.5
Total	400	100.0

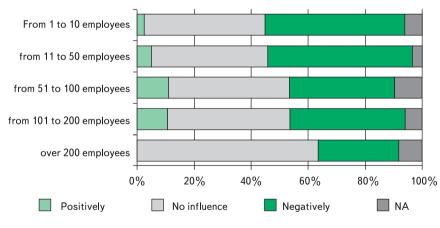
Source: IPM Research Center.

Figure 5.8. Distribution of responses to the question "How did the changes in rent payment influence your business activity in 2011?" broken down by the company's type of activity



Source: IPM Research Center.

Figure 5.9. Distribution of responses to the question "How did the changes in rent payment influence your business activity in 2011?" broken down by the number of employees in the company



Source: IPM Research Center.

standards in accounting, and to drastically reduce financial statements.

- To ensure control/supervision activities have a preventive character, to transit to the predominant use of preventive measures aimed at preventing crime in business activities.
- To improve the infrastructure and funding for small businesses in order to enhance business and provide effective business support (legal, organizational and financial), especially at the initial stages of business development. To form the system of economic incentives for private businesses, public associations, including business unions (associations) to

- participate in the development of the business environment.
- To eliminate over-regulation of the labor market.
- To establish a legal framework that encourages the development of public-private partnerships in the Republic of Belarus.
- To provide unambiguous legal regulation and stability of the legislation, to improve the quality of drafting regulations governing business activities.¹⁹

Thus, Directive No. 4 can be regarded partly as evidence of recognizing at the national level not only of the problems of the Belarusian business, but also of the need to address them, including to enhance collaboration of the state and business in this area, to develop public-private partnerships, to foster the creation and implementation of activities to protect the interests of the business community through various business associations.

This regulation is of particular importance as in process of its drafting the state implemented the dialogue with the business in practice. In particular, representatives of business unions took part in the drafting of the Directive. It is no coincidence that Directive No. 4 has included many provisions of the NBPB-2011 "Time of Particular Actions" which was being developed in 2010.20 In addition, there were held several joint meetings of the Council of Ministers, the State Control Committee and the Prosecutor General with the participation of the business community.

Belarusian business unions are united in the opinion that the most important achievement was a set of documents aimed at the liberalization of pricing. Despite the fact that the government returned

¹⁹ Directive No.4 of the President of the Republic of Belarus dated December 31, 2010; see: http://www.pravo.by.

²⁰ The National Business Platform of Belarus-2011; See: http://allminsk.biz/content/view/7815/385/.

the state regulation of prices for a number of socially important goods several months later, representatives of the Republican Confederation of Entrepreneurship are sure that this measure has the forced nature, and it will be eliminated together with the stabilization of the economic situation in the country.²¹

Alexander Kalinin, Chairman of the Belarusian Union of Entrepreneurs, believes that the decision to reduce the tax burden (reduction of income tax from 24% to 18%) is fundamentally important. A special relevance of this measure is emphasized by the participation of the Republic of Belarus in the Customs Union and the Common Economic Space, with the profit tax in Russia and Kazakhstan of 20%.

However, despite the scale of the reforms proposed in the Directive (also specified in the Action Plan for its implementation and the Action Plan for the "Year of the Entrepreneurship"), their practical implementation was reduced to a minimum due to the above difficulties, which the Belarusian economy faced in the spring of 2011. In addition, Directive No. 4 had no direct effect²² and only set the task of development and approval of the action plan to implement its provisions, without specifying any timeframes. As a result, among other things there remained unresolved such urgent issues, according to representatives of business associations, as the creation of the public advisory councils and an independent anti-monopoly authority, the adoption of the Law on Public-Private Partnership Act and the Law on Self-Regulatory Organizations, implementation of small-scale privatization, etc.

Thus, this situation is increasing the need for consolidation of the business community to protect their own interests, as well as significantly increasing the importance of the existing business unions in the process and, as a consequence, their role in the economic life of the country.

5.4. Participation of SMEs in business unions

The world experience shows a high value of business unions as a way to consolidate opinions of various circles of entrepreneurs, their effectiveness in the provision of cooperation and dialogue between businesses and government. Nevertheless, representatives of Belarusian SMEs are wary of joining business associations.

In 2011, there was a definite adjustment of the number of business union members in comparison with 2010. Thus, according to the latest survey of representatives of SMEs (in April 2012), only 31 companies out of 400 respondents (7.8%) said that they were members of business unions (Table 5.4). For comparison, in 2010 this figure showed a more than twofold increase from 7.2% to 15.5%.

Mostly the representatives of such sectors as construction, transport and communications said they were members of business associations, with 17.2% and 13.5%, respectively (Table 5.5). A reverse situation is observed in the areas of trade and public catering, with only 2.6% of business union members in the first case and no members of those participating in the survey in the second case.

Unitary enterprises and closed joint-stock companies more often stated they were members of business unions (10% in both cases), while limited liability companies and open joint-stock companies – less often

(by 5.4%). There is a relationship between the membership of the company in the business union and the number of its workers. For instance, small firms are less likely to join these associations (with the number of employees from 1 to 50 – in 3.9% of cases), while large companies (with over 100 employees) reported this in 15.7% of cases.

In process of analyzing the results of the survey we found the relationship between participation of SMEs in business unions and the year of the company's foundation. Thus, "older" companies with certain experience in working in the Belarusian market are more likely to be members of business associations. For example, companies founded before 1996 said about their membership in 13.6% of cases, and only 2.3% of the respondents, representing companies founded in 2008-2010, said they were members in these associations.

In absolute terms, the results of the survey showed that the largest number of members of business associations is in Grodno and Grodno region, and slightly less – in Mogilev and Mogilev region (Figure 5.10). An equally low figure of members is found in Brest and Brest region as well as in Gomel and Vitebsk and corresponding regions.

Thus, based on the research, we can make a rough portrait of a business union member — it is mainly a representative of a joint-stock company or unitary enterprise with the number of employees of more than 50 people and operating in the market for 5–7 years. The surveyed companies were mainly represented by men. In general, men make up a large part of members of business unions.

In 2011, participation of Belarusian small and medium businesses in various associations remained at a very low level. Nevertheless, there is a sufficiently high potential in attracting new members the implementation of which requires an understanding of what domestic

²¹ "The Year of Entrepreneurship is over, leaving a bad taste in the mouth" ["Год предприимчивости закончился, осадок остался"]; See: http://allminsk.biz/content/view/24065/225/.

²² The Directive of the President of the Republic of Belarus is a programmatic decree issued by the President in order to address systemic issues of top-priority political, social and economic importance (Article 2 of the Law "On Normative Legal Acts of the Republic of Belarus"); See: http://www.pravo.by.



Table 5.4. Distribution of responses to the question "Are you a member of any business unions?", 2009–2011

	2009)	2010)	2011		
	Number of	%	Number of	%	Number of	%	
	enterprises	70	enterprises	70	enterprises	70	
Yes	28	7.2	63	15.5	31	7.8	
No	362	92.8	344	84.5	369	92.2	
Total	389	100.0	407	100.0	400	100.0	

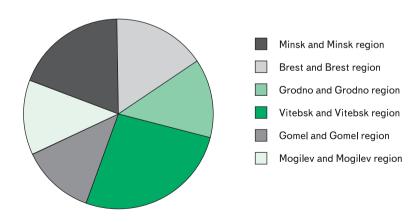
Source: IPM Research Center.

Table 5.5. Distribution of responses to the question "Are you a member of any business unions?" broken down by a number of factors

	Yes		N	lo	Tota	al
	Number	%	%	Number	Number	%
	Tota					
	31	7.8	92.2	369	400	100
	Type of a					
Trade	3	2.6	97.4	113	116	100
Catering	0	0.0	100.0	24	24	100
Manufacturing	7	9.9	90.1	64	71	100
Construction	10	17.2	82.8	48	58	100
Transport and communications	5	13.5	86.5	32	37	100
	Legal stru					
Unitary enterprise (UE)	16	10.0	90.0	144	160	100
Limited liability company (LLC)	5	5.4	94.6	88	93	100
Additional liability company (ALC)	5	7.9	92.1	58	63	100
Open joint-stock company (OJSC)	3	5.4	94.6	53	56	100
Closed joint-stock company (CJSC)	1	10.0	90.0	9	10	100
Production cooperative (PC)	1	33.3	66.7	2	3	100
Other	0	0.0	100.0	15	15	100
Number	of compar					
From 1 to 10	2	1.6	98.4	123	125	100
From 11 to 50	8	6.1	93.9	124	132	100
From 51 to 100	7	13.0	87.0	47	54	100
From 101 to 200	4	10.8	89.2	33	37	100
Over 200	10	19.2	80.8	42	52	100
	the compa					100
Before 1996	15	13.6	86.4	95	110	100
1997–2004	8	7.1	92.9	104	112	100
2005–2007	5	6.9	93.1	67	72	100
2008–2010	2	2.3	97.7	85	87	100
2011	1	7.1	92.9	13	14	100
	<u>espondent</u>			400	400	100
Male	17	9.3	90.7	166	183	100
Female	14	6.5	93.5	201	215	100

Source: IPM Research Center.

Figure 5.10. Participation of Belarusian SMEs in business unions by regions



Source: IPM Research Center.

SMEs expect from business unions and how the latter can contribute,

starting from today, to the development of Belarusian SMEs.

5.4.1. Joining business unions by Belarusian SMEs: benefits and impediments

When joining business unions, Belarusian SMEs primarily focus on certain benefits that they can get from this membership. We are talking about a specific set of services, and sharing experience, and a collective defense of the interests of small and medium businesses.

The results of the research showed that after joining business unions the most popular services among domestic SMEs are legal services, as was confirmed by more than a half of surveyed respondents who were members of business associations (Table 5.6). Such services of business unions as assistance in business administration (38.7%), representing interests of the company in central authorities and skills development (35%), sharing experience between members of the union (32.3%) are somewhat in smaller demand among entrepreneurs.

These results also suggest a difficult economic situation of Belarusian small and medium-sized enterprises. and, therefore, the activity of business unions predominantly focuses on offering services to preserve the current positions of a business, and not on its development and further expansion in the domestic and foreign markets. Thus, only 16.1% of the respondents mentioned the provision of services by business unions to support internationalization. At the same time, many business associations have their main objective as to assist entrepreneurs and pay much less attention to complex issues of improving the overall business climate in the country. Only 16.1% of representatives of SMEs mentioned such activities of their business unions.

Nevertheless, it should be noted that the provision of certain services by business communities depends not only on their popularity among the members of such organizations, but also directly on business communities themselves, i.e. on what

opportunities and relationships they have at the moment. It is obvious that the ability of business unions to provide financial (investment) support at the national level, as well as to facilitate expansion into foreign markets and implement innovations in the production, is extremely limited. However, it does not mean that these services will not be needed for Belarusian SMEs. Just the opposite. in the situation of macroeconomic instability and foreign currency restrictions in which domestic small and medium businesses have been operating since the spring of 2011, raising external funding and further development of the enterprise (implementation of innovations, search of new markets) are high priority objectives and a matter of survival of the Belarusian small and medium businesses as part of the economy. That is why business unions should focus on further intensification of activities in these areas.

Despite a number of benefits that enterprises get after joining business organizations, the majority of domestic SMEs still have a cautious wait-and-see attitude. As noted above, over 90% of the respondents gave a negative response to the question about their membership in business unions, and, therefore, it is useful to examine the reasons why Belarusian SMEs have not joined such communities yet.

The main obstacle to the entry of small and medium-sized enterprises into business unions today is some skepticism about the ability of the latter to solve problems of Belarusian entrepreneurs (Table 5.7). For instance, according to more than 40% of the respondents, unions are "helpless in solving their problems". Therefore, it explains a high proportion of those who rely on independent solving of the arising problems. It was said by 35% of SMEs that are not members of business unions. At the same time, another problem of attracting new members to business unions is the lack of information about the activities of the latter (37.1%).

Table 5.6. Distribution of responses to the question "My business union provides to me the following services..."

		•	cy of the ven, % of
	Number	all SMEs	Union members
Personnel qualification development	11	2.8	35.5
Support in activity's internationalization	5	1.2	16.1
Legal services	16	4.0	51.6
Assistance in financial resources attraction (investors' search)	9	2.2	29.0
Assistance in business operation	12	3.0	38.7
Representation of firm's interests in the face of central authorities	11	2.8	35.5
Business climate improvement in the country Sharing experience among organization members	5 10	1.2 2.5	16.1 32.3

Note. 31 SMEs, who are members of business unions, responded to this question. Respondents were asked to choose all the possible answer options.

Source: IPM Research Center.

Table 5.7. Distribution of responses of the respondents who are not members of business unions to the question "If you are not a member of any business union, what is the reason for that?"

	Number	Frequency of the answer given, %
High membership fees	10	2.7
I believe business unions are helpless in my problems solving	152	41.2
It is better not to use services of such organizations for political reasons	23	6.2
Lack of information about their activity	137	37.1
Hope to solve problems independently	129	35.0
Unsatisfactory quality of the services provided	24	6.5
NA/don't know	12	3.3

Note. It was offered to choose not more than three options.

Source: IPM Research Center.

This results in the following. On the one hand, representatives of Belarusian SMEs do not believe that national business unions are able to effectively and promptly protect their interests and provide economic support. As an example, we can refer to the financial crisis of 2011, when various business associations were unable to communicate the information about the necessary measures to support the economy, which was of particular interest for SMEs, and to assist in their implementation. On the other hand, many business unions cannot fully exploit their potential primarily due to the small number of SMEs in their membership. One way to resolve these discrepancies can be the initiative of Belarusian business communities to liberalize the business environment in Belarus. The attempt to solve this problem is in the basis of the ongoing efforts to establish a regular dialogue between

businesses and government authorities, where the business community sees its role as a mediator.

5.4.2. Awareness of national SMEs of the National Platform of Business in Belarus

One of the initiatives of the Belarusian business community to liberalize the business environment, on the one hand, and to promote the dialogue between business and government, on the other, is the National Business Platform of Belarus (NBPB).²³

²³ In 2005, Minsk Capital Entrepreneurs and Employers Union (MCEEU) took the initiative to create a policy document "The National Business Platform of Belarus". After consultation and with the support of the Research Mises Center, the Analytical Center "Strategy", the Research Center of the Axiometrical Research Laboratory "Novak", the IFC in the Republic of Belarus, the World Bank in the Republic of Belarus and the CIPE (Center for International Private Enterprise Commerce Industry of the United States), the NPBB was

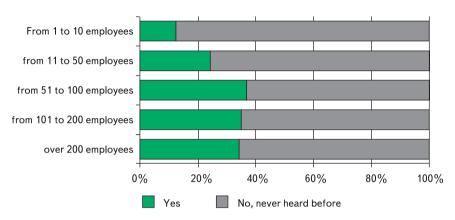


Table 5.8. Distribution of responses to the question "Do you know about the creation of the National Platform for Business in Belarus?"

	Total		Are you a member of any business union?					
	IUlai		Yes		No			
	Number	%	Number	%	Number	%		
Yes	99	24.8	19	61.3	80	21.7		
No, never heard before	301	75.2	12	38.7	289	78.3		
Total	400	100.0	31	100.0	369	100.0		

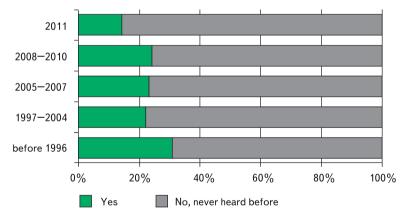
Source: IPM Research Center.

Figure 5.11. Distribution of responses to the question "Do you know about the creation of the NBPB?" broken down by the number of employees in the company



Source: IPM Research Center.

Figure 5.12. Distribution of responses to the question "Do you know about the creation of the NBPB?" by the year of company's foundation



Source: IPM Research Center.

Table 5.9. Priority of goals of the NBPB in 2011 (1 – most important goal, 6 – least important goal)

	1	2	3	4	5	6	NA	Total
Macroeconomic environment improvement	25.5	18.6	9.0	17.0	14.9	7.4	7.4	100.0
Demonopolization, fair competition within the EEA	15.9	14.3	19.6	10.6	17.5	14.8	7.4	100.0
Expansion of the private initiative and responsibility	30.2	20.1	11.6	10.6	11.6	9.0	6.9	100.0
Optimization of the regulatory and tax burdens	21.8	22.3	13.3	19.1	8.0	8.5	6.9	100.0
Improving corporate and state governance	13.2	13.2	18.5	20.1	14.8	12.7	7.4	100.0
Partnership of business, society and the state	22.2	13.8	12.7	16.9	9.0	18.5	6.9	100.0

Source: IPM Research Center.

On March 2011, there was held the XII Assembly of Belarusian businessmen "Time of Specific Actions" in which business representatives discussed the project "NBPB-2011". This document included proposals for the implementation of Directive No. 4, which, as pointed out by the MCEEU representatives, included many provisions of the 2010 version of the Platform.²⁴

According to the results of the survey, about a quarter of the representatives of small and medium-sized enterprises of the Republic of Belarus are aware of the project of the NBPB (Table 5.8). In this respect, members of various business associations were more likely to give an affirmative answer to this question – in 61.3% of cases, while the respondents who were not members of business associations – in 21.7% of cases.

As in previous years, according to the survey in 2012, large enterprises are more likely to know about the NPBB, as well as those of SMEs, that were established in the 1990s (Figure 5.11–5.12). In contrast, companies employing from 1 to 10 people know about the planned NPBB only in 12.8% of cases, while the companies established in 2011 – in 14.3% of cases.

The priorities of the NBPB, according to local SMEs, in 2011 included the following: the expansion of private initiative and responsibility, and improvement of the macroeconomic environment, and the optimization of the regulatory and

developed as an annually updated document, "which sets the direction of the protection of the rights and representation of the interests of businesses during the year"; See: http://allminsk.biz/content/view/3260/284/.

²⁴ The NBPB-2010 specifies the following priority business climate reforms: enforcement of property rights and the development of market institutions, expanding the scope for private initiative, improving the competitiveness of business and state, partnership and trust in business and government, reduction of the tax burden and accounting reform, the openness of the state, facilitation of the access to high-quality information and knowledge; See: http://allminsk.biz/content/view/4471/74/.

Table 5.10. Distribution of responses to the question "If you know about NPBB, what is its role in business community consolidation on protection of their interests?", 2010–2011

		2010		2011			
	Number	% of the total	% of those	% of those	% of the total	Number	
	Number	number	aware of NPBB	aware of NPBB	number	Number	
Completely support	25	6.1	20.3	17.1	4.5	18	
More likely support	73	17.9	59.3	58.1	15.2	61	
More likely don't support	16	3.9	13.0	13.3	3.5	14	
Don't support	2	0.5	1.6	1.9	0.5	2	
NA/don't know	7	1.7	5.7	9.5	2.5	10	
Total	123	30.2	100.0	100.0	26.2	105	
Don't know about NPBB	284	69.8	_	_	73.8	295	
Total	407	100.0	_	_	100.0	400	

Source: IPM Research Center

Table 5.11. Distribution of responses to the question "If you know about the National Business Platform of Belarus, then do you support its main ideas?" depending on business union membership

	A	member of	business unic	ns	A n	A non-member of business unions			
	Number	%	Number	%	%	Number	%	Number	
Fully support	6	31.6	17	90 F	72.1	1 62	14.0	12	
More likely support	11	57.9		89.5	12.1		58.1	50	
More likely don't support	1	5.3	4	F 2	17.4	15	15.1	13	
Don't support	0	0.0	ı	5.3	17.4	15	2.3	2	
NA/don't know	1	5.3	1	5.3	10.5	9	10.5	9	
Total	19	100.0	19	100.0	100.0	86	100.0	86	

Source: IPM Research Center.

Table 5.12. Distribution of responses to the question "If you know about the National Platform for Business in Belarus (NPBB), then do you support its main ideas?" broken down by a number of factors

		Yes					No		_		A proportion
	Completely	More likely	Total	Total	Total	Total	More likely	Completely	NA	Total	of those aware of NPBB
	Number	Number	Number	%	%	Number	Number	Number	Number	Number	%
	Number of employees										
From 1 to 10	2	10	12	75.0	12.5	2	2	0	2	16	15.2
From 11 to 50	5	22	27	75.0	13.9	5	4	1	4	36	34.3
From 51 to 100	5	13	18	81.8	13.6	3	2	1	1	22	21.0
From 101 to 200	1	9	10	76.9	23.1	3	3	0	0	13	12.4
Over 200	5	7	12	66.7	16.7	3	3	0	3	18	17.1
Total	18	61	79	75.2	15.2	16	14	2	10	105	100.0
	Company's type of activity										
Trade	3	14	17	68.0	24.0	6	6	0	2	25	23.8
Manufacturing	6	9	15	78.9	10.5	2	2	0	2	19	18.1
Construction	6	13	19	73.1	15.4	4	3	1	3	26	24.8
Transport and communications	1	7	8	88.9	0.0	0	0	0	1	9	8.6
Total	18	61	79	75.2	15.2	16	14	2	10	105	100.0
			-		Yea	r of compa	any's foun	dation			
Before 1996	5	21	26	74.3	17.1	6	6	0	3	35	33.3
1997-2004	7	15	22	81.5	11.1	3	2	1	2	27	25.7
2005-2007	3	8	11	61.1	22.2	4	3	1	3	18	17.1
2008-2010	3	15	18	78.3	13.0	3	3	0	2	23	21.9
2011	0	2	2	100.0	0.0	0	0	0	0	2	1.9
Total	18	61	79	75.2	15.2	16	14	2	10	105	100.0
						Responde	ent's gend	er			
Male	14	31	45	81.8	10.9	6	5	1	4	55	52.4
Female	4	30	34	68.0	20.0	10	9	1	6	50	47.6
Total	18	61	79	75.2	15.2	16	14	2	10	105	100.0

Source: IPM Research Center.

tax burden (Table 5.9). The least important (compared with those above) objectives, according to the representatives of Belarusian business, included monopolization, fair competition within the Common Economic Space and the improvement of corporate and public governance.

Business representatives do not have a common opinion about the importance of partnership between the state and business: 22.2% of the respondents said that it is a very important objective, while 18.5% of the respondents attributed it to the least important ones.

The analysis of the results of the survey showed that the majority of the respondents support the basic ideas of the NPBB (Table 5.10). Despite some minor adjustments compared with the results of the survey in 2011, it may be noted that three out of four respondents

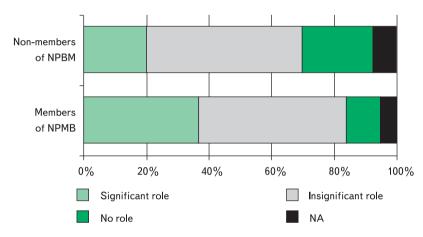


Table 5.13. Distribution of responses to the question "If you know about NPBB, what is its role in business community consolidation on protection of their interests and business climate improvement?"

	Prote	ction of i	interests	Business climate improvemen		
	Number	%	% of those aware of NPBB	% of those aware of NPBB	Number	%
Significant role	26	6.5	23.0	23.5	27	6.8
Insignificant role	56	14.0	49.6	48.7	56	14.0
No role	23	5.8	20.4	20.0	23	5.8
NA/don't know	8	2.0	7.1	7.8	9	2.2
Total of those aware of NPBB	113	28.2	100.0	100.0	115	28.8
Don't know about NPBB	287	71.8	_	_	285	71.2
Total	400	100.0	_	_	400	100.0

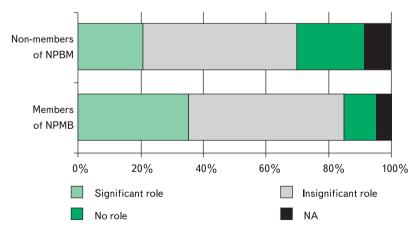
Source: IPM Research Center.

Figure 5.13. Distribution of responses to the question "If you know about NPBB, what is its role in business community consolidation on protection of their interests?" broken down by business union membership



Source: IPM Research Center.

Figure 5.14. Distribution of responses to the question "If you know about NPBB, what is its role in business climate improvement?" broken down by business union membership



Source: IPM Research Center.

somehow support the initiative, while the percentage of those who responded negatively to the question decreased slightly compared to the previous year.

The study revealed the following pattern (Table 5.11). Representatives of Belarusian SMEs that are members of business unions are more likely to support the basic ideas of the NPBB

(almost in 90% of cases). Based on this, we can assume that business communities undertake efforts to promote the project and provide information about its benefits and positive impact on the changes in the business climate in the country.

Dependence of the support to the NBPB by domestic SMEs on a number of other factors (number of employees, type of activity, year of company's establishment, respondent's gender) is shown in Table 5.12.

Despite a high percentage of the representatives approving and positive about the aims and ideas of the NBPB, almost half of them are skeptical about its role in the consolidation and protection of the interests of the business community and improving the business climate in the country (Table 5.13). Thus, 49.6% of the respondents said that NPBB plays a minor role in the consolidation and protection of interests of Belarusian businesses (23% of the respondents stated the contrary). As for the responses to the question about the impact of NPBB on improving the business climate, these figures were 48.7% and 23.5%, respectively. Moreover, 20.4% of the respondents in the first case and 20% of the respondents in the second case stated that NPBB plays no role in reaching these obiectives.

Thus, we can state that despite the support of business community initiatives to liberalize the business environment and protect interests of entrepreneurs, Belarusian businesses are not enthusiastic about the prospects of such initiatives as the development of the NBPB. Nevertheless, it should also be noted that SMEs that are members of business unions are more likely to give a positive opinion of the role of the business platform (Figure 5.13-5.14). 36.8% and 35% of the members of business unions, respectively, said that NPBB plays a significant role in addressing these objectives, while in case of the SMEs that do not belong

to business unions, these figures were 20.2% and 21.1%.

5.4.3. Implementation of the National Business Platform of Belarus

According to the report prepared by the Republican Confederation of Entrepreneurship and Minsk Union of Entrepreneurs and Employers, 31 points were partially implemented and 21 proposals were fully implemented out of the 104 proposals in the NPBB-2011. At the enlarged meeting of the Council of Ministers of Belarus held on October 4. 2011, there was adopted a decision specifying that the work on the implementation and promotion of the NPBB shall be conducted in collaboration with the government. On October 20, the Ministry of Economy established a working group, led by Nikolai Snopkov, Minister of Economy, to review and implement the provisions of the Platform. The group included representatives of leading business associations of the country.

Positive improvements based on the implementation of the NPBB-2011 included the following:

- reduction of the tax burden and the elimination of local taxes, the abolition of service tax, reduction of the tax rate (from 24 to 18%), reduction of the rate of the single tax under the simplified system of taxation, exemption of universities, including private universities, from the VAT;
- using the Unified Wage Scale for employees of the Republic of Belarus as a recommendation for forming flexible working conditions for employees of private enterprises (Decree No. 781 of May 10, 2011);
- approval (by Resolution No. 156 of the Council of Ministers of the Republic of Belarus of February 17, 2012) of the Single List of administrative procedures in relation to legal entities and

individual entrepreneurs (575 procedures);

- reducing the number of licensed activities;
- expanding the scope of the free market prices (Decree No. 72 of February 25, 2011) (with the actual recovery of administrative regulation of prices at the end of the year);
- enabling electronic state registration of businesses, simplifying the whole procedure of registration.

According to the report, however, "the implementation of the document is very slow", and "so far, there is no common opinion or consensus on the development and the need to support entrepreneurship. there is no personal responsibility of officials for failing to implement Directive No. 4 and other regulations" in the government authorities. Representatives of the Republican Confederation of Entrepreneurship and Minsk Union of Entrepreneurs and Employers state that "the most important provisions of Directive No. 4 have not been implemented, and there is no willingness to work in the Single Economic Space and to reach to a new level of competition".

5.5. Key findings

In late 2010 – early 2011, there was an active dialogue between Belarusian business associations and the government of the country in order to create a more favorable business climate in Belarus. This resulted in the adoption of Directive No. 4, aimed at liberalizing the business environment and creation of a competitive business environment. However. the economic crisis that broke out in this period and the subsequent macroeconomic destabilization, national currency devaluation, and a significant reduction in the demand in the domestic market significantly worsened the situation of many domestic small and medium-sized enterprises.

Given this, the importance of the development of the consolidated position of the Belarusian business community and organized protection of the interests of the business objectively increases. Belarusian business unions are expected to play a key role in this process. However, their popularity among small and medium-sized enterprises remains extremely low to date. On the one hand, representatives of Belarusian SMEs do not believe that local business unions are able to protect their interests and provide economic support effectively and promptly. On the other hand, many business unions today are not able to fully realize their potential in particular because of the small number of SMEs as their members.

However, many initiatives of business unions, including the project of the NBPB aimed at liberalizing the business environment in the country, are more widely known among small and medium businesses than these business unions. Thus, amid continuing internal economic imbalances in the country (in light of which a direct business support from the state or further liberalization of the business climate in the short term are rather unlikely), on the one hand, it is necessary to maintain the level of the dialogue between business unions and government authorities and, on the other, to intensify the dialogue with the business community in order to promote and encourage them to join business unions.



APPENDIX DEVELOPMENT OF SMALL AND MEDIUM-SIZED ENTERPRISES IN BELARUS, 2012

SECTION 1. GENERAL INFORMATION ABOUT THE COMPANY AND THE RESPONDENT

1. What is the main sphere of activity of your company?

	Number of SMEs	%
Trade	116	29.0
Catering	24	6.0
Manufacture	71	17.8
Construction	58	14.5
Transport and communications	37	9.2
Consumer services	24	6.0
Consulting services	2	0.5
Education	2	0.5
IT services	18	4.5
Tourism	15	3.8
Advertising	9	2.2
Publishing	7	1.8
Real estate	12	3.0
Other	5	1.2
Total	400	100.0

2. What is your business legal structure?

	Number of SMEs	%
Unitary enterprise (UE)	160	40.0
Limited liability company (LLC)	93	23.2
Additional liability company (ALC)	63	15.8
Open joint-stock company (OJSC)	56	14.0
Closed joint-stock company (CJSC)	10	2.5
Production cooperative (PC)	3	8.0
Other	15	3.8
Total	400	100.0

3. What is the number of workers at your company?

	Number of SMEs	%
From 1 to 10	125	31.2
From 11 to 50	132	33.0
From 51 to 100	54	13.5
From 101 to 200	37	9.2
Over 200	52	13.0
Total	400 1	00.0

4. What is the year of foundation of your company?

	Number of SMEs	%
Before 1996	110	27.5
1997–2004	112	28.0
2005–2007	72	18.0
2008–2010	87	21.8
2011	14	3.5
Total	400	100.0



5. Region

	Number of SMEs	%
Minsk	111	27.8
Minsk region	49	12.2
Brest	19	4.8
Brest region	31	7.8
Grodno	23	5.8
Grodno region	25	6.2
Vitebsk	23	5.8
Vitebsk region	26	6.5
Gomel	24	6.0
Gomel region	31	7.8
Mogilev	30	7.5
Mogilev region	8	2.0
Total	400	100.0

6. Respondent's gender

	Number of SMEs	%
Male	183	45.8
Female	215	53.8
Total	400	100.0

7. Respondent's position

	Number of SMEs	%
Director	121	30.2
Deputy Director	66	16.5
Accounts Manager	78	19.5
Head of department	101	25.2
Other	4	1.0
Manager	5	1.2
Specialist	9	2.2
Total	400	100.0

SECTION 2. ECONOMIC SITUATION IN THE COMPANY IN TIME OF CRISIS

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

	Number of SMEs	%
Bad	24	6.0
Below average	116	29.0
Stable	225	56.2
Above average	15	3.8
Good	20	5.0
Total	400	100.0

9. How did the economic situation in your company change over the last year?

	Number of SMEs	%
Significantly worsened	58	14.5
Slightly worsened	147	36.8
Remained the same	126	31.5
Slightly improved	60	15.0
Significantly improved	7	1.8
NA/don't know	2	0.5
Total	400	100.0

10. Please assess your company's performance in 2011.

	Decreased	%	Remained the same	%	Increased	%
Turnover (sales volume)	177	44.2	139	18.2	73	34.8
Profit	192	48.0	135	16.2	65	33.8
Employment	122	30.5	222	11.0	44	55.5
Investments	131	32.8	156	9.0	36	39.0



11. What is your forecast for your company's performance in 2012?

	Will	%	Will remain	%	Will	%	NA	0/
	decrease	70	steady	70	increase	70	INA	70
Turnover (sales volume)	69	17.2	178	44.5	123	30.8	30	7.5
Profit	73	18.2	167	41.8	130	32.5	30	7.5
Employment	53	13.2	231	57.8	83	20.8	33	8.2
Investments	69	17.2	155	38.8	78	19.5	98	24.5

12. How important are the following goals for your company at the moment? ("1" – of no importance, "5" – very important)

	1	2	3	4	5	NA	Total
Expansion, business development	5.8	4.8	16.8	18.8	48.0	6	100
Preservation of the level achieved	1.5	5.0	10.8	18.8	59.2	4.8	100
Survival	18.5	6.8	18.2	11.8	35.2	9.5	100

13. What internal factors (controllable by the company) help you in doing business successfully? ("-5" - complicates extremely; "0" - doesn't matter; "5" - very helpful)

	Complic	ates exti	remely		Do	esn't ma	Ver	Total				
	-5	-4	-3	-2	– 1	0	1	2	3	4	5	_
Team availability/absence	2.0	0.5	1.8	1	1.2	6.0	1.2	6.8	12.5	16.5	49.8	100.0
Management professional level Presence/absence of delegation of	1.0	0.2	1.2	0.5	8.0	7.0	1.8	7.2	10.8	22	45.8	100.0
authority from top management to lower- level management practice, reduction of centralization in decision-making	/ X	0.2	1.5	2.0	1.2	20.2	5.5	12.8	14.0	14.0	23.8	100.0
Market knowledge, ability to predict market conditions	0.5	8.0	8.0	0.5	0.5	6.5	4.5	7.0	11.2	16.2	50	100.0
Ability to produce competitive product	8.0	0.2	0.2	0.5	0.5	11.5	3.0	6.8	8.2	13	52.8	100.0
Relations with authorities and influential people	8.0	1.0	1.2	1.5	1.8	19.5	7.2	9.8	8.5	12	35.2	100.0
Level of legislation knowledge, and ability to defend the rightness	8.0	0.2	0.2	0.5	1.2	11.8	4.8	8.0	14.8	15.5	41.2	100.0

14. What external factors (not dependent on your company) affect your successful doing business? ("-5" - complicates extremely, "0" - doesn't matter, "5" - very helpful)

	Complic	ates ext	tremely		Do	esn't ma		Very helpful Total				
	-5	-4	-3	-2	-1	0	1	2	3	4	5	- Iolai
Level of competition in the market	17.0	8.8	12.2	10.2	6.2	13.5	2.8	6.0	6.2	4.8	11.2	100.0
State support	3.2	0.2	3.5	4.0	4.8	36.2	7.2	12.8	8.5	5.8	12.2	100.0
Business environment in comparison to public sector	4.8	3.0	5.2	8.2	7.0	40.8	5.2	10.5	6.5	4.8	3.5	100.0
Level of property rights and private business interests protection	3.5	1.0	4.8	5.2	6.8	38.5	10.5	7.8	7.5	5.2	7.2	100.0
Corruption level	7.0	3.8	11.8	14.2	6.5	41.8	6.0	2.5	2.5	0.2	2.0	100.0
Foreign exchange regulation	13.8	6.2	8.8	10.0	7.8	31.5	5.5	3.8	4.0	3.0	4.0	100.0
Tax regulation and tax rates	7.0	7.2	10.2	17.0	10.5	23.5	6.2	5.5	4.8	2.0	4.5	100.0
Rent rates	21.5	8.2	13.2	13.2	5.0	22.5	2.0	4.2	3.5	2.0	3.2	100.0
System of inspections and penalties	12.0	7.8	13.0	15.5	12.0	24.0	3.8	3.0	2.5	3.8	2.0	100.0
Rates on banks' and other financial institutions' loans	17.8	10.2	8.0	11.0	6.8	30.5	3.8	4.2	3.2	1.0	2.8	100.0
Economic policy of other countries	2.8	1.0	4.0	7.8	7.0	58.8	5.0	4.5	3.0	1.5	3.2	100.0

15. What are the opportunities for your business development in 2012?

(Not more than 5 options can be given)

	Number of SMEs	Frequency of the answer given
A more rational approach to the use of financial resources	221	55.2
Search for new business models/solutions, taking bolder solutions	247	61.8
Qualified labor force hired at a lower cost	110	27.5
Nithdrawal from the competitors market	123	30.8
Modernization of production facilities	132	33.0
ncreased use of give and take schemes and subcontracts	30	7.5
Access simplification to financial resources	84	21.0
Other	5	1.2
NA/don't know	4	1.0

16. What do you see as the most significant obstacles for doing business in Belarus?

("1" – the biggest obstacle; "5" – insignificant)

		Big	gest obstacle	Insignif	icant obstacle	NA	Total
	1	2	3	4	5	INA	iolai
Access to financial resources	16.0	13.5	17.0	10.8	8.2	34.5	100.0
Ineffective state administration	11.5	15.0	14.8	7.8	11.2	39.8	100.0
Activity restricting labor market regulation	3.8	11.5	16.0	10.2	6.0	52.5	100.0
Tax rates	10.8	20.8	16.8	13.8	7.8	30.2	100.0
Tax regulation	8.8	15.8	14.8	13.5	6.2	41.0	100.0
Corruption	10.0	9.2	14.8	11.2	7.2	47.5	100.0
Low labor force ethics level	6.2	13.8	15.5	9.8	5.5	49.2	100.0
Inadequate infrastructure	4.5	6.8	14.5	6.5	6.2	61.5	100.0
Inadequate labor force education	7.8	8.0	11.8	7.0	6.5	59.0	100.0
Unstable policy	10.0	11.5	11.5	9.0	7.8	50.2	100.0
Authorities' instability	6.5	9.0	10	6.2	7.0	61.2	100.0
Inflation	30.8	12.5	13.5	8.5	13.0	21.8	100.0
Crime and theft	4.8	12.2	12.2	8.0	7.0	55.8	100.0
Currency market regulation	10.0	14.8	12.5	7.5	8.8	46.5	100.0
Low level of healthcare	8.8	7.5	8.8	5.8	4.5	64.8	100.0

SECTION 3. CONDITIONS OF DOING BUSINESS IN BELARUS

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

	Number of SMEs	%
Increased	268	67.0
Remained the same	108	27.0
Decreased	24	6.0
Total	400	100.0

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

(No more than 5 options can be given)

	Number of SMEs	Frequency of the answer given
Fall of the population purchasing power within the country	291	72.8
Delays (non-payments) in payments for delivered products	157	39.2
Decrease of demand from SOEs	80	20.0
Customers' reorientation towards cheaper suppliers	137	34.2
Limited access to banks' financial resources	92	23.0
Decreased demand for company's products in Russia	25	6.2
Putting freeze on investment projects	32	8.0
Restrictions in the currency market	102	25.5
Decreased demand for company's products in other external markets	26	6.5
Decreased demand from authorities (public procurement)	31	7.8
Other	4	1.0
NA/don't know	5	1.2

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

	Number of SMEs	%
Business conditions significantly improved	13	3.2
Business conditions slightly improved	43	10.8
Business conditions remained the same	141	35.2
Business conditions slightly deteriorated	128	32.0
Business conditions deteriorated significantly	74	18.5
NA/don't know	1	0.2
<u>Total</u>	400	100.0



20. How did changes in the business environment affect your business activity over the last year? ("-5" – the situation deteriorated significantly; "0" – remained the same; "5" – improved significantly)

	-5	-4	-3	-2	-1	0	1	2	3	4	5	NA	Total
Business registration	0.0	1.2	2.0	4.8	5.8	35.8	2.5	4.5	4.5	1.8	4.5	32.8	100.0
Different permits obtainment	8.0	2.2	6.0	9.0	7.8	29.5	8.0	5.8	4.2	3.0	2.8	21.0	100.0
Administrative procedures	1.0	1.8	6.2	10.8	9.8	29.0	7.5	5.8	3.5	3.5	1.2	20.0	100.0
Number of inspections	2.0	1.5	8.0	11.8	9.5	34.8	7.0	8.0	2.8	1.2	2.0	11.5	100.0
Penalties amount	5.8	6.8	10.5	13.5	12.2	26.5	3.8	3.2	1.5	1.0	8.0	14.5	100.0
Rent payment	17.0	10.2	16.5	11.0	7.2	20.8	3.2	3.0	1.0	0.5	1.0	8.5	100.0
Pricing	9.0	7.8	12.5	13.5	11.0	21.2	4.2	3.5	3.2	2.2	1.5	10.2	100.0
Tax burden	4.0	6.8	11.0	16.5	12.2	25.8	5.2	5.2	1.5	0.5	0.5	10.8	100.0
Time required for tax calculation and payment	1.8	2.2	5.0	8.8	13.2	38.2	7.5	3.5	3.8	1.5	8.0	13.8	100.0
Credit accessibility	16.2	7.2	7.5	5.2	6.5	26.2	5.0	3.0	2.2	0.8	2.0	18.0	100.0
Ease of foreign trade operations	4.5	3.2	7.2	7.8	3.8	31.5	5.2	4.8	1.5	1.0	0.5	29.0	100.0
Wage calculation	0.0	0.8	5.0	4.2	6.5	48.5	9.0	7.2	5.0	2.8	8.0	10.2	100.0
Cost and complexity of auction and tender processes	2.8	0.5	4.2	6.8	5.0	35.5	4.5	3.5	1.8	0.5	0.5	34.5	100.0
Property rights protection	1.5	1.5	2.8	5.0	5.0	44	6.2	5.0	1.0	0.2	0.2	27.5	100.0

21. How did the changes in rent payment influence your business activity in 2011?

	Number of SMEs	%
Positively	20	5.0
No influence	179	44.8
Negatively	179	44.8
NA/don't know	22	5.5
Total	400	100.0

22. In your opinion, what are the main strengths and shortcomings of tax legislation?

(on a scale from -5 ∂ 0 5, where ("-5" – the situation deteriorated significantly; "0" – remained the same; "5" – improved significantly)

	-5	-4	-3	-2	-1	0	1	2	3	4	5	NA	Total
Number of taxes and dues	9.8	7.5	10.8	14.8	14.2	20.2	8.2	5.0	5.5	1.0	1.8	1.2	100.0
Total amount of taxes (tax liabilities)	12.0	8.8	17.0	17.2	11.2	16.8	6.5	4.0	1.5	1.5	1.0	2.5	100.0
Frequency of changes in the tax legislation	14.0	7.0	13.8	13.5	15.2	21.5	5.8	4.0	2.8	0.5	0.0	2.0	100.0
Regularity of filing and taxes and dues payments	1.8	1.2	6.8	12.2	10.2	40.0	7.5	9.5	6.0	2.5	1.5	8.0	100.0
Time and efforts spent on tax payments	4.0	5.5	6.5	10.0	13.2	38.0	7.0	7.0	4.5	2.5	0.5	1.2	100.0
Open access to tax information	2.8	2.0	3.5	4.0	5.8	29.5	11.5	14	9.2	9.0	7.5	1.2	100.0

23. In your opinion, what are the main strengths and shortcomings of the inspection and penalties system? (on a scale from –5 to 5, where ("–5" – the situation deteriorated significantly; "0" – remained the same; "5" – improved significantly)

	-5	-4	-3	-2	-1	0	1	2	3	4	5	NA	Total
Penalties amount	18.5	9.2	17.0	15.0	14.0	17.0	3.2	2.8	1.0	0.0	0.5	1.8	100.0
Violation and sanctions correlation	16.0	11.2	17.5	14.0	13	17.8	4.0	1.0	2.0	0.5	1.2	1.8	100.0
Number of inspections	8.0	6.0	9.5	14	12	31.2	6.2	3.0	4.5	1.2	1.8	2.5	100.0
Availability of information on rules and regulations	3.2	2.8	3.2	4.8	5.2	31.0	11.8	14.0	10.2	5.5	6.5	1.8	100.0
Time required for taxes' calculation and payment	10.5	6.5	10.0	11.0	11.2	34.0	4.0	6.2	3.2	1.0	1.0	1.2	100.0

24. Do you think the country will improve its position in doing business ratings in the current year?

	Number of SMEs	%
Yes	122	30.5 50.2 19.2
No	201 5	50.2
NA/don't know	77	19.2
Total	400 10	0.00



25. In what spheres, in your opinion, the entrepreneurs experience unequal conditions for doing business in comparison with the public sector?

(No more than 3 options can be given)

	Number of SMEs	Frequency of the answer given
Taxation	123	30.8
Attitude of supervisory bodies	172	43.0
Rent rates	197	49.3
Commodity prices	111	27.8
Conditions for obtaining permits and licenses	100	25.0
Access to credit resources	117	29.3
Local authorities' attitude	116	29.0
Judiciary bodies' attitude	22	5.5
Other	5	1.3
It is the same	8	2.0

26. In case the privatization process recommences in Belarus, which way you think is the most preferred for the economy?

	Number of SMEs	%
Entities subject to privatization should be sold to domestic investors without any restrictions (through an open and transparent tender), with restrictions on the foreign capital in place	109	27.2
The advantage in privatization should be given to leasers	121	30.2
Entities subject to privatization should be sold to any buyers, both domestic and foreign, through an open and transparent tender without any restrictions	100	25.0
Entities subject to privatization should be sold to domestic investors without any restrictions, with restrictions on the Russian capital in place	25	6.2
I'm against privatization	44	11.0
NA/don't know	1	0.2
Total	400	100.0

27. Are you or your company interested to take part in privatization of state-owned companies in Belarus? (No more than 3 options can be given)

	Number of SMEs	Frequency of the answer given
No	216	54.0
Yes, provided there are transparent and fair privatization processes in place	68	17.0
Yes, provided property rights are guaranteed	53	13.2
Yes, at reasonable (not speculative) prices	31	7.8
Yes, provided there is access to the necessary financial resources	18	4.5
Yes, provided there is land private ownership in place	7	1.8
Yes, provided there are state privileges granted	2	0.5
Yes, provided there are restrictions on the foreign capital	3	0.8
NA/don't know	2	0.5

28. How soon are you ready to take part in privatization transactions (in case your conditions are met)?

	Number of SMEs	%
During a year	34	8.5
In the next 3 years	62	15.5
In the long run	87	21.8
NA/don't know	1	0.2
Total of those ready	184	46.0
Not ready	216	54.0
Total	400	100.0

SECTION 4. JOINING THE CUSTOMS UNION AND THE FINANCIAL CRISIS

29. In your opinion, how will joining the Customs Union affect businesses in Belarus?

	Number of SMEs	%
Positively	246	61.5
Negatively	39	9.8 16.2
Will not affect	65	16.2
NA/don't know	50	12.5
Total	400	100.0



30. Which markets are most important for your company?

("1" – doesn't matter; "5" – very important)

	1	2	3	4	5	NA	Total
Domestic market in Belarus	2.5	3.0	5.0	11.5	74.5	3.5	100.0
Russia and Kazakhstan	27.0	6.8	10.5	24.2	23.2	8.2	100.0
Ukraine	39.5	10.0	17.2	12.0	8.0	13.2	100.0
Other CIS countries	45.8	14.0	13.0	7.8	6.8	12.8	100.0
European Union	56.5	7.8	6.0	6.0	11.2	12.5	100.0
Other countries in the world	52.0	4.0	6.8	4.2	7.2	25.8	100.0

31. Can your company compete successfully in the market of the Customs Union?

	Number of SMEs	%
Yes	156	39.0
No	174	43.5
NA/don't know	70	17.5
Total	400	100.0

32. Otherwise, why is your company unable to compete successfully in the Customs Union?

	Number of SMEs	%
High cost of production	27	14.3
Lack of own funds for product production (advertising and PR)	65	34.4
Low product quality in comparison with other members of the Customs Union	17	9.0
Administrative barriers to market access by members of the Customs Union	29	15.3
NA/don't know	51	27.0
Total	189	100.0

33. What are the opportunities for your company development in 2012 under the regime of the Customs Union? (Not more than 5 options can be given)

	Frequency of the answer given	%
Simplified access to raw materials, finance and components	128	32.0
Search for new business models/solutions, taking bolder solutions, mobilization of own resources	184	46.0
Qualified labor force hired at a lower cost	78	19.5
Foreign direct investment promotion	71	17.8
Modernization of production facilities	115	28.8
Increased use of give and take schemes and subcontracts	27	6.8
More active presence in the markets of Russia and Kazakhstan	81	20.2
Other	4	1.0
NA/don't know	27	6.8

34. How much did the financial crisis and the devaluation of the national currency affect the economic situation in your company?

	Number of SMEs	%
Significantly worsened	159	39.8
Slightly worsened	191	47.8
Improved	10	2.5
Did not affect	31	7.8
NA/don't know	9	2.2
Total	400	100.0

35. What negative consequences for your company were caused by the financial crisis and the devaluation of the national currency? (Several options can be chosen)

	Frequency of the	%	
	answer given	/0	
Involuntary redundancy	83	20.8	
Falling sales volumes	275	68.8	
Inability to pay off loans	38	9.5	
Inability to buy raw materials, components, etc.	110	27.5	
Inability to invest in the company	63	15.8	
Involuntary decrease in wages	101	25.2	
Closing the company/bankruptcy	4	1.0	
Exit of the company from the market in Belarus	1	0.2	
NA/don't know	40	10.0	



36. How did you company respond to the lack of foreign currency?

	Number of SMEs	%	
Decreased production volumes	130	32.5	
Bought currency on the "black market"	79	19.8	
Reoriented towards domestic raw materials and components	70	17.5	
Currency does not play a significant role in the enterprise	162	40.5	
Total	400	100.0	

SECTION 5. CORRUPTION AND SHADOW ECONOMY

37. What share of private companies' turnover is not reflected in accounting reports (shadow turnover)?

	Number of SMEs	%
Never happens	107	26.8
Infrequently (up to 25% cases)	135	33.8
In 26–50% cases	58	14.5
In 51–75% cases	12	3.0
In more than 76% cases	6	1.5
NA/don't know	82	20.5
Total	400	100.0

38. How often are executives of private companies forced to bribe representatives of the authorities?

	Number of SMEs	%
Never happens	99	24.8
Infrequently (up to 25% cases)	119	29.8
In 26–50% cases	55	13.8
In 51–75% cases	17	4.2
In more than 76% cases	12	3.0
NA/don't know	98	24.5
Total	400	100.0

39. How often do 'kickbacks' in exchange for profitable state orders occur in Belarus?

	Number of SMEs	%
Never	101	25.2
Up to 25% cases)	97	24.2
In 26–50% cases	51	12.8
In 51–75% cases	23	5.8
In more than 76% cases	18	4.5
NA/don't know	110	27.5
Total	400	100.0

40. In your opinion, what areas/business regulatory authorities have the largest number of bribing and corruption? (1 – very rare, 5 – frequent corrupt practices)

	1	2	3	4	5	NA	Total
Price regulation	29.8	21.0	17.0	11.5	6.8	14.0	100.0
Obtaining licenses	23.5	16.5	23.2	13.2	12.8	10.8	100.0
Hygienic registration and certification	22.8	15.8	18.0	17.2	15.2	11.0	100.0
Sanitary inspection	17.2	11.8	18.8	19.2	24.2	8.8	100.0
Fire inspection	18.8	11.2	18.2	17.2	26.0	8.5	100.0
Tax payment	35.5	23.8	17.8	7.0	2.8	13.2	100.0
Tax audits	29.2	21.0	20.2	11.8	5.5	12.2	100.0
Customs clearance	26.8	16.2	22.8	11.5	7.2	15.5	100.0
Obtaining permits for land	17.5	12	18.2	19.2	19.2	13.8	100.0
Obtaining various permits with local authorities	16.2	13.2	21.5	19.0	16.5	13.5	100.0
Lease	24.5	16.5	22.5	14.2	8.0	14.2	100.0
Tenders	18.5	12.5	24.5	18.8	12.0	13.8	100.0
Other	0.0	0.0	0.2	0.2	0.5	99.0	100.0

41. In your opinion, did the measures taken by authorities in relation to the situation led to the situation...:

	Number of SMEs	%
Improvement	102	25.5
Worsening	59	14.8
Remaining the same	235	58.8
NA/don't know	4	1.0
Total	400	100.0



42. In your opinion, who more often initiates corrupt activities?

	Number of SMEs	%
Businesses	73	18.2
Authorities	216	54.0
NA/don't know	111	27.8
Total	400	100.0

SECTION 6. PUBLIC ACTIVITY, NATIONAL PLATFORM FOR BUSINESS IN BELARUS

43. Are you a member of any business unions?

	Number of SMEs	%
Yes	31	7.8
No	369	92.2
Total	400	100.0

44. My business union provides to me the following services...

(Several options can be chosen)

	Number of SMEs	%
Personnel qualification development	11	2.8
Support in activity's internationalization	5	1.2
Legal services	16	4.0
Assistance in financial resources attraction (investors' search)	9	2.2
Assistance in business operation	12	3.0
Representation of firm's interests in the face of central authorities	11	2.8
Business climate improvement in the country	5	1.2
Sharing experience among organization members	10	2.5
Total	31	7.8

45. If you are not a member of any business union, what is the reason for that?

(Not more than 3 options can be chosen.)

	Number of SMEs	%
High membership fees	10	2.7
I believe business unions are helpless in my problems solving	152	41.2
It is better not to use services of such organizations for political reasons	23	6.2
Lack of information about their activity	137	37.1
Hope to solve problems independently	129	35.0
Unsatisfactory quality of the services provided	24	6.5
NA/don't know	12	3.3

46. Do you know about the creation of the National Platform for Business in Belarus?

	Number of SMEs	%
Yes	99	24.8
No, never heard before	301	75.2
Total	400	100.0

47. If you know about the National Platform for Business in Belarus (NPBB), then do you support its main ideas?

	Number of SMEs	%
O	Number of SWL3	
Completely support	18	4.5
More likely support	61	15.2
More likely don't support	14	3.5
Don't support	2	0.5
NA/don't know	10	2.5
Total	105	26.2
Don't know about NPBB	295	73.8
Total	400	100.0

48. Range the importance of goals of the National Platform for Business in Belarus in 2011? (1 – most important goal, 6 – least important goal)

	1	2	3	4	5	6	NA	Total
Macroeconomic environment improvement	25.5	18.6	9.0	17.0	14.9	7.4	7.4	100.0
Demonopolization, fair competition within the EEA	15.9	14.3	19.6	10.6	17.5	14.8	7.4	100.0
Expansion of the private initiative and responsibility	30.2	20.1	11.6	10.6	11.6	9.0	6.9	100.0
Optimization of the regulatory and tax burdens	21.8	22.3	13.3	19.1	8.0	8.5	6.9	100.0
Improving corporate and state governance	13.2	13.2	18.5	20.1	14.8	12.7	7.4	100.0
Partnership of business, society and the state	22.2	13.8	12.7	16.9	9.0	18.5	6.9	100.0

49. If you know about NPBB, what is its role in business community consolidation on protection of their interests?

	Number of SMEs	%
Significant role	26	6.5
Insignificant role	56	14.0
No role	23	5.8
NA/don't know	8	2.0
Total	113	28.2
Don't know about NPBB	287	71.8
Total	400	100.0

50. If you know about NPBB, what is its role in business climate improvement?

	Number of SMEs	%
Significant role	27	6.8
Insignificant role	56	14.0
No role	23	5.8
NA/don't know	9	2.2
Total	115	28.8
Don't know about NPBB	285	71.2
Total	400	100.0

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